PENSION PLANS

Saving, Pension Contributions, and the Real Interest Rate, by John H. Makin (American Enterprise Institute) and Kenneth A. Couch (University of Wisconsin-Madison).

A test of the hypothesis that estimates of the interest elasticity of personal and private saving may be biased downward by a failure to control for behavior related to defined benefit pension programs fails to reject existence of a positive interest elasticity of private saving. Correcting for pension funding bias, the estimated interest elasticity of private saving is 0.04, well below Boskin's (1978) estimate of 0.4 obtained with a different data set and different estimation procedures. The estimated interest elasticity of personal saving is 0.28. *The Review of Economics and Statistics*, (August 1989), pp. 401-7. (Reprinted with permission of *The Review of Economics and Statistics*).

Why Do Firms Terminate Their Overfunded Pension Plans?, by Jacob K. Thomas (Columbia University).

Financial and pension variables are analyzed to test predictions of a number of explanations for the recent surge in reversions of excess assets from terminations of overfunded pension plans. Terminations are apparently motivated by cash needs, rather than tax, accounting, or wealth transfer considerations. These cash needs arise from large unexpected declines in funds from operations or financial restructuring subsequent to hostile takeover attempts. However, terminations appear to be a costly source of funds, since firms seek funds from numerous other sources (divided cuts, 'slow' withdrawals of pension assets, and investment cuts) before resorting to terminations. *Journal of Accounting and Economics*, Vol. 11, No. 4 (November 1989), pp. 361-98. (Reprinted with permission of North-Holland Publishing Company).

An Empirical Analysis of the Factors Underlying the Decision to Remove Excess Assets From Overfunded Pension Plans, by H. Fred Mittelstaedt (Arizona State University).

This study empirically examines possible motivational factors leading to reductions in pension plan overfunding. The results indicate that firms with severe financial weakening terminate pension plans. Firms with less severe financial weakening change actuarial assumptions to reduce required cash contributions to pension plans. Although decline in marginal tax rates and increased susceptibility to takeover are positively associated with overfunding reductions, increased financial weakening appears to be the most plausible explanation. The results are consistent with termination of pension plans being a costly source of financing. *Journal of Accounting and Economics*, Vol. 11, No. 4 (November 1989), pp. 399-418. (Reprinted with permission of North-Holland Publishing Company).