The volume also includes fascinating analyses of workers' actual pension decisions when a choice is offered to them. Jeffrey Brown and Scott Weissbenner evaluate the pension choices of state employees who were offered the option of enrolling in one of three retirement plans, including a self-managed DC plan. Workers who did not make an active choice were by default enrolled in the traditional DB plan, which imposed financial penalties on workers who left the employer well before retirement. Most workers did not make an active choice, and hence were enrolled in the traditional plan, even though a large percentage of these workers would have been better off choosing a plan with more portable benefits. In one of the most valuable essays in the book, John Beshears and three co-authors summarize a wide range of evidence on the importance of default options offered to workers enrolled in a pension plan. The evidence shows the huge influence of default options in determining the fraction of workers who enrol in a plan, the level of their voluntary contributions to the plan, and the portfolio choices they make when allocating the contributions to their retirement accounts. Like the other authors in the volume, the authors of this essay keep their analysis focused squarely on how improved pension plan design can boost the well-being of workers.

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The Retirement Plan Solution: The Reinvention of Defined Contribution. Don Ezra, Bob Collie, and Matthew X. Smith. Wiley Finance, 2009, ISBN 978-0-470-39885-2, 230 pages. doi:10.1017/S1474747211000254

This is a very timely and useful book. It comes at a time of growing uncertainty for individuals with regard to their retirement income, paralleled by an increased personal responsibility as to its accumulation; at a time when the future adequacy of retirement provisions is threatened because of both social security reforms and the turmoil caused by the financial crisis; and also when an overwhelming evidence of pervasive ignorance of basic concepts – such as the distinction between a nominal and a real interest rate, compound interest and portfolio diversification – has brought the issue of the consequences of financial illiteracy to the forefront.

Although not a book on financial education, it certainly serves the purpose of educating to a very good level, with a lot of practical suggestions, examples, easy-to-remember formulae (such as the 10/30/60 formula expressing, under plausible circumstances, the fractions of a pension provided by contributions, returns in the accumulation phase and returns in the decumulation period). In reading it, I was reminded of a recent plea by Robert Shiller (http://www.project-syndicate.org, 20 January 2011) for 'a people's economics', and for economists to be less skeptical on divulgation. The book itself has not been written by academics but by practitioners in the pension field, and this may have helped.

In providing a critical review of the state-of-the-art, possible evolution and advocated modifications in supplementary private pensions, the volume can be considered the sequel of *Coming Up Short*, the book by Alicia Munnell and Annika Sunden which first documented, in 2004, the weaknesses of pension funds and proposed solutions (some of which were later adopted by the Pension Protection Act of 2006). Although based on the American experience, the book discusses problems that are encountered worldwide and is written in a very comprehensible way that deserves a much wider audience than the specialists' circle. Many European countries, in particular, not so used to private pensions, can learn from the experience it documents.

The book starts with a survey of the significant but perhaps not yet well perceived changes in pension plans – notably the departure from the defined benefit (DB) formula to the defined contribution (DC) one; borrowing from the IT language, the authors describe these changes as the transition toward the 2.0 version of pension plans.

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This transition is basically coincident with the (largely unexpected) explosion of the 401K plans (a rather exotic name, prosaically coming from the section of the American IRC establishing their tax favored status), which started in the early 1980s, with the main purpose 'to enable higher paid employees to save their money in a flexible, tax efficient way', and afterwards experienced an incredible success, replacing other types of DB plans. However, exactly because 401K plans had been conceived mainly as a saving instrument, and not as a specific pension product meant to integrate social security benefits in order to make up adequate replacement ratios, their evolution has become, from the perspective of retirement income, a matter of concern for policymakers, plan sponsors and the whole retirement industry. Indeed, many problems remain to be addressed.

First, their success is not complete: although participation is high for voluntary enrolment, 43% of eligible workers do not enrol. Second, the plans rely too much on the individuals' ability to make intelligent and farsighted decisions, with the consequences, for participants, of rather modest contribution rates; poor investment choices; early withdrawals, borrowing and lump-sum cashing. As a third concern, market features allow for high fees, lack of transparencies and conflicts of interest in the management.

In their response to these shortcomings, the authors do not take the shortcuts that surface sometimes in Europe: For example, advocating compulsory participation in response to the belief that people are not able to plan ahead for themselves or, even more drastically, a return to the comprehensive public PAYGO pension system, granting very generous replacement ratios, largely at the expense of young and future generations.

The authors, on the contrary, come out in favor of improvement and strengthening of the current system, to realize what the authors call a D-Bization of DC plans. This should be done, however, not through recourse to formal guarantees, but basically by calibrating 401k plans toward target replacement ratios. Four lines of action are identified. The first consists of various instruments that can overcome people's lack of concern about their retirement (the authors' quote, on page 18, an EBRI survey revealing that 53% of respondents had not tried to figure out how much money they would need in retirement) and stimulate individuals' *preparedness* for retirement. From this perspective, there is certainly scope for intelligent engineering of choice options to sidestep people's inexperience, ignorance, inertia, dislike for annuities and so on, and to strengthen the adequacy of their decisions. In order to maintain the individual choice at the various steps of a retirement plan, in the absence of compulsion and constraints, well-designed default options are essential. For example, automatic enrollment with an opting-out option has been adopted in the UK by the 2008 Pensions Act, in New Zealand (with the introduction in 2007 of KiwiSaver schemes) and in Italy, where the 2008 reform made automatic, except for an explicit refusal by the worker, the diversion to pension funds of severance pay flows.

Relying on auto-pilots, however, is not always possible, and certainly does not solve all problems. The message is clear: however good, a good default option can never be seen as an alternative to preparedness. So here comes the second line, i.e., financial education. The problem, however, is to identify the kind of education that can have a significant impact on the capability of citizens to take rather complex financial decisions. The authors express their skepticism on investment education (indeed, they consider it 'downright dangerous') and decisively point to initiatives aiming to provide people with basic financial literacy, enabling workers, for example, to understand, through the notion of compound interest, the importance of an 'early start' and steady persistence in contributing to a pension plan; or the consequences of a diversified portfolio; or still how to cope with inflation risk, particularly in the decumulation phase. As the authors say: wealth management is for the wealthy, but retirement planning should be for everyone, so a minimal 'knowledge kit' to understand the essential features of a (DC) pension plan should be universal.

The third line extensively tackles the various problems of the decumulation phase, starting from the individuals' preference for lump sums, which exposes them to longevity risk. The lack of voluntary annuitization is age-old and it is sometimes solved by making it mandatory.

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Again, the authors prefer individual responsibility, and so they examine different spending policies and different 'wealth zones' and suggest product innovation, such as advanced life deferred annuities, as a way to meet different tastes and to balance those policies with income security in old age.

Finally, the fourth line consists of a reconsideration of DC plan governance and effectiveness, and of the plan sponsor's role (according to the authors, this does not end at retirement but extends to the decumulation phase), addressing the provision of information, the sensitivity of consumers to advertising and marketing, the transparency of risk and return of pension products, and a better supervision to strengthen the role of fiduciaries and to reduce fees.

Although the volume does not cover relevant topics (e.g., the connections of 401k plans to overall household savings; how to integrate pensions and LTC in order to better meet the changing needs in retirement; and the specific problems of the poor segments of the population that are left out), it is both enjoyable and worth reading.

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Pension Policy: The Search for Better Solutions. John Turner. W.E. Upjohn Institute for Employment Research, 2010, ISBN 978-0-88099-354-8, 243 pages. doi:10.1017/S1474747211000266

For a subject as complex and intricate as pension policy, this new book by John Turner is a cogent and concise review of a core set of pension issues, how public policy in this country has addressed those issues, how they have been handled elsewhere, and what changes in policy might be appropriate or might succeed in improving pension outcomes.

The author starts with the assumption that the U.S. pension system is in a state of decline and needs fixing. He claims that the U.S. pension system performs poorly by international standards – it leaves more people in poverty, has lower participation rates, does not offer guaranteed income to enough workers, and does not protect workers' pension benefits if they change jobs. In order to improve on that record, he offers a very useful set of policy recommendations that might well make the system work a lot better both for employers and for workers.

The policy recommendations unfold in a series of chapters dealing with:

- government mandates and other voluntary approaches to expanding pension coverage;
- definitions of coverage and a review of policies intended to encourage it;
- effects of pensions on labor markets, particularly on the portability of benefits and on decisions by workers to reduce work hours or to retire;
- effects of tax policy on contributions, earnings, and benefits, and differences in the tax treatment of defined benefit (DB) and defined contribution (DC) plans;
- management of the myriad of risks in pension plans (e.g., inflation, investment and longevity), who bears them, and the role of insurance and the Pension Benefit Guaranty Corporation (PBGC);
- hybrid plans, especially cash balance plans, but a variety of other hybrid plans in existence, as well as some others that have been proposed, and how they deal with financial market risks, longevity risk and interest rate risk;
- financing pensions, including who bears the cost, who contributes, investment risks, fees, and how incentives might be and are being structured to increase participation;
- benefit policy, including forms of benefit, adequacy, progressivity, and lost pensions; and
- annuitization, including characteristics of annuities and annuity options.

Among the book's virtues are a number of interesting and provocative policy suggestions for improving the operation of the pension system. For instance, the author recommends (for healthy firms) the price indexing of guaranteed pension benefits up to the age of

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