Pensions
(1948)

WHY WORKERS WANT PENSIONS

Don't guess at the cost of a plan!

YOUR CONSIDERATION of a plan will depend to a great extent on its cost.

In addition to our experience in administration gained as trustee of numerous pension and profit-sharing plans, we are fully equipped to prepare preliminary plans and cost estimates.

We shall be glad to make such a cost estimate for you without obligation. Write to our Pension Trust Section.

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ONE FEDERAL STREET • BOSTON

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Why Workers Want

PENSIONS

AS AN EMPLOYER, you naturally expect a return for the money you pay out as compensation to your employees.

"Compensation" is commonly considered to be wages and salaries. But it can also be bonuses or sales commissions. It can be free lunches, free living quarters, free life insurance or free medical service. It can be—and very often is, under present-day conditions—a sum of cash set aside to pay pensions.

Which of these various forms of compensation gives you the greatest return per dollar spent?

Statistics won't provide the answer. You cannot look at a year's profits and say definitely that a certain portion was attributable to cash wages, another portion to bonuses, another portion to free medical service and so on.

Instead, you must take into consideration a dozen or more intangible factors. You must rely on your best judgment to choose a program of compensating your employees that will be the most profitable—to you and to them—in the long run.

The Practical Approach

And yet, an employer doesn't need to operate completely in the dark in this respect. He can make a revealing comparison between at least two important forms of compensation by getting from his employees the answer to the following question:

"Which is more valuable to you—a dollar added to your current wages, or a dollar set aside in a U.S. Treasury-approved fund to pay you pensions?"

In other words, what do the employees really want? Knowing this, the employer has a good clue to the efficient payment of compensation.

Pensions Preferred

There is little doubt that a few years ago most employees would have voted for the increased wages.

Today the situation appears to have changed. Some of the largest unions in the country have announced that pensions are their prime objective. Smaller groups of employees are thinking along the same lines.

It is a matter of common observation that employees have become "pension conscious." In many cases they sincerely believe that dollars coming to them after retirement are more valuable to them than are additional dollars today.

Let's consider their reasons:

It is Good Judgment to 'Spread' Earnings over the Earner's Lifetime.

The span of years during which a man can earn wages is only a fraction of his lifetime. If he is to be truly self-supporting, he must deny himself the privilege of spending all his current earnings. He must keep a part of them until he is no longer working.

These are simple facts. Everyone understands them. But relatively few persons have the vision or the strength of will—even if they have the opportunity—to save as much money as they should. It's the natural inclination to "live too well" while employed, at the cost of being "too poor" later on.

A retirement plan, established by the wage-earner's employer, serves to spread a worker's earnings over the period they will be needed. If a retirement plan had no other advantages—if it were nothing more than a plan of compulsory saving—it would still be desired by a large number of employed persons. They have seen too many instances of old-age poverty to be indifferent.

It's Harder to Save Money Today Than Ever Before.

There might be some debate on this point. The difficulty of making ends meet is nothing new. Prices are higher now, and so are income taxes. But, on the other hand, wages are high too.

It is true, however, that the return on invested money is low. The thrifty fellow, therefore, doesn't see his savings mount so fast. In addition, because of the high cost of living after retirement, a larger sum needs to be accumulated to maintain standards of living.

Current economic conditions, therefore, make it much harder than in the past for the worker to build up a retirement fund of his own. If he tries it, he's struggling against some real difficulties.

The 'Little Fellow' Doesn't Know How to Invest His Money Properly.

U.S. Savings Bonds are available, of course. But all too often a small investor is tempted to go after a very much larger yield. And that is apt to get him into trouble. Even if he avoids schemes that are downright reckless, he still has neither the time nor the ability to choose between good and bad investments, nor is he able to diversify his holdings properly.

He speculates with money that should never be used for speculation. The worry connected with the risk can "get him down"; it can distract him from his work to such an extent that his job may be endangered.

For the "little fellow," therefore, there is a distinct advantage in having his money invested for him in a tax-free, diversified fund under expert investment supervision.

A Pension Plan Saves the Worker Income Taxes: It 'Subsidizes' Retirement.

This is quite true. The worker is not taxed for the money an employer sets aside for his benefit in an approved type of pension plan until he receives it or until it becomes available to him. Normally, that will be after he retires. By then, this pension may be his only taxable income; he may be in the "low brackets." Consequently, the employee's earnings that are "held off" until he retires may be taxed at a very low rate or perhaps not taxed at all.

What happens if the employee dies or leaves before retirement? Suppose he dies ten years after the pension plan is started and, under the terms of this particular plan, the funds accumulated for his benefit are paid in a lump sum to his beneficiary. Or suppose he resigns or is discharged after ten years and some or all of the funds accumulated for him are paid to him in a single sum. Even in these cases, the tax burden is lightened: the lump-sum payment is taxed as though it were a long-term capital gain.

Any Means That Postpones Taxable Income Until After Age 65 Saves Income Tax.

This also is true. Starting in 1948, taxpayers aged 65 or over are entitled to an extra $600 exemption. If the taxpayer and his wife are both over 65, they have *two* extra exemptions.

Thus, a retired worker might receive $2,400 of taxable income each year and not pay a cent of tax; it would be no more than his and his wife's exemptions.

A retirement plan has precisely such an effect of postponing the receipt of taxable income. In so doing, it makes each dollar of retirement income worth much more than a dollar of current income. There's more of the after-retirement dollar left after taxes.

Obtaining a High Return on Compensation to Employees

Compensation pays for services rendered by employees. If, under a certain arrangement, there is a possibility that a higher return—in the form of more efficient employees—can be obtained on a given amount of compensation, the employer will find it well worth his while to investigate that arrangement and see if it offers advantages in his particular business.

Treasury-approved pension plans have been found advantageous by thousands of employers. They have, in each case, been beneficial to the employer largely because they have helped his employees. They have given the employees what they wanted and needed, and thus they have created the willingness on the employees' part to devote their best efforts in behalf of their employer's business.

Job-satisfaction cannot always be created by wages alone. It arises from a sense of security, from the employee's feeling that the road will not be too rocky in years ahead. A high wage rate might bring such a sense of security to the employee. But a pension plan does it better; it's especially designed for the purpose.

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Depositary in connection with capital readjustments
Escrow Agent

**This booklet relates to the services rendered by Old Colony Trust Company as Trustee under Pension and Profit Sharing Plans. Information regarding the other services will be furnished upon request.*

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