Can't We All Have Deferred Income?
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**Our Changing Economy**

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*By Philip Stoddard Brown*

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IF WILKINS Micawber were to reappear—this time in America—he would catch on quickly to the use of credit cards and other opportunities "to pay later." Like the imaginative individual I read about the other day who had supplemented his $67 a week with some $80,000 of consumer credit over the past year, Mr. Micawber would understand and revel in our bounteous "consumer economy."


Brown

What he would not understand instinctively is the striving of management people "to get paid later." How perplexed he would be to read that Alfred E. Perlman, President of the New York Central Railroad, has agreed to accept $100,000, instead of his present $125,000 salary.

"My dear Copperfield, here is a man who deliberately arranges his affairs so that a not inconsiderable part of the remuneration for his services over the next seven years will be paid him during the seven years succeeding his retirement. How amazing that this Chief Executive Officer—who may decease any day—chooses to receive, later rather than sooner, $350,000 of his contractual emolument."

What Mr. Micawber could not be expected to know about are "the difficulties companies have in adequately compensating key personnel under present income tax laws." I quote from the recent proxy statement of the Wisconsin Electrical Power Company, which goes on to say:

**"Many companies have adopted special plans for compensating such key personnel as a partial substitute for current salary increases. Some of these plans have taken the form of special bonuses, restricted stock options, profit sharing, thrift savings, or deferred compensation.**

**"Until recently this Company had no such plan of key employe compensation, but for some time recognized the need and desirability of such a plan to meet competition from other industries and to attract and retain in its services key personnel having managerial qualifications."**

The Chairman of Wisconsin Electric Power Company is paid only $99,940 and the President, $90,115 and these men, like other Americans, have to pay income taxes. How can they possibly save enough to supplement adequately the pension the Company will pay them, amounting only to $29,474 and $18,437 a year, respectively.

The answer is deferred compensation. For ten years after retirement certain "key personnel" of this company will receive compensation equal to 25 per cent of their annual earnings during any five years of service. These key men after retirement must be available for advisory services but, if ever called upon, they will be reimbursed for travel expenses from Tahiti, or wherever they may be sojourning.

In view of the salary, age and training of these men, one wonders how real the threat is of being hired away by other companies. Then too, the company's pension plan, I believe, is not vested: that is to say, any employe who left to work for another company might lose all pension rights.

A recent comprehensive study entitled "Executive Compensation," by David R. Roberts, concludes that there is not a great deal of movement of executives among firms and that what movement there is is related to personal characteristics rather than to differentials in compensation. Furthermore, the study shows that, at least in the upper ranks, there is not much association between "entrepreneurial productivity" and compensation, and that increments of compensation above the levels prevailing in particular firms have limited incentive effects.

## *Doctrine of Constructive Receipt*

Deferred compensation—that is, compensation after retirement for work done in earlier years—is much easier to arrange as a result of a recent Internal Revenue ruling.

Compensation may be deferred and not taxed until it is actually received, provided it isn't "constructively received" in an earlier period. As I get it, income isn't constructively received if one can't claim it until sometime later and if there is some nominal restriction upon one's right to receive it.

Top management people devote a lot of their time to personal tax problems, to assuring themselves of "adequate compensation" and to converting personal expenses into corporate expenses. Consequently, they must appreciate the problems of employes who have an even harder time providing for retirement. Surely their concern for employes' welfare is such that they can be counted upon to be sympathetic in the next round of labor negotiations to workers' requests for deferred compensation. Granting such requests may prove expensive and require upping prices here and there and in between, so that the deferred income of those "key personnel" won't be worth as much. But what is sauce for the goose . . .

**What troubles me is how those of us who are self-employed can arrange for a little deferred compensation. My lawyer friends may be able to take care of themselves, but I don't see what I, or the corner grocer, can do.**

Maybe, as Mr. Micawber used to say, "something will turn up" . . . I wonder what Internal Revenue would say if every hundredth customer at the corner DGS put his payment in a box to which the Independent Grocers Association held the only key. Suppose the Association was instructed to pay out the money annually to the proprietor after he reached the age of 75, provided he pronounced a curse on chain stores whenever called upon by the Association. Wouldn't this comply with the doctrine of constructive receipt?