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 eligibility for vested workers who leave firms before being eligible to receive benefits, as a way of ameliorating one of the portability-inhibiting drawbacks of DB pensions – namely, that the benefit received at retirement is often badly eroded over time by inflation.

He also suggests, as a way of leveling the playing field between DB and DC plans and perhaps encouraging more employers to offer DB plans, that the U.S. tax code be amended to make *worker* contributions to DB plans deductible, as they are for employers in the U.S. and for workers in the U.K., Canada, and most other OECD countries. As the author points out several times throughout the book, '(T)he only major group of participants in the U.S. pension system who are denied tax deductibility of contributions are participants in private sector defined benefit plans'. He also proposes differential taxation of distributions (lighter on annuities than on lump-sum distributions) as a way to encourage annuitization and discourage overconsumption of benefits at retirement.

To overcome cohort longevity risk (i.e., the risk that entire cohorts will live longer than expected) to employers in DB plans (or, more precisely, to shift the risk to workers), the author proposes that each successive cohort of workers who retire have their benefits indexed for longevity. Workers would receive the amount of lifetime benefits promised, but since they are living longer, the benefits would be stretched out over a longer period of time. Annual benefits would be slightly smaller, but lifetime benefits would not. Virtually the same approach has been suggested for adjusting future social security benefits, which could reduce future actuarial social security deficits by a quarter or more.

His own proposal for a modified DB plan would permit tax-deductible employee contributions, index benefits for life expectancy, and adjust benefits for laid-off workers so that their initial annual benefits are not eroded by inflation from the time they leave the employer until they begin receiving benefits.

Despite its many virtues, the book has some minor flaws. After criticizing the standard measure of pension coverage in Chapter One for overstating the percentage of workers actually accruing benefits, the author appears to proceed to use that same measure in Chapters Two and Three. He then says coverage and participation have come to be equated because they are virtually equivalent in DB plans, but not so in DC plans. In the end, it was left unclear to me as to what percentage of workers (taking both DB and DC plans into account) is covered, what percent are participants, and what percent are actually contributing to accounts. A simple table presenting these differences, by type of plan, would have been informative and eliminated confusion.

There is also some unnecessary repetition, such as numerous references to the lack of deductibility of worker contributions to DB plans and to the indexing of benefits for life expectancy. Some material appears twice on virtually the same page (such as the discussion of behavioral finance on pages 46 and 47 and of life expectancy on page 77) that editors should have deleted.

In discussing the risk of managing pension resources, the author suggests that the failure to annuitize may expose retirees to the risk of spending retirement income either too fast or too slow, but that the latter outcome is unlikely based on empirical evidence (Butrica and Mermin). However, other evidence cited in a U.S. Federal Reserve Board working paper (Love *et al.*, 2008) suggests that households consume their retirement assets more slowly than their remaining life expectancy, 'so that real annualized wealth actually tends to rise with age over retirement'.

There appears to be a simple factual error in Table 7.1, which categorizes cash balance plans as DC plans, when, as the author himself notes, they are DB plans in law and are regulated as such.

Despite these few flaws, *Pension Policy* is an excellent introduction to many of the key issues at the heart of pension reform.

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