insurers. They conclude that more than one multivariate approach may be necessary for measuring the probability of insurer failure.

A paper by Steve Haberman and Daniel Dufresne considers problems associated with selection of appropriate pension contribution levels in the face of random rates of return. The relevance of this paper to the general theme of the book is not obvious. Henk von Eije attempts to reconcile the differing view of actuaries and financial economists with regard to the value of reinsurance. The paper presents a useful framework for valuing reinsurance contracts. However, the framework largely ignores the important implications that agency theory has for evaluating reinsurance.

Solvency problems created by use of CAPM-based rating methods in the presence of serially correlated profits are addressed by Emilio Venezian. In the final paper in part one, James McDonald considers a generalized four parameter statistical distribution as a model for losses and empirically evaluates the performance of the distribution.

The second part of the book titled, "Financial Models of Risk Assessment," contains five papers. Jim Garven and Steve D'Arcy compare alternative rates of return models in terms of the ability of these models to predict underwriting profit margins. They find the strongest support for the option pricing model and, hence, suggest that pricing models must consider more than systematic risk.

For purposes of discounting loss reserves Robert Butsic determines an appropriate interest rate which incorporates financial market considerations. Also related to establishing loss reserves, Glenn Meyers uses a risk theoretic approach to calculate safety loadings in premiums that will decrease the insolvency probability due to variation in losses.

Neil Doherty and Harris Schlesinger demonstrate in an expected utility framework that some consumers may be better off with a higher chance of insolvency and a lower price.They suggest that the proper role of regulation may be to provide information to consumers rather than to prevent insolvencies. Although not mentioned, their results contain some interesting implications for the proper role of guaranty funds. In the final paper, David Cummins shows that insurance prices should reflect individual firm characteristics, including default risk and capital structure.

The contents of *Managing the Insolvency Risk of Insurance Companies* confirm that progress has been made toward reconciling the differences between actuarial and financial economic research in insurance. Although more work remains, this book and its predecessor, *Financial Models of Insurance Solvency* (1989), also edited by Cummins and Derrig, represent valuable advancements toward the goal of establishing an integrated theory of insurance solvency and finance.

***Retirement and Public Policy***, edited by Alicia H. Munnell, National Academy of Social Insurance, Washington D.C. (1991).

Reviewer: Vickie L. Bajtelsmit, Assistant Professor of Finance and Real Estate, Colorado State University.

In the introductory chapter of *Retirement and Public Policy*, the editor poses the question: Should national policy be aimed at keeping older workers in the labor force? The collection of papers in this book, originally solicited for a conference of the National Academy of Social Insurance, represents a concerted effort by researchers from a variety of disciplines and ideologies to provide an informed answer to that question.

With the trend to early retirement that began after World War II and accelerated in the 1960s and 1970s, many policymakers are concerned with the declines in work effort and earnings of workers age 55 and older. The papers are effectively organized to address historical retirement trends, potential economic effects, worker preferences, medical evidence on the health status and ability of older workers, as well as relevant policy issues.

Although there have been many possible explanations offered for the trend toward earlier retirement, a point that is repeatedly made in this book is that the overwhelming reason may be simply that people *want* to. In combination with the increasing availability of public and private pensions as well as rising wage profiles, today's elderly do not have to stay in the workforce as long as earlier cohorts of workers to achieve similar levels of well-being. The introductory papers provide the reader with an overview of historical retirement trends and reasons that have been offered for these trends.

The second set of papers examines the impact of early retirement on the U.S. economy and concludes that although there may be some reductions in tax revenues and national saving, on balance, current patterns of retirement are not cause for concern. The one economic issue that may have deserved more attention in this section is the combined impact of early retirement and the aging baby boomers on the viability of the Social Security system. Although the potential necessity of raising tax rates in the future was briefly discussed, it was dismissed as being of limited concern.

It is argued by another set of authors that the trend toward voluntary early retirement is not imposing costs on society since the retirees are supporting themselves through accumulated savings and pensions. In addition, survey and econometric data are used to show that although many unemployed elderly could work at available jobs and thereby enhance domestic productivity, most find that incentive built into the system make continued employment undesirable.

Given the trend toward longer lives, another set of papers analyzes whether the long-lived elderly are not better able to extend their working years, a common argument in favor of raising ages of pension eligibility. this question is apparently one of some controversy and it is by no means clear that improved health has accompanied improved life expectancy. Instead it appears that mortality gains have, for many elderly, merely extended their periods of disability.

The book concludes with a series of papers exploring several policy options that could affect retirement. Specifically addressed are: government policies designed to encourage the hiring and retention of older workers; modification of supplementary public and government pension plans to remove early retirement incentives; and increasing the age of eligibility for Social Security benefits. The earlier papers' conclusions—that people are retiring voluntarily, most do not want to return to work, and their retirement is not adversely affecting the economy—tend to imply that making major policy changes in the near future would not be advisable (although not all the authors would be in agreement with that statement).

While providing a great deal of food for thought, this book does not lead the reader to any conclusions with certainty, which is not surprising given the variety of viewpoints presented. Nevertheless, the book is well worth reading by interested academics and other public and private pension policy analysts. It is not highly technical but includes complete sets of references for those who would like to explore the subject further.