tain the superannuated worker, but transfer him to a less demanding job at the same or a reduced level of compensation. In the former case, the direct costs would be similar to alternative two, but the indirect costs would be reduced in that a younger and more capable person would now be staffing the more demanding position. If the employee's salary is reduced, the direct costs of superannuation would also be reduced.

Most employers who do not have a pension plan generally handle the problem of the older worker in the latter manner. The effectiveness of this approach to the problem has certain important limitations. First of all, a firm usually has only a limited number of positions to which aged workers can be transferred. For a larger or even medium sized firm, only a fraction of the superannuated employees can be efficiently employed. With automation and the increasingly higher levels of skill required in most jobs, the limitations of this solution are apparent. Furthermore, the superannuated employee is generally still overpaid in the less demanding jobs since, for practical purposes, reductions comparable to the decrease in employee productivity are seldom made. Lastly, this approach does not solve the problem of superannuation; it merely defers it, since a point will be reached where the employee's productivity is considerably below even a minimum level of wage.

The fourth alternative available to the employer in meeting the problem of superannuation is to establish a formal pension plan. A pension plan permits employers to terminate superannuated employees in a humanitarian and nondiscriminatory manner. The inefficiencies associated with retaining employees beyond their productive years are, therefore, eliminated. Employees will know that they are expected to retire by a certain age, and they can make the necessary provisions for their retirement. Furthermore, the sense of security derived from the knowledge that provision is made, at least in part, for their retirement income needs should increase the morale and productivity of employees. Also, systematic retirement of older workers will keep the channels of promotion open, thereby offering opportunity and incentive to the young, ambitious employees—particularly those aspiring to executive positions. Therefore, a pension plan should permit an employer to attract and keep a better caliber of employee.

The problem of superannuation, then, exists in all business firms. Any solution, except the unlikely alternative of arbitrary termination of older workers without any retirement benefit, results in some cost, direct and/or indirect, to the employer. Unfortunately, some employers assume that the pension plan solution is the only approach that carries a price tag. The hidden costs of the other alternatives must be recognized. The decision, therefore, is which solution is best suited to the needs and financial position of the employer. For a large number of employers, the formal pension plan approach has proved to be the superior solution.

TAX CONSIDERATIONS

The bulk of the growth in private pension plans has occurred since 1940. One reason for the growth of these plans during the World War II and Korean war periods was the fact that normal and excess profit tax rates imposed on corporations during these years were extremely high. Since the employer's contributions to a *qualified* pension plan