



National
Bureau of
Economic
Research

Pensions, Labor, and Individual Choice

Edited by
David A. Wise

This Page Intentionally Left Blank

Pensions, Labor, and Individual Choice



A National Bureau
of Economic Research
Project Report

Pensions, Labor, and Individual Choice

Edited by **David A. Wise**



The University of Chicago Press
Chicago and London

David A. Wise is John F. Stambaugh Professor of Political Economy,
John F. Kennedy School of Government, Harvard University, and
research associate, National Bureau of Economic Research.

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London

© 1985 by The National Bureau of Economic Research
All rights reserved. Published 1985
Printed in the United States of America

Library of Congress Cataloging in Publication Data

Main entry under title:

Pensions, labor, and individual choice.

(National Bureau of Economic Research project
report)

Bibliography: p.

Includes index.

1. Pensions—United States—Addresses, essays,
lectures. 2. Pension trusts—United States—Addresses,
essays, lectures. I. Wise, David A. II. Series.

HD7125.P393 1985 331.25'2'0973 85-1118

ISBN 0-226-90293-5

National Bureau of Economic Research

Officers

Franklin A. Lindsay, *chairman*
Richard Rosett, *vice-chairman*
Eli Shapiro, *president*

David G. Hartman, *executive director and
corporate secretary*
Charles A. Walworth, *treasurer*
Sam Parker, *director of finance and
administration*

Directors at Large

Moses Abramovitz
George T. Conklin, Jr.
Jean A. Crockett
Morton Ehrlich
Edward L. Ginzton
David L. Grove
Walter W. Heller
Saul B. Klamann

Franklin A. Lindsay
Roy E. Moor
Geoffrey H. Moore
Michael H. Moskow
James J. O'Leary
Peter G. Peterson
Robert V. Roosa

Richard N. Rosett
Bert Seidman
Eli Shapiro
Stephen Stamas
Lazare Teper
Donald S. Wasserman
Marina v.N. Whitman

Directors by University Appointment

Marcus Alexis, *Northwestern*
Albert Ando, *Pennsylvania*
Charles H. Berry, *Princeton*
James Duesenberry, *Harvard*
Ann F. Friedlaender, *Massachusetts
Institute of Technology*
J. C. LaForce, *California, Los Angeles*
Paul McCracken, *Michigan*

James L. Pierce, *California, Berkeley*
Nathan Rosenberg, *Stanford*
James Simler, *Minnesota*
James Tobin, *Yale*
John Vernon, *Duke*
William S. Vickrey, *Columbia*
Burton A. Weisbrod, *Wisconsin*
Arnold Zellner, *Chicago*

Directors by Appointment of Other Organizations

Carl F. Christ, *American Economic
Association*
Robert S. Hamada, *American Finance
Association*
Gilbert Heebner, *National Association of
Business Economists*
Robert C. Holland, *Committee for
Economic Development*
Stephan F. Kaliski, *Canadian Economics
Association*
Douglass C. North, *Economic History
Association*

Rudolph A. Oswald, *American Federation
of Labor and Congress of Industrial
Organizations*
G. Edward Schuh, *American Agricultural
Economics Association*
Albert Sommers, *The Conference Board*
Dudley Wallace, *American Statistical
Association*
Charles A. Walworth, *American Institute
of Certified Public Accountants*

Directors Emeriti

Arthur Burns
Emilio G. Collado
Solomon Fabricant
Frank Fetter

Thomas D. Flynn
Gottfried Haberler
George B. Roberts
Murray Shields

Boris Shishkin
Willard L. Thorp
Theodore O. Yntema

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

(Resolution adopted October 25, 1926, as revised through September 30, 1974)

Contents

	Acknowledgments	ix
1.	Overview David A. Wise	1
2.	Pensions and the Labor Market: A Starting Point (The Mouse Can Roar) David T. Ellwood <i>Comment: Zvi Bodie</i>	19
3.	Labor Compensation and the Structure of Private Pension Plans: Evidence for Contractual versus Spot Labor Markets Laurence J. Kotlikoff David A. Wise <i>Comment: Zvi Bodie</i>	55
4.	Unions, Pensions, and Union Pension Funds Richard B. Freeman <i>Comment: Albert Rees</i>	89
5.	Determinants of Pension Benefits Paul Taubman <i>Comment: Victor R. Fuchs</i>	123
6.	Social Security, Health Status, and Retirement Jerry A. Hausman David A. Wise <i>Comment: Gary Burtless</i>	159

7.	The Distributional Impact of Social Security	193
	Michael D. Hurd	
	John B. Shoven	
	<i>Comment:</i> Henry J. Aaron	
8.	The Structure of Uncertainty and the Use of Nontransferable Pensions as a Mobility-Reduction Device	223
	W. Kip Viscusi	
	<i>Comment:</i> Sherwin Rosen	
9.	Incentive Effects of Pensions	253
	Edward P. Lazear	
	<i>Comment:</i> Roger H. Gordon	
10.	Pensions and the Retirement Decision	283
	Barry Nalebuff	
	Richard J. Zeckhauser	
11.	Insurance Aspects of Pensions	317
	Peter A. Diamond	
	James A. Mirrlees	
	<i>Comment:</i> Robert C. Merton	
12.	The Riskiness of Private Pensions	357
	Jerry R. Green	
	<i>Comment:</i> Alan J. Auerbach	
13.	The Relationship between Wages and Benefits	379
	Jeremy Bulow	
	Wayne Landsman	
	<i>Comment:</i> Daniel Feenberg	
14.	The Federal Civil Service Retirement System: An Analysis of Its Financial Condition and Current Reform Proposals	399
	Herman B. Leonard	
	<i>Comment:</i> Paul A. Samuelson	
	List of Contributors	445
	Author Index	447
	Subject Index	449