

taxpayers. For each taxpayer, the authors determine the present values of remaining lifetime tax liabilities under these alternative methods of taxation. After comparing the taxpayers' relative burdens under each proposal and describing necessary steps for implementation, the authors evaluate the effects of each approach according to four criteria: equity, administrability, economic incentives, and revenue neutrality. A cost recovery system, while increasing taxpayers' absolute burden somewhat, has some real strengths when compared with current treatment and the other proposals. *Journal of Post Keynesian Economics*, Fall 1992, 15(1): 3-30. (Reprinted with permission of the *Journal of Economic Literature*.)

The Effect of Social Security on Labor Supply: A Cohort Analysis of the Notch Generation, by A. B. Krueger and J. S. Pischke

This article uses aggregate birth year/calendar year level data derived from the Current Population Survey to estimate the effect of Social Security wealth on the labor supply of older men in the 1970s and 1980s. The analysis focuses on measuring the impact of the 1977 amendments to the Social Security Act, which created a substantial, unanticipated reduction in Social Security wealth for individuals born after 1916. This differential in benefits has become known as the benefit notch. Results indicate that labor supply continued to decline for the "notch babies" who received lower Social Security benefits than earlier cohorts. *Journal of Labor Economics*, October 1992, 10(4): 412-437. (Reprinted with permission of the *Journal of Economic Literature*.)

PENSIONS AND RETIREMENT

Corporate Pensions and Government Insurance: Déjà Vu All Over Again?
by Peter A. Abken (Federal Reserve Bank of Atlanta)

Is federal government insurance of private pension plans, provided through the Pension Benefit Guaranty Corporation (PBGC), in danger of requiring bailout? This article focuses on private defined-benefit pensions that could wind up on the PBGC's balance sheet. The author gives an economic analysis of the agency's operations and the growing concern that taxpayer funds may be needed to fulfill its obligation as guarantor of private pension claims. The discussion points out similarities and differences between the problems with government pension insurance and the well-known problems with deposit insurance. *Economic Review*, March/April 1992, 77(2): 1-16.

The Market Response to Pension Plan Terminations, by H. Fred Mittelstaedt (University of Notre Dame) and Philip R. Regier (Arizona State University)

This study, which analyzes stock returns associated with the announcement to terminate overfunded defined-benefit pension plans, differs from prior research by considering both the role of the replacement plan and prior

anticipation of the termination by shareholders. These innovations enable us to (1) evaluate the use of the reversion amount (plan assets minus termination liabilities) as a measure of wealth transfer from plan participants to shareholders, and (2) resolve inconsistencies across prior studies regarding the existence of a significantly positive market reaction at the termination announcement.

The results suggest that stock returns at the time of termination are affected by the form of the replacement plan and, to a lesser degree, market anticipation. The results are consistent with investors' using future salaries to value pension liabilities prior to termination. Analysis of the replacement plan and comparison of the reversion amount to the theoretically derived wealth transfer suggest that inconsistencies across prior studies principally result from including firms that continue defined-benefit coverage after termination. In addition, the results help explain why previous studies documented small changes in market value relative to the reversion amount. *The Accounting Review*, January 1993, 68(1): 1-27. (Reprinted with permission of *The Accounting Review*.)

LIFE INSURANCE AND ANNUITIES

Interest Randomness in Annuities Certain, by A. De Schepper (University of Antwerp) and F. De Vylder (Université Catholique de Louvain, Belgium)

In the present contribution, a model is presented which can be used when interest rates are random for annuities certain. Expressions for the probability generating function, as well as for the corresponding density functions are obtained for the present value of future payment streams. The paper presents the first application of a series of applications of some ideas explained in a former paper entitled 'A stochastic approach to insurance cycles' by Goovaerts, et al. (1992). *Insurance: Mathematics and Economics*, December 1992, 11(4): 271-281. (Reprinted with permission of North-Holland Publishing Company.)

Some Further Results on Annuities Certain with Random Interest, by A. De Schepper (University of Antwerp) and M. Goovaerts (Katholieke Universiteit Leuven, Belgium, and University of Amsterdam)

In a former contribution, the authors indicated how interest randomness in annuities can be modelled by means of Wiener processes or path-integrals. In particular, an expression was given for the Laplace transform when time is exponentially distributed. In this contribution we will derive the moment generating function and the moments as well as the distribution function for annuities certain. *Insurance: Mathematics and Economics*, December 1992, 11(4): 283-290. (Reprinted with permission of North-Holland Publishing Company.)

The Laplace Transform of Annuities Certain with Exponential Time Distribution, by A. De Schepper (University of Antwerp), M. Goovaerts

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