

The evolution of retirement plans

Employee Pensions: Policies, Problems, & Possibilities. By Teresa Ghilarducci and Christian E. Weller, Eds., Ithaca, NY, Cornell University Press, 2008, 236 pp., \$29.95/paperback.

Retirement plans have changed and can be expected to continue to change. So, why have many employers made the switch from defined benefit to defined contribution plans? What might retirement plans look like in the future?

Retirement plans that we think of as traditional pensions are called defined benefit plans. They have a known benefit based on a formula that typically includes years of service, and may or may not be completely employer-paid. Defined contribution plans are a more recent development. These are plans in which employees contribute, and the employer may or may not offer a matching contribution. With the defined contribution plans the amount of contribution is known, but the benefit payout is not.

Teresa Ghilarducci and Christian E. Weller have compiled nine articles discussing the changes companies have made to their pensions, suggestions to improve these plans, and pension policy in the United States. They include a good introduction, providing an overview of pension plan issues and the book's layout. The book is divided into four sections: *Justification for the Employer-Based System*, *Getting Defined Benefit Plans Ready for the Future*, *Ways to Improve Defined Contribution Plans*, and lastly, *Understanding the Political Dimensions*

of Pension Reform.

The first section, *Justification for the Employer-Based System*, focuses on the advantages of defined benefit retirement plans. Jeff Wenger and Laura D'Arcy describe how, for employees, these include a known benefit and, typically, greater retirement savings compared to defined contribution plans. Employers also benefit by being able to use defined benefit plans to adjust their labor force when needed; for example, offering higher returns for longer service to retain employees or subsidies for early retirement to downsize. An article by William Lazonick describes how employers changed from offering traditional, non-portable defined benefit plans to portable defined contribution plans because they transitioned to a new business model. Employers no longer had the expectation of lifelong employment and also needed to attract experienced workers. Lazonick includes several examples of companies in the information and communication technologies industries.

Getting Defined Benefit Plans Ready for the Future includes two articles that offer suggestions on what can be done to improve defined benefit plans. Sylvester Schieber proposes hybrid plans, which combine features of defined benefit and defined contribution plans, and would offer advantages to both employers and employees. Beth Almeida suggests multi-employer plans, in which employers group together to provide a defined benefit plan that is similar to the design of many union retirement plans.

Workers with defined contribution plans bear several risks, includ-

ing investment decisions and market returns. The articles included in *Ways to Improve Defined Contribution Plans* discuss the risks involved and ways to mitigate them. The risk of outliving retirement savings is further discussed in an article by Pamela Perun in which she proposes having an annuity option with defined contribution plans.

The last section of the book includes articles about *Understanding the Political Dimensions of Pension Reform*. An article by Michele Varnhagen provides a summary of the many policies and ensuing debates since the enactment of the Employee Retirement Income Security Act of 1974. David Madland then examines the responses of workers and retirees to pension cuts.

The editors, Teresa Ghilarducci and Christian E. Weller, conclude the book by summarizing the articles and their own opinions. They suggest reforms that would create retirement plans that have the best aspects of defined benefit and defined contribution plans.

This book will appeal to anyone interested in the context in which pension plans have changed and ideas on how current plans could be improved. Each article and each section of the book stands on its own, so the book can be read in whole or in part. The articles included are cohesive with some common themes repeating, yet each offers a unique contribution. □

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