

Book reviews

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Workforce Crisis: How to Beat the Coming Shortage of Skills and Talent. By Ken Dychtwald, Tamara J. Erickson, and Robert Morison. Harvard Business School Press, 2006, ISBN 1-59139-521-6, 269 pages. doi:10.1017/S1474747207002867

The premise of this book is that companies will soon face a serious shortfall of workers owing to the mass retirement of baby boomers. Company surveys show that few understand the magnitude of this brewing crisis, and fewer still have a strategy to deal with it. This book, which targets human resources professionals, is designed as a wake-up call to American business and offers a battle plan for fighting the looming deficit of skills and talent.

The authors suggest somewhat different strategies for recruiting, retaining, and getting the most out of workers at different stages of their work lives. For seniors, they advocate ending long-standing corporate biases against hiring “mature” workers and offer suggestions for ways in which companies can recruit them. They emphasize the desire of many for flexible employment and recommend implementing flexible retirement options for older workers. The authors acknowledge that pension rules and health insurance costs constitute significant barriers to the hiring of older workers, and the most important policy recommendations in the book pertain to these issues. In particular, the authors recommend amending pension rules so that individuals can participate in flexible retirement plans without suffering reductions in their retirement benefits, eliminating penalties on early distribution of pension benefits and lowering the age at which 401(k) distributions can be made, allowing those age 55 to 65 to purchase Medigap insurance, and amending nondiscrimination tests for flexible retirement plans to allow employers to customize work arrangements for valued employees.

For midcareer workers, the authors emphasize problems of burnout and boredom, and offer a variety of solutions to keep workers fresh, committed, and productive, including assignment changes, sabbaticals, and training. In the case of young workers, the authors believe that many companies do a poor job at integrating new hires into the workforce and hence suffer from high turnover rates. Their recommendations here focus on innovative orientation programs and initiatives to rehire valued employees who have quit.

Many of the authors' recommendations for attracting and retaining talented staff apply to workers of all ages, however. Companies provide too few opportunities for formal and informal training, which is important for increasing productivity and worker commitment to the company, according to the authors. The authors also make a strong pitch for offering flexible compensation and benefits packages to accommodate preferences and work-life balance needs of workers at various stages of their lives.

The question remains, of course, why should companies be so accommodating to workers? Like a steady drumbeat, the answer in every chapter is the impending workforce shortage. Companies will need to accommodate workers' desires to attract staff in the near future. Yet,

this central premise of the book, asserted in the first chapter with little backing, is far from accepted as an inevitable outcome. A number of academic and government studies have questioned whether widespread shortages will develop, in view of continued national high growth rates of productivity and foreign outsourcing (including work by Peter Cappelli at The Wharton School, Richard Freeman at Harvard University, and Linda Levine at the Congressional Research Service). The purported workforce shortage is used as an angle to unify the book, to grab attention, and to stimulate debate and change. But reliance on this angle is not necessary and may be the weakest aspect of the book.

Another answer for why companies should be so accommodating to workers is simply that it pays to do so. Indeed, this argument is implicitly and explicitly made in many parts of the book. What the authors essentially do is to challenge the effectiveness of many traditional human resources practices, which they argue are particularly unsuited to the makeup of and work-life challenges facing today's workforce. Companies, they argue, can get a more committed and productive workforce by fundamentally altering the way they recruit, train, promote, and pay their workers.

Few of the ideas expressed in this book are truly new. But the authors present much empirical backing for their viewpoints with an extensive amount of new survey and case study evidence, succeeding in weaving together an impressive number of recommendations in a coherent and generally compelling way. Academic researchers considering reading this book should be aware that practitioners make up the targeted audience. The authors do not burden their writing with references to the extensive literature on the subjects they cover, nor do they provide any details about their survey or case study methodologies, which constitute the empirical contributions of the book and form the basis for their recommendations. All of this can be quite annoying to a researcher. Nevertheless, even for an academic, the book is interesting for its comprehensive vision of best human resources practices for the future.

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The Japanese Employment System: Adapting to a New Economic Environment. By Marcus Rebick. Oxford University Press, 2005, ISBN 0-19-924724-2, 214 pages. doi:10.1017/S1474747207002879

The West has long sought wisdom in the Japanese employment system. During the 1980s, we admired its perceived superiority in producing economic growth. Yet the Japanese economy grew slowly for a prolonged period beginning in the early 1990s, with unemployment rising to levels that the Japanese viewed as high (5 percent). More recently, Japan's employment system has attracted interest as to how it will adjust to the new economic challenges of the twenty-first century – rapid population aging and a shrinking workforce. The workforce has decreased due to Japan's low fertility rate (1.2 children per woman) and a policy discouraging immigration. Rebick's new book overcomes the barriers of language and culture. He surveys changes in the Japanese labor market since the late 1980s, and he focuses on the adjustment of the Japanese labor market to the economic slowdown, rapid population aging, and declining workforce and population.

In Rebick's opinion, the growth of the non-standard workforce is the single most important change taking place in the Japanese labor market. The first two chapters discuss separately the changes affecting regular workers and nonstandard workers. Regular workers are full-time, long-tenure workers. They receive more training, have higher job security, and higher wages than nonstandard workers. The proportion of the workforce with nonstandard arrangements rose from 26 percent in 1990 to 32 percent in 2001. Rebick suggests this change has occurred, in part, to enable employers to circumvent the growing requirement that men and women be treated equally if they are categorized as regular workers. Thus, he argues that the unintended

consequences of policy have weakened the intended consequences (the type of observation that often makes economists unpopular with policymakers!).

The next section presents separate chapters on four groups of workers – women, youth, older workers, and immigrants. Of particular interest to pension and retirement experts is the chapter on older workers. This chapter discusses the main features of the Japanese pension system and the labor market practice of mandatory retirement in medium and large firms. The Japanese pension system is in some ways similar to the US pension system in the early 1980s, before the widespread development of 401(k) plans. To deal with its aging population, the Japanese government has taken steps to encourage work at older ages and discourage early mandatory retirement by employers. It suggests that employers should not set mandatory retirement before age 65, but there are no penalties for firms that do otherwise. Nine out of 10 firms with more than 30 employees have a mandatory retirement age, and most have set that age at 60. This practice is in sharp contrast with practice in the United States, where mandatory retirement is illegal for most occupations. Starting in 2013, the early retirement age for receipt of the Employees' Pension, the earnings-related part of Social Security, will increase from its current age of 60 until it reaches 65 in 2025. That change may have a sizable impact on the age at which Japanese workers retire.

Rebick sometimes compares Japan with other countries, as when he notes that the percentage of the Japanese labor force which is foreign-born is one percent, with a large percentage of those being people of Japanese ancestry born in Brazil. By comparison, the fraction foreign-born in the UK and US labor force is 3.9 and 11.7 percent, respectively. Overall, however, the book's main frame of reference is Japan, particularly regarding historical developments. This approach provides a wealth of information about the Japanese labor market, making this book a valuable reference on the subject. For those interested in pensions and older workers in Japan, the chapter that discusses older workers provides a good introduction. Because of its breadth and depth, this volume will be required reading for anyone interested in the Japanese labor market. In addition, those interested in a new perspective on Western labor markets will find this book fascinating, both for the similarities in some areas that can be difficult to explain within the context of one's own country, and for the differences that provide insights on alternative ways of organizing labor markets.

JOHN TURNER
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A Manager's Guide to Strategic Retirement Plan Management. By Daniel Cassidy. John Wiley & Sons, 2006, ISBN 0-471-77173-2, 279 pages.
doi:10.1017/S1474747207002892

How often do we encounter books that claim to unlock the secrets of business success, long life, romance, etc., only to find that they contain only a compendium of platitudes and bromides? Such is *not* the case for Cassidy's recent effort. Despite two major shortcomings, on which we say more later, the book offers strategic and pragmatic "tell it like it is" advice on a variety of key issues such as:

- Why have retirement plans in the first place?
- What are the investment and demographic risks inherent in defined benefit plans?
- What are the opportunities to transfer such risks, particularly investment risk, to plan participants by adopting a defined contribution rather than a defined benefit plan?
- How should hybrid plans be used to capture investment gains otherwise credited to defined contribution participants?
- What are hurdles to tax-deductibility of sponsor's contributions to retirement plans?

- How should plan sponsors choose vendors, including actuaries and managers of investment vehicles?
- What should managers think about new investment techniques (such as, e.g. "Portable Alpha").

As it is one thing to recite the issues and quite another to make them actionable, Cassidy presents various "real-world" case studies and related appendices as tutorials toward their understanding. Thankfully, the author has made sure that these items are free of technical jargon and complex numerical tables.

Quite refreshingly, Cassidy is not hesitant to offer opinions on these and other issues. I agree with many of the points made. For example, using asset-liability projections really does demystify conventional actuarial valuation calculations. And it is extremely important that plan sponsors draft their own investment policy statements, rather than rely on off-the-shelf models. It is also important (although not always essential) to match durations of pension liabilities and assets. And the author is correct that some companies have irresponsibly dumped their unfunded liabilities on the Pension Benefit Guaranty Corporation and badly reduced its solvency.

Yet I must also disagree with several points. For instance, I challenge Cassidy's assertion that "we will see pension plan asset allocation move to 20 percent equities and 80 percent fixed income." This is because of the well-tested tenet that fixed-income investment returns cannot be expected to match equity returns based on historical evidence. For this reason, defined benefit plan sponsors will, as they have so far, continue to look to equity strategies within a growing world economy to help control annual pension costs. I also challenge his assertion that defined benefit plans disproportionately allocate plan assets toward older participants. His perspective favors defined contribution plans where he contends that workers are equally rewarded regardless of age. But this is not the case if one measures the unequal pension accrual amounts that inure to participants of various ages under defined contribution plans. For example, a defined contribution plan allocation of \$1,000 would buy a much greater retirement benefit for a 25 year old than for a 60 year old. Therefore, if pension income credits are to remain equal regardless of age, the defined benefit plan should be the vehicle of choice.

The book also has two major shortcomings. First, although the book was published in 2006, it makes no mention of the 2006 Pension Protection Act (PPA) that was being considered by Congress and the Bush Administration for quite some time. Because this was truly landmark legislation, its absence from the book is regrettable and makes the book somewhat out of date; Cassidy should be encouraged to consider a second edition to include PPA's many ramifications. As an example, the PPA generally requires that unfunded actuarial liabilities, measured under interest rates related to the duration of liabilities, be funded over no more than seven years. For many plan sponsors this will have the double-barreled effect of conservative (higher) liabilities being funded more rapidly than as required in the past. The book's second shortcoming relates to its silence regarding Financial Accounting Standards Board (FASB) Statement Number 158. Although the author alludes to coming changes in pension accounting along the lines of international practices, current strategic retirement plan management requires understanding of FASB 158 (enhanced by case studies). This Statement requires a sponsor of a single employer defined benefit plan to recognize the funded status of that plan in the sponsoring entity's statement of financial position. The measurement is defined as the difference between the plan's *projected benefit obligation and the fair value of its assets*. Also, gains and losses relating to annual actuarial experience, e.g., investment gains/ losses, must be recognized to the extent that they are a component of the enterprise's annual earnings. Clearly, a discussion of the issues arising from FASB 158 will be required in the second edition of this book.

In the longer run, the additional strategic considerations spawned by PPA and FASB 158 may result in a second edition that is two volumes in length. Nevertheless, despite these limitations, the book has so many useful nuggets that failure to acquire it would constitute a lost

opportunity for effective retirement plan strategic management. Finally, given its thoroughness and logic, Cassidy's book is a "must read"/refresher course for retirement plan actuaries and consultants. I eagerly await the second edition.

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A Quarter Century of Pension Reform in Latin America and the Caribbean: Lessons Learned and Next Steps. Edited by Carolin A. Crabbe. Inter-American Development Bank, 2005, ISBN 1-59782-020-2, 416 pages. doi:10.1017/S1474747207002880

This book reviews the experiences and lessons learned from ten countries in Latin America and the Caribbean that undertook recent pension reforms, from the point of view of policymakers, the pension industry, and regulators. It includes case studies of Chile, Argentina, and Mexico, all of which undertook structural reforms, changing from pay-as-you-go systems to privately-managed individual funded accounts. It also analyzes the case of Brazil, where a parametric reform was implemented that strengthened the pay-as-you-go system and developed voluntary supplementary savings.

Lessons for strengthening pension reforms are drawn from the various chapters. They include the need to: improve competition to reduce commissions charged by fund administrators; increase coverage of growing informal and self-employed workers; develop annuity products that will insure against the risk of outliving or over-consuming assets after retirement; better estimate the fiscal costs associated with the existing Social Security system and the new private pillar of the reformed system; modify the investment framework towards greater flexibility and risk-based-supervision; diversify investments; and reduce country risk.

An important contribution is that authors not only examine pension system design, but they also recognize labor force informality and the need to introduce incentives to attract informal groups into the system. A related issue has to do with the lack of mandatory contributions for self-employed workers in many cases, and the need to explore who is employed versus self-employed, in view of the low levels of voluntary enrollment from the latter group. Emphasis is also placed on the fact that most programs include a first-pillar focused on income adequacy for the elderly, yet many low income groups seldom contribute to the system. Therefore policymakers must think of integral pension systems including well-planned safety nets.

The book presents a wide range of solutions to pension problems in Latin America and the Caribbean. It is very valuable both for scholars and policymakers in countries planning to introduce pension reforms. However there is a need to concentrate on analyzing the factors that determine why so many self-employed workers do not contribute to the pension system. In addition more work is needed on firms' decisions to be in or out of the formal sector, so as to inform policymakers on the proper incentives to increase coverage and reduce the need for a safety net.

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