I would like to first thank Professor Davis for helping me to explain why special payments into a pension plan should be given additional priority in insolvency proceedings. I have publicly stated my own support for such a change but with far less eloquence in the reasoning to support that position.

Second, I would like to declare a personal bias. I am not frightened by funding ratios in the 80% to 90% range that are cited by Professor Davis. Indeed, I tend to think of those as solid and impressively high numbers since only a small proportion of plans could be expected at any point in time to have amortized all of their costs for supplemental liabilities. These would include companies that started their pension plans at the same time they hired the first employee and any plan that has not made changes in the last 5 (or 10) years. Ideally, such a plan would have a funding ratio that hovers around 100%. Furthermore, there is some theoretical literature suggesting that the optimal funding ratio may be a bit below 100% in an economy that is expected to see future growth in productivity. In such an environment, delaying funding results in a smaller reduction of workers' wages in order to make pension payments.

Finally, I would agree wholeheartedly with comments by Professor Davis that the best way to balance the risks in our retirement income system is to ensure that incentives are properly aligned. However, in his discussion he fails to mention one of the most important issues of incentive – the question of surplus ownership. If the goal is to have funding ratios around 100% more often under a reformed system than under the current one, some mechanism must be found for the employer to be able to support additional funding with less risk. Two such mechanisms that have been discussed are the so-called "ring fence" approach or a separate fund with different ownership rules that provides for adverse deviation, but any of several options could be successful in eliminating the obvious disincentive for higher levels of funding.