Industrial & Labor Relations Review

Volume 59, *Issue* 4 2006 *Article* 81

Reinventing the Retirement Paradigm

Robert L. Clark* Olivia S. Mitchell†

*,
†,

Economic and Social Security and Substandard Working Conditions

Reinventing the Retirement Paradigm. Edited by Robert L. Clark and Olivia S. Mitchell. New York: Oxford University Press, 2005. xix, 287 pp. ISBN 0-19-928460-1, $94.50 (cloth).

The first members of the baby boom generation turn 60 this year, causing increased interest in retirement issues. Addressing those issues, this book covers a wide range of topics concerning employer-provided pensions. To a lesser extent, it discusses the labor supply and retirement of older workers, focusing on middle-income workers. Its goal is to provide useful analysis for the development of pension policies and labor market policies for older workers. The book does not discuss Social Security, the major source of retirement income for most retirees, or health care programs for retirees.

The book argues that because of changes in the labor force, employers and employees need to think about pension plans and retirement in a new way. These labor force changes include the decline until the mid-1980s, and then subsequent increase since the mid-1990s, in the labor force participation rate of older men; the increasing longevity of workers in retirement; higher labor force turnover rates among older men than in the past; and higher labor force participation rates for older women. In addition, the retirement of the baby boom generation and slowing growth of the labor force may cause labor shortages in some industries and occupations.

The book's fifteen chapters are divided into four sections that provide overviews of pension policy, work and retirement issues for older workers, issues in pension administration, and experiences in other countries. Four chapters focus on labor market issues, with the remainder focusing on pensions. The chapters generally do not present mathematical models or empirical testing.

The first section includes chapters proposing a reform of the underlying principles of pension regulation (James Klein) and highlighting the complexities of pension regulation (Pamela Perun and Eugene Steuerle). Klein, who is President of the American Benefits Council, a group representing major employers and pension service providers, argues that the growing complexity of U.S. pension law and regulations is due to a breakdown of trust between the government and the plan sponsor community. This breakdown has caused a movement toward rigid regulatory standards. Perun and Steuerle, who are independent analysts not representing the employer and plan community, agree with that conclusion, writing that the U.S. private pension system "is absurdly complicated and incomprehensible."

The section on the labor supply and retirement of older workers provides a useful survey of the issues in this field. A possible factor in the reversal of the long-term trend toward earlier retirement is the move from defined benefit plans, which tend to encourage retirement at particular ages, to defined contribution plans, which have no specific incentives for retirement, but may influence retirement ages depending on the ups and downs of the stock market. Surveys of older workers show that phased retirement is widely favored. Why this option is nonetheless rarely used may be explained by institutional impediments. A particularly important impediment is the rule that an employee cannot receive a defined benefit pension while working for the employer sponsoring the plan, unless the employee has reached the normal retirement age specified in the plan, which usually is age 65. Robert Hutchens has done some of the most informative work on phased retirement, and his chapter with Kerry Papps provides a good overview of the issues. Hutchens and Papps find that employers who offer phased retirement tend to do so on an informal basis. Katharine Abraham and Susan Houseman compare workers' plans for retirement with their subsequent outcomes. They report that workers who plan to retire abruptly generally do so, while workers who expect to take phased retirement or to change careers are much less successful in following through on their plans. This evidence that many older workers misread their future labor market options stands as a cautionary note for baby boomers.

The section on pension management contains chapters covering financial education for participants (William Arnone), pension accounting reform (Douglas Fore), pension investment policy (William Ambachtsheer), and defined benefit public employee pensions (Gary Anderson and Keith Brainard). With defined contribution plans not only placing more risk on workers but also giving them more responsibility for decision-making, financial education is playing an increasingly important role in assuring that the pension system meets its objectives. Pension accounting rules are probably the area least well understood by most economists who study pensions, so the chapter on accounting provides a valuable service by explaining the rules and their importance in affecting the investment decisions of pension plan sponsors. The chapter on defined benefit public employee pensions presents a picture in sharp contrast with conditions in the private sector, because the dramatic decline in private sector defined benefit plan coverage has not occurred in the public sector. The reasons for that difference are not fully explored.

The international chapters discuss pension developments in Canada (Silvana Pozzebon), Japan (Masaharu Usuki), and Sweden (Annika Sundén). Of these three retirement income systems, Canada's is closest to that of the United States. Canada is experiencing a decline in defined benefit plans and a move toward defined contribution plans, though at a much slower rate than the United States. Japan has a system of voluntary carve-outs, whereby employers may voluntarily withdraw their workers from part of social security if the employers provide a defined benefit plan that meets a minimum standard of generosity. This system has encountered some of the problems that critics have claimed would result from President George W. Bush's proposal for voluntary carve-out individual accounts as part of U.S. Social Security reform. In the past few years, there has been a rapid decline in the number of workers participating in the Japanese carve-out system. Sweden, by contrast, has mandatory individual accounts with a contribution rate of 2.5% of pay that are an add-on to a generous base social security system that is financed by a contribution rate of 16% of pay. The designers of the Swedish system tried to learn from the experiences of the mandatory individual account systems in Latin America, particularly regarding ways to minimize the system's administrative costs. The experiences of all three countries may provide valuable lessons for U.S. policymakers as they consider various reform options for both Social Security and private pensions.

The Organization for Economic Cooperation and Development (OECD), whose membership includes the United States and other high-income countries, favors workers postponing retirement as the main way for societies to deal with population aging and longer life expectancy. That policy raises questions as to the ability of people in different occupations to work at older ages, the changing nature of the physical and psychological demands of work, the effects of work on health, the demand for older workers, and the effect of older workers' continued work on the demand for younger workers. Those issues, which are not covered by *Reinventing the Retirement Paradigm,* are sufficiently complex to warrant a book of their own.

The book's editors and many of the chapter authors are leading scholars or practitioners in the pension field. Across a broad range of topics, the book contributes to the advance of our understanding of pension and retirement issues. It is well worth reading for both the novice and the seasoned specialist.

John A. Turner
Senior Policy Advisor
AARP Public Policy Institute

Human Resources, Management, and Personnel

Moving Up or Moving On: Who Advances in the Low-Wage Labor Market? By Fredrik Andersson, Harry J. Holzer, and Julia I. Lane. New York: Russell Sage Foundation, 2005. 192 pp. ISBN 0-87154-057-6, $29.95 (cloth).

Although it joins an already vast literature on how to improve the labor market success of the American poor, *Moving Up or Moving On* is unusual in using rich data on workers and their employers to suggest that the labor market success of a poor individual is heavily influenced by his or her employer. Research frequently considers how the labor market success of the poor is influenced by their human capital characteristics, such as education level and training program participation. Whether because of data limitations or lack of interest, however, this research rarely considers more than a few employer characteristics, such as firm size and industry. Because of the unusual data used by Andersson, Holzer, and Lane (hereafter AHL), they can consider how the labor market advancement of a poor individual depends on many more employer characteristics, such as