Book Review

Recalibrating retirement spending and saving

John Ameriks and Olivia S. Mitchell (eds.)

*Oxford University Press, Oxford, UK, 2008, 334pp., £45.00,
ISBN: 978-0199549108*

Pensions (2011) **16**, 65–66. doi:10.1057/pm.2010.33

The body of literature on ‘pensions’ as an academic subject is growing, and this is not surprising. After all, for a good few years now, public and governments alike have been confronted with some tricky issues when it comes to the question of how a comfortable retirement is to be financed. Where previous generations often had little choice but to be content with a modest income in old age, it is difficult to predict how the coming waves of retirees will deal with the potential financial constraints that accompany retirement. Although most people in work today will not have failed to notice the predictions of doom and gloom surrounding the prospects of their retirement income, it remains to be seen how the so-called Baby Boomers (people born between the late 1940s–1960s) will handle the choices facing them as they move towards and into retirement.

This volume brings together a number of interesting studies looking at the retirement prospects and conundrums lying in wait for the Baby Boomers in the United States. As the editors put it in the opening chapter: ‘This volume explores how the new retirees will and should manage financial and other aspects of their new life-cycle phase ... for them the question now becomes, how will they manage to position, invest, and spend what they have, so as not to run out too soon?’

One point to mention is that this volume is concerned almost exclusively with the United

States, and therefore some readers may wonder why anyone who is not American should bother particularly with this book. The answer to that would be that, leaving aside its US-focus, some of the issues discussed in the various chapters are of broader relevance. After all, in Europe, too, individuals, pension funds and governments are trying to develop lasting structures to ensure that today’s workforce does not face a steep drop in their retirement income. Retirement planning is therefore an important element in this mix, and some of the chapters in this book contain some worthwhile pointers for anyone interested in the current pensions debate.

The individual contributors to this volume are all expert in this field. Most have academic and research backgrounds in economics and retirement strategies. The editors, similarly, have a background in teaching and research. John Ameriks is a Senior Investment Analyst in Vanguard’s Investment Counseling and Research group, and Olivia Mitchell is, among other things, the International Foundation of Employee Benefit Plans Professor of Insurance and Risk management at the Wharton School of the University of Pennsylvania.

The book is neatly divided into three sections. Part I deals with financial and non-financial retirement circumstances. Part II is concerned with different forms of ‘retirement payout’, and Part III looks at financial products for retirement risk management. Different

aspects of retirement spending are dealt with under these different headings. Part I, for example, contains chapters on developments in labour market patterns at older ages and at issues surrounding consumption in retirement. Part II contains chapters on individual retirement accounts in the United States as well as on Social Security and so-called 401(k) plans. Part III touches on aspects such as efficient retirement financial strategies and asset allocation within variable annuities. Again, some of the chapters are clearly concerned with specific US-issues and circumstances. For example, the chapter dealing with the impact of health status and out-of-pocket medical expenses on annuity valuation is really only relevant within the context of the protracted US health-care debate and will probably only be of glancing interest to many. Nevertheless, taken together, these chapters do draw out some interesting conclusions.

One of the points that jumps out is the fact that future retirees will wish to be able to retire flexibly, that is, draw down perhaps part of their pension while continuing to work beyond their official retirement age. Where labour market reforms are geared towards enabling older members of the workforce to remain active beyond retirement, this could have an impact on developing a less risk-averse savings culture. Allowing retirees to have access to any equity they may have in their own homes is also an option worth considering.

A point well made in this volume is that spending patterns in retirement need to be examined more closely. Once more data is available on how much money retirees typically spend on average, policymakers will have a clearer idea of the financial resources required. Part of efficient retirement management therefore includes allowing people to develop the requisite skills to manage their own retirement accounts. Greater security in retirement will only be possible when individuals develop greater financial literacy.

Overall, the individual chapters in this book are worth perusing. Nevertheless, one element remains missing. The editors argue that ‘... retirees and their advisers require an understanding of investment issues, insurance matters, tax rules, regulations, features of public programs and, of course, a clear understanding of financial priorities and how they must be ranked and compared. Much more attention to these issues is vital for better understanding and better decision-making’. Although this might not be in doubt, it will surely be a tall order to expect the average citizen to be able to gain such knowledge. Quite how much progress will be made in this area in the coming decades will be fascinating to see.

Lorenz van der Meij
Houthoff Buruma, Amsterdam,
The Netherlands