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## The Evolving Pension System: Trends, Effects, and Proposals for Reform

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stimulate more rigorous research. With the right push, might not adolescent development receive similar attention? The important influence of peers, mentors, and communities on adolescents' health and development is not addressed in *What Children Need*. Yet, it is study of just such factors that could lead to more innovative thinking about housing- and neighborhood-based policies to assure that families and their youth are living in safe and nurturing communities. As adolescents may be even more susceptible than children of other ages to family conflict, family-focused interventions designed to diminish escalated and dangerous conflict might also be effective. If we are to seriously revisit extending the school day or supplementing it with after-school programs as recommended in the book, then school quality should be equally high on the policy agenda, as these programs will partly reflect the institutions they are built from.

While structuring the book around the needs of any "one" child helps to organize the presentation and make the subject conceptually tractable, one risk of such a perspective is that children will be treated as though they are all more or less alike, rather than beings living in, and shaped by, complex family forms. The book pays relatively little attention to family size, sibling relationships, and sibling spacing, influences that inevitably add layers of complexity to parenting and meeting the needs of children—particularly of older siblings, on whom demands are very sensitive to such variables—and to families' financial circumstances. Zooming in on the number and birth order of siblings might set the stage for programs that can more finely adjust for these powerful influences. Similarly, policy innovations designed to factor in the roles played by extended families, which commonly serve as a social and financial support for children, would lend policies a needed multi- and inter-generational dimension. Also salient in the lives of a sizeable minority of children are divorce, nonmarital childbearing, and stepfamily structure, each of which strongly affects the flow of resources into and out of the family. If "parents matter," it is important to know if parents have competing or conflicting priorities.

Waldfogel occasionally gives equal weight to both sides of a debate even when expert opinion disproportionately favors one side and advocacy for the other side is marginal. The policy recommendations that come out of this sometimes taxingly "fair" examination, however, are invigorating, not only because they in themselves are forceful and provocative but also because they stimulate yet more ideas. A number of questions occurred to me. For example, could equity be built into

policies so that they benefit childless individuals or couples as well as families with children? Can policies be designed to have enough flexibility to assure that they seamlessly follow a family as changes occur both in the family and in the child's developmental needs? And if parents matter the most, then might it not be in the best interest of children if parent-focused policies—from home-visiting programs to fatherhood and relationship education programs—continue to prevail?

*What Children Need* is an impressive, thought-provoking synthesis of information and ideas for designing social policy to support the healthy development of children living in an industrialized world. I recommend it for advanced students and policy researchers.

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*The Evolving Pension System: Trends, Effects, and Proposals for Reform.* Edited by William G. Gale, John B. Shoven, and Mark J. Warshawsky. Washington, D.C.: Brookings Institution Press, 2005. 226 pp. ISBN 0-8157-3118-3, \$59.95 (cloth); 0-8157-3117-5, \$26.95 (paper).

This volume delivers on its promise. It offers a contextual overview of the American private pension system that enhances our understanding of the role of employer-sponsored retirement plans and pension policy. It also provides sufficient background for evaluating reform proposals. Both the high quality of the writing in this collection and the complementarity of the papers are signs of a firm, sure editorial hand. First presented at a conference in 1999, the contributions to the volume have generally stood the test of time. They are grouped under three themes, as the aptly worded second part of the book's title indicates: trends, effects, and proposals for reform.

The introductory chapter, which is co-authored by the book's three editors, is succinct but remarkably thorough. In nine pages the editors successfully build the framework of the book, outlining the role of private pensions in the retirement income system and presenting detailed synopses of the volume's papers that adeptly isolate their main arguments. This chapter should provide valuable orientation for those who are not very familiar with the American private pension system and

the research on the subject. The evident concern for clarity in the introductory piece permeates the entire book; all the contributions provide background meant to increase comprehension of the topics addressed, as does the glossary of pension terms. Together, these features should make the book accessible to a wide audience both in the United States and internationally.

Two papers fall under the broad “trends” theme of the book. In one, Sylvester Schieber offers an intriguing rendition of the evolution of private pensions from their modest beginnings in the 1870s to recent trends in the 1990s. He is particularly successful at demonstrating the motivations that determined the destiny of private pensions and the intricacies involved in shaping pension policy. For instance, Schieber argues that tax-favored status, a loose regulatory environment that allowed employers to make empty pension promises, and integration with Social Security essentially acted as subsidies that encouraged the earlier proliferation of private pensions. Yet subsequent legislative and regulatory restrictions retarded pension growth. According to Schieber, these generally resulted from changes introduced to the U.S. federal budget process that focused attention on the relative size of tax benefits enjoyed by private pension contributors, an issue that took on particular importance during the budget deficit years of the 1980s. Schieber also explains how the shift to the projected unit credit accounting method, combined with policy measures intended to limit preferential tax treatment of pensions for high earners, has actually reduced retirement security for an important segment of the defined benefit pension population. As Schieber suggests, this outcome is at odds with policy-makers’ stated objective of ensuring that pension promises to the average worker are fulfilled.

The contribution by William Gale, Leslie Papke, and Jack VanDerhei also fits well with the “trend” theme. This paper provides a succinct description of the private pension landscape, explains how and why it has evolved since the mid-1970s, and explores the implications of changes. It offers essential background for understanding the shift from defined benefit plans to defined contribution-type pensions, namely 401(k) plans. The discussion of yet another major trend identified by the authors—the conversion of defined benefit pensions from their traditional form to cash-balance plans—takes on additional significance with the recent enactment of the *Pension Protection Act*. The latter has validated cash-balance plans after years of controversy and litigation surrounding the potentially discriminatory character of conversions to such plans for older workers. One aspect

of this paper that is most evident in the tables and likely to frustrate some, however, is the absence of current statistical data. In fairness, it should be remarked that some other papers in the volume (Schieber’s, for example) do little better in this respect. In at least two, however—Gale, Papke, and VanDerhei’s paper, and the contribution authored by William Gale alone—efforts were made to update references for the 2005 publication (recall that papers were originally prepared for a 1999 conference).

As the first words of their titles reveal, the fourth and fifth contributions to the book concentrate on “effects.” Robert Clark and Joseph Quinn examine the labor market effects of pensions (that is, their influence on wages, productivity, and mobility) and the retirement incentives they provide workers. William Gale examines both the extent to which pensions have increased the level of saving in the economy and their potential for doing so. Although both papers offer concise but extensive reviews of the relevant empirical literature in accessible language, they differ in approach. The differences add interest while in no way diminishing the value of the pieces. Clark and Quinn’s classic approach is to present a structured synthesis of research findings, and their contribution is a model of its kind. Gale is more straightforward; he provides what the editors in the introductory chapter refer to as “a critical review.” He defends two main tenets. First, statistical and econometric problems have resulted in important overestimation of the positive influence of pensions on savings. Second, the benefits of pension policy go to those who already save (higher-income households that are more likely to be covered by pensions and use them as a tax shelter) rather than to those who could add to savings (lower-income households that are less likely to save and be covered by a pension).

In the final section of the volume are three papers that put forward “proposals for reform.” Two of these, one by Theodore Groom and John Shoven, the other by Daniel Halperin and Alicia Munnell, are cleverly interlocked by way of a debate format: a section in each paper is devoted to the authors’ “rebuttals” to proposals discussed in the other paper. This instructive exercise highlights how contrasting views about government intervention can color schemes for reform. The complexity of the prescriptions proposed in the two contributions precludes their examination here. Briefly, Groom and Shoven evaluate the current system more favorably and advocate a less restrictive regulatory environment than do Halperin and Munnell. Both papers offer cohesive reform packages, in contrast to such actual legisla-

tive reforms as the recent *Pension Protection Act*, which includes a more eclectic mix of provisions reflective of the positions defended by various stakeholders. Some readers may need to consult additional sources to grasp fully the subtleties of the proposals advanced in these two rather technical papers.

If the two papers just described have a broad focus, the third prescriptive piece, by Pamela Perun and Eugene Steuerle, is narrowly focused on the role of employers, specifically those that sponsor defined contribution pension plans. Perun and Steuerle would relieve employers of their fiduciary responsibility by making them simple “facilitators” who channel pension contributions (theirs and those of employees) to financial service providers. Reducing the employer’s pension burden, the authors argue, would encourage more firms to offer retirement plans.

In conclusion, notwithstanding the range of topics covered, the inclusion of both academics and expert practitioners among the contributors, and the diversity of viewpoints put forward, the volume forms a coherent whole. The book also fulfills its educational mission: not only does it “demystify” both the various aspects of employer-sponsored retirement plans and the often daunting world of American pension policy, but it also renders accessible, in a nicely packaged format, empirical findings on key research topics related to private pensions. More efforts to update contributions, some of which have no references beyond the 1990s, would have been an asset, however. In the same vein, a discussion of the various data sources available to track U.S. private pension trends, as well as the relative merits of these statistical series, would have facilitated follow-up.

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### International and Comparative

*Working Beyond 60: Key Policies and Practices in Europe.* By Geneviève Reday-Mulvey. New York: Palgrave Macmillan, 2005. xix, 220 pp. ISBN 1-4039-4796-1, \$95.00 (cloth).

Over the past fifty years, countries across the developed world have experienced sustained increases in average life expectancy and decreases in fertility. In many countries, these two trends have been accompanied by a decline in the average

age of exit from the labor force, a consequence of increases in public pension benefits and also of labor policies that encouraged early retirement in order to open up employment opportunities for younger workers. Because of these demographic and social trends, the countries of the European Union (EU) face substantial increases in expenditures for public pension benefits for their aging populations and possible labor shortages in some industries. The potential problems associated with an aging population are more severe in the EU than in the United States because the populations of the EU nations are older, receive publicly funded pensions that replace a greater percentage of wage income than the U.S. Social Security system, and have labor force participation rates that are lower—especially among people 55 and older—than those in the United States.

In *Working Beyond 60: Key Policies and Practices in Europe*, Geneviève Reday-Mulvey of the Geneva-based International Association for the Study of Insurance Economics presents an overview of demographic and employment trends in Europe and offers a range of policy options to raise the labor force participation rates of older persons and reduce public pension expenditures. The book’s ten chapters are grouped into four major sections, each addressing a separate aspect of policies intended to achieve these goals, mainly through promoting greater employment among people aged 60 and older. The first three sections of the book address the questions of why, how, and for whom such policies need to be adopted by the EU member states, while the fourth section is a single chapter that presents the author’s key policy recommendations. Throughout the book, brief contributions by writers from different countries highlight “best practices” adopted by governments and employers across the EU to address problems associated with the transition from work to retirement, the loss to employers of skills and institutional memory when workers retire, and the need for flexible employment policies.

The book begins by describing how increasing life expectancy, falling birth rates, and early exits from employment will present the nations of Europe with rising dependency ratios and increases in public expenditure for retirement benefits in the near future. Reday-Mulvey points out that during the period from 1995 to 2025 among the fifteen nations that were EU members in 1995, the number of adults aged 16 to 60 will fall by more than 6% while the number of people over age 60 will increase by 50%. In many countries of Europe (and also in the United States) the dependency ratio—measured as the number of children and retirement-age adults divided by the number of