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Aging Gracefully: Ideas to Improve Retirement Security in America

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finally, what the authors term *social assistance for employable persons*—(un)employment insurance by any other name.

Each of these areas of labor market policy is subjected to a three-level test. Using methodology borrowed from Peter Hall to measure degrees of policy retrenchment, Haddow and Klassen distinguish among three orders of policy change. The third (highest) order of change pertains to “overarching goals” that guide policy; the second order (the meso level) pertains to “techniques or policy instruments” used to attain those goals; and the first (lowest) order relates to “precise setting” of these instruments, including such things as benefit levels. Three broad qualitative scores are then assigned to labor market policy changes in each of the areas above. The highest score, called “displacement,” indicates that all levels of policy change have been replaced by new (normally market-enhancing) reforms. This is followed by “contesting” changes, which take account of older policies that remain in place and that still challenge the new reforms. Finally, any reforms that remain subordinate to old ones are scored the lowest as “adjustments.”

If all of this strikes the potential reader as a somewhat Byzantine and quite complex argument, you are not alone. The authors acknowledge as much by sequestering these messy methodological details in the Appendix, where their presentation can be clearly followed by readers with an interest in them. In the main text, the methodology is kept in the background, even though its active use is clearly in evidence—as, for example, in Part 2’s case studies of Quebec, Ontario, Alberta, and British Columbia.

The book’s major weakness lies not, however, in its methodology, but rather in the now somewhat anachronistic concerns reflected by its focus and design. Recent books have begun to herald “the end of globalization”; the Canadian free-market right has lost much of its political power since the early 2000s (even today’s re-branded federal Conservatives speak very little about downsizing the public sector); and most importantly of all, perhaps, Canada’s economic growth over the past six years has been positively buoyant. These and other developments make *Partisanship, Globalization, and Canadian Labour Market Policy* appear slightly out of step with the times. For some readers, that impression may be strengthened by acquaintance with past volumes on the very similar theme of whether governments, despite globalization pressures, have true leeway in policy-setting—for example, George Hoberg’s *Capacity for Choice: Canada in a New North America* (University of Toronto Press, 2002) and Richard Block,

Karen Roberts, and the late Oliver Clarke’s *Labour Standards in the United States and Canada* (Upjohn, 2003). Some of those earlier books dealt much more squarely than do Haddow and Klassen not only with the difficulties of attempting to measure labor market policies in general, but also with the even larger challenges involved in trying to assess labor policy change based on causes as nebulous as “globalization” or “political partisanship.” That said, what is true is that these problems are inherent in the nature of the phenomenon being analyzed by the authors. Their attempt to show that there is ample scope for policy maneuver and that jurisdictions can still fashion independent policies remains a valuable exercise.

Haddow and Klassen, along with a number of what can best be labeled “revisionist” scholars of globalization, may be right—and I think they are—in believing that policy “variety” and “situated choice” are indeed possible even in a highly interdependent and economically integrated world economy. But for this argument to be truly convincing, we need a better account of why very important policies such as employment insurance have converged to a seemingly unique equilibrium, and why it is that we should not entertain the possibility that any vestige of variety in the policy realm today is merely a speed bump on the road to convergence tomorrow.

And in keeping with Haddow and Klassen’s ambitions, we also need a fuller account of why “partisanship” takes the form it does at a particular moment in history. Is this truly accidental or institutionally idiosyncratic, as the authors conclude, or should we dig deeper into the socioeconomic bedrock to find the answer?

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Economic and Social Security and Substandard Working Conditions

Aging Gracefully: Ideas to Improve Retirement Security in America. Edited by Peter R. Orszag, J. Mark Iwry, and William Gale. Washington, D.C.: Century Foundation, 2006. xii, 148 pp. ISBN 0-87078-499-4, \$15.95 (paper).

The past three decades have seen a fundamental shift in company-provided retirement plans.

Traditional defined benefit pension plans are covering fewer and fewer workers and retiree health insurance plans are a dying employee benefit. Defined contribution plans have replaced defined benefit plans as the dominant form of pensions, and medical savings accounts may well become the norm replacing retiree health plans. The current debate over long-term deficits in Social Security and Medicare likely portends a restructuring that will reduce the generosity of these public retirement benefit programs. Thus, in the future, more and more workers will have increased responsibility for their own retirement income.

How will American workers adapt to the new realities in public and private retirement policies? *Aging Gracefully* examines a part of the retirement planning process and highlights a series of policy proposals with the objective of increasing retirement saving. The analysis focuses on "how to make the nation's system of 401(k)-type plans and Individual Retirement Accounts work better." The authors ignore potential revisions in Social Security, Medicare, and company-provided retiree health plans. Thus, they do not address how all the component parts of America's retirement income system interact to provide an adequate retirement income.

The book's six chapters evaluate a series of proposals to modify public and private retirement policies. In Chapter 1, the authors argue that if adopted, these policies would increase retirement saving and enhance the well-being of older Americans in the twenty-first century. The fundamental principle examined is whether specific government policies would increase participation in and contributions to retirement plans, especially by low-income households. Four new types of federal regulations are suggested by the authors: automating 401(k) plans to reduce the decision-making burden on workers; creating an automatic IRA for workers not offered 401(k) plans; revamping the existing Saver's Credit; and making implicit taxes on retirement saving associated with means-tested benefit programs less onerous. Two general premises, or observations, on which the editors base these policy proposals are that retirement saving is a difficult and complicated process and that middle- and low-income households have small tax incentives to save for retirement.

Chapters 2 and 3, written by the editors, address how saving through 401(k) plans could be made easier. To increase participation in and contributions to these plans, Gale, Iwry, and Orszag suggest that Congress mandate automatic 401(k) choices. New regulations should require that newly employed workers be automatically

enrolled in 401(k) plans. Currently a prerequisite for workers' participation in most retirement plans is their explicit decision to opt in. Citing a few research studies, the authors conclude that automatic enrollment increases participation in 401(k) plans. A problem with much of this research is that it is based on single snapshots of participation before and after automatic enrollment is introduced. We do not know whether higher levels of participation persist over time. As the authors recognize, the current trend is to have automatic enrollment. It is likely that automatic enrollment will become the norm in most plans without any further regulations; thus further regulations may not be necessary to achieve the desired result.

If workers are automatically enrolled, plans must specify a minimum contribution and how the funds will be invested. The authors suggest that contributions start at a relatively small percentage of pay and increase over time. In addition, they propose that the default option be "a balanced, prudently diversified, and low-cost" investment vehicle. In the past, many plans have used money market accounts as default options for fear that the account would suffer investment losses for which the employer might be liable. Both of these proposals are reasonable, but there is some concern that workers might take the default as the optimal choice because the company "recommends" it, with resultant savings being lower, or resultant investments less effective, than they otherwise would have been.

Upon leaving a firm prior to retirement, workers must decide what to do with the monies in their retirement account. In the past, many job changers have taken the money from their retirement accounts and spent it on current consumption, thus substantially reducing their future retirement wealth. The authors propose that monies from 401(k) plans be automatically rolled over into an IRA. Making the rollover process simple and seamless would be beneficial.

In these two chapters, the authors make a series of reasonable suggestions concerning 401(k) plans. A key aspect of each of the proposals is that workers could always override the automated or default option. The authors provide no new research to support their claims for improvements in the retirement saving process, but limited previous research does indicate that automation of these saving decisions would increase the number of workers participating in pension plans and their level of contributions. The magnitude of these increases remains uncertain.

In Chapter 4, Mark Iwry and David John describe a proposal for requiring all employers who

do not offer a 401(k) or other retirement plan to offer a payroll deduction for contributions to an IRA. These plans would not be considered employer-sponsored retirement plans. While companies currently have the option of directly depositing funds into IRAs, few have chosen to do so. Thus, the authors propose a temporary tax credit to provide employers an incentive to offer payroll deductions for IRAs. They also examine the case for automatic enrollment and investment defaults in these new IRAs. This chapter raises several questions that the authors do not address, including whether companies might be tempted to use the new payroll deduction IRAs instead of a 401(k) plan, thus denying workers the employer match that prevails in most 401(k) plans. Also the incentives proposed for these IRAs are smaller than current incentives for the adoption of other pension plans. The authors provide no empirical evidence that this plan would enhance retirement saving.

In Chapter 5, the editors propose modifying the saver's tax credit to stimulate saving by middle- and lower-income Americans. Proposed changes include making the credit permanent, making it refundable, indexing the limits, and providing stronger incentives for middle-income households.

Zoe Neuberger, Robert Greenstein, and Eileen Sweeney (Chapter 6) suggest modifying the treatment of retirement accounts in means-tested programs to eliminate the disincentives for saving by families that are eligible for these benefits. Saving that pushes a household's wealth over an allowable limit can result in the loss of benefits. This can be viewed as a significant negative return to saving. Eliminating or reducing this disincentive to save should provide encouragement for low-income households to increase their saving.

In summary, the editors outline a series of policy initiatives that should increase retirement saving through increased participation in and contributions to 401(k) plans and employer-facilitated IRAs. This edited collection is more of a policy tract than a research volume. The authors do not provide new theoretical or empirical research to support their positions, nor do they provide evidence concerning the likely gains in retirement saving from the adoption of their proposals. However, for the most part, the proposed changes in federal regulations and tax policies are reasonable and not too burdensome; importantly, too, most aspects of the proposals are voluntary. A shortcoming of the analysis is that the authors do not place their proposals in the broader context of retirement planning, company retirement policies, and government regulations

and retirement policies.

A final observation is that given the authors' belief concerning the complexity of planning for retirement, it is surprising that they do not discuss whether there is a need for increased financial literacy and financial education. Would an enhanced awareness of the retirement process, a better understanding of financial mathematics, and greater knowledge about the availability and generosity of existing retirement programs lead to better choices? Is there a role for the government in improving financial knowledge?

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The Geography of American Poverty: Is There a Need for Place-Based Policies? By Mark D. Partridge and Dan S. Rickman. Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 2006. 376 pp. ISBN 0-88099-287-5, \$56 (cloth); ISBN 0-88099-286-7, \$22 (paper).

Since the end of the Second World War, the United States has experienced tremendous prosperity and gains in economic well-being. For example, between 1979 and 2004 real GDP per capita rose 63% (Economic Report of the President, 2006) while real mean household money income rose 29% (U.S. Bureau of the Census, "Income, Poverty, and Health Insurance Coverage in the United States: 2005"). These increases in economic well-being, however, did not occur uniformly across the population.

Many studies have documented how the gains in economic well-being have varied across the income distribution. For example, we know that the increases in income have been much greater in the higher deciles of the income distribution, leading to a steady increase in upper tail income inequality. Median family income, in contrast, has grown more modestly, while poverty has actually worsened slightly: between 1979 and 2004, for example, median family income grew only 11%, and the percentage of persons in poverty increased from 11.7% to 12.7%. (Ibid.)

What has received less attention is geographic variation in economic well-being, which has been both stark and persistent. In 2004, the percentage of persons in poverty ranged from a high of 19.3% in Mississippi to a low of 6.6% in New Hampshire. The variation across counties is even more dramatic, with 1999 poverty rates ranging