at the time they start but then continually improve the vesting provisions as they go along. By the winter of 1962–63, according to a Bureau of Labor Statistics study of 16,000 pension plans covering over 15.6 million employees, two out of three private pension plans covering three out of five workers provided vesting.[5] Present vesting is undoubtedly even more widespread in view of the marked trend toward more liberal vesting.

The life insurance business is in favor of vesting. Vesting helps to assure that covered employees will actually receive pensions and will not lose their benefits through termination of employment. Moreover, although the impact of vesting on the mobility of labor requires further study, there appears to be a presumptive relationship between vesting and labor mobility.

Recently, there have been suggestions that some degree of vesting should be required as a condition to qualification of plans under the Internal Revenue Code. Again, we believe that such suggestions should be studied and discussed. It must be recognized, however, that vesting affects costs and, hence, must be considered in relation to other possible improvements in pension plans, and to the ability of new or small employers to initiate such plans.

### PENSION PLANS ARE FINANCED OUT OF PRIVATE FUNDS

An important advantage of private pension plans is that they are financed out of private funds, not public funds. Since they are paid for by voluntary contributions made by employers and employees, they do not involve compulsory tax payments or the direct expenditure of public funds.

It is sometimes alleged that, although private pension plans are financed by private funds, they are "subsidized" by the Government in that present law grants them favored tax treatment. This view is based on three points: (1) The employer gets a tax deduction within certain limits for contributions to a qualified plan at the time the contribution is made; (2) covered employees are not taxed on employer contributions made on their behalf until they actually receive pension benefits; and (3) investment earnings on funds set aside in qualified trusteed and insured plans are free of tax until received by the employees.

It is questionable, however, whether the three items just cited can be said to amount to a "subsidy."

Allowing an employer to take a tax deduction for his contribution to a qualified pension plan does not constitute special tax treatment. In order to secure the deduction under present law, the employer must irrevocably part with the contributed funds when he hands them over to the pension trust or the life insurance company for pension purposes. The deduction received for such contributions, therefore, merely recognizes that the employer has incurred a business expense similar to compensation paid to employees in other forms—for example, cash wages.

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[5] *Labor Mobility and Private Pension Plans—A Study of Vesting, Early Retirement and Portability Provisions*, U.S. Department of Labor, Bureau of Labor Statistics, B.L.S. Bulletin, No. 1407, p. 11.