

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Issues in Pension Economics

Volume Author/Editor: Zvi Bodie, John B. Shoven, and David A. Wise, eds.

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-06284-8

Volume URL: <http://www.nber.org/books/bodi87-1>

Publication Date: 1987

Chapter Title: Front matter, "Issues in Pension Economics"

Chapter Author: Zvi Bodie, John B. Shoven, David A. Wise

Chapter URL: <http://www.nber.org/chapters/c6849>

Chapter pages in book: (p. -12 - 0)



National
Bureau of
Economic
Research

Issues in Pension Economics

Edited by
Zvi Bodie,
John B. Shoven, and
David A. Wise

This Page Intentionally Left Blank

Issues in Pension Economics



A National Bureau
of Economic Research
Project Report

Issues in Pension Economics

Edited by **Zvi Bodie, John B. Shoven, and
David A. Wise**



The University of Chicago Press

Chicago and London

Zvi Bodie is professor of finance at Boston University. John B. Shoven is professor of economics at Stanford University. David A. Wise is the John F. Stambaugh Professor of Political Economy at the John F. Kennedy School of Government, Harvard University.

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

© 1987 by The National Bureau of Economic Research
All rights reserved. Published 1987
Printed in the United States of America
96 95 94 93 92 91 90 89 88 87 5 4 3 2 1

Library of Congress Cataloging in Publication Data

Issues in pension economics.

(A National Bureau of Economic Research project report)

Bibliography: p.

Includes indexes.

1. Pension trusts—United States—Congresses.
 2. Corporations—United States—Finance—Congresses.
 3. Pensions—United States—Finance—Congresses.
- I. Bodie, Zvi. II. Shoven, John B. III. Wise, David A. IV. Series.

HD7105.45.U6162 1987 331.25'2'0973 86-19346

ISBN 0-226-06284-8

National Bureau of Economic Research

Officers

Franklin A. Lindsay, *chairman*
Richard N. Rosett, *vice-chairman*
Martin Feldstein, *president*

Geoffrey Carliner, *executive director*
Charles A. Walworth, *treasurer*
Sam Parker, *director of finance and administration*

Directors at Large

Moses Abramovitz
Andrew Brimmer
Carl F. Christ
George T. Conklin, Jr.
Jean A. Crockett
Morton Ehrlich
Martin Feldstein
Edward L. Ginzton
David L. Grove

George Hatsopoulos
Walter W. Heller
Saul B. Klaman
Franklin A. Lindsay
Roy E. Moor
Geoffrey H. Moore
Michael H. Moskow
James J. O'Leary
Robert Parry

Peter G. Peterson
Robert V. Roosa
Richard N. Rosett
Bert Seidman
Eli Shapiro
Stephen Stamas
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

Edgar Fiedler, *National Association of Business Economists*
Robert S. Hamada, *American Finance Association*
Robert C. Holland, *Committee for Economic Development*
James Houck, *American Agricultural Economics Association*
David Kendrick, *American Economic Association*
Douglass C. North, *Economic History Association*

Rudolph A. Oswald, *American Federation of Labor and Douglas Purvis, Canadian Economics Association*
Congress of Industrial Organizations
Albert T. 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 W. Fetter
Thomas D. Flynn
Gottfried Haberler

George B. Roberts
Willard L. Thorp

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. Introduction	1
Zvi Bodie, John B. Shoven, and David A. Wise	
I. PENSIONS AND CORPORATE FINANCE	
2. Funding and Asset Allocation in Corporate Pension Plans: An Empirical Investigation	15
Zvi Bodie, Jay O. Light, Randall Mørck, and Robert A. Taggart, Jr.	
<i>Comment:</i> André F. Perold	
3. Corporate Pension Policy and the Value of PBGC Insurance	49
Alan J. Marcus	
<i>Comment:</i> William F. Sharpe	
4. How Does the Market Value Unfunded Pension Liabilities?	81
Jeremy I. Bulow, Randall Mørck, and Lawrence Summers	
<i>Comment:</i> Myron S. Scholes	
II. PENSIONS AND RETIREMENT INCOME ADEQUACY	
5. Concepts and Measures of Earnings Replacement during Retirement	113
Michael J. Boskin and John B. Shoven	
<i>Comment:</i> Alan L. Gustman	

- 6. Pension Plan Integration as Insurance
against Social Security Risk** 147
Robert C. Merton, Zvi Bodie, and
Alan J. Marcus
Comment: Jeremy I. Bulow

III. PENSIONS AND SAVINGS BEHAVIOR

- 7. Uncertain Lifetimes, Pensions, and
Individual Saving** 175
R. Glenn Hubbard
Comment: Olivia S. Mitchell
- 8. Annuity Markets, Savings, and the
Capital Stock** 211
Laurence J. Kotlikoff, John B. Shoven,
and Avia Spivak
Comment: Michael Rothschild
- 9. Dissaving after Retirement: Testing the
Pure Life Cycle Hypothesis** 237
B. Douglas Bernheim
Comment: Michael Hurd

IV. PENSIONS AND THE LABOR MARKET

- 10. The Incentive Effects of Private Pension
Plans** 283
Laurence J. Kotlikoff and David A. Wise
Comment: Thomas A. Gustafson
- 11. Pension Inequality** 341
Edward P. Lazear and Sherwin Rosen
Comment: Sylvester J. Schieber
- List of Contributors 365
Author Index 367
Subject Index 370

Acknowledgments

This volume consists of papers presented at a conference held at the Hotel del Coronado, San Diego, California, 13–14 April 1984, and is part of the National Bureau of Economic Research ongoing project on the economics of the United States pension system. The work reported here was sponsored by the United States Department of Health and Human Services. Earlier work on the project was supported by the following organizations: American Telephone and Telegraph Company, The Boeing Company, E. I. du Pont de Nemours and Company, Exxon Corporation, Ford Motor Company, IBM Corporation, the Lilly Endowment, The Procter and Gamble Fund, and the Sarah Scaife Foundation, Inc. The authors are grateful to Karen Prindle for guiding them and this volume through the editorial process.

Any opinions expressed in this volume are those of the respective authors and do not necessarily reflect the views of the National Bureau of Economic Research or any of the sponsoring organizations.

This Page Intentionally Left Blank