

Employer Guarantee of Pension Benefits

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Chapter 4

Concluding Observations

The responses to the questionnaire provided much illumination to a hitherto neglected phase of private pension plans. They showed that employer guarantees of pension benefits are somewhat more widespread than was generally believed, and, perhaps more important, they revealed a base of support for mandatory employer guarantees much broader than was generally suspected. They also revealed a flicker of interest in employer guarantees by organized labor that can be expected to grow into a steady flame as the concept becomes more widely recognized and more fully understood. Finally, they confirm that existing employer guarantees have not had a deleterious effect on the credit standing and financial policies of the guarantors, due in part to the fact that the guarantees have been well hedged by plan assets and well clouded by obscure language in the plan documents.

On the other hand, it must be recognized that these responses came from the top echelon (in terms of size) of the American business community. The results cannot be projected for the whole universe. The managements of the multitude of smaller firms that make up the mass of business enterprises may be much less receptive to under-

taking a corporate guarantee of their pension commitments than their counterparts among the giant firms. Moreover, it is useful to keep in mind that while *one third* of the respondents evidenced some support for the concept of employer guarantees, *two thirds* registered their opposition to it.

The insights provided by this survey take on special significance now that Congress has embraced the concept of employer contingent liability for benefits subject to plan termination insurance. Congress accepted the views of those knowledgeable observers who argued that plan termination insurance would be feasible only with some degree of corporate responsibility for unfunded insured benefits. They maintained that such responsibility would be needed to preserve the integrity of the insurance mechanism and protect it from abuse. The corporate liability imposed by Congress through the Employee Retirement Income Security Act attaches only to insured benefits and is limited to 30 percent of the firm's net worth. Future experience with this limited form of guarantee will hopefully provide guidance as to whether a fuller application of the concept would be useful and justified.

Appendix A

Questionnaire on the Nature and Scope of Employer Guarantees of Pension Plan Benefits

As used in this questionnaire, "pension benefit guarantee" refers to a provision in a pension plan or collective bargaining agreement that has the intent and effect of committing the general assets of a business enterprise to the fulfillment of its pension promises. It is in contrast to a provision that limits the obligation of the firm to contributions already made to a pension plan or related trust, whether or not the assets are sufficient to meet the obligations of the plan in the event of its termination.

Part I

(To be completed by all respondents)

1. Name of responding firm.
2. Name of plan.
3. Year of establishment of plan.
4. Does your firm guarantee the payment of some, or all, of the benefits promised under your pension plan in the sense set forth in the explanatory note above?
5. If not, was your omission of a guarantee the result of:
 - a. A conscious decision not to provide such a provision? or

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b. The routine inclusion of the customary limitations on the employer's obligation under the plan?

6. Has any collective bargaining unit ever asked your firm to guarantee its pension promises? If so, how recently?
7. Would you favor or oppose federal legislation requiring an employer to guarantee the benefits of his pension plan
 - a. As a matter of general public policy?
 - b. As an essential element of a mandated program of plan termination insurance, to prevent abuse of the program and to minimize its costs?

Part II

(To be completed only by those respondents who answered "yes" to item 4)

8. Year when guarantee concept was adopted.
9. Scope of the guarantee:
 - a. Retirement benefits
 - (1) Vested status
 - (a) Vested benefits only
 - (b) Vested and nonvested benefits
 - (2) Period of benefit accrual
 - (a) Future service only
 - (b) Past service and future service
 - (3) Other limitations, if any
 - b. Death benefits in process of payment
 - c. Disability benefits in process of payment
10. Was the guarantee a result of collective bargaining? If so, what was the trade-off (for example, employer

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control of funding policy, less generous vesting, lower cash wages, etc)?

11. Accrued liability as of the last valuation date of:
 - a. Total benefit obligations of the plan,
 - b. Benefits of the plan falling within the scope of the corporate guarantee.
12. Dollar value of plan assets (state whether book, cost, market, or other basis used).
13. Net worth of company as of the end of fiscal year.
14. Is the unfunded accrued liability for guaranteed benefits reflected on the liability side of the balance sheet? If not, why not?
15. Is there an offsetting item on the asset side? If so, what is it called?
16. In your opinion, has the corporate guarantee had an adverse effect on your credit rating or the terms on which you borrow money?
17. Provide the verbatim language of the plan provision that contains the guarantee. If you prefer, you may simply attach the pertinent provision to the completed questionnaire.
18. If there is no explicit provision, how is the guarantee expressed or made effective?
19. Have you called the pension guarantee to the attention of your employees in a plan booklet or other written document?
20. What effect, if any, would the termination of your plan have on the pension guarantee that you have made?
21. Does your pension plan or other legal instrument specify the ranking of pension plan claimants in re-

lation to other creditors of the firm in the event of insolvency or bankruptcy? If so, what is the ranking?

If not, would you give your opinion as to the ranking or preference that should be assigned by law to the guaranteed claims arising under your plan.

22. What has been the impact of the guarantee on the financial policies of your company?
23. Other comments.

Returned by:

Return copy of questionnaire to:

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Title

Address

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Appendix B

Companies Responding to Questionnaire on Nature and Scope of Employer Guarantees of Pension Plan Benefits

AMF Incorporated	American Natural Gas Company
Acacia Mutual Life Insurance Company	American Smelting and Refining Company
Addressograph-Multigraph Corporation	American Telephone & Telegraph Company
Admiral Corporation	Anderson, Clayton & Company
Aetna Life & Casualty	Anheuser-Busch, Incorporated
Akzona, Incorporated	Armco Steel Corporation
Albertson's Incorporated	Ashland Oil, Incorporated
Allegheny Power System, Inc.	Associated Transport, Inc.
Allied Chemical Corporation	Atlantic Richfield Company
Allied Stores Corporation	BMA Corporation
Aluminum Company of America	Baltimore Gas & Electric Co.
American Airlines, Inc.	Bank of America National Trust & Savings Association
American Broadcasting Companies, Inc.	Bank of New York
American Can Company	Bankers Life Company
American Cyanamid Company	Bankers Trust New York Corporation
American General Insurance Co.	Beatrice Foods Company
American Investment Company	Bethlehem Steel Corporation
American National Insurance Company of Galveston	Boeing Company
American International Group, Incorporated	Boise Cascade Corporation
	Bristol-Meyers Company
	Brown Shoe Company

- Brunswick Corporation
 Budd Company
 Burlington Industries, Inc.
 Burroughs Corporation
 C. I. T. Financial Corporation
 Carolina Power & Light
 Company
 Carrier Corporation
 Chase Manhattan Corporation
 Chemical Bank
 Chrysler Corporation
 Chubb Corporation
 Cities Service Company
 Chicago, Milwaukee, St. Paul &
 Pacific Railroad Company
 Clark Equipment Company
 Colgate-Palmolive Corporation
 Columbia Gas System Service
 Corporation
 Commonwealth Edison
 Company
 Connecticut General Insurance
 Corporation
 Connecticut Mutual Life
 Insurance Company
 Consolidated Edison Company
 of New York, Incorporated
 Continental Illinois
 Corporation
 Continental Insurance
 Corporation
 Control Data Corporation
 Corning Glass Works
 Crown Zellerbach Corporation
 Deere & Company
 Detroit Bank & Trust Company
 Detroit Edison Company
 Di Giorgio Corporation
 Dillon Read & Co.
 Corporation
 E. I. du Pont de Nemours & Co.
 Eastern Air Lines, Inc.
 Eastman Kodak Company
 El Paso Natural Gas Company
 Eli Lilly and Company
 Equitable Life Assurance
 Society of the United States
 Equitable Life Insurance
 Company of Iowa
 Ethyl Corporation
 Exxon Corporation
 FMC Corporation
 Federated Department Stores,
 Incorporated
 Fidelity Bankers Life Insurance
 Company
 Fidelity Mutual Life Insurance
 Company Financial
 Federation, Inc.
 First International Bancshares,
 Incorporated
 First National City Corporation
 First Texas Financial
 Corporation
 Food Fair Stores, Incorporated
 Frontier Airlines, Inc.
 Fruehauf Corporation
 GAF Corporation
 General American Life
 Insurance Company
 General Dynamics Corporation
 General Electric Company
 General Foods Corporation
 Genesco Incorporated
 Girard Bank
 B. F. Goodrich Company
 Gould Incorporated

Government Employees Insurance Company	Fidelity Companies, Life Insurance Company
Grand Union Company	Lincoln First Banks Incorporated
Great Atlantic & Pacific Tea Company, Incorporated	Lincoln National Life Insurance Company
Great Western Financial Corporation	McDonnell Douglas Corporation
Greyhound Corporation	McGraw-Hill, Incorporated
Grumman Corporation	Manufacturers Hanover Trust Company
Guardian Life Insurance Company of America	Manufacturers National Bank of Detroit
Gulf Oil Corporation	Marathon Oil Company
Hercules Incorporated	Martin Marietta Corporation
Hewlett-Packard Company	Mead Corporation
Honeywell Incorporated	Mellon National Corporation
George A. Hormel & Company	Metropolitan Life Insurance Company
Household Finance Corporation	Minnesota Mining & Manufacturing Company
Houston Lighting & Power Company	Minnesota Mutual Life Insurance Company
INA Corporation	Missouri Pacific Railroad
Illinois Central Industries	Mobil Oil Corporation
Indian Head Incorporated	Monsanto Company
Ingersoll-Rand Company	J. P. Morgan & Company, Inc.
Inland Steel Company	Mutual of New York
Jefferson Standard Life Insurance Company	NCNB Corporation
John Hancock Mutual Life Insurance Company	N L Industries, Incorporated
Johns-Manville Corporation	National Gypsum Company
Kennecott Copper Corporation	National Industries Inc.
Kimberly-Clark Corporation	National Life & Accident Insurance Company
Koppers Company, Incorporated	National Life Insurance Company of Vermont
LTV Corporation	Nationwide Life Insurance Co.
Lear Siegler, Incorporated	New England Mutual Life Insurance Company
Leaseway Transportation Corporation	

- North Central Airlines, Inc.
- Northern Natural Gas Company
- Northern States Power Company
- Northwest Bancorporation
- Northwest Industries, Inc.
- Northwestern Mutual Life Insurance Company
- Nortrust Corporation
- Occidental Life Insurance Company of California
- Ogden Corporation
- Owens-Illinois, Incorporated
- Pacific Gas & Electric Co.
- Pacific Power & Light Company
- Penn Central Transportation Co.
- Penn Mutual Life Insurance Co.
- Philadelphia Electric Company
- Phillips Petroleum Company
- Phoenix Mutual Life Insurance Company
- Polaroid Corporation
- Potomac Electric Power Co.
- Procter & Gamble Company
- Provident Life & Accident Insurance Company
- Provident Mutual Life Insurance Company of Philadelphia
- Prudential Insurance Company of America
- Public Service Electric & Gas Company
- Pullman Incorporated
- Ralston Purina Company
- Remington Arms Co., Inc.
- Dallas
- Reynolds Metals Company
- Roadway Express, Incorporated
- Rohm & Haas Company
- Safeco Corporation
- St. Louis-San Francisco Railway
- St. Paul Companies, Inc.
- Santa Fe Industries, Inc.
- Schering-Plough Corporation
- Seaboard Coast Line Industries, Incorporated
- Sears, Roebuck and Company
- Security Pacific Corporation
- Shell Oil Company
- A. O. Smith Corporation
- Southern California Edison Co.
- Southern Company
- Southwestern Life Insurance Company
- Sperry Rand Corporation
- Standard Brands Incorporated
- Standard Oil Company of California
- Standard Oil Company (Indiana)
- Standard Oil Company (Ohio)
- State Farm Life Insurance Co.
- Stauffer Chemical Company
- TRW Incorporated
- Tenneco Incorporated
- Texas Eastern Transmission Corporation
- Transcon Lines
- Transcontinental Gas Pipe Line Corporation
- Travelers Corporation
- Union Camp Corporation
- Union Pacific Corporation

Uniroyal Incorporated	Wells Fargo & Company
United Aircraft Corporation	Western Bancorporation
U. S. Fidelity & Guaranty Co.	Westvaco Corporation
United States Steel Corporation	Weyerhaeuser Company
United Telecommunications, Inc.	Wheeling-Pittsburgh Steel Corporation
Universal Leaf Tobacco Company Incorporated	White Motor Corporation
Universal Oil Products Co.	Whittaker Corporation
Upjohn Company	The Williams Companies
Wachovia Corporation	Wisconsin Electric Power Co.
Jim Walter Corporation	Xerox Corporation
Washington National Insurance Company	Youngstown Sheet & Tube Zenith Radio Corporation