GUARANTY FUND FOR PRIVATE PENSION OBLIGATIONS

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Guaranty Fund for Private Pension Obligations

by

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PENSION RESEARCH COUNCIL

PURPOSE OF THE COUNCIL

The Pension Research Council of the Wharton School of Finance and Commerce was created in 1952 for the purpose of sponsoring objective research in the area of private pensions. It was formed in response to the urgent need for a better understanding of the private pension movement. Private pensions have experienced a phenomenal growth during the last three decades, but their economic, political, and social implications are yet to be explored. They seem destined to play a major role in the quest for old-age economic security, but the nature of that role can be ascertained only on the basis of more enlightened evaluation of the capabilities and limitations of the private pension mechanism. It was to conduct an impartial study into the facts and basic issues surrounding private pensions, under the auspices of an academic and professional group representing leadership in every phase of the field, that the Council was organized.

Projects undertaken by the Council are broad in scope and predominantly interpretive rather than technical in nature. In general, attention is concentrated on areas which are not the object of special investigation by other research groups. Its research studies are conducted by mature scholars drawn from both the academic and business spheres. Research results are published from time to time in a series of books and monographs.

Preface

The text of this monograph is an updated and expanded version of a paper that I prepared for the Joint Economic Committee of Congress for inclusion in its five-volume compendium on Old Age Income Assurance, published in 1967. The original paper was written at a time when there was serious doubt among pension professionals, especially members of the actuarial fraternity, as to the technical feasibility of an arrangement for guaranteeing the obligations of private pension plans other than through the direct purchase of annuity or insurance contracts from life insurance companies. Consequently, the paper focused on the problems that would be involved and the various ways in which the problems could be dealt with. A special effort was made to clarify the contemporary confusion over the definition of the event insured against and the obligation that would be undertaken by the guaranty institution. The discussion of these issues at that time was murky, if not downright obfuscatory. The paper was reviewed in draft form by a number of experts in the pension field, including a joint ALC–LIAA committee that was currently trying to develop an insurance industry position on the guaranty issue. The comments and criticisms of the chairman of the committee, the late Willian White, Vice President of Aetna Life Affiliated Companies, were particularly helpful—but strictly unofficial. While most of the reviewers of the paper were opposed in principle to the guaranty concept, they agreed that the paper presented a technically accurate analysis of the problems and possible solutions.

Since the guaranty concept continues to be a matter of public policy debate and is currently receiving Congressional consideration, the Pension Research Council felt that the original paper, updated and amplified in certain sections, should be republished in more accessible form. It also felt that the monograph should include all other significant statements on the subject, pro or con. The rather voluminous set of appendices represents my attempt to respond to that suggestion. In the appendices I attempted to trace the development of the pension guaranty concept in the United States as reflected in the basic legislative proposals, testimony presented before Congressional committees, and statements in private publications. The tracing of the legislative history turned out to be an unexpectedly large undertaking which could not have been accomplished within the time available without the generous assistance of the Department of Labor. An enormous number of bills on the subject, most of them identical, have been introduced into Congress over the years, and the appendices include only the landmark bills. Some feeling for the evolution of the legislation can be gained from reading the Introduction to the Appendices.

It is hoped that this compilation of materials, including my technical analysis of the guaranty proposition, will be helpful to those who share the responsibility of arriving at a wise decision on this important issue.

Philadelphia, Pennsylvania
October, 1970

DAN M. MCGILL

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Introduction

Within the last few years, considerable interest has developed within certain quarters in some type of cooperative arrangement that would assure the fulfillment of legitimate benefit expectations under private pension plans, irrespective of the financial status of the plans or their sponsors. The idea was given great impetus and a measure of respectability when the President's Committee on Corporate Pension Funds suggested that serious study should be given to the possibility of establishing "a system of insurance which, in the event of certain types of termination, would assure plan participants credit for accrued benefits."[1] Later the National Commission on Technology, Automation, and Economic Progress in its report to the President and the Congress, under the heading "Protecting the Earned Benefit Rights of Displaced Employees," stated that:

We favor whatever legislative or administrative measures may be necessary to promote greater equity and security in the establishment and administration of private pension plans. Specifically, we recommend that careful study be given to a

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[1] "Public Policy and Private Pension Programs," *Report to the President on Private Employee Retirement Plans* (Washington, D.C.: U.S. Government Printing Office, January, 1965), p. xii.

legislative system of reinsurance for private pension plans similar to the reinsurance [sic] of bank deposits through the Federal Deposit Insurance Corporation.

More recently, Nelson McClung and his fellow staff economists prepared a document for the Joint Economic Committee of Congress in which they espoused the cause of a pension guaranty fund, not only in the interest of benefit security but as a means of accommodating a lower level of funding.[2]

The concept has been embodied in various legislative proposals, the earliest of which was a bill introduced by Senator Vance Hartke of Indiana in 1964 and reintroduced with minor modifications in each subsequent session of Congress. Senator Javits has endorsed the idea in various legislative proposals, including "The Pension and Employee Benefit Act of 1969." A rather refined version of the proposal was included in the "Pension Benefit Security Act" introduced in 1968 and 1969 by Congressman Dent and reflecting the conclusions of the Interagency Staff Committee set up to implement the recommendation of the Report of the President's Committee on Corporate Pension Funds.

This proposition cannot be evaluated without at least a skeletal description of the milieu in which private pension plans operate.

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[2] *Old-Age Income Assurance: An Outline of Issues and Alternatives,* 89 Cong. 2d sess. (1966), pp. 29–30.