in a pension plan is illiquid. It cannot be drawn down as can other forms of saving in the interim period prior to retirement for other purposes. (3) Contributions to retirement programs are usually compulsory. As a result, the participant may have accumulated for his benefit sums well in excess of the amounts which he would voluntarily save in any form. Workers employed at lower pay scales might, indeed, have their pension equities as virtually their only form of saving.

A working hypothesis derived from general observation and experience would be that households covered under pension plans would save more, other influences on the saving ratio held equal, than those not covered. The substitution would be substantially less than complete because of the special character of retirement savings and their lack of availability to serve other desired objectives.[4]

THE CAGAN ANALYSIS

How, in fact, do households react in their saving patterns to coverage under a pension program supplementary to social security? This is the question Phillip Cagan sought to answer. Available resources did not afford an opportunity to survey a representative sample of American households, but the cooperation of a sizable group of Consumers Union subscribers made possible a detailed analysis of their saving behavior and holdings of financial assets. This group was clearly not representative of the population at large because of higher incomes, greater educational attainments, and the predominance of salaried workers as heads of households.

The deficiency in representativeness of the sample is partly compensated for by certain of its favorable characteristics. Consumers Union subscribers may be presumed to be better informed about their financial affairs, more thoughtful about their financial decisions, and better equipped to respond to lengthy questionnaires. The 11,513 households actually used in the analysis also represent a very substantial number of cases of middle- and upper-income households in which saving is important. Over 59 percent had annual incomes between $5,000 and $10,000, and almost 34 percent enjoyed a household income of $10,000 and above in 1958–59.

It is plausible, although not demonstrable, that this more knowledgeable group of households reflects the reaction to pension coverage which will be characteristic of a much more representative sample of American households in years to come as they become better informed about their pension equities and as they see more of their friends, relatives, and coworkers actually receiving benefits. If we assume that employers and the representatives of employees will continue actively to promote better education of covered workers about prospective benefits, as they have compelling reasons to do, one could argue that the reactions of the select group of Consumers Union members would be indicative of the saving behavior of the population at large during a subsequent period.

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[4] For a discussion of possible ranges of substitution, see Daniel M. Holland, "What Can We Expect From Pensions?" *Harvard Business Review*, July–August 1959, pp. 125–140; and Challis A. Hall, Jr., "Retirement Contributions, the Spending Stream and Growth," *Federal Tax Policy for Economic Growth and Stability*, Joint Committee on the Economic Report, Washington, 1955, pp. 786–797.