

are deductible for Federal income tax purposes, a portion of the plan's liabilities could be funded with very little effective cost to the firm. Furthermore, the investment income earned on pension trust assets is exempt from Federal income taxation.¹⁰

The tax advantages of qualified pension plans are even more impressive from the standpoint of employees covered under the plan. For example, the employer's contributions to a pension fund do not constitute taxable income to the employee in the year in which contributions are made. The pension benefits derived from employer contributions are taxed when distributed or made available to the employee. However, the employee is expected to be in a lower tax bracket when retirement benefits are received. In addition, under certain circumstances, lump sum distributions from a pension plan are taxed as capital gain rates rather than at ordinary income rates. Also, favorable estate tax treatment is accorded death benefits paid under a qualified plan.

Therefore, qualified pension plans offer significant tax advantages to participants generally, and in particular, to employees currently in high-income tax brackets. For the latter employees, deferred compensation schemes may be favored over equivalent cash wage increases. Since the high-salaried senior officers of corporations often make the decision regarding the establishment and design of employee benefit plans, their role as participants under the plan may influence their decisions on these matters. However, in the case of large corporations, cost and other considerations minimize or eliminate the personal tax situations of key employees as factors influencing the establishment or design of a pension plan. In the case of a small, closely held corporation, on the other hand, one can readily see how the tax implications for stockholder-employees may be a decisive factor in the establishment and design of a pension plan. Lastly, tax advantages to employees are certainly one reason, although not the most important, why some labor leaders negotiate for establishment and liberalization of employee benefit programs in lieu of further wage increases.

WAGE STABILIZATION

The second wartime development that helped to stimulate the growth of pensions was the creation of a wage stabilization program as part of a general price control scheme. Employers, in competing for labor, therefore, could not offer the inducement of higher wages. Under these conditions, union leaders found it difficult to prove to their membership the merits of unionism. Therefore, the War Labor Board attempted to relieve the pressure on management and labor for higher wage rates by permitting the establishment of fringe benefit programs, including pensions. This policy further stimulated the growth of pension plans during this period.

UNION DEMANDS

Labor leaders have had mixed emotions over the years regarding the desirability of employer-financed pension plans. In the 1920's, labor generally did not favor such plans for its membership. It held the

¹⁰ For a complete discussion of the tax aspects of qualified pension plans, see Melone and Allen, *op. cit.*, chs. 5 and 6.