

### **Designing benefit rules for flexible retirement: actuarial fairness versus efficiency**

*András Simonovits*

Diamond and Mirrlees (1978), considering disability retirement under conditions of asymmetric information, determined the socially optimal, incentive-compatible benefit–retirement age scheme that does not follow traditional actuarial fairness. Eső and Simonovits (2002) did the same for flexible old-age retirement. In the latter model, individuals (types) have private information about their expected life spans. The government’s goal is to design a pension system (a function relating benefits to retirement age) that maximizes a social-welfare function and satisfies the social budget constraint and incentive-compatibility constraints: a second-best redistributive solution. This paper replaces the social constraint by type-specific ones and determines the fair second-best solution. The fair solution is, however, frequently inefficient, because it is often Pareto-dominated by the redistributive one.

### **Optimal investment and funding policy of US defined-benefit pension plans**

*Dániel Móricz*

The assets of private defined-benefit pension plans represent a significant proportion of the US retirement savings market and affect the share value of sponsoring companies. This paper gives an overview of the optimal pension investment (allocation of funds by asset class) and funding policy. Summarizing the literature, the author considers how to manage a defined-benefit pension plan in the light of tax considerations, insurance premiums payable to the Pension Benefit Guaranty Corporation, and corporate liability. The paper analyses market imperfections (transaction costs, financial distress, regulation etc.) that affect optimal funding level and asset allocation. The conclusion is drawn that companies have to tailor their pension policies to their individual circumstances. Instead of corner solutions, it is rational for most to fund their pension plans in a stable way, according to applicable laws and regulations, and to select a balanced (equity/bond) asset mix. Optimal pension investment and funding policy is dynamic and should evolve in line with changes in the sponsoring company’s circumstances. This helps to explain the vertical and horizontal discrepancies in funding levels and asset allocations between different pension plans.

**The role of business incubation in company development***Zoltán Bajmócy*

Business incubation has become in recent years a generic term with a meaning much wider than the term ‘incubator house’ current in Hungary. It frames many means of company development, especially small, technology-oriented firms. It seems an urgent task to spread the new interpretation—combining market-developing company development with innovation policy—as this policy means is gaining importance in EU business policy. The first part draws on published international findings to support the need for technology-oriented incubation. The article goes on to present a new systematization of incubator services and the local business environment. The local business environment is examined in the light of incubation success, in terms of the ability of the services to add value and treat market deficiencies. Finally, an attempt is made to fit business incubation to two basic paradigms of business development—market-substituting and market-developing—and draw conclusions about its economic-policy applications.

**Transformation of the mineral-water market***Mihály Laki*

This case study presents the route taken by natural mineral waters from producer to consumer. Along with the description of the situation customary in market research, the transformation and history of the market for the product since the change of system is examined. The discussion begins with a presentation of the product and the range of substitutes for it, followed by differences over time in mineral-water production and sales and a description of the size changes in the market. Then come the sales path, the market agents—mineral-water production and sales firms—and finally, the institutions of state and voluntary market regulation.

**Employment and education***Judit Rimler*

Significant changes in the Hungarian labour market occurred in the 1980–2001 period, with a change in the employment structure as an expression of demand for labour. The proportion of direct production occupations (in industry and agriculture) significantly decreased, and producer and consumer service occupations came to the fore. Meanwhile the average level of education was rising, especially the years of schooling completed by the lowest education groups. Turning to presumed reasons for this, no significant correlation could be shown between technical development and labour-market changes, while the correlation between these effects and years of schooling was negative, so that their effect it was not great. There is no proof for the assumption that the rise in education level can explained either by technical development or by structural change. It seems rather to be an autonomous process independent of these.