Privatizing Railroad Retirement. By Steven A. Sass (ed.). W.E. Upjohn Institute for Employment Research, 2014, ISBN 978-0-88099-494-1, 107 pages. doi:10.1017/S1474747215000335

A well-worn adage tells us to 'never judge a book by its cover', a valuable addendum should be 'or its length'. In *Privatizing Railroad Retirement*, Steve Sass confirms this observation by giving readers a concise (less than 100 pages), clearly-written summary of the process by which US railroad pensions were privatized in 2001. In addition to that story, in the concluding chapter he argues that the tortured tri-lateral negotiations between labor, management, and the Congress that created the privatized railroad plan, offers lessons for the privatization of the Social Security system.

In the USA, railroads were among the first private-sector firms to provide retirement plans for their employees, which dated from the late 19th century; however, by the mid-1930s, the combination of antitrust laws, federal regulation, and the Great Depression, left US railroads heavily regulated and largely unprofitable. As other private-sector employers tossed their pension liabilities overboard to stay financially afloat, the politically powerful railroad workers persuaded Congress to nationalize their pensions in 1934. After a brief history of these events, Sass reviews the subsequent financial problems the pension plan encountered and the labor-management-Congressional negotiations that eventually led to the privatization of the system.

The problem with nationalization, from the railroad carriers' perspective, was that the carriers were required to pay for the plan on a pay-as-you-go basis, but, unlike other private- sector employers, they had no direct input into the plan's generosity. Although railroad workers had been excluded from Social Security, which was created a year after railroad pensions were nationalized, Congress continually increased the railroad plan's benefits. With the continued decline of the railroad industry, by 1980, railroad retirees were projected to outnumber workers by two to one; thus Congress sought more cash flow from the carriers. In 1974, the same year Congress passed the Employees Retirement Income Security Act for other private-sector workers, it passed legislation 'rationalizing' the railroad workers' plan. The result was an increase in the carriers' payroll tax, which largely financed the plan, to 15.35%, and a provision allowing the retirement, with full benefits, of workers 60 years of age and 30 years in the system. These changes were a disaster for carrier finances.

Two things ultimately rescued the carriers and the pension plan from these 'reforms': one was railroad deregulation, which led to a resurgence of the major US carriers, including their profitability, and a leveling of industry employment, which reduced the growth of the beneficiary-to-worker ratio. The other was the elimination of the '60/30' benefit, which was a casualty of Social Security reform. The argument was: if Social Security beneficiaries were going to face a reduction in benefits, then so would railroad retirees.

The subsequent long bull market in US stocks led both carriers and worker groups to view investments in equities as a potentially mutually beneficial windfall. Although the plan was de jure organized on a pay-as-you-go basis, de facto it had accumulated a surplus of assets, which at the time the plan was privatized equaled seven times annual outlays. These funds were invested in US Treasuries. Employers saw the expected higher returns on equities as a way to reduce the payroll tax, since they could finance the same level of benefits with a smaller cash flow from their operations. As for workers, in return for their support for the move to equities, they expected the carriers to share, through higher benefits, some of the expected gains. The biggest sticking point concerned the distribution of the risks associated with the move into equities.

After a good bit of haggling, labor and management agreed to a somewhat complex but novel arrangement. In return for their support, workers would receive a revived '60/30' benefit, accelerated vesting, and enhanced survivors' benefits. Management would assume all of the risks of the equity investments; however, the payroll tax would be subject to a 'ratchet', which would automatically lower (or increase) the tax rate as long as the assets-to-annual-outlays ratio remained above (or below) a target range centered around six to one. This plan ensured that the payroll tax would not fall below 8.2%, nor would it ever exceed 22.1%. Both sides were happy with the arrangement. All they needed was Congressional approval.

Congress balked at the plan for two major reasons, one practical and one philosophical. The practical issue revolved around federal government accounting, which would have recorded the purchase of equities as an outlay (despite the fact that it would be made with proceeds from selling the Treasuries), which in turn would increase the budget deficit during a period in which that was politically difficult. Congress would have to explicitly exempt the plan from the standard government accounting procedures. The philosophical issue revolved around the US government owning a large block of private-sector stock. That hurdle was avoided by the establishment of a private trust, which would hold and manage the plan's assets. All of these issues were neatly packaged in the Railroad Retirement and Survivors' Improvement Act (RRSIA) of 2001. The privatized plan has been an unambiguous success: workers received their enhanced benefits, and Sass estimates that carriers have earned hundreds of millions of dollars annually as a result of the reduction in the payroll tax.

Some readers might assume, the concluding chapter entitled 'Lessons for Social Security' is simply a tacked-on attempt to broaden the volume's appeal. That would be a mistake, as Sass uses the space to elaborate on three problems encountered on the road to privatize the railroad plan: (1) the federal government accounting issues; (2) the philosophical and practical issues involved with investing the enormous Social Security trust fund in equities; and (3) the risk-reward tradeoff inherent to equity investing.

Overall, this is an excellent review of the road to the RRSIA and its impact on the railroad industry. Two quibbles: one is the terse history of railroad retirement leading up to the RRSIA. Elaboration would have helped the uninformed reader. The second is that the chapter on Social Security overlooks what many consider to be the biggest hurdle, specifically how to get from here to there given the enormous claims of the so-called 'notch' generation – i.e., those too young to remain on the current plan but too old to reap the full benefits of a new plan. But these are mere quibbles. If you are interested in railroad finance or privatizing Social Security, I can recommend this book.

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Get What's Yours: The Secrets to Maxing Out Your Social Security. By Laurence J. Kotlikoff, Philip Moeller and Paul Solman (eds). Simon & Schuster, 2015, ISBN 978-1-476-77229-5, 324 pages. doi:10.1017/S1474747215000347

As age 62 approaches, most Americans must make decisions about when to claim Social Security. Delaying claiming results in a higher monthly check, an actuarial adjustment intended to compensate for the fact that those who claim later will likely receive benefits for fewer months. But as it turns out, this adjustment is not actuarially fair for many (possibly most) individuals. That is, the expected present value of benefits can be increased through use of the right claiming strategy, which often involves delaying retirement benefits and taking full advantage of any auxiliary (survivor and spousal) that may be available. And the stakes can be high, amounting to tens or even hundreds of thousands of dollars in lifetime benefits.

Despite these high stakes, most people claim Social Security either as soon as they reach age 62 or upon stopping work – a strategy that is rarely optimal. It is a puzzle why so many people appear to leave so much money on the table. One hypothesis is that most people are simply