Retirement and the "Merchants of Doom"

Aging Nation: The Economics and Politics of Growing Old in America. By James H. Schulz and Robert H. Binstock, Baltimore, MD, The Johns Hopkins University Press, 2008, 283 pp., $25.00/paperback.

When was the last time you were invited to someone's retirement party? If you have been in the labor force long enough, chances are that you have been to a few and chances are that you will attend many more as the baby-boom generation exits the workforce! While in the workplace, employees commonly engage in discussions about pension plans, 401(k) plans, Social Security, individual retirement accounts, and even about the gyrations of the stock market, with the goal of building an adequate nest egg to enjoy a comfortable retirement. But how large should that nest egg be? In *Aging Nation: The Economics and Politics of Growing Old in America*, Schulz and Binstock attempt to answer this question and rebut the alleged misconceptions of the "Merchants of Doom."

The Merchants of Doom, according to Schulz and Binstock, are a "variety of politicians, policy pundits, academicians, and journalists" who "give dire predictions" by "overstating the problems" of population aging. The authors claim that the Merchants create fear by suggesting that the increasing number of retirees will use a disproportionate amount of economic resources to the point of undermining the economic well-being of younger generations. As a large demographic group of 76 million, baby boomers, the Merchants point out, could potentially use enormous political influence to sway public policy in their favor. Taking a contrary position, Schulz and Binstock feel that the Merchants distort American public opinion on these issues to the detriment of the aged. The authors analyze the Merchants' claims and provide extensive documented evidence to mitigate them. They do not dismiss those claims, but do evaluate them critically. Schulz and Binstock also attempt to provide what they feel is a more balanced treatment of the Merchants' views on a variety of other issues concerning aging and retirement in America.

Schulz and Binstock's policy assessments have an underlying theme: while agreeing that retirees live better quality lives today, they are concerned that this group's ability to maintain an adequate lifestyle in the future is vulnerable. Retirees may not have sufficient retirement income, both because of the changing nature of company pension plans and because of increased longevity, which puts pressure on the demographically smaller younger generations to sustain them through income transfers.

The authors first address the issue of population aging, a mainstay topic for the Merchants of Doom. As more boomers retire, the costs of income transfers to older people will increase. With significantly fewer people in the younger generations to support these income transfers, the Merchants pose a normative question: Is it fair for younger generations to have to pay more taxes to support these income transfers? Schulz and Binstock contend that the calculations used by the Merchants rely too much on the *aged dependency ratio*, defined as the number of individuals aged 65 and older divided by the number of workers aged 20 to 64 multiplied by 100. They feel that this statistic is "simplistic, one-sided, and misleading," because it is a "crude" measure of the "number of workers potentially available to support the elderly population." The authors feel that the *labor force dependency ratio* is a better measure which "takes into account who is actually in the labor force for all age cohorts." In fact, the Bureau of Labor Statistics uses an *economic dependency ratio*, similar to (if not the same as) the *labor force dependency ratio*, described in detail on pages 49–51 of the November 2007 issue of the *Monthly Labor Review*.

Another very important issue the authors address is how employers have shifted the risk of maintaining traditional pension plans to employees by offering Section 401(k) plans under the Revenue Act of 1978. In traditional pension plans, also known as defined benefit plans, employers guarantee employees a specific and fixed retirement income. The benefit is defined, or calculated, by an actuarially-based formula that incorporates employees' length of service, the highest three to five years of their salaries, and the employer contributions and investments on behalf of their employees. Employers are required to observe the fiduciary rules of the Employment Retirement Income Security Act of 1974 (ERISA), which includes the prudent management of plan assets on behalf of their employees.

Because of the high administrative cost of defined benefit plans, according to the authors, employers began offering another type of retirement plan called a defined contribution plan under Section 401(k). The Section 401(k) plans, and their various derivatives such as Section 403(b) for public and non-profit establishments, allow employees to save for their retirement with pre-tax dollars. Under Section 401(k) specifically, employers who match employee contributions define their contribution to employee accounts under many kinds of savings arrangements such as profit-sharing plans, thrift plans, and hybrid plans. Although starting out as a supplement to defined benefit plans, the increase of defined contribution plans as the sole option for retirement could work against employees who may not be familiar with the financial instruments their company offers. By the time they retire, they may have less income than needed to meet their needs.

The authors indicate several problems with both defined benefit and defined contributions plans. For example, when companies go out of business, they no longer are obligated to provide a pension benefit to their employees who have either of these pension plans. Schulz and Binstock cite the savings and loans fiasco in the late 1980s and the downfall of Enron in 2001 as examples in which the interests of the employees were seriously undermined. They also analyze the difficulties of the Pension Benefit Guarantee Corporation (PBGC). When PBGC takes over the responsibility for paying pension benefits from troubled companies, they are assumed to be well-funded enough to pay benefits for "nearly a million workers." However, PBGC is currently unable to meet its obligations due to insufficient revenues from pension insurance premiums, presenting it with a dilemma: PBGC will make more per client if Congress increases the PBGC premiums, but companies could also terminate their pension plans.

The issue of population aging comes full circle towards the end of the book when the authors express the Merchants' concern about the rise of a gerontocracy, "a country dominated and ruled by elders." As more people live longer due to the improving quality of healthcare in America, voting participation of senior citizens and old-age interest groups increase within the changing U.S. demographic. The Merchants believe that politicians will be driven to appease the senior vote; the authors disagree with this "senior power model," because they find that seniors do not vote cohesively as a voting bloc. The authors claim that although seniors have age in common, they may differ in many ways on public policy issues.

Schulz and Binstock analyze many more issues in their book, in each case comparing and contrasting their position with that of the Merchants of Doom. This timely book offers a worthwhile read for anyone interested in learning about the history of pension plans in the United States, their administration, and their economic impact on retirees.

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