Since the $7\frac{1}{2}\%$ interest rate is assumed to be earned until the money is actually paid out as pensions, and wage increases stop at or before retirement, the net effect of these changes was to reduce the total amount calculated as required to meet all future benefit payments from $1,414,840,000 to $1,043,730,000 at December 31, 1968. The difference of $371,010,000 represents an amount of principal no longer required because of the greater assumed earning power of the fund.

The actual assets of the fund were only $743,320,000 at December 31, 1968. The Committee understands that this situation has arisen because, (a) the company did not make its payments to the fund until retirement age prior to 1960, and (b) paid only the interest on the unfunded liability (unpaid past contributions) along with current contributions until 1967 and (c) began to liquidate the unfunded liability (over 60 years) only in 1967.

On the previous actuarial basis the actuary established an unfunded liability of $671,420,000 at December 31, 1968. (The difference between liabilities of $1,414,840,000 and assets of $743,320,000). On the revised actuarial basis the actuary established a new unfunded liability of only $300,410,000 at December 31, 1968. (The difference between liabilities of $1,043,830,000 and assets of $743,320,000). There appears to be no surplus but rather a shortage of $300,410,000.

Because of a quirk in the Federal Pension Benefits Standards Act, it was necessary for the C.N. to treat the old unfunded liability as an asset of the fund, on the ground that *if* it were paid in, the fund would be in surplus. This surplus is only an accounting surplus, arrived at by counting a previously calculated liability as a current asset and then comparing current assets with newly calculated liabilities. The "surplus" is merely a reduction in unfunded liabilities. (Amounts calculated as required by the fund and not yet paid in).

The Committee notes that the annual sum of $29,255,000 was required to liquidate the original unfunded liability of $671,420,000 whereas the annual sum of $22,040,000 is required to liquidate the new unfunded liability of $300,410,000. (Total payments over the balance of the original 60 years would come to $1,718,721,250 and $1,294,850,000 respectively.). The difference between the two sets of payments is not in proportion to the difference between the principal amounts because of the great difference in the interest rates. The company must pay $7\frac{1}{2}\%$ on the smaller amount (instead of 4% on the larger amount) because the actuary has assumed that the fund will earn that rate and interest not earned, because the money not yet in the fund, must be replaced.

The Committee understands that under the applicable legislation the company must pay the $29,255,000 each year and then claims a surplus of $7,215,000 (the difference between $29,255,000 and $22,040,000) to be used to reduce its payments.

The intent of the company to reduce its payments rests on the assumption that the company's obligation is only to provide the benefits promised by the plans and not to pay any fixed rate of contribution. Plan II, at least, appears to be consistent with this assumption. The employees' representatives have not produced any evidence that there was any agreement for the company to maintain any fixed level of contributions, except under Part I (providing for matching contributions up to 5%). The latter obligation appears to have been met.