Pension Revolution: A Solution to the Pensions Crisis. Keith P. Ambachtsheer. Wiley Finance, 2007, ISBN 0-470-08723-4, 368 pages. doi:10.1017/S147474720700306X

Keith Ambachtsheer, for the last 30 years, has used his perch in Canada as a pension consultant and director of a pension research center at the University of Toronto to gather data, study, comment on, and promote improvement in the pension practices in North America, drawing on international experience from Canada, his Dutch homeland, and some British models. His volume introduces to a wider audience several ideas from the academic world, including the startling implications of recent behavioral finance research for pension financial management; the new analysis on defined benefit (DB) conflicts and finance from contingent options theory; and his research on governance. Yet his title – stressing pension "revolution" and "crisis" – seem strident when we assess the relative success of pension systems in countries that he covers. After all, the US, Canada, UK, Netherlands, and Australia, have done a comparatively good job in funding employer and individual pension plans. By contrast, he is silent on the truly critical countries, including Japan and those in continental Europe where generous first-pillar pay-go systems are being hit with a serious demographic crisis and they lack much private funding for retirement security. As an example, the US funded pension system totals well over one year's GDP and defined benefit plan assets roughly equal Projected Benefit Obligations on a market value basis and with reasonable discount rates. By contrast, France, Germany and Italy have not even 10 percent of their GDP in funded plans yet have far less favorable demographics.

The volume consists of 46 chapters of what seems mainly to be letters sent to his consulting clients. As a result, the book is repetitious and frequently disjointed; the style is informal and journalistic. The key points have been condensed into a brief paper which appeared in the 2007 January/February issue of the *Financial Analysts Journal*. As Peter Drucker is his personal hero, Ambachtsheer's style suggests Drucker's when he considers down-to-earth business pension problems in a big-picture framework of global social issues with macroeconomic implications. At the outset, the author announces that the "the old pension paradigm is dead, and a new paradigm is needed"; further, he avers that "the 2001 to 2005 experience has shown the old pension paradigm to be fatally vulnerable to adversity, and in urgent need of renewal". Nevertheless, his solutions still rely on elements of the "old paradigm", while relying on better governance and the automatic features now being widely adopted. The core of the long term "pension evolution" of which he speaks, of course, is the shift to defined contribution (DC) plans, a change that Peter Drucker knew nothing about when, 30 years ago, he wrote of the alliance of workers and investors he called "pension socialism."

Ambachtsheer's central vision is of how an ideal pension system should be organized. He calls his model "TOPS' which stands for The Optimal Pension System, and he models it on the US pension fund TIAA-CREF – which as former CEO, I highly applaud. His is a DC plan that would avoid the conflicts and risk features of a DB plan, with an overlay of provisions protecting participants from "human foibles" and a governance structure that he argues eliminates agency conflicts and high costs of for-profit suppliers. The "foibles" would be addressed by *automaticity*: namely, opt-out arrangements for enrollment avoiding the need for any deliberate action to opt-in, simple default investment options, and semi-compulsory (at least requiring deliberate opt-out) annuitization provisions. The logic of this is now well-known, and is even embedded statutorily in the recently-enacted Pension Protection Act in the US. Another area where the status quo could be improved is to restrict lump-sum options on retirement. In the US, both DC and DB plans have granted this option. Indeed, the TIAA-CREF approach has always emphasized the income replacement function by providing annual projections of monthly incomes rather than lump-sum values. Additionally, the annuity products have flexible payout arrangements and investment options including not only guaranteed fixed income but also several stock funds, real estate, nominal bond, and inflation-indexed bond funds. Changes in investment choices can easily be made after annuitization. This model in my view well-embodies Ambachtsheer's goal for his TOPS plan.

Regarding governance, the TOPS vision seems more utopian. Ambachtsheer wants non-profit, mutual, "shareowner cooperatives," or "single purpose pension co-ops" to be the governing entities of all pension funds. Other than TIAA-CREF, few other such entities exist in the US. Mutual life insurance companies are down to just a few survivors (although these are of extremely high quality); and Vanguard is unique in the US mutual fund business as a non-profit mutual. State pension systems might be so described, except they suffer from deep political conflicts. It is interesting that Drucker also predicted the growth of conflict-free institutions lacking the distorting profit motive and conflicts with related business activities. Accordingly, he fearlessly predicted the demise of universal banks providing pension investment services. Perhaps a more realistic emphasis might be placed on low-cost suppliers of pension services, allowing for the possibility that for-profit institutions could also meet this goal. There are signs that consumers and regulators are waking up to the fact that high costs eat away 401(k) investment returns. Yet though there is precedent in the US mutual fund experience for inexpensive "direct written" investments purchased via a call-center represent lower-cost mutual funds, fewer than 20% today are sold by that direct route.

While this volume offers much excellent material on governance aspects of pension funds, it frustrated this reviewer by not distinguishing the many different structures in existence. The TOPS agenda may be applicable to state and municipal plans or large multiemployer plans, but governance concerns for corporate-sponsored pensions seem very different. In a typical American corporate plan, it has been difficult to adapt the style and compensation arrangements appropriate for the core business, to those charged with managing risk and reward for the pension fund. High on the Ambachtsheer agenda is a governing board that knows how to govern, leaving management to an effective CEO sensitive to asset-liability mismatches and surplus risk (in the DB case). Key is devising a well-articulated investment policy, and Ambachtsheer sees risk as a financial economist, requiring a liability-driven strategy. It is ironic that this undercuts his devotion to the Drucker "pension revolution," as he favors much more DB investing in bonds. Conversely, as DC plans permit direct and transparent holding in public company stock, this can lead to a new form of worker/investor coalition.

Ambachtsheer sees the pension adversity of the 2001 to 2005 period as the result of a "perfect storm," with a "freak" situation where asset prices fell at the same time interest rates declined – producing sharp increases in pension liabilities. However he omits the third element (inasmuch as "perfect storms" require three events to be called "perfect"). For the US, September 11, 2001 was that third element, creating a financial disaster for the airlines and ensuring frightening increases in PBGC liabilities. Though it may be an exaggeration that things are in "crisis" so "revolution" is required, prophets of much-needed change such as the financial economists, Drucker, and Ambachtsheer have grown tired of being ignored. Ambachtsheer's model is a thoughtful and comprehensive approach to improving pensions.

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Individual Accounts for Social Security Reform: International Perspectives on the U.S. Debate. John Turner. W.E. Upjohn Institute for Employment Research, 2006, ISBN 0-88099-282-4, 195 pages. doi:10.1017/S1474747207003071

This book is a useful resource for anyone wanting to learn more about how individual accounts work in pension systems around the world. These international experiences are particularly