

merely a theoretical, however interesting, exercise. Although the theoretical benefit of deferred taxation is frequently spoken of as arising solely from the lower-income tax rates in retirement, it is evident that the mere deferment of tax on contributions and investment earnings is more important in these theoretical exercises than the difference in tax rates.

In appraising favorable tax treatment—that is, the effect on Federal revenues of the tax provisions relating to qualified plans—the comparison should be made with the alternative of pay-as-you-go financing by the employer and not with a funded nonqualified plan. In advance accounting for pension costs by either internal balance sheet reserves or a qualified advanced funding operation, the contributions, actual or assumed, and the investment earnings, actual or assumed, must match the pension payments dollar for dollar over the duration of the pension operation. At first blush, assuming uniform corporate income tax rates throughout the pension operation, it would appear that the capitalized value of tax deductions on the pay-as-you-go basis should be equal to the capitalized value of the corresponding tax deductions for contribution and investment earnings under advanced funding. The situation, however, is not that simple. It is complicated by the need to recognize the value of money to the government over a span of years, the net earnings rate of a pension fund, the gross earnings rate of the employer's business, and the period of years over which investment earnings are realized or recognized: that is, the average date from which funding contributions would be made to the average date of pension payments.

Very generally, where the rate of investment earnings of a pension fund is high in relation to the gross earnings rate of a business, there is a decided tax advantage to the Government from advance funding. This high rate of investment earnings of a pension fund will affect taxes either by materially reducing deductible amounts (and hence increasing the taxes collected on an advance funding basis) or by materially increasing the amount of benefits that are not deductible during the payout period on a funded basis; that is, the employer is at a disadvantage since he cannot deduct these enhanced amounts which would have been deductible on the pay-as-you-go basis. The longer the investment earnings period the larger is the area that is favorable to the Government under advance funding. Where the rate of investment earnings of a pension fund is quite low in relation to the gross earnings rate of a business, advance funding is to the financial disadvantage of both the employer and the Government. In some cases, advance funding is to the advantage of the employer and not to the Government.

If the \$6.2 billion employer contributions made in 1965 on a collective basis for qualified plans were not currently deductible by employers, many employers would shift to pay-as-you-go financing. Although current revenues in this event would be temporarily increased, deductions corresponding to advance funding contributions and the investment income thereon would eventually be taken that could range from amounts of significantly greater value to significantly lesser value than contributions and investment income. Such abandonment of advance funding would weaken employee pension security and diminish an