

# Employer Guarantee of Pension Benefits

*by*

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The Pension Research Council was formed in 1952 in response to an urgent need for a better understanding of the private pension mechanism. It is composed of nationally recognized pension experts representing leadership in every phase of private pensions. It sponsors academic research into the problems and issues surrounding the private pension institution and publishes the findings in a series of books and monographs. The studies are conducted by mature scholars drawn from both the academic and business spheres.

## Preface

This study was undertaken during the summer and fall of 1973 when the merits of plan termination insurance were being vigorously debated as a part of the overall consideration being given to the so-called pension reform legislation. One of the most controversial features of the proposed program of plan termination insurance was a provision that would make the corporate sponsor of a terminated pension plan primarily responsible for the payment of the accrued pension benefits insured under the program. Fears were expressed that such a provision would jeopardize the borrowing power of firms with pension plans, and possibly even their solvency. It was widely asserted that corporations would switch to money purchase pension plans or profit-sharing plans on a general scale in order to avoid the contingent liability that would be associated with a defined benefit pension plan.

In order to determine the extent to which the sponsors of single-employer pension plans had voluntarily assumed a corporate obligation to make good on the accrued benefits of a pension plan that might be terminated, and to ascertain the attitudes of corporate managements generally toward the concept of employer responsibility for accrued pension credits, the author submitted a questionnaire, included in the appendixes of this monograph, to 600 of the largest business firms in the United States. Usable responses were received from 225 of the firms. Twenty-nine companies, accounting for 13 percent of the respondents, reported that they were currently guaranteeing all or some of the accrued benefits under their pension plans. Another 76 companies, or 34 percent of the respondents, stated that they would support mandatory

employer guarantees of pension benefits either as a matter of general public policy or as a necessary feature of a plan termination insurance program. The core of the monograph consists of a description of existing corporate guarantees and an assessment of their impact on the financial policies of the firms.

In the meantime, Congress has enacted legislation providing for a plan termination insurance program that imposes a limited form of employer liability for unfunded insured benefits. This makes the monograph especially timely, since it provides a conceptual framework for an evaluation of the appropriateness of the statutory provision.

As always, the members of the Pension Research Council provided a useful review of the monograph in manuscript form, the criticisms and suggestions of Ernest Hicks being particularly valuable. As with all Council publications, however, it is necessary to emphasize that the views and conclusions are those of the author and should not be imputed to any other member of the Council.

*September 1974*

DAN M. MCGILL



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## Introduction

The primary purpose of this monograph is to present the findings of a survey of existing practices and attitudes concerning the pledging of corporate assets toward the fulfillment of benefit expectations associated with private pension plans. In order to make the survey results more meaningful, the monograph begins with a brief discussion of relevant concepts and institutional practices.