

ferred in addition to, rather than in lieu of, a cash wage increase. Second, the deferred wage concept ignores the possible argument that the employer is willing to accept a lower profit margin in order to provide a pension plan for employees. Third, it is sometimes argued that if pension benefits are a form of wage, then terminating employees should be entitled to the part of the retirement benefit that has been earned to the date of termination. In practice, one finds that only a small proportion of the plans provide for the full and immediate vesting of all benefits. However, it can be logically argued that full and immediate vesting is not a necessary condition to acceptance of the deferred wage concept of private pensions. This latter view of the deferred wage concept has sometimes been referred to as the *wage differential concept*; the differential in wage being paid to those employees who have presumably made an additional contribution to the economic well-being of the firm as a result of long-term service to the employer. The issue of vesting in the context of a deferred wage rationale of private pensions is commented on further in a later section of this paper.

In spite of the appeal of the deferred wage theory, it is questionable whether the private pension movement can be explained solely in terms of this concept. Indeed, there is probably no one rationale or theory that fully explains the "reason for being" of private pensions. This conclusion is not surprising in view of the fact that these plans are *private*, and the demands or reasons that give rise to one plan may be quite different from those leading to the introduction of another plan.

REASONS FOR GROWTH OF PRIVATE PENSIONS

The specific factors generally considered as having influenced the growth of private pensions are discussed below. It must be recognized that the reasons that give rise to the establishment of one plan might be different in the case of another plan.

INCREASED PRODUCTIVITY

A systematic method of meeting the problem of superannuated employees can be easily justified on sound management grounds. Practically every employee eventually reaches a point where, due to advanced age, he is a liability rather than an asset to the employer. That is to say, at some advanced age, an employee's contribution to the productivity of the firm is less than the compensation he is receiving.

The employer has several courses of action open to him when an employee reaches this point. One, the employee can be terminated without any further compensation or any retirement benefits as soon as the value of his service is less than the salary he is receiving. For obvious reasons, this course of action is seldom followed by employers. Two, the employer can retain the superannuated employee in his current position and at his current level of compensation. The difference between the employee's productivity and salary is absorbed by the employer as a cost of doing business. This alternative is also undesirable. Such an approach would undoubtedly prove to be the most costly method of meeting the problem of superannuated employees. Furthermore, the longer range indirect costs that would be incurred from the resultant inefficiencies and poor employee morale among the younger workers would be, indeed, significant. Three, the employer could re-