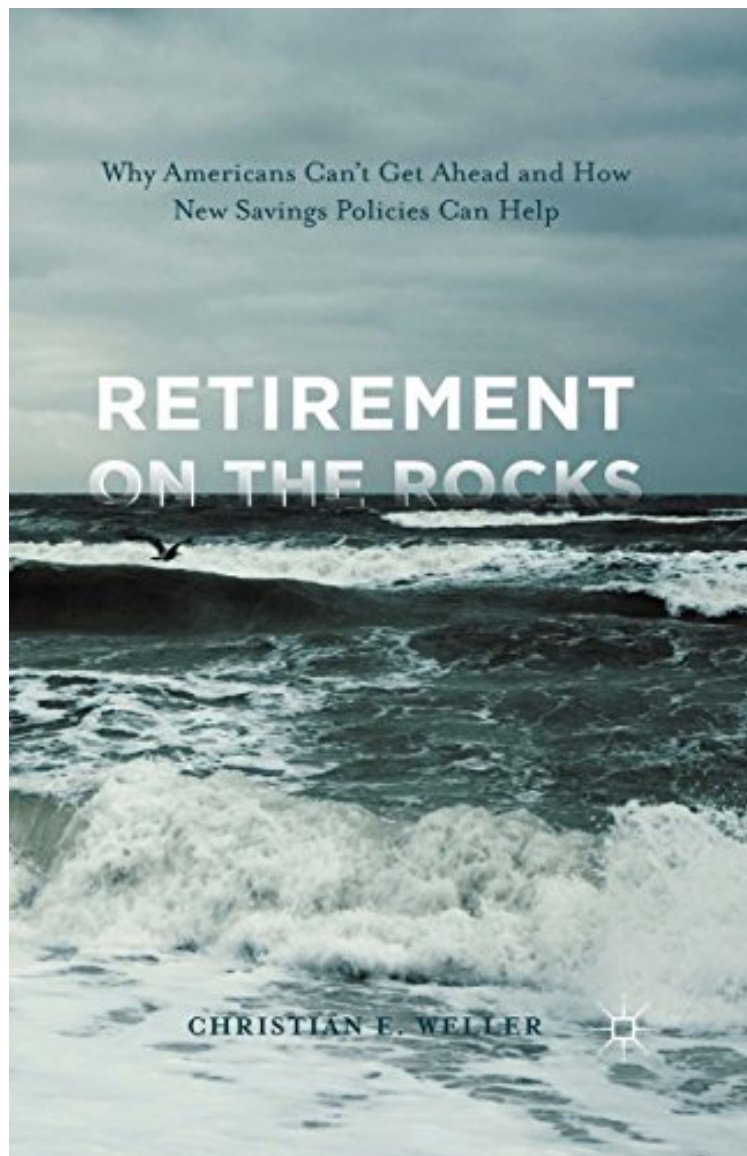


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## Retirement on the Rocks: Why Americans Can't Get Ahead and How New Savings Policies Can Help

*Christian E. Weller*

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**Christian E. Weller : Retirement on the Rocks: Why Americans Can't Get Ahead and How New Savings Policies Can Help** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Retirement on the Rocks: Why Americans Can't Get Ahead and How New Savings Policies Can Help:

4 of 4 people found the following review helpful. Review of Weller's "Retirement on the Rocks: Why Americans Can't

Get Ahead and How New Savings Policies Can Help"By JHVRead this book. I have been reading about retirement plans and retirement readiness for over a decade; this is a legitimately fresh approach. In the stormy seas of choppy labor markets and volatile financial markets, more and more Americans are finding themselves stranded without savings for retirement or adequate pension plans and headed toward the rocks. This is the looming crisis economist Christian Weller examines with a new perspective on the conditions for shipwreck and policy suggestions for rescue. Americans face risks and risk exposure in two different areas of life that researchers and writers have treated separately until now: risk in the work place (labor market risks) and risk in their savings (financial market risks). Weller points out that these are intertwined when considering retirement funds. He looks at both of these areas simultaneously, essentially considering them both part of the same Retirement Readiness Portfolio (my term), to see just how much risk people have overall. Through this process, Weller arrives at important findings. Many Americans, for example, do not, and perhaps cannot, increase their savings in order to offset the risks of unemployment and underemployment. This means that those with increased labor market risks do not balance those risks with lower financial market risks. This is contrary to the notions drawn from the economic theory (neoclassical economics) that underlies a significant part of the government policies that are designed to help people prepare for retirement. Weller's approach in linking the labor market conditions and the financial market volatility gives a fuller, more stereo-optic view of the challenges Americans face in planning for retirement, and his approach teases out the ramifications of distinguishing between risks and risk exposure in these markets. In financial markets, this distinction is clear: Risk is the chance of a particular stock performing below expected returns; risk exposure is the level of risk any one portfolio might experience. A well-balanced portfolio will limit the possible gains of high risk stocks with the less risky returns of bonds or other secured investments. To import this idea to the labor market, Weller examines how different segments of the population have different risks of unemployment according to their level of education, income, and race/ethnicity—and therefore different risk exposure. To consider the well-being of the population as a whole, we need to consider how much more risk and risk exposure some segments will have in comparison to others, how risks and risk exposure in the labor market link to risk and risk exposure in financial markets, and how we can limit the amount of risk the most vulnerable people face. For this review, I will focus on one example from one area in which the labor market and the financial markets intersect: employment-based retirement plans. One simple reason that employees have increased risk of not being prepared for retirement is that they may only be offered employment with an employer who does not offer a retirement plan. Even employees being offered plans face increasing challenges as a growing number of employers offer individualized savings plans rather than pooled savings plans to their employees. Weller argues that the shift toward individualized savings [such as 401k-style defined contribution plans] and away from pooled savings, such as DB [defined benefit] pensions, has not only increased the potential for more financial risk exposure but also raised the actual financial risk exposure of households. (P. 74) The increased financial risk exposure occurred partly because households have fewer risk protections in DC savings plans than in DB pension plans and they have systematically encountered obstacles to building meaningful risk protections with individualized savings. (p. 74) Weller does a nice job of analyzing how this has happened, both because of policies and because of human nature, and I recommend you read these chapters for his full analysis. Part of Weller's analysis is that DB plans help de-risk Retirement Readiness Portfolios because, in part, of pooled savings, annuitized benefits, and limited overall exposure thanks to the Federal Pension Benefit Guarantee Corporation (PBGC). I would have like to have seen Weller deliver on addressing . . . policy shortcomings that have contributed to the decline of DB pensions. (p. 131) Understandably, since a significant percentage of American employees are only offered individualized savings and because those with individualized savings are most at risk, Weller spends most of his time focusing on individualized savings options. Weller does a fairly thorough job of addressing retirement risks, but there is one type of retirement risk that, unless I overlooked it, he does not mention: inflation risk. I will briefly explain inflation risk to highlight that Weller's estimates of the level of risk and risk exposure in US households may be conservative. Inflation risk for retirees is the risk that inflation in the prices of goods and services (notably, the costs of health care) will erode the value of whatever savings retirees start their retirement with. Generally speaking, retirees are expected to retire around age 65 and to live, on average, into their 80s. The value of their individual savings will need to withstand the increase in prices over a 20 year period or longer. Retirees, therefore, have to balance two different types of financial risks in retirement: the risk of volatility in the financial markets (Weller shows has increased over the past 30 years) and the risk that the prices of goods and services (including health care) will erode their savings. Avoiding financial market risk generally involves moving a greater share of savings into relatively stable investments, such as bonds. However, bonds have low rates of return. Low rates of return make it more likely that inflation will outpace investment returns, thus eroding retiree savings. Thus, policies that have promoted individualized savings have worked to increase the risk exposure of retirees to inflation risk, undermining even more the Retirement Readiness Portfolios of American households. Weller outlines five areas of focus for policy recommendations, including proposals that might help to stop the erosion of Social Security's protections; but here I will only mention what I consider Weller's most broadly useful idea: a Universal Savings Credit. A Universal Savings Credit is

discussed as a possibility for policy recommendations that would help improve savings and reduce risk exposure for all households, and especially lower-income households. Among other things, a Universal Savings Credit could essentially change the method by which the government incentivizes retirement savings (among other things). Right now, government incentives come, in part, in the form of tax deductions. For example, the amount of taxes the government reimburses us for 401k or IRA contributions encourages us to save for retirement. One key part of this arrangement is that we are reimbursed for funds we have already spent in specific ways. Universal Savings Credits would also provide an incentive, but rather than us having to provide the money up-front for specific expenditures or investments (e.g. save all of the money in an account and then get reimbursed some of it), the government could give us "credit" for the money that we save, and then add the credit to our savings. The cost of the plan could be equal to the cost of the current method. Weller uses the example of a \$2,000 401k savings. Currently, we may invest \$2,000 in a 401k and then the government, through tax deductions, reimburses us for \$300 (depending on tax bracket, etc.). Cost to us: \$1,700. Cost to government: \$300. Under the Universal Savings Credit, the method could be changed so that if we contribute \$1,700 to our 401k, the government contributes another \$300 to our 401k. One of the big benefits of a Universal Savings Credit is that people can use their \$300 (from the above example) in the year that they earn it. This is especially helpful for people with lower incomes who simply cannot wait until April to use that \$300. Another benefit is that Universal Savings Credit can be used to simplify the methods of saving for retirement. Weller shows that the complexity involved with the options of saving for retirement actually deters people from saving, and the Universal Savings Credit is a method that could help break down that barrier. Home mortgages are a big part of the Americans' portfolios. Weller states that the Universal Savings Credit could help homeowners save in places other than their homes—which are illiquid, are likely to lose value when the stock market does (a big reason why household portfolios have high risk exposure), and can also be lost in employment downturns. Congress, Weller suggests, could use a Universal Savings Credit to allow households to automatically deposit their tax refunds into tax-advantaged savings. Such an approach would increase savings outside of housing for all households because such savings would be both easy and tax-advantaged and because all households could qualify for the same maximum tax credit. (p. 163) "Retirement on the Rocks" provides an important perspective on "Why Americans Can't Get Ahead"; a perspective that finally puts together the two spheres that other academics and policy makers have to date looked at separately, as if they were unrelated. Weller shows that far from being unrelated, there is a significant relationship between the risks and risk exposure in the labor market and the risks and risk exposure in the financial market. Unfortunately, I doubt that most Americans even think of their own overall retirement readiness as a combined, interactive labor market and financial market outcome. This book appears to be an excellent starting point, not just for policymakers, but for teachers interested in financial education of their students, for human resource managers interested in helping their employees prepare for retirement (both by rethinking the retirement plans they offer, but also in rethinking what types of financial education to provide), for social activists interested in helping those who are least prepared for retirement, and for academics interested in fleshing out these relationships and in testing which policies may best address the combined risk and risk exposure that American household face from the labor and financial markets. Currently, most American workers are effectively being told that their retirement ship is sinking, and that they need to quickly learn to swim. If Weller's policy proposals are correct, policy makers can provide a buoy to help us from drowning.

1 of 1 people found the following review helpful. Saving for retirement doesn't have to be so difficult. By Jeffrey B. Wenger Christian Weller has given us an insightful and creative book about how and why we struggle to save for retirement. While the book is scholarly in its background and use of research, Weller's prose is conversational in tone - effectively shaking the dust from this well-worn topic. In the first two chapters, "Americans' Growing Risk Exposure," and "More Risk, Greater Wealth Inequality," Weller investigates the seismic changes in retirement policy and programs and the consequences of those changes, and examines who currently bears the risks of retirement. His conclusion - retirement is riskier now than in the past and the distributions of risks are more skewed than ever. In the next three chapters "The Looming Retirement Shipwreck," "Social Security: The Leaky Lifeboat," and "Sink-or-Swim Retirement Plans," he provides the details about why the current system is inadequate. In what is the most important and interesting section of the book, Weller first examines how employment risks (unemployment and wage stagnation) and investment risks (recessions and financial crises) are inter-related. Weller notes that for some workers this is "The Perfect Storm" in that they lose their jobs and then liquidate their retirement savings. He then turns his attention to the perverse tax incentives that give the highest earners large tax breaks for savings, while many of those most in need retirement savings have only limited incentives to participate, or worse, are essentially shut out of the system. Fortunately, Weller provides us with a number of new ideas in his concluding chapter "Charting a New Course." First and foremost he argues for strengthening Social Security, followed by new initiatives that provide options for saving outside the employee-employer relationship (especially important as the traditional employee-employer relationship becomes more tenuous) and providing opportunities for savings outside the family home. In this book, Weller has integrated what is currently known about employment volatility and financial market volatility. With great insight and forethought he has projected the current state of the world forward to envision a retirement world that is safer and more sane than the one Americans face today. The work is exceedingly

well researched and documented; the book is integrated into a comprehensive whole. In sum, it is a bravura effort and the result is likely to drive policy discussions for years to come. In the spirit of full disclosure, Christian Weller and I are both colleagues and co-authors. I know that he is deeply committed to this topic and genuinely concerned about the prospects people face as they age. He should be commended for his commitment to our shared future, and we should be thankful that he has shared his insights with us in this excellent book. Buy a copy for yourself and then buy a copy for your children, their futures may depend on it.

In the US, retirement savings are low while risk exposure is high, thus dooming many retirees to a low standard of living. This book offers straightforward solutions to build real retirement security for American families.

"Weller provides a fresh, new perspective on the challenges that Americans face when saving for retirement. His account helps us all to think more clearly about the types of labor market and financial risks that families face, how they are changing, and their impact on Americans' retirement security. Weller argues that exposure to these risks has risen just as these risks have become greater, leaving people's retirement prospects diminished. Further, the account flows nicely into a discussion of his innovative policy ideas, which deserve serious consideration and debate. This book has much to offer to retirement scholars, policymakers, and the interested public worried about their economic security in retirement." - Sarah Rosen Wartell, President, Urban Institute, USA

"The vast majority of working Americans - including more than 40 percent of workers over age 50 - feel unprepared for their own retirement. Weller effectively describes how our current system undermines the goal of retirement security. But more importantly, he offers a broad set of solutions to improve retirement savings, investing and withdrawals and even update Social Security to help low income families. Too often people only look at a single quick fix that misses the complexity of all that is broken." - Debra Bailey Whitman, Executive Vice President, Policy, Strategy and International Affairs, AARP, USA

"Few issues vex Americans more than inadequate retirement preparation. And few books provide a clearer picture of the problem - and what can be done to fix it - than Weller's deeply researched analysis. Weller covers all the bases: the gaps in Social Security, the perils of employment-based accounts, the upside-down structure of tax breaks, and the huge financial barriers that stand between a risk-inundated middle class and sufficient retirement wealth. Perhaps most important, he lays out an ambitious but realistic path toward a stronger and fairer system that can provide the retirement security that so many Americans feel they have lost." - Jacob S. Hacker, Director of the Institution for Social and Policy Studies and Stanley B. Resor Professor of Political Science, Yale University, USA; author of *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*

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From the Back Cover  
Jobs and wages have become less secure over the past thirty years, while stock and housing markets have gone through greater booms and busts at the same time. These factors alone make saving for retirement difficult, but a number of policy changes have also increasingly exposed household to these risks, making saving more difficult and more uncertain. Social Security offers fewer protections because of an increasing retirement age, and employees receive less help from their employers than in the past. More people have to figure out complex "do-it-yourself" savings options while those who least need to save, because they have little risk exposure, tend to receive the greatest tax breaks for saving. The results have been fewer retirement savings, more uncertainty, and a direr outlook for a secure retirement for most Americans. Since savings are low and risk exposure is high because of past policy shortcomings, this book offers

straightforward solutions to build real retirement security for American families.