ages 40, 45, 50, and 55 being most common. Since the rate of turnover is quite high among younger and shorter service employees, the private pension benefits of many employees will be based solely on their service with their last employer, rather than for the full period of their working careers.

Since the question of vesting is a principal issue in the current dialog on private pensions, it might be well to include in this paper an evaluation of the issue in terms of management and labor motivations in the establishment of these plans.[17] Once again, the analysis is based on the assumption that private pensions are viewed as a *voluntary* supplement to OASDHI benefits.

OBJECTIVES OF EMPLOYER

Employers may establish a pension plan for any one of a number of reasons. The employer may wish to reward those employees who have served him well for a long period of time. Or an employer may feel a moral responsibility for the economic welfare of his employees. Also, an employer may establish a plan to effect certain personnel objectives, such as a reduction of labor turnover or to attract new employees or to provide a dignified and orderly method of removing older workers from the payroll. Other reasons of business expediency, such as a desire to enhance the public image of the firm or to offer an employee benefit program comparable to that being offered by competitors, may be determining factors. Or the objective of the plan (particularly in the case of small plans) may be to minimize the Federal income tax burdens of one, or a few, of the key employees. Last, but not least, the plan may be established as a result of union demands.

Regardless of the motivating factor involved, an employer is encouraged to establish a plan only if he envisions some implicit or explicit offsetting economic advantages. Of the possible types of benefits, that is, normal retirement, early retirement, disability retirement, death benefit, and vesting benefit offered under a pension plan, vesting offers the least obvious prospect of an offsetting economic advantage, in the opinions of most employers.

This fact presents one of the most important impediments to the widespread adoption of liberal vesting provisions in private plans. On a macroeconomic basis, vested benefits enhance considerably the effectiveness of the private pension movement. There is no question that liberal vesting provisions, other things being equal, would increase both the number of benefit recipients and the average size retirement benefit provided under private plans. Furthermore, vested pensions would tend to reduce employer resistance to the hiring of older workers and probably increase labor mobility. These advantages are formidable and obvious. It is equally obvious that the immediate advantages of vested benefits accrue primarily to the employees involved.

From the point of view of the firm—the one which must pay, in part or in full, for the benefit—the economic advantages, are, at best, indirect. Presumably, some advantage accrues from the improvement in the benefit structure in that, hopefully, employee attitudes toward

[17] For a more complete analysis, see Joseph J. Melone, "Implications of Vested Benefits in Private Pension Plans," *Journal of Risk and Insurance*, December 1965, vol. XXXII, No. 4, pp. 559–569.