

Labor was quick to respond to these decisions, and the 1950's were marked by union demands for the establishment of new pension plans, liberalization of existing plans, and the supplanting of employer-sponsored programs with negotiated plans. Undoubtedly, labor's interest in private pensions has been an important factor in the tremendous growth in plans since 1949.

BUSINESS NECESSITY

Employers hire employees in a free, competitive labor market. Therefore, as the number of plans increase, employees come to expect a pension benefit as part of the employment relationship. Employers who do not have such a plan are at a competitive disadvantage in attracting and holding personnel. Therefore, some employers feel they must install a plan even if they are not convinced that the advantages generally associated with a pension plan outweigh the cost of the benefit. Admittedly, this is a negative reason for instituting a plan. In other words, these employers feel that there is little evidence that pension plans truly result in improved morale and efficiency among their work force; but they feel that there would clearly be an adverse employee reaction if they did not offer a pension. Also, in contrast to situations where a plan is established in response to labor demands, an employer may offer a pension plan as part of an employee relations objective of keeping the union out of the firm.

REWARD FOR SERVICE

There is a tendency to argue that employers never provide any increase in employee benefits unless they can expect an economic return in some form. Although this philosophy must prevail generally in a capitalistic system, the fact remains that many employers have established plans out of a sincere desire to reward employees who have served the firm well over a long period of service. Also, some employers may feel a moral responsibility to make some provision for the economic welfare of employees during their retirement years.

EFFICIENCY OF APPROACH

Part of the growth of private pensions must be attributed to the fact that a formal group savings approach has certain inherent advantages. The advantages are not such that they eliminate the need for individual savings; but the merits of private pensions as a supplement to social security benefits and individual savings programs are indeed significant. First of all, the economic risk of old age derives from the fact that a point is reached when an employee is unable or unwilling to continue in active employment. A formal plan as an integral part of compensation arrangements and employment relationships, therefore, is quite logical. There is no additional wage cost to the employer to the extent that pension benefits are provided in lieu of other forms of compensation. If pension benefits are provided in addition to prevailing wage rates, the employer's extra wage costs resulting from the pension plan can generally be passed on to the consuming public in the form of higher prices.