past standards, the systematic provision of retirement income by funding through financial institutions, as distinguished from transfer payments, has become the most important new element in the saving process.

	Average, 1946–50	Average, 1951–55	Average, 1956–60	Average, 1961–65
Personal income (billions of dollars)[1]	203.0	283.4	366.0	472.0
Personal saving (billions of dollars)[1]	11.7	17.2	19.9	23.2
Retirement saving (billions of dollars)[2]	2.7	4.6	7.2	9.9
Personal saving as percentage of personal income	5.8	6.1	5.4	4.9
Retirement saving as percentage of personal income	1.3	1.6	2.0	2.1
Retirement saving as percentage of personal saving	23.1	26.7	36.2	42.7

[1] National income accounts of the U.S. Department of Commerce, "Survey of Current Business."
[2] Flow-of-funds accounts of the Board of Governors of the Federal Reserve System. Measures increase in assets held by governmental and private pension programs, excluding OASDI.

Note: If personal saving is expressed as a percentage of disposable personal income, the saving ratios for the four 5-year periods are 6.4, 6.9, 6.2, and 5.6 percent, respectively. Using the ratio to personal income is considered more relevant since most of the pension saving is, in effect, from pretax income; i.e., employer contributions to public and private plans are not recognized as taxable income to the employee.

Whether this form of saving represents a substitution for other forms or a net addition to the aggregate saving of households becomes a key question in determining the future volume, composition, and trend of saving and capital formation in the American economy. The research of Raymond W. Goldsmith [2] has established the long-term stability in the ratio of saving to income. Despite the development of new financial institutions such as life insurance companies, savings and loan associations, consumer finance companies, investment companies, savings banks, and credit unions, the record of the past 90 years shows remarkable stability in the saving ratio.

There have, of course, been great changes in the preferences of individuals for different types of financial assets. Financial intermediaries have enjoyed varying rates of growth as the public has shifted its favor from one to another form of saving medium. The secular trend toward the institutionalization of saving has afforded ample opportunities for growth in the case of most intermediaries despite the changing emphasis of individuals on different characteristics of saving media.[3]

It is quite consistent with the record of the past, therefore, to expect that households will substitute for other savings the accumulation of an interest or equity in a pension program. With this form of income for life after retirement assured by coverage under a public or private plan, it would appear to be less necessary or desirable to save during working years by means of savings accounts, life insurance, or homeownership. If this is the way people react, we should expect them to substitute retirement saving for saving in other forms. The substitution might well be less than complete, however, because of certain characteristics of saving through a pension plan: (1) The realization of full pension benefits may depend upon continuity of employment in the event of delayed or graded vesting. (2) An equity

[2] *A Study of Saving in the United States*, Princeton, N.J., 1955, vol. I, pp. 4–22.
[3] Exceptions are the postal savings system (discontinued in 1966) and possibly U.S. savings bonds. For a comprehensive view of these trends, see Raymond W. Goldsmith, *Financial Intermediaries in the American Economy Since 1900*, Princeton University Press for NBER, 1958.