***Opportunistic Behavior by Firms in Implicit Pension Contracts***, by Christopher Cornwell (University of Georgia), Stuart Dorsey (Baker University), and Nasser Mehrzad (Frostburg State University, Maryland)

Several studies have established that under the most common form of pension coverage, benefits accrue disproportionately near the end of a worker's career. Such backloading establishes a penalty for early quitting but may also create an incentive for opportunistic firm behavior. Because benefits generally are a function of highest earnings, when nominal earnings are expected to rise, an employer can reduce pension liabilities by discharging workers prior to retirement. This paper uses the National Longitudinal Survey of Mature Men to test whether such actions by employers are systematic.

We estimate that pension-covered workers with mean losses are less likely to be discharged. Unexpected increases in pension losses due to increases in inflation, however, raise the risk of discharge. We find no evidence that the minimum vesting standards of the Employees' Retirement Income Security Act reduces the likelihood of discharge for older workers who previously were not vested. These results are consistent with an implicit pension contract under which employer compliance is enforced by reputation. *The Journal of Human Resources*, Vol. XXVI, No. 4 (Fall 1991), pp. 704-25. (Reprinted with permission of *The Journal of Human Resources*).

***Uncertain Lifetimes, Retirement and Economic Welfare***, **by** R.R. Chang

The effect of increased life expectancy on retirement age is ambiguous because a change in the survival probability is analogous to a change in intertemporal prices. It is shown that the decision to retire early or later depends on the old-age saving behavior. Early retirement could emerge if one saves in old age. It is also shown that the effect of intertemporal substitutions, arising from the imperfection of the annuity market, could produce a tilt to the reservation wage profile, which, in turn, makes early retirement possible. *Economica*, Vol. 58, No. 230 (May 1991), pp. 215-32. (Reprinted with permission of the *Journal of Economic Literature*).

## ESTATE PLANNING AND DISTRIBUTION

***How Strong Are Bequest Motives? Evidence Based on Estimates of the Demand for Life Insurance and Annuities***, by B. Douglas Bernheim (Princeton University and National Bureau of Economic Research)

This paper presents new empirical evidence in support of the view that a significant fraction of total saving is motivated by the desire to leave bequests. Specifically, I find that social security annuity benefits significantly raise life insurance holdings and depress private annuity holdings among elderly individuals. These patterns indicate that the typical household would choose to maintain a positive fraction of its resources in bequeathable forms, even if insurance markets were perfect. Evidence on the relationship between insurance purchases and total resources reinforces this conclusion. *Journal of Political Economy*, Vol. 99, No. 5 (October 1991), pp. 899-927. (Reprinted with permission of the *Journal of Political Economy*).

## INSURER MANAGEMENT AND REGULATION

***Premium Calculation Implications of Reinsurance Without Arbitrage***, by Gary G. Venter (Workers' Compensation Reinsurance Bureau, Hoboken, New Jersey)

Constraints imposed on premium calculation principles are studied under one aspect of competitive market theory: the impossibility of systematic arbitrage. Principles based on second moments or utility theory are shown to lead to arbitrage possibilities, while some other principles do not. *Astin Bulletin*, Vol. 21, No. 2 (November 1991), pp. 223-30. (Reprinted with *Astin Bulletin*).

***Assessing the Solvency of the Insurance Industry***, by Burton G. Malkiel (Princeton University)

The article attempts to assess the ability of the insurance industry to discharge its liabilities and to settle in full the claims against it without resorting to any of the limited safety nets that exist. The article examines several indicators of the health of the industry including: (1) industry profitability, (2) the risk level of assets held, (3) the industry's capital cushion, (4) the duration match between assets and liabilities, and (5) possible agency problems induced by the operation of a safety net. In addition, other risks are considered including the escalating costs of settling claims and pressures to make insurance rates more affordable. The article concludes with a cautiously optimistic appraisal. The industry, with a few notable exceptions, is somewhat stronger than banking intermediaries. Concerns over a generalized solvency problem, such as that faced by the savings industry, appear misplaced. *Journal of Financial Services Research*, Vol. 5, No. 2 (October 1991), pp. 167-80. (Reprinted with permission of Kluwer Academic Publishers).

## LIABILITY RULES

***Decoupling Liability: Optimal Incentives for Care and Litigation***, by A. Mitchell Polinsky (Stanford University and National Bureau of Economic Research) and Yeon-Koo Che (University of Wisconsin, Madison)

A "decoupled" liability system is one in which the award to the plaintiff differs from the payment by the defendant. The optimal system of decoupling makes the defendant's payment as high as possible. Such a policy allows the award to the plaintiff to be lowered, thereby reducing the