Index

accounting:
  of assets 172–3
  liability 171–2
  regulation 171–3
  rules 176–7
  standards 7
accumulated benefit obligation (ABO) 172
accumulation risk 4
additional years of service credits 180
adverse selection 143, 147, 157
after-tax contributions 194
ageing population 138
Albrecht, P. 7
Altonji, J. 12
altruism 12
annuities 25, 61, 234
Argentina 228
asset allocation 38
  cost minimizing 212, 215–17
  decisions 103–6
  dynamic 174–5
asset managers, competition
  between 235–6
assets:
  accounting 172–3
  foreign 31
  uncertain values 19–20
see also equity
automatic stabilizers 227
Average Indexed Monthly Earnings (AIME) 231
Bader, L. N. 75, 77
bankruptcy see insolvency
Barro, R. 12, 31
below investment grade (BIG) 79–80, 170
Belt, Bradley 88
benefit restrictions 84
bequests 19–20, 25–6
Bethlehem Steel Corporation 77, 79, 80, 170, 177
Black, F. 91
Blake, D. 179
Bodie, Z. 92, 112, 175
Boender, G. 175
Bohn, H. 3–4
bonds:
  corporate 78–9
  Covered Wage Bill (CWB) 179
  prices 118–19
  treasury 175
  zero coupon 76
Borzi, P. C. 4
Burns, S. 16
Buser, S. 92
Bush, George W. 54, 71
call option 176, 218
capital market 25
cash balance plans 56
cash flow:
  excess 98, 101–2
  rules 233
certainty equivalents 215–16
Chile 228, 235
claims:
  distribution of 121–3
  pattern of 111
  time profile 113
Clinton, Bill 14–15
Coche, J. 7
Cole, R. 92
collective bargaining 75–6
Collin-Dufresne, P. 110, 117, 119
companies see firms
244 Index

conflict of interests 168
consumption:
  and income 20–3
  pooling 17
contingency reserve 205
contributions:
  after-tax 194
  catch-up 41
  employer 53, 55, 191, 194
  matching 191, 194
  supplementary 205, 209, 212–14,
  215–16, 218–19
Cooperstein, R. L. 111
Coronado, J. L. 5, 96
corporate bonds 78–9
corporations see firms
costs:
  legacy 177
  pension 168
Covered Wage Bill (CWB) 8, 179, 231,
  232, 234, 236, 238–9
credit rating, below investment grade
  (BIG) 79–80
credit spreads 117–18
decision-making models 207
default frequency 96, 97, 99, 102
default rates 116–23
default risks 117, 119
deficit reduction contributions
  (DRCs) 77, 84
defined benefit (DB) plan 37, 204
actuarial view 74–5
asset allocation patterns 94, 95
changing use of 52
consumption-smoothing device 178
employer contributions 53
financial economics approach 174–5
as future cash flows 174
and intergenerational risk-
  sharing 32–3
liability measure 6
non-competitive 73
and pension insurance 5–6
portable 7, 179–81
reform prospects 173–8
regulation 71–86
restructuring 167–82
risk-sharing 25
under-funded 3, 4, 8, 57
value of 38
versus DC 13–14
defined contributions (DC) plan 37,
  204
changing use of 52–3
characteristics of 53
 costs 57
  growing popularity 7
  risk-sharing 25
  value of 38
Denmark 174, 236
deposit insurance 92
Diamond, P. 18
Diamond model 29–30
disability benefits 148
discontinuance valuation method
  208
distributions, rolled over 56–7
Eastern Airlines 79
EBRI/IC 401(k) Accumulation
  Projection Model 38–46
economist intelligence unit
  (EIU) 208
elective deferral 187
employee compensation 198
employer:
  contributions 53, 55, 191, 194
  decision-making 188–9
  promises 186
  role in health care 142–7, 159–60
  stock 58, 193, 194, 197
employment, continuous 37, 55
Enron 60
equity 238
  market 117
  return to 105
  see also assets
Euro area 208
Eurobond 118
Europe 7, 227
European Central Bank 205
expected default frequency (EDF) 96,
  97, 99, 102
fee-for-service (PFFS) 141
Feldstein, M. S. 91
fertility 10, 23–5
financial expertise 234, 235
see also investment
financial markets 234–6, 238
firms:
  charter value 92, 98, 101
closure 78–82
liquidation see insolvency
restructuring 71, 73, 78–82
size 185, 195, 198
takeovers 168–9
fiscal policy 10, 12–13, 22–3, 33
Fore, D. 6
Fronstin, P. 149
FTSE 100 index 118
Fuller, B. 5
funding:
  decision 99–103
gap 177–8
meanings of 232–3
ratios 81, 93, 94, 99–100, 101–2
target 81, 82
funds, rolled over 55
General Motors 176
Germany 137, 222, 228
Gold, J. 75, 76
Goldstein, R. S. 110, 117, 119
Goode Report 110
government underwriting 73–4, 109
see also Pension Benefit Guaranty Corporation (PBGC); Trust Fund
Greenspan, Alan 14
growth, endogenous 32
Gustman, A. 236
Hammond, B. 6
hardship withdrawals 56–7
health care 3
  accessibility 149
  employer role 159–60
  entitlement 27
health care costs 33, 136–7
  controlling 145–7
defined contribution 145–6
  retiree 142, 147–56
  self-funded 137–8, 145–6
health insurance 5, 27–8
health plan, high deductible (HDHP) 152, 155
health savings account (HSA) 152, 154–6
Helman, R. 59
Holden, S. 4, 38, 41, 55
Holst, R. 228
Hooks, L. M. 92
housing market 19
Hsieh, S.-J. 92, 103
Huang, J.-Z. and M. 118–20
human capital 239
Hungary 228
Hurd, M. D. 59
hybrid pension plan 204–24
  benefit structure 206–7
  designing 205–10
Implicit Fiscal Liability (IFL) 228, 229
incentives 82–5, 191
  for bad behavior 124
  from PBGC 92–3
  for saving 189, 200
tax-based 91, 186, 187, 199
income:
  and consumption 20–3
  shocks 19
individual retirement accounts (IRAs) 4–5, 19, 37, 59
  catch-up contributions 41
  impact of saving in 42–5
  rising 53
  rollover 38
see also Section 401(k)
information, outdated 170
insolvency 6, 71, 73, 78–82, 88, 89, 113, 226
  and distribution 96–7
  risk of 89, 99, 101
insurance industry 12, 25
intergenerational risk-sharing 10–35
intergenerational transfers 78
International Accounting Standards Board (IASB) 177

investment:
  expertise 57–8, 61–2, 234, 235
  long-run 74–5
  returns capping 7
  risk 57–8

investment decisions:
  beneficiary 217–20
  and plan costs 221
  plan sponsor 210–17

Ippolito, R. A. 188

irrational behavior 60

Japan 208, 226

Jin, L. 96

job change 38

Johnson, R. W. 158

Kotlikoff, L. 16

leakage 56–7

Lewis, R. A. 111

Liang, N. 5

liquidation see insolvency

liquidity 191

loan feature 193

loans 56–7

long-run 171

long-term-care (LTC) 149

longevity 3, 4, 10, 25–7, 33, 59–60

LTV Steel 79, 80

McCall, N. 6

McCarthy, D. 6, 91

McGarry, K. 59

McGill, D. M. 74

Manzoni, K. 118

Marcus, A. J. 91, 111

market:
  discipline 75
  failure 10
  risk 12

market-based social security system 229–34, 234–6

Martin, S. J. 117

matching contributions 191, 194

Maurer, R. 7

Maxwell, Robert 110

Medicaid 12, 27, 137, 138–42

medical benefits 136–60

medical consumption, Diamond model 29–30

medical technology 3, 10, 28

medical-expense risk 15–16

Medicare 5, 12, 27, 136, 138–42, 237 + Choice 159

accessibility 157–8

Advantage 140–2

financial risks of 15–16

future of 158–9

premiums 149

problems with 157

review of 140–2

voucher system 16

Medigap 140, 149

Merton, R. C. 119

Mexico 228

minimum funding requirement (MFR) 110, 125

Mitchell, O. S. 7, 55, 56, 58

Moody’s KMV 93, 97, 117

Moore, J. H. 56

moral hazard 73, 88–92, 110, 123–6, 222

test for 96–7, 98–106

Muller, L. A. 56

mutual funds 230, 234

Netherlands 176, 179, 236

Neuberger, A. 6, 91

non-discrimination rules 190

notional account 233

Obstfeld, M. 32

Orszag, M. J. 112

overlapping generations (OG)
  model 4, 18–19, 31

Pan American Airlines 79, 80

pay levels 196–7, 199

pay-as-you-go (PAYGO) 24, 78, 226

as public debt 228–9

tax 230–2
Pedrosa, M. 117  
Pennacchi, G. G. 91, 111  
Penner, A. G. 158  
Pension Benefit Guaranty Corporation (PBGC) 169, 222  
claims triggered 79–80  
funding gap 71, 177–8, 169–70  
incentives from 85–5, 92–3  
need for government support 109  
and pension fund finances 88–106  
premium 114  
pension benefits, vs. current wages 75–6  
pension education 58  
pension insurance:  
and DB 5–6  
problems 169–70  
value of 111  
see also Pension Benefit Guaranty Corporation (PBGC)  
pension liabilities 112–13  
pension plans:  
actuarial valuation 111–12  
beneficiaries 215–17  
costs 168, 221  
as financial intermediaries 75–8  
mandatory 159–60, 200  
noncontributory 205  
pay-as-you-go (PAYGO) 12  
returns 171  
risks 171  
solvency dynamics 130–1  
termination 81–2, 91, 168  
under-funding 90  
valuation 171–3  
see also defined contribution benefit plan; hybrid pension plan;  
individual retirement accounts;  
defined benefit plan; Section 401(k); social security  
Pension Protection Fund (PPF) 114–16  
Peru 228  
Perun, P. 168  
Plesko, G. A. 98  
point-of-service (POS) 141  
Poisson case 110, 114–16, 123, 127–32  
political risk:  
evidence on 227–8  
and social security 226–9  
portfolio, efficient 234–5  
prefunding 82  
premium:  
determination 129  
fair 121, 123, 125, 126  
levels 111  
risk 110, 116  
prescription drug plans (PDPs) 142  
prescription drugs 157  
principal–agent problem 167–9  
productivity 3, 18–19, 20  
projected benefit obligation (PBO) 172  
projected unit credit (PUC) 172  
provident funds 233  
public debt 228–9  
public pensions 8, 26  
put option 222  
Rappaport, A. 5  
redistribution 236, 238  
regime-switching model 208  
regulation 168, 171–3  
replacement rate 239  
residual payroll tax 237–8, 239  
retirement:  
age 4, 26–7  
date 45  
early 58–9, 148–9, 180  
employer-provided health costs 142–7  
expenses 149–52, 154, 156  
health costs 142, 147–56  
income adequacy 37  
medical care 5  
political strength 237  
return caps 204  
return guarantees 204, 206–7  
risk:  
accumulation 4  
aversion 17, 211  
bankruptcy 88, 89–92  
default 117, 119
Index

risks (contd.):
generational 226–40
investment 57–8
market 12
market price of 17
medical-expense 15–16
political 226–9
premium 116
sharing 226
shortfall 175
temporal 58
to taxpayer 85
tolerance 238
tracing 11
valuation 20
risk-sharing:
equal 16–17
and fiscal policy 12–13, 22–3, 33
intergenerational 10–35
and public policy 10
rules 229–30
Robinson, K. J. 92
Rogalla, R. 7
Roll, R. 117
Russia 227
Salisbury, D. 149
savings:
health account 152, 154–6
impact on IRA 42–5
inadequate 54–5
incentives 189, 200
individual 37
Section 401(k) 4, 19, 37–46
automatic plans 54–5
based on average wages 7
and changing retirement date 45
growth of 37–8
move to 52–4
plan features 191–5
rationalities evaluated 186–202
risks and rewards 54–6
unit of analysis 189
see also individual retirement
accounts (IRAs)
Seligman, S. 91
service cost 103
Sharpe, W. F. 91, 96
Shiller, R. J. 31, 239
social security 13–14, 37, 41
market-based system 229–34
and political risk 226–9
reform 14–15
see also pension plans
solvency:
dynamics 130–1
ratio 132, 209
rule 210
Standard & Poor (S&P) 93, 118
Steinmeier, T. 236
Steuerle, C. E. 168
stochastic model 110, 132–3, 175, 207–8
stock market 19
structural model 110, 116–23
Studebaker 72
Sturrock, T. 92
supplementary contributions 209, 212–14, 215–16, 218–19
Sweden 227, 233
Switzerland 137
takeovers 168–9
tax 12–14, 27, 146, 159–60
corporate 98, 101
explicit residual 230, 231
high 105
incentives 83, 91, 186, 187–8, 199
marginal rate 103
net lifetime 229
PAYGO as 230–2
residual payroll 237–8, 239
reversion 169, 176
rules 189–91
tax smoothing model 31
taxpayer, risk to 85
technology change 3, 10, 28
Tepper, I. 91
Thies, C. F. 92
transition effects 175
transparency 75, 228–9
treasury bonds 175
Treynor, J. L. 91
Trust Fund 14–15, 227, 229, 230–2