ence curve 3 in figure 3. Without special tax treatment for pension costs, few workers would fall in this category. The exceptions would be: (1) workers concerned about retirement who were convinced that the employer could earn more or higher return on pension contributions than the worker could; and (2) those workers who would not make payments into their own retirement fund but think that they ought to be made to do so. With special tax treatment, however, there will be many more workers in this class. One dollar in pension costs in a qualified pension fund accumulates interest on the whole dollar, while the dollar paid in wages is taxable before the worker can invest it. Thus even if marginal tax rates were the same during work and retirement years, there is a possible advantage in a pension for the worker.[18] As it is, of course, a retired worker receives tax-free OASDHI benefits and gains the advantage of double personal exemption when 65 years and over. Moreover, by definition of retirement, his earnings will usually be much lower than during his prime working years. Most workers, and especially high-wage workers, expect that marginal tax rates will be lower in retirement than during the prime working years.

WORKER ATTITUDE TOWARD JOB-CHANGING

Define the worker's mobility during period t (M_t) as the probability of his leaving the job during the period. For a given set of alternative jobs available to him, his mobility will be a function of the utility of the presently held job

$$(M_t = M(U_t) \tag{3}$$

Assume that an increase in the utility of the present job, *ceteris paribus*, decreases his mobility ($\partial M_t/\partial U_t < 0$). Any change that increases his utility decreases his mobility ($\partial M/\partial W < 0$ and $\partial M/\partial P < 0$ [in the usual cases in which $\partial U/\partial P < 0$]). For given wages and pensions in the job presently held, the worker's mobility depends directly on wages and pensions in alternative jobs. These depend on the other employers' perceptions of the worker's productivity.

What effect does an unvested pension have on the worker's mobility? The worker with completed service under the pension plan can expect a larger pension if he stays with the firm than if he moves to another firm with identical wages and pension plan, so his mobility is reduced. When benefits are a large part of the worker's human wealth, as with workers close to retirement and executives, mobility should be substantially reduced. A fully vested pension should have no effect even though it is expected income rather than nonhuman wealth because receipt of the vested pension does not depend on continued employment in the firm. An unvested pension is in no essential respect different from

[18] If W_p is the present value of earnings when a pension is paid, W_w is the present value of earnings when no pension is paid, I_p is the present value of taxes when the pension is paid, and I_w is the present value of taxes when only wages are paid, then the worker will prefer a pension if $U(W_p,P) > U(W_w,0)$. Usually, $U(W_p - I_p) > U(W_w - I_w)$ if $W_p - I_p > W_w - I_w$. In this case, it is possible for $Wp < Ww$ if I_p is sufficiently smaller than I_w. This means that if the tax saving is sufficiently great, then the $W_p + P$ can be less than W_w even though the utility of W_p and P is greater than the utility of W_w. This is likely to be so if the worker attaches a great deal of importance to pensions or has a high marginal tax rate. Given the tax advantages, the employer may spend less on pensions and wages together than he would have to spend on wages alone if he could not grant pensions.