

EMPLOYER ATTITUDES TOWARD PENSIONS

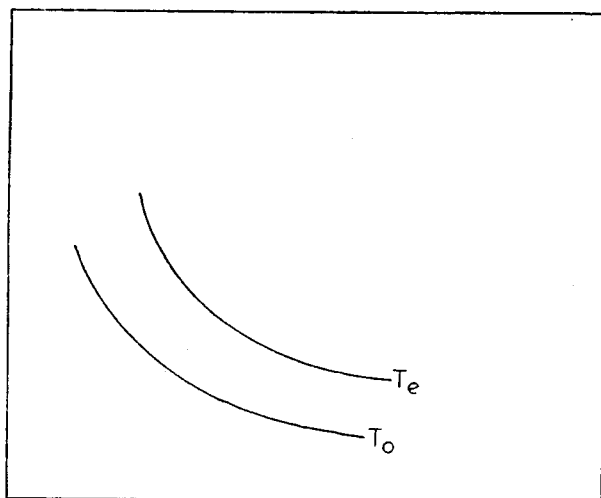
Assume employers wish to maximize profits and that they hire any worker for whom revenue R (as defined in equation 4) is greater than cost C , where

$$C = W + P + T \quad (5)$$

in which W is the present value of wages, P is the present value of pension costs, and T is the present value of turnover costs. The firm must minimize cost for each worker subject to the worker's utility of his opportunity wage, which we have assumed is a function of W and P . It was assumed above that the worker knows P and now assume, for simplicity, that his expectations and his employer's expectations of W are the same. Since W and P enter the worker's utility function and T does not, the employer may pay more to the worker than is minimally necessary to keep him, that is, T is an increasing function of the worker's mobility which is a decreasing function of P and W , hence

$$C = W + P + T(W, P) \quad (6)$$

in which $\frac{\partial T}{\partial W} < 0$ and $\frac{\partial T}{\partial P} < 0$.



Pension Cost

Figure 6