Employer Guarantee of Pension Benefits

by

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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
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
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 it 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:  

Name

Title

Address

Telephone No.

Return copy of questionnaire to:

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3641 Locust Walk
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Appendix B

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

AMF Incorporated
Acacia Mutual Life Insurance Company
Addressograph-Multigraph Corporation
Admiral Corporation
Aetna Life & Casualty
Akzona, Incorporated
Albertson's Incorporated
Allegheny Power System, Inc.
Allied Chemical Corporation
Allied Stores Corporation
Aluminum Company of America
American Airlines, Inc.
American Broadcasting Companies, Inc.
American Can Company
American Cyanamid Company
American General Insurance Co.
American Investment Company
American National Insurance Company of Galveston
American International Group, Incorporated

American Natural Gas Company
American Smelting and Refining Company
American Telephone & Telegraph Company
Anderson, Clayton & Company
Anheuser-Busch, Incorporated
Armco Steel Corporation
Ashland Oil, Incorporated
Associated Transport, Inc.
Atlantic Richfield Company
BMA Corporation
Baltimore Gas & Electric Co.
Bank of America National Trust & Savings Association
Bank of New York
Bankers Life Company
Bankers Trust New York Corporation
Beatrice Foods Company
Bethlehem Steel Corporation
Boeing Company
Boise Cascade Corporation
Bristol-Meyers Company
Brown Shoe Company
New York Life Insurance Co.
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.
Republic National Bank of 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

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| 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             |