

With respect to fund management, a question which might be legitimately asked is whether or not the pension system of private investment provides sufficient safeguards for employee beneficiaries and whether the invested assets are producing returns which reflect efficient management. The great majority of plans are financed by employer and employee contributions which are invested by one or more third party fiduciary. This third party is variously an insurance company, bank trustee, or investment counselor. Thus, a dual system has been created. This arrangement has as its major advantage the fact that the fiduciary's first responsibility is preserving the corpus of the fund. On the other hand, the fund sponsor has the responsibility for selecting the trustee. This gives the sponsor, whether it be a corporation or joint union management board, the right to measure investment results and the attendant right change the trustee if the investment results are unsatisfactory. Such a system of dual control puts a premium on high rates of return which can be used either to reduce contributions or to increase benefits or both without incurring excessive risks. The system of private investment will work and improve only as long as techniques for measuring investment performance are adequate. The sponsor must have a fair and accurate method for determining investment excellence. Progress in the field of performance measurement has been rapid in recent years. As these extensive research efforts are concluded, the ability of sponsors to measure results and for trustees to appraise their own performance will improve. The result is bound to increase competition among fiduciaries to improve investment practice and provide superior investment management.

Recommendations

(1) We suggest that the maximum time to amortize unfunded liabilities be reduced to 20 years for plans over 5 years old and 25 years for plans under 5 years of age. We prefer to see less benefit promises and more assurance that those promised are paid. Furthermore, we highly recommend that the present minimum funding period imposed by the IRS be dropped.

(2) We have shown that the development of a dual management system provides the necessary balance between return on investment and safety. It is strongly urged that all plans be managed in this manner and it is recommended that all new plans be placed under dual management to be qualified for the IRS pension plan treatment.

(3) As a further safeguard of employee interest, investment in securities of the sponsor or trustee of a pension plan (or a profit sharing plan which is intended primarily to finance pension benefits) should not be permitted. This provision would include any securities and/or real estate and should apply to all plans whether company or union sponsored. Although the Federal Government would probably have no jurisdiction over State and municipal plans, the same principle should apply and they should refrain from purchasing securities of their own taxing district.

(4) As another measure for improving the effectiveness of the dual system of sponsor-trustee control, we would urge that each fund be required to report annually to the Department of Labor a complete