Book reviews

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State and Local Retirement Plans in the United States. Robert L. Clark, Lee A. Craig and John Sabelhaus. Edward Elgar Press, 2011, ISBN 978-1-84844-755-4, 230 pages. doi:10.1017/S1474747213000097

State and local government pension plans cover over 27 million current and former public employees in the U.S. While the U.S. private sector has gradually moved towards defined contribution retirement plans, the vast majority of public sector plans still promise defined benefits. The financial condition of these plans has become one of the most important public finance challenges for state and local governments. In this crisis as in any other, one of the most important questions is: how did we get here?

In their recent book *State and Local Retirement Plans in the United States*, authors Robert Clark, Lee Craig, and John Sabelhaus have provided a valuable and comprehensive history of the development of public pension plans in the 20th century. Their story begins around 1900 when only a few city plans maintained pension plans for government employees and there were no plans for state workers. By 1930, on the eve of the Great Depression and the passage of the Social Security act, around 45% of government workers were covered by some type of pension plan, as governments had sought ways to retain long-term employees and provide retirement security for their employees.

The book details how the Social Security Act of 1935 established near-universal old-age insurance but bypassed public sector workers, leaving them out of the newly created Social Security system. Congress built in this exclusion in order to avoid the Constitutional question of whether a payroll tax could be imposed on state governments. In the 1940s, a substantial expansion of public sector plans followed, in large part to add coverage for the public workers excluded from Social Security. Legislation in 1950 and 1954 ultimately allowed state and local employees to obtain Social Security coverage at the election of the public employer and employees. Most systems eventually elected to join, but many did not, particularly those that had been established early in the century and had a longer history than Social Security. As a result, around 28% of public sector workers today are not in Social Security.

Using their own survey instrument, the authors report that the majority of states that eventually entered the Social Security system did not reduce benefits or contributions when they introduced Social Security. This presents an important first explanation for the level of benefits generosity in some public sector plans – the plans were originally devised as replacements for Social Security but were not modified when the employees eventually began to participate in Social Security.

After providing this historical background, the authors turn to a more data-driven exploration of the growth in the generosity of public sector benefits over the past several decades, based on mean annual replacement rates of employee pensions for workers retiring in 1982 and in 2006. The analysis considers replacement rates at varying numbers of years of service, holding fixed other assumptions related to salary and salary growth. Focusing on employees with 30 years service who are in Social Security, for example, we learn that the replacement rate for teachers, state employees, and local employees all rose from 50–51 % in the early 1980s to 55–56 % in the mid 2000s. For those not in Social Security, the increases were from 60–61 % in the early 1980s to 64 % for state employees and 67 % for local employees and teachers.

These increases, while important to document, are averages. The authors go substantially further by analyzing the drivers of variation in the overall level of benefits and in the change in these benefit levels over time. While the use of hypothetical rather than actual salary histories may obscure some cross-sectional variation, it seems likely that the relative generosity of the plans is captured well by these replacement rates. Regression analysis by the authors shows remarkably consistent patterns across teacher, state employee, and local employee plans. Specifically, population growth (a proxy for economic strength) is rather strongly positively correlated with benefit generosity and unionization is weakly negatively correlated.

The authors offer several explanations for this negative correlation between unionization and replacement rates. It may be that unionization is incidentally correlated with overall economic weakness, or it may be that state governments believe that any changes they make to benefits for unionized workers are going to be 'sticky' and impossible to roll back even for future accruals. However, as Harvard University economist Richard Freeman pointed out at a Northwestern University Law School conference last year, the share of unionized public sector workers does not necessarily reflect collective bargaining strength. For example, in several states, public sector unions cannot collectively bargain.[1] The book makes substantial progress on the relationship between unionization and benefit growth, but a deeper understanding of the role of collective bargaining in setting benefits will require improved measures of collective bargaining coverage in the public sector.

The fact that benefits increased more for states with strong population growth seems to this reviewer to have interesting implications for states' relative abilities to weather the pension crisis. If states that experience robust population and economic growth over the last 25 years of the 20th century will continue to be the states experiencing the most robust population and economic growth going forward, the growth will provide some upward momentum in dealing with the mountain of pension debt. If there are reversals, or if households and businesses actively leave states that have amassed larger unfunded liabilities, the ability of states to deal with the debts will be inversely correlated with the size of these debts.

The appendix tables in this volume that document the normal retirement age, averaging period, and benefit formulas at the beginning and end of the sample period should prove to be indispensable resources for researchers and journalists. Creating these tables required substantial background research on each plan by the authors. I hope that at some point these tables might be made available online in an easily downloadable format and occasionally updated.

Overall, this book represents an important contribution to economists' historical understanding of state and local pension plans, and I learned a great deal from reading it. I believe there are also a number of related questions that remain for future research. First, there is the political economy of the growth of pension liabilities and of pension reform. While I would argue that current GASB rules essentially ensure that running DB plans will generate unfunded liabilities, some states have acted more responsibly than others. It would be useful to gain a further understanding of what political and legal structures are beneficial in addressing the off-balance-sheet pension debt of state and local governments. A second question is how the burden of pension liabilities is likely to be shared by different levels of government. On the one hand, some states may try to cram down teachers' liabilities onto municipalities. On the other hand, municipalities could turn to states for bailouts.

[1] See "Causes and Consequences of the War Against Public Sector Collective Bargaining," http://www.law.northwestern.edu/searlecenter/conference/unions/Freeman_public_section_collective_bargaining.pdf

Clark, Craig and Sabelhaus also discuss the fact that the Social Security Act was partly a response to the funding crisis of state-run old age assistance plans, which were, quite separate from state employee plans, a form of rudimentary (and usually means-tested) state-level pension plan for the general public. Their history of state and local pension plans in the U.S. raises, in my mind, the question of whether the U.S. government will once again have to absorb large state retirement liabilities, this time in the form of a bailout of pension plans for state and local government employees.

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Aging Populations, Globalization and the Labor Market: Comparing Late Working Life and Retirement in Modern Societies. Hans-Peter Blossfeld, Sandra Buchholz, and Karin Kurz, eds. Edward Elgar Publishing, 2011, ISBN 978-1-84980-372-4, 338 pages. doi:10.1017/S1474747213000103

As policymakers around the world have been struggling with ways to deal with both demographic aging and looming budget deficits, the choices and constraints confronting older workers contemplating retirement have been changing rapidly. This timely and important book describes changes over time in employment at older ages, the timing of retirement, and pension income and how these changes correspond with historical demographic, economic, and policy changes. What is especially valuable is that this book gives readers insight into how these dynamics are playing out around the world in countries such as Denmark, Estonia, Germany, Hungary, Italy, the Netherlands, Spain, Sweden, the United Kingdom, and the United States.

The first chapter outlines the aim of the book—to understand how demographic aging and globalization may have impacted the employment, retirement, and income security of older adults. The authors expect to find increasing unemployment and downward income mobility among older workers, fewer workers taking early retirement, and lower pension incomes. They also expect these outcomes to increasingly differ by occupation. Each of the next chapters, separate articles written by different authors, focuses on one country. They begin with institutional information regarding the country's economy, employment structure, and welfare regime—including its public pension scheme, unemployment insurance, and disability benefits. They then report the results of analyses that use individual-level longitudinal data to analyze older workers' chances of becoming unemployed and reemployed, the characteristics associated with upward and downward income mobility in their careers, their likelihood of retiring, and their economic well-being in retirement. The final chapter summarizes the country-specific studies.

The choice of countries provides interesting comparisons. Although they all experience similar macroeconomics trends and face similar public policy issues, dramatic differences in their occupational structures and social welfare policies mean that outcomes are likely to be vastly different. For example, in the United States, the social welfare policy is designed to guarantee that individuals stay above some minimum level of economic well-being—a government defined poverty line. In Germany, the major goal of social welfare policy is to ensure that individuals maintain their relative economic position.

Between the 1970s and 1980s to 1990s, policymakers in all of the countries studied encouraged early retirement—through their public pension schemes, and sometimes using generous and easily accessible unemployment benefits and disability pensions. As a result, employment rates of older workers declined dramatically. Since then, demographic aging and projected budget deficits have forced policymakers to reverse the trend in early retirement through a number of reforms. In Germany and the United States, for example, public pension reforms increased the retirement age and increased the penalties for early retirement. In the