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P R O C E E D I N G S

MR. MADRICK: Well welcome, everybody. Thank you all for coming. Thanks in particular I think to the Social Science Research Council for putting this together. Thanks to our participants.

These are rough times. There is a very long to-do list in America. I feel strong about this, but I won't belabor you with my particular passions.

I think we've neglected an awful lot in America really for 30 years now, and we're trying to make it up in one fell swoop; and relieve us of probably the worst recession we've had since the Great Depression.

That tends to work, I think, this long to-do list, this long agenda, tends to work against the concerns of our panelists today, and that's just too bad. And I think this book will do a fair amount to turn that around.

First, we had intense focus on the so-called failure -- future financial failure and insolvency of Social Security, which tended to dominate the debate, in my view, in any case, about retirement security. We didn't focus adequately, I think, over the years on what's happening to pensions and 401(k)s.

We did, of course, there was focus on this conversation, but I don't think it was ever quite adequate, partly because there was so much focus, an incorrect focus, to some degree, on the Social Security solvency issue.

On top of that, we have had this enormous pile of problems, which I call the to-do list in America. Health care, in particular, is a leading problem both for the government budget and lack of coverage and what is clearly an inefficient delivery system, and consistently disappointing healthcare outcomes.

But the list goes on: no pre-K education at a national level to speak of in a time when the two-worker family and the single parent family is paramount. The list goes on. A “D” in infrastructure, according to the American Society of Civil Engineers. Let’s say they’re biased. Let’s say it’s as high as a “C.” We’re in some trouble here, needless to say. Energy dependency. Our pollution problems. As I say, the list goes on.

Where do pensions fit in this? I would argue it's a very important issue. The decline of retirement security in America is a key issue.

And I read this book, I must say, with delight, because I read a lot of books about this or it least I look at a lot of books. This one I actually read. And it has extremely valuable contributions on the part of all the participants.

I would say it’s probably going to for the moment be an invaluable text in the context of the current debates about the need for some kinds of serious pension reforms to assure Americans of what they’ve been taking for granted at least in the post World War II period some measure of retirement security.

Each of these essays -- and I trust you will read them with equal interest -- makes a serious contribution to the argument. I will the -- I will let our participants speak for themselves. Alicia Munnell is not here. She has been a leader in this area for a long time.

And, of course, the point that she's been making for a long time, I think more than anyone else, is our Social Security replacement rates are inevitably going to fall significantly. So not only are we having trouble on the pension side, but because of the rise in the retirement age, because of the rise of the healthcare contribution that comes out of the Social Security checks, and several other factors, coverage is falling in Social Security.

So on top of questions regarding private pensions, we have a Social Security issue. That, to me, is one, only one, of Alicia's main points.

Finally, we have the collapse of the stock market now. There is always some kind of benefit, even to the worst catastrophes. I think in the late 19 -- in the early 2000's, when we had the stock market collapse, it gave the kibosh to simplify privatization of Social Security that some people and some presidents were pushing hard.

A lot of people think -- I think that seriously influenced the debate. Suddenly people realized stock prices didn't go up forever. Of course, stock prices started to rise again in the 2000's, and I think people started forgetting again a little bit that they don't go up forever.

Well, maybe this time, we've learned that lesson completely. 401(k)s are now devastated, as the shift from defined benefit plans -- benefit plans to defined contribution plans came to dominate the private sphere. They are devastated, so I think that's going to lead to increasing interest again in this pension problem.

I'm not going to take up any more of your time. I'm going to let the participants go, and then I'm going to come back, make a couple of comments, maybe ask the participants a few questions.

But before I do, Dallas is going to give what I anticipate to be a pretty interesting commentary on all the contributions. And then we're going to open all of this up to the floor; have a Q&A. I'm sure it will be pretty lively. And I think we're going to get out of here around 11:30, as I understand it.

So who is first? Is Mitchell first?

MR. ORENSTEIN: Yes.

MR. MADRICK: Mitchell Orenstein is first. Thank you, Mitchell.

MR. ORENSTEIN: Bear with me a minute, while I try and get my presentation on. We're a now-show. All right. Looks good, except this screen.

MR. MADRICK: There you go.

MR. ORENSTEIN: There I go. It's very tactile.

Okay. Thank you very much for coming today. I'd like to thank everybody who was involved in this project, first of all, and particularly, Paul Price of Social Science Research Council, who did a lot of work on the editing, together with me, of the volume of copy editing and making sure this is a really great product that I think it is.

I want to just very briefly outline what the purpose of the book is at the outset, and then I'll talk a little bit more about my chapter, which is about the lessons of international experience for pension reform in the U.S.

The purpose of the book is to outline current thinking on pension reform. It was timed to really to come with the start of the new administration in Washington D.C.

It's an analysis of current problems, some proposals for reform, particularly by Teresa Ghilarducci and Gary Burtless, and Alicia Munnell, who can't be with us today; and also to provide some context of international experience.

What's also unusual about this book is that it's written -- it's rather written rather short, as you can see, but rather written in very clear language for non-specialists. So it's intended to reach a rather broader audience.

The focus, as was mentioned, is not only on Social Security, and I think that -- I think we all share this view that there has been a lot of needed emphasis on reform in the Social Security program, but that's not the entirety of the pension problem in the United States. There needs to be an emphasis also placed on workplace pensions, and that is a core theme of the book.

And in particular the essays share a concern that is -- I don't know if it's new, but sort of knew in the policy debate -- about -- and emphasis really on benefit adequacy.

The core question of the book is how to restructure the U.S. pension system with regards to benefit adequacy as the key -- as the key issue, and focus on, again, reform of workplace pensions in addition to Social Security.

I should mention that during the editing of this project, obviously there was a huge financial crisis that broke out in the United States, and we were in the midst of getting it ready for publication, sending it out, I think, in September of 2008.

The book was subsequently revised in light of the financial crisis. Gary has very kindly authored a new chapter which deals with issues of financial volatility and its effect on pensions.

But what we realized after thinking through the impact of the crisis is that it actually in some ways strengthened the need for this book by putting an emphasis on workplace pension with the decline of some $2 trillion in 401(k)-IRA assets; and also in a strange way began to make Social Security's problems look relatively manageable compared to a number of the other financial problems facing this country.

And so -- and another purpose obviously is to put forward some proposals for reform. My chapter deals with placing the United States in an international perspective, and in particular does two things.

One is it reviews the global trend towards pension privatization, which has taken place predominantly in middle-income developing countries; and shows that although this trend has really taken off with the impetus of the World Bank and IMF and actually a host of transnational actors that are heavily involved in promoting pension privatization around the globe, developed countries, such as the United States, have generally resisted carveouts -- partial or full replacement of Social Security type pension systems with individual pension savings accounts. It's generally not happened in developed countries.

So I want to explore a second route to reform which seems to be gathering steam more in OECD countries that are most similar to United States and discuss the country's options and issues to consider in brief perspective.

I've just completed a book on the transnational campaign for pension privatization. There are some flyers, if you're interested, in the hallway.

The campaign essentially began, as many as you know, in Chile in 1980-81 with Pinochet era reforms by the Chicago boys to replace Social Security pay-as-you-go pension systems with one based on individual pension savings accounts.

A number of other Latin American countries began to look at the Chilean experience in the 1990's and to consider these reforms -- Argentina, Mexico, and Peru, in particular.

However, the major impetus for this transformation of pension systems worldwide was the publication by the World Bank of its 1994 report "Averting the Old-Age Crisis."

This report was inspired, and, in fact, commissioned Chief Economist Larry Summers, which is of some importance, I think, right now. The lead author of the report, of course, is Estelle James.

What was important about the report is not only that it was a report, but that it actually created a core group of pension economists around it that began a transnational campaign in conjunction with the Chileans and a number of other organizations to spread pension privatization worldwide to around 30 countries.

I'm now going to show you a very fuzzy picture that was my attempt to enlarge a chart in the book -- of the countries that implemented pension privatization since 1981. And they're divided into three types.

One is a full replacement of the Social Security system by private pensions. The second is a mandatory carveout. You have to contribute a certain amount of your payroll tax into an individual account. And this third category, which is the category the United States might have fallen into in 2005, is a voluntary carveout, where participants have an option of contributing to these accounts and reducing their Social Security contribution.

The things I want to -- I don't want to focus too much on the countries, but just simply make a couple points here.

One is that this type of reform was predominantly enacted in countries that were clients of the World Bank and the IMF, and, therefore, has predominantly been in middle-income developing countries in Latin America and in Central and Eastern Europe.

Although the United Kingdom and Sweden did implement versions of this reform in 1994 and 1986, they were not followed by any other developing countries -- developed -- sorry -- countries.

And just going back to that, this is one of the reasons why international advocates of pension privatization were extremely excited about the United States -- the possibility of reform in the United States, because they felt that they could create a tipping point for other developed countries to consider these reforms.

At the same time that this campaign has been going on, but not having much effect on developed countries, a second route to reform has been less noticed, but has been, in fact, more successful, I'd say at least in terms of changing countries' systems. And this is expanding and mandating workplace pension systems, existing workplace pension systems.

This route is -- goes that instead of cutting or carving out Social Security, a number of countries -- Netherlands, Denmark, Switzerland, Australia, and New Zealand -- have instead expanded coverage or mandated coverage or quasi-mandated coverage of workplace pensions in a variety of formats -- I'll get to that in a second -- that concerns who contributes, how much they contribute, whether it's mandatory or voluntary.

But I think what's important for the U.S. debate here is that the adopting countries of this brand of reform are actually much more similar to United States than other countries.

They share a common characteristic of relatively low replacement rates in the existing state pension system. The United States, as you know, the Social Security pension system replaces approximately 40 percent of average worker's wage.

Pension systems in Europe can be between 60 and 70 percent replacement rates. The countries that have adopted this reform tend to have relatively smaller state systems. Australia and New Zealand actually have state-mandated minimum pensions that are approximately 25 percent, if I'm not mistaken, of average wage.

Reliance on -- and secondly, they share the common characteristic of reliance on already existing workplace pension systems. They cover already between 15 and some countries and 55 in others of the population, mainly white-collar workers, as is, of course, the case with the 401(k) system in the United States.

The rationale for expanding and mandating these systems is to, first of all, expand coverage of these supplementary systems in countries with low replacement rates; to improve regulation of these systems in some cases; and ultimately to improve benefit adequacy for retirees.

And, therefore, in the article, I argue that the United States should be looking to these models. It's often suggested that the United States needs to look at international models in general or OECD models in general.

I argue that we need to look more carefully at the models of those countries that are most similar to the United States in terms of the replacement rates and in terms of the traditions of the Social Security system.

So, if I have a second, I will just begin to do that in a very short way, to talk about Australia, New Zealand, and Britain -- the U.K.

Australia implemented its reform in the 1990’s on the basis, actually, of trade union and employer negotiations. The state was actually not involved.

And the system, however, that was agreed by these employment agreements was then later mandated by the government and expanded in terms of the size of the contribution. Currently, workers in

Australia contribute nine percent payroll tax towards individual accounts.

The system has done well in terms of increasing in value, partly because it was started in 1992. It has, however, suffered from pretty high fees that are associated with a very wide range of choices that investors in Australia have.

New Zealand implemented a reform in 2007 that has become a model for the U.K.'s considered reform that follows this "noodge" strategy or nudge strategy, I should say, of automatic enrollment in workplace pension systems, where the employee is allowed to opt out of the system.

So there is a four percent employee payroll tax that you're automatically set up for when you have a new job or at the beginning of the system. And employer contributions are voluntary. You can opt out of your employee contribution.

Britain has taken a page out of this, but done something a little bit different under Gordon Brown.

They have a three percent employer mandated contribution -- again, the key emphasis in Britain's reform is benefit adequacy -- and a five percent employee contribution, again with the -- that's automatic enrollment, but with an opt out if you so choose.

They've been trying to implement strict government regulation of fees on these accounts, and that's primary cause that it hasn't actually been passed through the parliament.

I argue in this chapter that these sorts of experiences may turn out to be the right strategy for the United States given its rather smaller Social Security system as a percent of GDP and its replacement rates; and the sort of broader cultural emphasis on individual responsibility. Thank you very much.

MR. MADRICK: Teresa?

MR. ORENSTEIN: Sure. There we go.

MS. GHILARDUCCI: Mitchell's inspiration for this collection certainly shows in the way that he's framed the debate.

I think his contribution to the book will actually distinguish this book from all the other books on this topic because of his focus on the international experience actually defines the possibilities here.

And so the book is very strong, and it starts with sort of all the ways that we can think about, and then takes us Americanists -- Alicia, myself, and Gary -- to actually, you know, fine tune what you see as possible for the United States.

So I really appreciate not only your contribution, Mitchell, but your framing and your organization and your vision for this volume. Thanks a lot.

You're going to find that Alicia, I, and Gary substantially agree on some very key principles about pension reform in this country. You'll see that Gary and I -- there's some contrasts between Gary and I -- our work.

He's in favor of a nudge approach, a sort of voluntary mandatory type system where you are -- what is it -- the option -- the initial option is to be put in, but workers could come out.

I think that's limited, so does Alicia. We find out that you get a lot of participation with an opt-in approach for a while, but the kinds of people you want in and to stay in actually leak out.

And if you put them in individual commercial accounts, like President Obama says he wants, then the leakages actually become untenable -- untenable, not workable -- for pension reform.

But that’s not what Gary, Alicia, or I propose. So you'll see some difference between the nudge approach and Alicia and my push approach -- shove approach -- nudge and shove.

And I also do disagree with Gary, though it's probably not pertinent here when we look forward for pension reform, about the way defined benefit plans have actually served a population of American workers.

On paper, they look worse than they actually -- they actually work in practice. In fact, people are probably better off in a world where about 30 percent of people have defined benefit plans, because the people move from job to job.

And if they end up with a job with a defined benefit plan for even 10 years, they're actually in much better shape than the typical worker would be in a world where they’ve hopped from 401(k) plan to 401(k) plan, precisely because of the leakages in that system.

My piece, my chapter, talks a lot about those leakages and the fatal flaws of the 401(k) system.

But let me talk about my plan in terms of what is now becoming a consensus among some groups about what the principles of an effective and efficient pension reform should look like.

First of all, we need to change our metaphor for what the United States' goal for a pension system is. We need to move away from the Roosevelt 1930's metaphor of a three-legged stool, where people get sources of retirement income support from Social Security, employer-based pensions, and their own efforts to amass personal wealth.

It implies that those sources of income are somewhat equal, and that's only true for the top 20 percent of the elderly. It's just a fact, if you look at where people get their sources of income.

For most workers, the model that we achieve is a pyramid. So think of your food pyramid, where you have your Social Security -- you know, your grains and vegetables on the bottom -- that substrate is there; the middle section is employer-based pensions; and the very tippy top, where the whiskey and chocolate come in -- okay -- the stuff that actually makes life sweet and good -- is really your personal wealth.

And it's really the middle strata that this book deals with -- how to fix that crumbling portion.

We are not in favor of carveouts. We understand you need that substrate of a Social Security base. There's actually a good case to be made to enhance that base. But we're trying to fix what we see as an erosion of the middle tier.

The principles to fix that middle tier are that a pension system to supplement Social Security that's employer-based needs to be universal, which, in this town, is a polite way to say mandatory; that no opt out. So that's the shove approach, not the nudge approach.

An effective pension reform system needs to have contributions from the employee. There's a deeply held conviction among American workers -- and we should take advantage of it -- that they need to have some responsibility for their own retirement. That's widely accepted. It’s a very interesting aspect of our system. It probably comes from collective bargaining, from the idea that there should be savings at work.

There’s also a deeply held conviction among most workers and an acceptance, publicly, that the employer should also contribute.

Now everybody else but economists feels that employers and employee contributions show a share of contribution. Only economists believe that the employee pays all of what an employer provides.

But economists are probably wrong. There's probably some real employer costs when the employer is required to contribute.

So a second principle of a good reform is an employee-employer contribution. And there's also an explicit acknowledgment that the government has to help lower-paid individuals.

Right now, we have it backwards, where most of the government subsidies to pensions come -- go to the top paid people, the people who need it the least.

Seventy percent of the tax breaks for pensions and IRAs go to the top 20 percent. They -- much, you know, 50 percent goes to the top 10 percent. It’s really backwards.

The third principle for retirement reform of that middle tier is that the money that employees, employers, and the government put towards the accumulation of a Social Security supplement should be protected until it's needed at retirement -- no loans, no leakages, for any hardship purposes.

The fourth principle is that these accumulations that go towards supplementing Social Security should be paid out in an annuity, and the only way it makes sense to pay out an annuity is to have everybody in an annuity pool and paid until the person's death. The survivors options, of course, are necessary.

The fifth principle for that middle tier is that workers should be protected from financial and market risk -- investment risk and financial risk. Making those decisions -- the responsibility for those decisions have no place on the back of an individual worker, whether it's a humanities professor or whether it's a lab technician.

The sixth principle for reform of that middle tier is that whatever we mandate should actually yield an adequate income with Social Security for most everybody.

Now my plan meets all of these principles. My plan is a guaranteed retirement account. For those of you in the business, it's essentially a cash balance account. It's a hybrid between a defined contribution or 401(k)-type account and a classical defined benefit account.

I propose a hybrid, DCDB, where employers and employees would each put in 2.5 percent so that the mandatory contribution to an account would be five percent.

That -- those funds would go into a -- basically a sovereign wealth fund, managed by the federal government. You'll see some similarities between my and Gary's proposal. The managers of these funds would be professional managers, much like the ones we see managing the federal workers defined benefit plan, the Federal Reserve's defined benefit plan, the defined benefit plans in California and other state plans -- professional institutional investors.

You get lower fees and much better returns when you have professionals managing money for the long-term.

The contributions accumulated there would not be available for spending by the individual. Essentially what a worker would accumulate is a -- credits towards an annuity when they retire. And the credits, their accumulations, would be credited with a guaranteed return of three percent real return, adjusted for inflation.

The Rockefeller Foundation has put a lot of resources towards advancing the guaranteed retirement account, and with those resources we hired an actuarial firm to model the risk to the federal government for that guarantee.

With modest assumptions and back testing at 150 years, there is very little risk that the United States government cannot guarantee three percent real and -- it doesn’t run the risk of, you know, financial -- a financial shortfall.

However, there is a provision that the trustees can decide with advanced warning to tweak that guarantee -- also to have a reserve fund if the returns are more than that. It's very much like the college professors' Teachers Insurance Annuity contract.

My plan also meets the fifth criteria that workers will not be faced with inflation or financial risk. See aforementioned guaranteed return.

The adequacy issue is a problem. Five percent mandatory contribution towards an account is really barely adequate for any high-income person or an upper middle-class person. You only get a replacement rate of something under 70 percent, you know, above 50 percent, if you have saved that little.

But for 40 percent of the population it gets you to a percent adequacy.

The point here is not to mandate a 10 percent, which would make the numbers work well. The point here in the guaranteed retirement annuity is to establish the principle that we need to attend to the retirement crisis that this financial crisis has created and has created for tens of millions of people for the rest of their lives. And it points to a permanent problem with our system.

We need now a new Social Security system. We need to supplement the Social Security system, and the guaranteed retirement accounts become a safe place, a guaranteed place, where people can accumulate funds for their own retirement.

The GRAs become the safe bank, a safe financial institution, available to everybody, not just the privileged few who are in the federal Thrift Savings Plan or who are in the Teachers Annuity -- Teachers Insurance Annuity Association CREF plan the TIAA-CREF plan. It should be available to everybody.

Last, I want to point out that the government will contribute to these funds by turning the tax deduction we give to 401(k)s and IRAs to a credit of $600 that goes towards these accounts. That means that we don't reduce the consumption of low income workers by five percent of their pay every year. It's actually subsidized with the $600 guarantee.

It makes the system extremely progressive. It also makes the system of tax breaks for retirement plans extremely effective, because you actually create new savings accounts for people who essentially aren't likely to have any coverage at all.

It also turns out to be quite revenue neutral. I've been -- it's been noted that I have called for a substantial scale back of 401(k) subsidies. No one else has stand with me there to counter the hard-won victories of the mutual fund lobby in Congress, but here I stand -- to say that they're ineffective and that we should turn those tax deductions to a tax credit.

If you still want to spend money, we could decide to give the tax seductions for the 401(k) plans. They won't be that effective, kind of a waste of money, but at the minimum we need to have the tax -- we need the tax credits. Thank you.

MR. BURTLESS: My first task is to see whether I can figure out how to get this going. This challenge is always difficult for us academics.

I contributed two essays to this volume. The first makes suggestions for increasing participation in the nation's workplace saving system. And the second considers the public retirement system that covers all of us, even the folks that are not enrolled in any workplace savings plan. And, of course, that system is Social Security.

And I consider what the lessons of the current economic crisis are for thinking about reforms to Social Security.

Let me take a couple of minutes to talk about what's been happening in workplace savings systems recently.

In the late 1970's, a standard pension, that is, a defined benefit pension, covered 85 percent of all the workers in the private sector who had coverage under a company retirement plan. And these have become a lot less common over the last 25 years.

Now a little more than a third of private sector workers who have pensions are covered by a DB plan and only 10 percent of the private sector workforce covered by plan is solely enrolled in a DB pension. They are covered by a DC pension.

Now the other pension-covered private-sector workers have been mainly covered by something called defined contribution plans.

Money builds up in these accounts at a rate that's determined by the percentage of wages that the worker puts in and the employer puts it. The value of this at the time you retire is determined by the financial success of the investments that the workers have chosen, usually from a menu of alternatives offered by the employer.

If the investments are successful, the funds can build up very rapidly, and you can have a comfortable retirement.

If the investments are less successful -- let's say they were invested in Enron or Lehman Brothers or AIG stock. Well, in that case, the worker might very well end up with nothing at all.

In many DC plans, such as 401(k)s, the employer may not offer workers the options of converting that retirement nest egg into a level annuity. That's a problem that Teresa just talked about.

Now one part of my essay addresses the perception that DC pensions, defined contribution pensions, are much too risky for most workers. And actually, I agree with that, if that's the sole basis of their retirement.

And there's a lot of reasons to think this is true. Many workers don't know how much they should save, and consequently they choose to put too little in voluntary 401(k) plans.

Others don't know how to invest, so they put their savings in inappropriate assets, such as that Enron stock I mentioned that are too risky or they put money in assets that are too safe and yield too low a return to give them a comfortable retirement.

Finally, and a point I'll return to in a minute, the worker bears all the risk in a DC plan that his investment strategy will turn out to be -- will turn out to be bad because of financial market turbulence.

Now it certainly sounds as though the shift of company pensions away from DB plans and toward DC plans has moved investment risk away from employers and put it squarely on the shoulders of individual workers. And that is certainly true.

However, workers also face another important risk over their careers, one that I'm sure some of you have heard of in the last couple of months. And that risk is called unemployment.

The simple fact is that DC pensions do a much better job than DB pensions in protecting retirement savings against the risk of unemployment.

For most workers -- for most workers, and especially for workers who had, so far, had a short job tenure with their current employer, unemployment risk is a much bigger risk to their retirement savings than is investment risk.

So this slide -- this is the first slide I have -- hmmph -- the first slide here tells the basic story about this risk.

Suppose a worker is enrolled in a standard pension plan, defined benefit pension plan; starts working at age 20 -- that’s over on the far left of this picture. And he earns pension credits that give him two percent increase in his replacement rate for every year that he works. He has to work at five years before qualifying for a pension at all, and then his pension begins when he turns 62. Okay. So that’s the set up.

Now suppose his career is interrupted by a permanent layoff. The blue bars in the chart show how big his pension will be as percentage of his final wage with that employer depending on the age that this layoff occurs. Notice that the blue bars march up in a very steady fashion and reach a peak at the 62nd birthday.

Now that would be the end of the story, except that there’s something called inflation in our economy. We usually have some price inflation and sometimes we have had a whole lot of it.

The red line in the chart shows the effects of slow, steady inflation on the value of these pension credits. The height of the line above the horizontal axis, the height of that red line, shows the value of the worker's pension when measured in constant dollars and when calculated as a percentage of the worker's real, inflation-adjusted wage when he's near retirement age, not on his last wage at his pension employer.

Now you'll notice that for workers who are laid off well before they turn 62, what you get is a lot less than what you're promised. Career interruptions are very costly in DB plans.

Here's another picture that shows basically the same thing, but from a different perspective. It doesn't measure the worker's risk in terms of the replacement rate that the worker will get, but in terms of the contribution her employer has to make in order to fund whatever pension is promised to her.

At the time the worker is laid off, it's possible for the employer to calculate exactly how much money it has to send to an insurance company in order to pay for the pension that it has promised to the worker that it has just terminated.

In this picture, I calculate this required contribution as a percentage of all the wages the employer has paid the worker over the course of her career.

The height of these lines measures the cost to the employer of funding that pension cost, and obviously it can be often quite cheap to pay for pensions if you have discharged the worker not long after the worker has been hired.

The arithmetic is a bit different, depending on what age you're first hired and clearly the age at which your job stops.

But the basic story is always the same. If your career is prematurely cut short and you're in a standard defined benefit plan with no credits that are transferable to another employer in the economy, you get a pretty small pension. And that's what I mean by unemployment risk.

You don't face that risk under the biggest defined benefit plan in the United States, which is Social Security, and the reason for that is your credits carry over to every employer in the economy.

Now here's your thought for today: in 2006, only about half of employed men who were between 45 and 54 years old had at least eight and a half years of service with their current employers -- only half. Okay?

Only about half the employed women of the same ages had seven and a half years of service.

Now these statistics mean that most workers face a big risk that they're not going to accumulate many years of service in a pension-covered job in DB.

That is the big advantage of DC plans. The money that you put in a DC plan in one employer carries over to a retirement investment vehicle for your next plan to.

In my opinion, the nostalgia for old-fashioned DB plans at the workplace is based on a very unrealistic picture of worker careers. Few workers work steadily for an entire career at the same employer, and the number is smaller today than it was in the mid-1980's.

So do America's workplace pensions carry too much risk for workers or do they provide too little coverage? That's a question that I consider.

My basic answer to the risk question is both DC and DB pensions, workplace pensions, carry risks. They are different risks.

In a DB plan, the risk is primarily that you're going to be terminated before your credits are worth much. In a DC plan, the risk is that you may not save enough in the plan and you may invest it very poorly, and the financial market may give you a very low rate of return.

These are both risks. They're both important risks.

But the second question is, is there too little coverage? And I think that is a very fundamental risk that people face. And I think there is way too little coverage.

Roughly half the U.S. private sector workforce is not enrolled in a retirement savings plan. And for an overwhelming fraction of that half, the reason is their employers don't offer a workplace retirement savings plan. There is no DB plan. There is no DC plan. There is no 401(k) plan. There's no SEP-IRA plan.

In spite of the fact that Congress has made offering these kinds of pensions cheaper and cheaper over time, it is still the case that a very large fraction of the U.S. private sector workforce is not working for a company that has such a plan.

So I propose that there be a fallback plan. Every employer must offer a workplace savings plan. If they don't currently have one, then they have to introduce one. And if they don't want to contract with

Vanguard or Fidelity or T. Rowe Price to organize a plan for them, then the contributions for this defined contribution-type plan would be collected by the Social Security Administration, which would handle the record-keeping -- how much each worker contributes, what their investment choices are; and the funds would be managed in no more than eight or 10 different kinds of investment funds by private sector companies, just as private sector companies manage assets in the Federal Employees Thrift Savings Plan.

Now let me turn briefly to the second essay, and that has to do with what the financial market turmoil shows about the base of most people's retirement security in the United States, and that is Social Security.

Most of your recall that President Bush wanted to allow people to opt partly out of their Social Security contributions and put whatever money is diverted into individual retirement accounts. This would have meant that, of course, Social Security itself would have had less funds, to the extent that people did contribute to the voluntary fund.

But the basic idea was carving out of the basic social security contribution, we would make funds available for new individual retirement accounts.

And this picture tries to ask the question if you contribute steadily over a full career four percent of your wages every pay period and you put it entirely in the stock market, you retire at age 62, you convert all your retirement savings to an annuity that you purchase on your 62nd birthday, how big is your pension relative to the wages you earn at the end of your career?

And you can see the enormous fluctuations. The luckiest person is the person who retired in 1999. His annuity would have replaced 89 percent of his wages. Now the unlucky fellow who retired at the end of last year would have gotten a pension of 27 percent.

Don’t kid yourself. Even these small ups and downs in this period here are much bigger than the fluctuations in replacement rates that people collecting Social Security have seen over time.

People worry that Social Security may not be able to pay all of its benefits after 2040 when the trust fund is exhausted. And they are correct to worry about this, and we should do something about that.

But the fact is there's no scenario that I have seen sketched out that shows people getting bigger changes in their Social Security benefits in the future than people would have obtained under individual retirement accounts invested solely in the stock market.

You can invest in safer assets, and the fluctuations may look a lot smaller. But once again, don't let the scale of this chart distort your impression.

Even the changes in replacement rates, if you invest all of your money in the safest asset, are very large. The 1980 pension financed out of government bonds would have replaced about 10 percent of your final wage, and in 2000 it would have replaced about 25 percent of your final wage.

The Social Security program, for whatever its faults, guarantees people inflation-indexed protection in old-age that has varied within a much narrower band.

And even under all the alarmist scenarios that proponents of individual account retirement systems come up with, those fluctuations are much, much smaller than the actual fluctuations that individual account defined contribution plans would have given to people in past history. Thank you.

MR. MADRICK: Dallas Salisbury is going to comment on all three -- all three papers. It occurs to me that I just took for granted you all knew who everybody was here. I just assumed I'm in Washington and all these people -- most of these people are Washington people.

Gary, as you know, has been an economist with the Brookings Institution for a long time. Mitchell is a political scientist with Johns Hopkins. Teresa is an economist with the New School. And Dallas is going to comment on this. He's president of the Employee Benefit Research Institute.

I just have to say a word about how important that organization has been over the years. I've consulted with it when I've written about these issues time and again. I just don't know what we would have done without it.

And, in fact, I did a piece only a year ago for the New York Review of Books or -- and once again, it was critical to my ability to think and talk with any intelligence at all about this subject.

So, Dallas, your comments -- 15 minutes or so.

MR. SALISBURY: It’s a pleasure to be here. I should start with the quick notation that based on the kindness of that introduction that I -- everything and anything I say should be attributed only to me and not my employer or anyone tied to my employer, and most particularly they should not be attributed to my wife and probably not to my about to turn 93-year-old mother.

It is a pleasure to be here, and I want to thank Gary and others for having invited me to be here.

As was noted by the age of the Institute, which we now are in our 31st year, and I was the first employee, so I've been doing these things for quite a while. But I'll note that upon taking my second job in Washington since my first was for a Justice Department study group that was eliminated after I had been there for 24 days -- I'm sure it had nothing to do with my performance, but you never know -- I changed to another job in the Justice Department and was told to go to a conference room for meeting.

And that meeting in July of 1974 had in it some people from the Labor Department, the Internal Revenue Service, and the Justice Department talking about this legislation that was pending on Capitol Hill, the Employment Retirement Income Security Act. And it was some final negotiation among the government agencies on some jurisdictional issues.

Then I ended up at the Labor Department helping to implement ERISA, so I've been around these issues. I guess that makes me as old as mud or something.

The introduction to this book begins on the first page with a statement that makes the essence of the book quite clear America’s pension system needs to be fixed, and describes the purposes and proposals in the book clearly as well to transform the employment-based pension systems that have failed to guarantee Americans’ retirement income security and “to address the problem of benefit adequacy.” I would say actually what they describe as benefit inadequacy.

The proposals advocate many changes in public policy objectives that have been in place for what is now approaching 100 years. And that's what I really want to emphasize, because it's not -- it’s sort of implicit in what everyone has said, but it is not explicit at the front end of the book that the system we have today is totally and completely consistent with the objectives that have been adopted by the Congress repeatedly and signed by Presidents of both political parties repeatedly, and that what the authors are advocating is a fundamental redefinition of public policy objectives, and, if those objectives are redefined, then the types of programs that would be successful relative to those new objectives.

But I say all of that because relative to the objectives now in place, the voluntary employment-based retirement system has been amazingly successful relative to what has been achieved in other nations that have experimented with voluntary systems.

The central issues that policymakers must decide as it relates to the proposals are set forth very clearly on page 121 of the book in the final chapter. I'd refer you to the book for the full list. I'll just note those that I put in a change category.

And that goes against the backdrop -- and this is a slide from ICI and their tabulations from Current Population Surveys. It just is to indicate and underline the tremendous reliance on Social Security. Teresa, in her comments, made reference to this; and the top highest income quintile the -- where most of the supplementation occurs and some in the third quintile -- or quartile, I'm sorry.

So the dynamic in what the system has achieved over time is quite clear and that goes over the full ERISA period.

Secondly, against the issue -- and this is from the most recent release of the Survey of Consumer Finance. It's 2007 data. This just underlines why people save, and that's -- I put it up against the following statement, I would add.

Were the nation to create a mandate for health insurance, would employers and workers also have the additional funds available to set aside for retirement, since what is not again put forth explicitly in the analysis of the book or in the proposals is the degree to which everyone of the proposals essentially assumes -- and Gary's, which allows opt out, gives people the ability to manage their personal finances, and Alicia's proposal and Teresa's proposals which are absolute mandates on individuals -- it assumes that individuals will be able to find the money to pay for it.

In Teresa's case, the $600 credit provides a substantial offset at the lowest income levels, but does not deal once you move above the lowest income levels. This is not to say good or bad, and I'm just put -

- essentially in context is individuals today have many different savings objectives, and one of the things that we know about defined contribution programs today is that many people are not using them to save for retirement.

That is not their objective and that is not the only objective in current public policy. Public policy makers have added over the years to IRAs and defined contribution plans have repeatedly added alternative objectives to be met by those accounts.

So they allow individuals without penalty to withdraw money for educational expenses, for first home purchase, for medical expenses, and post 59 and one-half they allow full withdrawal for whatever purpose the individual chooses.

And so it’s just to underline that is where public policy is today. I'm not arguing that is desirable or undesirable. I'm just pointing out that relative to what many people today use these programs for, including single sum distributions out of defined benefit pension plans, which is a footnote I will add. In both Gary's chapter and Alicia's chapter, there are references that imply that defined benefit pension plans only pay life income annuities.

In Gary’s chapter, he also mentions that they don't. In Alicia’s she does not.

But the practical matter is that over 30 percent of existing private sector-defined benefit plans are so-called hybrid cash balance plans. Almost none of them pay an automatic annuity. And, out of the data we have available, 95-plus percent choose a single sum distribution versus a life income annuity. And of all private defined benefit plans today, well over 50 percent of participants at the time of departure at retirement age had the option of a single sum distribution, and prior to retirement age, if their account balances are $5,000 or less, and in many plans no matter what the account balance, they have the ability to take a single sum distribution.

Secondly, can everyone afford to save more? I happen to be a believer in the fact that the Salvation Army is there for a reason, and everybody can make life choices above some base income level to save more, but that is not always appreciated or smiled upon by others. And behavior certainly doesn't reinforce it.

And then there’s the question of one of the phrases Teresa used of universal. And universal -- what is universal? And what is the success or failure of the current system?

And this slide just underlines that how you define who you are attempting to benefit, if you say let's look at the entire labor force between 16 and 65, no matter how much attachment to the labor force they have, and of those people, what percentage are in existing programs, the answer is about 40 percent and could go down as low as 34 depending on how you cut the numbers.

On the other hand, if you look at individuals 21 to 64, full-year, full-time employment, a thousand hours or more, and you come clear over to the right, is you get up to as much as 55 percent participating in a plan; 63 percent having the option of participating in a plan.

If you move it up and take Gary’s slide and you say, well, let’s look at when people start to have a little more labor force stability, and you were to start caring about it at the age of 30 instead of the age of 21, then these numbers go up much more substantially.

So how you -- what your time periods are, what your definitions are, just to make the point, make very substantial differences.

Then we have another question that is not dealt with in the book, which goes along with the slide on why people save.

Were all money going into retirement plans tied up until retirement, and were all of it paid out only as an annuity income stream, the proposal of two of the authors, and were single sum distributions to be eliminated in favor of a new and “adequate retirement income objective,” again the proposal of two of the three authors -- and I guess maybe three of the four, but I won't put objectives in your mouth; they weren't explicit in the chapter -- then the real question is would people stay in those programs at anywhere near the level that they currently do when they are defaulted in.

And this goes to a point Teresa and Alicia both say we can't rely on default enrollment. We need it to be an absolute mandate.

Gary suggests a default so that individuals can come out. The Obama administration IRA proposal allows people to flip out.

Gary provides the same flexibility, but if one were to get into the political process and the way things frequently happen in Washington, D.C., if they were to say, gee, let’s take these three proposals and let's split the difference, then this issue of why people would do if they couldn't save in a defined contribution plan for all these other reasons that they currently do other than retirement, would they continue to save in the ways that they now do.

A fourth question is should all aspects of public policy that provide for loans, hardship withdrawals, job change withdrawals, and single sum distributions be eliminated in favor of this same new adequate retirement income objective, essentially the proposal of Teresa and Alicia, and I'll just put that in perspective.

The first book written by former Labor Secretary Robert Reich after he left the Labor Secretary's position actually advocated an amendment in the other direction.

His proposal was that defined contribution programs be amended in their so-called hardship withdrawal provisions to allow for non-penalty withdrawals in the event of pure financial hardship, in the event of unemployment, in the event that you wanted yourself to return to school at a later -- I mean, in essence, he added about seven different additional points of flexibility, arguing that individuals have many savings objectives and to -- for the government to presume on top of Social Security that saving for retirement should have a higher priority than these other things on a mandated basis was not an appropriate use of the tax code.

Whether the Secretary still believes those things or not, I have no idea. Finally, the question of how should withdrawals be handled the proposals implicitly deal with this. But it's essentially in terms of a public policy debate, the recognition of (interruption) posing on individuals who have always chosen to take single sum distributions, the federal employee thrift plan, for example, the largest defined contribution plan in the United States has multiple life income annuity options within it, and essentially less than one one-hundredth of one percent of those departing the plan have ever chosen any form of annuity distribution, including those leaving long before they would get any meaningful defined benefit retirement program.

In fact, one thing that is frequently not focused on with public employee pension plans of the defined benefit variety is the very high percentage of individuals who essentially forfeit 100 percent of their future potential inflation indexed defined benefit pensions, because at the time they leave the government, they withdraw their contributions.

And in the process of withdrawing their contributions, forfeit 100 percent of what the tax payer would have contributed, which would have been far more than the employee ever contributed. And federal government individuals who did that, such as myself, or I can pick on my wife, both of us, in doing that, forfeited our ability to then also claim a lifetime retirement medical benefit from the government that currently allows you to opt out of both Medicare Part B and Medicare Part D and get that full coverage from the federal government in return for a premium that is lower than you would be paying in combined Part B and Part D premiums without any of the balloons or donut holes or anything else.

So we not only gave up the government's portion of defined benefit, and there are currently millions of individuals in America in that particular state. So there are individual choices that take place even in defined benefit plans that the objectives issue comes into play.

And then finally I would note, vis-à-vis the international issues is, in the context of what happened in many of the countries that were mentioned, it was not quite as simple as just the World Bank wrote a book is, in many of those nations, as a condition of continued funding by the World Bank and the International Monetary Fund, these countries were told, you will privatize your systems, you will move to a defined contribution approach, and it was a condition of funding in many of these countries.

I point that out not to say that's good or bad, it might have been the right thing for them to do, but to underline that the dynamics in those other countries of decision-making, at this moment, we do not have a third party lender, but it might suggest that China should tell us how we should redefine our retirement system as a condition of their continuing to fund the growing deficits of the United States. So there may be a symmetry that would be possible.

Secondly, to those international cases, a huge difference of culture, the Netherlands was mentioned. I was in the Netherlands recently looking at their health system, and in discussing with those in the country, one of the things they emphasized was how cold blooded Americans were relative to their people in terms of the general paternalistic social structure that they have, and it was really – they said that underlying paternalism and communitarianism, as they described it, that led them to add the defined contribution components to the system as opposed to anything else. Communitarianism may be on the rise in the United States if President Obama has his way, but it's slightly different.

And then a final comment on the international; many of the international programs do not require annuities. The Australian system pays single sum distributions, and most individuals take the single sum distributions, and in Australia, they're now beginning to run into problems of individuals running out of money and going back onto the welfare system. So against objectives, against the integrated nature of systems, that is something that Alicia and Teresa have dealt with in their proposals. It would, again, be a very dramatic change in public policy objectives, and the key question against all of this is, would individuals be supportive of such radical changes in public policy objectives, and would the nation?

We have explored these issues, these were recommendations. What Teresa has recommended was essentially a recommendation out of the Kennedy Commission in 1965, it was close to a recommendation. What Alicia has recommended, of the Carter Presidential Commission in 1981, and it was written as a recommendation in the New York Times by Robert Paul, the retired and late Chairman of the Martin E. Segal Company on September 28, 1972.

His proposal was very similar to Teresa's proposal. And as recently as yesterday, in the Planned Sponsor magazine by Mr. Rice, a lawyer, an ERISA lawyer from California. So these are proposals, an advocacy of fundamental objectives, change in public policy that have been with us for decades. Thus far, they have not been found compelling by lawmakers, but as the basis of why the book was written, a timely point in history as a new administration and a new Congress, we're exploring these issues. It's an interesting time for them to be put back on the table to see if the appetite of the public and policy-makers for a new way is with us. Thank you very much.

MR. MADRICK: Thank you, Dallas. I think in light of Dallas' comments, we should give each of the participants three or four minutes to respond. He raised questions about all of their contributions. In turn, I think they should respond to some of those questions.

I do want to – there's a lot of technical stuff going on. I'd like to ask the participants to talk a little bit about – we always jump past this, but what they think an adequate replacement rate – what they think an adequate replacement rate really is. Can I ask you guys to deal with that when you come up here, talk a little bit about what you think an adequate replacement rate is?

SPEAKER: --

MR. MADRICK: Oh, you have that, okay. I didn't know that, that's great. Mitchell, you – as Mitchell points out in his chapter, the public plans in many other nations are far more generous than the Social security Plan, which puts the – what the private plans have to bear – which reduces the burden that the private plans have to bear, so I hope you'd address that a little bit, tell the audience a little bit how that changes.

My own – I think one of the themes that comes out of this is quite clear, there is – if we use defined contribution plans, there is no escaping risk, and I found Gary's chapter really useful about when you decide to retire compared to how the stock market is doing at the time you retire, that was extremely useful, I haven't seen that anywhere.

I want to tell you where I lean. This comes out a little bit out of what Dallas was talking about. I wouldn't mind seeing Social security – and I note that Gary praised Social security System. I wouldn't mind seeing Social security itself being made more generous, and payroll taxes increased, and dealing with the issue that way.

My final comment, I'm going to let the participants talk for three or four minutes. But as I said right at the beginning, we haven't talked much about private pension inadequacy in America. The discussion about defined contribution plans had a lot more to do with how we reduce the cost of the Social security System, the carve out idea, allow

Social security mandatory payments to be reduced in favor of voluntary carve outs, utilizing rising stock markets.

We realize now rising stock markets, and bond markets, for that matter, are not predictable, and that puts a new burden on us, but we are at the beginning of a new administration, which, in turn, I think Dallas was referring to, at a time when we have a very big to do list that's going to require considerable federal money, so in the responses of the contributors, I'd ask them to deal specifically with that point that Dallas raises.

Can we afford the pension system they think America needs? Mitchell first. Let's go in the order we started.

MR. ORENSTEIN: I'll just be extremely brief. I appreciate the comments a lot. I think that the problems in the – I think what's changed right now is a huge perception of the awareness of the problems in the 401K type programs as a result of the financial crisis and also before, and I think that's exactly why you see these issues back on the agenda right now. The debate has been really cast largely by people who have been on a campaign to criticize Social security and say Social security won't be there for you. Well, guess what, Social security, you know, although still in trouble, is there for you in a lot greater extent than your 401K is.

I mean if you look at the 401K jokes in the media, I think, you know, it's entered the popular culture that, you know, 401K is sort of a synonym for like disappearance or something.

So I think that's why Congress is acting, I think that's why the – that's why fundamentally the train is really different right now, and more, I would say, accepting of the type of proposals, although I agree that perhaps we underestimate just how great a shift is, in fact, being called for here.

I like the ideas about international issues. The Chinese conditionality I thought was a good idea. Again, I mean, you know, you deploy the comparison with the Netherlands. I mean, okay, maybe not the closest one, however, the Netherlands, you know, did depart previously from the European norms in being considerably smaller in terms of its system, so that was a factor, as well, but I think does provide more of a comparison with the United States. I don't want to say too much more because I want to give plenty of time for the audience to respond.

MR. MADRICK: Could you talk a little bit about replacement rates in other nations --

MR. ORENSTEIN: Right, sure.

MR. MADRICK: -- and how big the public plans are compared to the private plans?

MR. ORENSTEIN: Yeah; the United States – and here a point came up, the United States you could say had a huge success with its individual retirement system and its work place pension system. We have a lot of retirement money in the stock market. We have more retirement money in funded systems than other countries. That's a reflection of the fact that the Social security replacement rate is relatively low compared to other developed countries.

Most – many, if not most, European countries have replacement rates in the range of 60 or 70 percent, and it's been argued that that tends to crowd out individual investment for, or savings for retirement, which I think it does. And the United States, of course, is not in a, you know, has a Social security System of some considerable size, it's not like Latin American countries, which most Latin American countries which tend to have very small systems, if at all, that cover perhaps not very much of the population, so it's – we're not in the same boat as many developing countries that have weak social security systems.

But compared to other developed countries, I would say that the United States has this singular situation of having a 40 percent rather than the 60 or 70 percent state replacement rate.

And to make up for it, a private system, which really only covers a small fraction of the population or 30 percent of the population, I think that's the issue that's being addressed. And I think additional to that is the changes that we've seen in the huge increase of tax breaks to the 401K system by virtue of increasing the amount of money you can put away pre-tax into a 401K.

In Munnell's chapter, she really details how those tax breaks have gone largely to the wealthy, essentially, and I think that's, you know, an additional issue which demands some remedy. So –

MR. MADRICK: Thank you.

MR. ORENSTEIN: Thanks so much.

MR. MADRICK: Teresa, do you want to pick up from there?

MS. GHILARDUCCI: Yeah; replacement rates, the lowest figure that anyone will accept is a 70 percent replacement rate for the average worker as being adequate, close to replacing pre-retirement centers of living. Dallas had done very good work to show that that's probably – that's unrealistic given the kinds of contributions retirees have to make to their medical costs.

So 70 percent is actually used as a standard, and it really only – it only really approximates what middle income people need. Upper income people probably need a little bit less; lower income people, it's reflected as social security's progressive structure need more than what they got pre-retirement earnings.

Think of it – of the kind of deprivation you live on if you're at minimum wage. Certainly they need more than that as they grow older and more feeble. So the replacement rates, I guess to summarize, Jeff, really are different depending upon what income group you're in and what kind of medical needs you have.

MR. MADRICK: And higher for lower.

MS. GHILARDUCCI: Much higher for lower income, much higher for people with greater medical needs. That's why a financial account won't provide adequate security, you need some insurance aspect to it.

I want to point out to whether or not the time is now for a supplement to social security, a mandatory supplement to social security. The popular culture might – the popular culture might suggest it.

I have two props I didn't bring, but now I will. One is a t-shirt I just got in LaGuardia, which is, I used to have a 401K, and now you know – but now all I have is this, everybody, lousy t-shirt, right. And the other is a cartoon where we – where the cartoonist contrast what's happening in the movies and what is happening in reality.

So one movie scene is, all of humanity is wiped out, and everybody stands by and say, you maniacs, you blew up New York City, reality, much of humanities assets are blown out – blown up, and someone is sitting in front of their computer and says, hey, my 401K's, you know, are gone, heck with that, it's all gone.

But there is this sense that the system that we put in place for the past 30 years, individuals saving in commercial accounts, directed by individuals, and used – and the savings used for many other purposes than retirement has not worked, and there seems to be very little confidence that it can work forward. I've been – it could work actually again.

I've been on lots of radio talk shows, and one unfortunate talk show was me and the financial editor for the Wall Street Journal's personal finance section, and he was virtually made fun of by the host, who said, tell us again why we all should now buy stocks; he goes over and over and over again.

Also, polls have shown that, in fact, people are a little bit confused about whose responsibility it is for retirement, that's a fact, and probably explains why people aren't marching on Washington, because they've lost so much money in their 401K.

David Madlin at the Georgetown University just wrote a dissertation on this that actually really showed the kind of political confusion out there. But what comes clear from his research and the political scientists that look at this is that people do feel an individual responsibility and want help from the government. They're more ambiguous about whether or not their employer should contribute. So taking advantage of this strong sense of personal responsibility I think actually provides a political sub-straight for a mandatory system. Last, Jeff, my plan costs nothing, and in the era of big deficits, I'm actually proposing retirement security for all with not one more cent spent by the federal government.

Right now we spend nearly, depending on how you measure it, $110 billion, giving tax breaks to 401K's and IRA's that go to the people who need it the least and all evidence shows it does not increase savings rates for the country, nor does it improve retirement income security.

Take those deductions, turn them into my credits, zero – it's revenue neutral, and we've actually given everyone assets for retirement.

MR. MADRICK: Okay, thank you. Gary.

MR. BURTLESS: Hello; as you heard from Dallas' remarks, I am cautious about imposing strong requirements on workers, although I'm not hesitant about imposing requirements on employers to offer a work place saving system, and that's – and I'm also cautious about requiring people to convert their savings into an annuity when they reach retirement age. I recognize, as Dallas does, that people have different goals in saving than retirement saving. They want to send their kids to college, they want to have a sum of money in case they have an employment emergency or a health emergency, and to tell people that they have to save this large sum of money for an earmark purpose, which for many people will never come, they may die before they get very old, strikes me as perhaps a little too much coercion.

But I also recognize the findings from the psychology literature and from the behavioral economics literature that there's a disconnect between what people do and what they think they ought to do.

There is – if you ask people, have you saved enough for retirement so far, common answer is, no, I haven't. And having automatic default, work place saving for retirement as the norm in the U.S. work place I think cuts through some of the psychological and self-control issues that come up when people are saving for a long term goal like retirement.

And that is why I think it would actually make a difference if everybody in the United States who worked for an employer for longer than six months automatically were placed in some kind of a retirement saving plan, which they could withdraw from, they don't have to do it, if they want to sign a statement, say, no, I don't want to do this saving. And there's one other thing I recognize, that it perhaps isn't as widely recognized given the numbers that are reported here. You've heard several times that the average worker in the United States receives a secure pension from social security that amounts to 40 percent of their pre-tax earnings. Well, how many of us are exactly average?

It turns out that if you go to – if you look at people in the bottom one quarter or even the bottom one-third of the lifetime earnings distribution, our retirement system does much better than give people 40 percent replacement rates.

For people at the bottom of our earnings distribution, the current system gives them 100 percent replacement or more of the earnings that they received before they retired, and in addition, it provides a very costly package of health benefits that guarantee health insurance protection to people after they reach retirement age.

In that kind of environment, I'm not sure we want to tell people you must save an additional three percent, or five percent, or seven percent, or eight percent of your earnings for a purpose that you cannot make any withdrawals from until you reach 65 or 67, okay. Now, I have to acknowledge my responsibility as a co-conspirator in these international organizations going around giving advice. I always was worried about the problem; what right do I have as an American to tell Mexicans or Venezuelans or Egyptians or Ukrainians or Georgians how they should run their retirement system?

So I always thought of myself as, well, I have expertise and I can offer counsel. I never bought the Kool-Aid that the World Bank apparently signed onto, even though I was in one of the very first missions, if not the first mission, to go to a country and make recommendations, suggesting that they supplement, they do not eliminate, they supplement their standard social security program with an earnings related scheme in which the funds would be privately invested.

Finally, let me say one other thing, this is to follow on a compliment that Jeff Madrick made. Nobody who does research on work place pensions would know nearly as much as we do without Dallas' organization. EBRI is indispensable for all of us in knowing what's going on. And you can't start to write about these issues unless you first check what EBRI has said. And I would also say a compliment to somebody who is not here, the same is true of Alicia Munnell and her center up at Boston College, which also just is really a wonderful source of information, I think largely unbiased about the retirement system.

So if you're thinking of getting into this area as a field of study, there's no better place to start than with EBRI publications or Boston College retirement research centers.

MR. MADRICK: Dallas, did you want to make a quick comment or –

MR. SALISBURY: I just – I was going to criticize Gary, but he just took care of that. I think his chapter is wonderful, both of them. Just a comment, which is, the one thing in this field is flat statements are always extraordinarily dangerous. And so when Teresa says does not add to retirement income security as a flat statement, it faults is a flat statement. For some, it does for others.

Does not add to savings, again, facts and circumstances, tremendous differences in the view and the research done by many different people. So maybe it does, maybe it doesn't, at what level, et cetera, probably a huge variation from household to household based on behavior. And then the statement of, well, it's free, is – we've written for more years than I can count about some of the issues of how tax expenditures and quotes are calculated. On the tax deferral, I will stress not on a tax exclusion, and that they don't generally take into consideration any of the extra taxes that are paid by people who have put money into these programs, where every dollar that was built up as a result of dividends over recent years will be taxed at a marginal income tax rate, not at the rates that, had they had the money invested in stocks.

The same with favorable capital gains rates, where the money is paid at full income tax rates, well, none of that is factored in by joint tax or treasury, to my knowledge, in figuring out what they think the end quotes tax preference is.

And at least the last time we met with Joint Tax Committee on this, they were still calculating on the absolute assumption that essentially everybody is in a lower marginal tax bracket when they retire than they were when the money went in, and especially if the President is correct about what he’s going to be doing with the tax code come 2011, that may not be a fair assumption. So we’ve always thought that that number in the budget was a very misunderstood number and a very unreliable number. And then the final comment on it is, there’s lots of other exceptions in the Internal Revenue code that many of the people that now pay fewer taxes at the moment, because of what they put into a K plan, could choose instead to buy a deferred annuity and shelter the earnings for some period of time.

There’s lots of other places to shift money, and to assume none of that shifting takes place, therefore, it’s free. So just – it may not cost much, it may cost a lot, I don’t know, but it’s all of these things.

Any time people make a flat statement about anything, including if I make a flat statement, I can make the flat statement that my 401K account balance is higher today than it was six months ago, a year ago, two years ago, three years ago, five years ago, and as the markets have gone down, my account balance has gone up very nicely, thank you very much.

And that is true for at least a third of the people with 401K plans based on their investment allocations. So, again, averages can be misleading, those who have lost the most are quite justifiably very upset, nearly 20 percent of 401K participants, about 80 percent or more in the equity market, and they’ve done that based on the advice they’ve been given, and so they have lost a lot more. If they maintain that allocation and the markets come back, they will gain a lot more than people like me. So, again –

MR. MADRICK: Let me just ask you this, and maybe other people – some of this is a response to overselling the value of equity investment, so there may be – there may be an overstatement, but I don't think it's a misstatement, but an overstatement about the value of that. You know, in the late 1990's, you had people all over CNBC claiming that as long as you own the stock for the long term, five years, there's always somebody about 28 who just met, and some investment manager, about 28, who actually did think the long term was five years, and I'd always go back and say, since I came out of school in the '70's, I remember how long it took for the stock market to rise again.

And lots of people, including famously businessly, thought it never would, a famous debt of equities covers. So I think some of this is a response to that exaggerated confidence that people were given about the equity markets, and I understand it. But I did want to ask – Teresa may want to respond, but have you come up with a simple number for tax expenditures – tax expenditure?

MS. GHILARDUCCI: Yeah, it's large.

MR. MADRICK: Because you – we've never taken the time to factor in, and the Brookings tax model, there's one Price-Waterhouse has, none of them are detailed enough to allow these offsets for what if you did use a 15 percent instead of other things. I just don't know of anybody that has built that into their data base and do it. It would be an interesting project.

SPEAKER: Brookings and the Urban Institute now are trying to work on this very issue, so we should talk.

SPEAKER: Good; I'd love to see that myself if anybody can put me on a list.

MR. MADRICK: I'll go to the audience, but I want to ask Gary one last question, because, to me, you very explicitly and clearly showed the risks of both the DC and the DB, in effect saying, there's no way except something like social security to guarantee a pension income in the future.

MR. BURTLESS: You could think of a hybrid kind of a defined contribution and defined benefit plan that would have credits that you can carry.

MS. GHILARDUCCI: Yes.

MR. BURTLESS: I don't think that that is yet common really.

MR. MADRICK: So it exists?

MR. BURTLESS: So you could do it, but Americans are so individualistic, our employment community is so individualistic, they think that, you know, the interest of the firm's personnel policy or just whatever history has got them the system they currently had is somehow sacred and so they'll come trooping to their senators and representatives to resist changes that might be costly for them to undertake to make pension credits more portable from one employer to another.

So I say from the point of view of the United States, all of us love defined benefit plans, that's really what we like, that's what's popular, well, we have one, it's called social security, and that is the one with universally portable credits if we disregard the one quarter of state and local employees that are outside the system. But for the rest of us, this is the kind of system that I think seems most natural to most of us and gives us portable credits to ensure us against the risk of old age, dying when we still have dependents, and becoming disabled before we reach the retirement age.

MR. MADRICK: Okay. Let me open this up. I would like to talk about expanding the social security system, but let's go to you guys now. Sir. We have mics coming around to each of you, just wait one sec for the mic, please.

MR. SABLEHOUSE: Great; so I like the focus on –

MR. MADRICK: You should maybe identify yourself.

MR. SABLEHOUSE: Okay. I'm John Sablehouse with ICI. And I like the focus on benefit adequacy that you were trying to get everybody to talk about, and one detail about that is, at what age do we measure benefit adequacy? And in particular, if we're trying to compare over time and trying to think about the future that we think these retirement income may not be high enough, should we be adjusting for life expectancy when we do that?

If one reads documents from Boston Retirement Research, we see declining social security replacement rates, but that's only because social security was basically put on a track to adjust for life expectancy. Life expectancy has gone up by a couple of years since the '83 amendments, and if you take that away, social security really does replace a constant amount if we adjust for life expectancy. So to the group, should we be thinking about benefit replacement after adjusting for life expectancy, or at a certain age, like 65?

MR. MADRICK: Interesting; anybody care to take that up?

MS. GHILARDUCCI: Yeah; when we talk about benefit adequacy, we're actually talking about income for a person's life to replace some standard of living that we maybe perhaps arbitrarily benchmark for what they achieve when they were working.

You're proposing that somehow we think of a lump, I think a lump of money for a person for the rest of their life and sort of – and matching that replacement. Also, Alicia Munnell's, the Boston College work, is locating the erosion of the social security replacement rate, not because of increased, you know, longevity, but because of the erosion of the Medicare premium. That's where it's actually – the Medicare premium is going up, taking cash spending ability away from a social security recipient, and that's actually the main driver for the erosion replacement rates.

MR. MADRICK: Okay. We might cut back to you if you want to ask a follow-up. Yes. Wait for the mic.

MS. MICHELLE: Sonia Michelle, I'm a historian at the University of Maryland. I have two questions, one is more philosophical and one is more technical. On the philosophical level, you seem to be taking for granted the assumption that retirement benefits should be based on employment, and I wonder if, as a group, you considered flat rate retirement benefits, or you know, many of the European countries have flat rate retirement that goes to everybody that's not stigmatized as kind of old age relief, but is really something that's an entitlement of citizenship, and I wonder if you took that into account.

Also because not only as a matter of citizenship, but also because work place based – employment based benefits reproduce the inequalities of the labor market in terms of gender, in terms of race and so forth. Also, social security and defined benefit plans favor married couples over singles or over homosexual or same-sex couples, so I wonder if you've thought about any of those things. And my technical question is, I think Gary Burtless was the one who talked about the risk of unemployment, did you also think – I mean another way of thinking about that is the risk that the company that's going to give you a defined benefit plan goes belly up sometime in the middle of your retirement and how that effects the kinds of benefits you get, and the fact that this – to the Pension Benefit Guarantee Corporation, and I wonder if you had given some thought to the health of that and to the – and whether – if that goes belly up, whether all the tax payers should be on the hook for essentially the private benefits of a small group of Americans.

MR. MADRICK: Okay. Anybody, the first set of questions?

SPEAKER: Well, at the same – it's famous that Bismarck created the idea of social insurance and the United States largely borrowed that basic system in the 1930's. But within a couple of years of Bismarck's introduction of social insurance in Germany, Denmark adopted a flat rate retirement scheme in which Danes who turned the age of 65 or some specified age did receive benefits as a matter of right.

I think that the historical experience, we've now had 130 years of experience, suggests that the political sustainability of those kinds of programs and the political stability of those kinds of systems is a lot lower than the political sustainability and stability of the Bismarck earnings related kind of schemes. And I think President Roosevelt, when he adopted that kind of a scheme, he put his finger on the reason, workers make contributions to a system, and that gives them a feeling of moral claim on the benefits.

And people don't have such strong feelings I think when you get benefits by reason of sort of national rights when you reach a certain age, and the reason for that is, along the way, there could be a lot of conflicts between the people who are paying the general revenues to pay for this and the people who are receiving the pension, whereas in the social security system, a lot of people making the contributions think they're accumulating rights to receive benefits when they get older. So I think, in general, even though at first the Danish model was quite broadly accepted, people have moved much more toward the social insurance model.

With regard to the bankruptcy of the contributing company sometime during people's retirement, of course, we do have a Pension Benefit Guarantee Corporation for people in defined benefit plans. As the widow of the pilot who crashed into – whose plane was taken over and flew into the World Trade Center found out, that the actual value of that, to somebody who's young at the time of their death, the value of the guarantee may not be worth much because the guarantee is measured in terms of a benefit certain when I think you're 65, and if you start getting the pension long before 65, as people do under many kinds of generous DB plans, then the value of that is a lot less.

But I would say from the point of – I'm a DC plan contributor myself, I'm jealous of the DB people, that they have this kind of implicit government guarantee of a minimum pension value no matter how irresponsible their employer is in managing the assets and the pension.

MR. MADRICK: Teresa.

MS. GHILARDUCCI: To respond to Sonia Michelle and her work on gender equity and pension systems, I really commend it, I'm really impressed with it. And actually, that scholarship has actually helped and formed a variation in my plan, the guaranteed retirement account plan, where we actually have explicit subsidies to caregivers, and to the recognition that women's' labor force participation is not as even as men's', and so there's some supplement to that.

SPEAKER: I'll just comment briefly on the PBGC issue as the – I don't have the numbers off the top of my head, but if you look at the amounts that they are paying as average and median benefits, they're way, way shy of what the maximum allowable under law are, just like the average and median benefits paid out of private pension plans in general, almost – regardless of age, are relatively low.

And it's one of the things that is one of the reasons that flat statements about 401K plans can be fairly misleading. It doesn't take a very large 401K balance to achieve the same level of annuity income that most people get out of a defined benefit pension plan, and that's not set as a criticism.

My father's benefit out of his DB plan was quite small, but by the time he was 85 and 89 and 91 and 93, as the only income on top of social security, even a couple of hundred dollars a month was extraordinarily helpful to him. So I think we sometimes get a little carried away in thinking people need these very large account balances or very large annuities. PBGC, in general, about the only way you'd hit the point you're describing of the government really needing to do very much is if all employers almost simultaneously said we're going to stop having defined benefit plans. High enough premium levels from the government could, in theory, do that, but that would still require the government to come in and change the law, because currently there is no explicit, which is I think why you used your word choice, there is no explicit promise by the government to fund the PBGC.

They have the ability to borrow $100 million from the federal government, but beyond that, it is a self-financing structure, it is a self-financing system. And one can argue about whether the government would choose to come into it; I guess today I find out a more likely probability based on what's happened in the last six months, then I might have eight months ago, but who knows.

SPEAKER: It's worth bearing in mind, however, that the law on Fannie Mae and Freddie Mac explicitly said this wasn't guaranteed by the federal government.

SPEAKER: And the PBGC didn't.

SPEAKER: Correct.

SPEAKER: Barbara.

SPEAKER: I mean, isn't the PBGC currently on the hook, I mean theoretically on the hook for quite a lot of money? I mean if a lot of companies did default, then they would be on the hook. And aren't they currently in deficit also?

SPEAKER: Like I just said, if lots and lots of plans default, yes, the way they do their numbers, they're currently in surplus, significant surplus based on the promises they've already – the benefit plans they've already taken over is where they end up in deficit is, if you assume General Motors and – I mean if you take various industry segments and specific companies and assume that they go into bankruptcy and they end up passing on liabilities, then PBGC, the most recent number I saw, would have about an $11 billion deficit.

In the scheme of things relative to what the government has been doing recently, even if PBGC had to take over the entire unfunded defined benefit system in the private sector today, that would mean they'd be taking on less than one-half trillion dollars, which seems like chump change this month. So, you know –

SPEAKER: Let me – we don't have enough time for all your questions, but speaking of political stability, I wanted to ask Mitchell a little bit, public support for the pension systems. When did – a number of countries, of course, abandoned certain reforms; could you give us a little summary of when some of these systems were adopted, like UK, or Chile were either amended or abandoned, and why and when they had public support, and how they lost it?

MR. BURTLESS: Yeah, that's an excellent question. And I think, first of all, there's a couple of misconceptions about it. I think the premise is basically right, but there's a lot of misconceptions out there about the extent to which these plans have been abandoned. The only pension privatization so far that I would say has actually been abandoned has been that of Argentina.

Argentina went through, as you know, a major crisis in 2000/2001, in which – at which time they actually seized all the assets in private pension funds and gave the funds a sort of bond, essentially a government bond in exchange for those things.

And subsequently, the new government has decided that the system isn't working very well and has gotten rid of it essentially. They've, again, reconverted the assets now into the old social security system.

That's the only case I think I know, and I think those two things are connected, because had the assets not been seized in 2001, then the system's legitimacy I don't think would have been undermine to the extent it is now. We'll see if that example continues. There's a broader issue that is – in the global financial crisis, are all these pension privatization sort of models, in fact, going to be undermined in terms of their legitimacy or their effectiveness? We don't know the answer to that yet.

I mean I think it's possible, but I also think that, as we see in the United States, a lot of policy is really driven by lobbies, and to the extent that the international lobby is still strongly in favor of pension privatization, I doubt personally that we're going to see a lot more reversals.

And, in fact, I suspect that this trend will actually continue to grow, although probably with a pause of a couple of years right now. So that's my prediction. We'll see how things work out.

Chile, interestingly, there's a lot of song and dance about Chile reversing its pension privatization, that's not, in fact, what happened. What happened is that the new govern of Michelle Bachelette, who is more of a socialist leaning politician in Chile, looked at the Chilean system which didn't have any sort of – an adequate minimum guarantee pension and upped the minimum guarantees essentially, and I think that was a good thing. There are some people who think it wasn't a good thing because, you know, essentially, if you're asking poor people to contribute into an account and then any way you're going to guarantee their retirement, you've just sort of stolen money from them, so I mean there are critiques of all these things, as you know, in every system.

Britain is an interesting case because I think that – I think a lot of you are aware of what was called the overselling or miss selling scandal that happened in Britain with its account. Essentially what happened there is that Thatcher made it a voluntary carve out, made it possible for people who were receiving public pensions to move to a private pension, okay, and companies came in and sold that and said, hey, you know, if you move to a private pension with our company, we'll give you a better benefit.

In many cases, that turned out to be untrue, because people, especially public sector employees, had really generous public pensions that they didn't understand particularly well, but they had the experience of switching to a private funded system and ending up with a much lower benefit than their colleague, you know, in the next – who had stuck with the state system. They made a huge ruckus about this, and what was interesting is, the government ended up paying out the equivalent of I think ten billion pounds, okay, to correct the miss selling experience. So if one of the benefits of moving the private pensions from a government point of view is to reduce government liabilities, it didn't succeed in Britain, and that's one of the reasons perhaps why other European countries haven't exactly followed that model.

I don't – I think that the British case, though, that system is still in place. I think that what's happening now is not so much of a reversal as a re-reform. So they're finding that the system that was introduced by Thatcher, you know, did something, but one thing it didn't do was, deal with adequate or inadequate benefits.

And most of the reforms, again, like in Chile, have been geared towards increasing these flat rate pensions, which I think they also have, to some extent, a tier of it anyway in Britain, and then also trying to introduce a more or less mandatory guarantee, or more or less mandatory funded system.

So that's where I see the state of where we're at with the sort of going forward with the private pension systems world-wide. Again, I see a lot of action. If you look at where the World Bank has been holding seminars and where the action has been in the advisory community, it's really shifted now from Central and Eastern Europe and Latin America to Africa and Asia. And there have been a number of prominent cases of pension privatization in Africa, we'll see how far they go, but that's where to be looking I think in the next couple of years.

SPEAKER: Okay. I do want to make one comment about it, that reform – discarding privatization and reforming it substantial is not necessarily that different. If you have a minimum guarantee, you're substantially reforming the program. It's not as if you – because privatization, even in America, was being sold by some without a minimum guarantee. So it's not a – that's not a minor tweak of a central philosophy, it's a hybrid reform that's substantially different than what was originally sold. My comment on your comment, but we have other questions. Yes, ma'am.

MS. SMITH: My name is Kara Smith from the Urban Institute. I want to first add to what Teresa said about Alicia Munnell's work. And one of the reasons why replacement rates are falling – also has to do with the taxation of social security benefits. Then I have a question for Teresa, and that is –

MR. MADRICK: That mic is not doing so well –

MS. SMITH: Okay, how's that? My concern is, if you mandate low income people to save, you're actually crowding out consumption that they would be better off. For example, when I was in my 20's, I paid off my student loans, I saved for a house, I had a kid, and so if you take that money away from me when I need it, it does have consequences.

MS. GHILARDUCCI: My work was developed with the Economic Policy Institute for the Agenda for Share Prosperity. The companion piece to mine was Jacob Hacker's health insurance. That group, our focus is relevant, because we focused first on the question whether or not this would be a funded system, funded supplement, or an unfunded, you know, in addition to social security.

We opted for a mandatory saving system, mandatory accumulation, but with great concern about the distributional issues, about whether or not it would reduce consumption of lower income workers. And that's why explicit in this program, necessary for the program, is the government subsidy of $600 per year index for inflation, which substantially pays for the mandatory contribution of lower income people. There's been – at Howard University, there was a simulation paid for by Rockefeller to look explicitly on the distributional effects of low income and minorities of the GRA plan and found it to be actually progressive because of the tax – the tax credit, the $600 contribution from the government, so – explicit government subsidy of low income workers.

MR. MADRICK: We talked a little bit about that already here. Any other comments? Further questions? Somebody here had a hand up? Okay, sir.

MR. PAUL: Hi, Adam Paul, American Enterprise. I had a quick question also about the guaranteed retirement accounts, and the idea that there's the three percent guaranteed return.

MS. GHILARDUCCI: Yes.

MR. PAUL: How does the – I mean you mentioned that the risk to the government, the investment risk is really low; could you speak about how you measured that and how – we just talked about the PBGC and other sort of government possible guarantees that involve investment risk. You had mentioned that you could get better returns with the management and those sort of things. Could you talk about the risk to the government and how you measured that?

MS. GHILARDUCCI: Yeah; and that was a very clear concern of ours, of this working group, that we didn't want to actually propose a system that would mean a government deficit later on. And this is why David Walker, who is now heading the Peterson Foundation, who was at the Government Accountability Office, spoke in favor of my plan, because the three percent guarantee was viewed as a low risk for the government, and also explicit in the GRA is the ability of the trustees of the guarantee retirement account to actually keep a surplus, you know, in good times, when the rates of returns are above that, and to actually – to actually lower that guarantee if – under dire circumstances.

So there is a very clear concern for the government risk. And the way we figured it out is the typical way, lots of Monte Carlo simulations, lots of past performance, though it doesn't guarantee future performance.

MR. MADRICK: Yes, sir, back in the last row.

MR. OXTER: Dave Oxter Research Institute for Independent Living. There are 20 million people with disabilities in the work force that receive no SSI or SSDI, and nine percent of them are employed full-time, the full year, and those that – who are working, there are 40 to 60 percent that work at sub-poverty wages with no employer benefits, and my question is, where would they fit in on the adequate minimum guarantee?

MS. GHILARDUCCI: These are disabled folks, people – that's the group you're talking about?

MR. OXTER: Disabled people, people in the work force, 20 million of them, no SSI, no SSDI.

MS. GHILARUDUCCI: Yeah; there is – the guarantee retirement account explicitly has a redistribution in the annuity pool towards people who are normally retired and people who are disabled. So you can collect your guarantee retirement account, add disability, along with the social security system.

So it's the same kind of group that, you know, missed out on – labor force because of disability or because of child rearing. And there is an explicit recognition that that group can actually get more credits even without income and also can collect early.

MR. MADRICK: Anybody else want to comment on disabled coverage? No.

MS. GHILARDUCCI: Social security.

MR. MADRICK: Let me go to the back, and then I'll come to you. Yes, sir.

MR. O'FLYNN: Chris O'Flynn, Elm Income Group. Speaking of the post-retirement risk, have you considered the implications to the insurance industry of taking on this additional risk of pensions for life given that this is a small percentage of the insurance company risks currently born to Dallas' point?

Number two, sometimes insurance companies don't handle risk very well; and number three, the two institutions that do have a lot of this liability, social security and TIAA CREF have their escape valves. The social security system, of course, has at least the potential of enjoying an increased payroll tax to pay for shortfalls, and TIAA CREF does not guarantee investment performance on their fixed annuities, they reserve the right to reduce your payments in the event of adverse experience.

MR. MADRICK: Dallas, do you want to comment on the security of annuities?

MR. SALISBURY: No, because I – no, I think that the real question is, the way I read Teresa's proposal, it's the government providing the annuities versus private carriers, is that not –

MS. GHILARDUCCI: Exactly; so the way we deal with the insurance company's inadequacy is to bypass them. It's the government who will ensure the longevity, with recognition that no – that the insurance industry can't do it, even in TIAA CREF.

SPEAKER: (off mic)

MS. GHILARDUCCI: That's right; yeah, but actually, explicitly, it's actually also in extreme circumstances to adjust the rate of return. So it's not a fully 100 percent guarantee, but it goes much further than any individual or group of private insurance companies.

MR. MADRICK: Alicia Munnell's chapter makes the case for reform, and –

MS. GHILARDUCCI: It doesn't go that far.

SPEAKER: -- implicit, and it would require people to have annuities, but does not get into the details of the proposal, so I'm not sure what her proposal is.

MR. MADRICK: Yes, sir.

SPEAKER: Hi, I'm – I'm a Professor of Finance at Johns Hopkins. I'm from China, so I guess I can offer some insights of the pension plan in China. According to my knowledge, you know, pension plan in China is actually not privatized actually. We have very strict investment rules. We can only be investing in the national debt, and I would imagine a large portion of that probably invested in U.S. Treasury, and you know, NBS here. So, you know, if I'm investment officer I China, I'll be very upset because this federal reserve monetary policy to develop its currency, right, so I mean I would be suspicious of, you know, from suggestions from the World Bank and IMF to ask the government to privatize our pension funds, because this country doesn't have a very advanced capital market to invest in, so the only way is to invest in U.S. treasury and U.S. debts.

And we have learned it's not necessarily the best return. So actually, for China, you know, one way to, you know, to avoid this problem is to establish a – capital market so they can actually invest in their own, you know, currency, which I think would be a competition with the U.S. bond markets, but actually for the U.S. investor – we can have better diversification, you know, in other economy instead of, you know, only investing in the U.S. assets. So that's my comments. And actually I'm going back to China this year to give some, you know, seminars about this. And another comment about, you know, whether we should privatize, you know, the pension plan to the private financial institutions, as an economist, but I'm also a manager, you know, my full-time job. I think as an economist, we don't see things in the right way or the wrong way, we see the good way or the bad way, so in the current regulation structure, you know, even if I tell you I can be trusted, you wouldn't believe me, and I would say there's a lot of reasons for you not to believe me. So I'll ask this can be changed, you know. Basically people – of the risk and profits between the management and the investor can be accommodated, you know. There really isn't a lot of people trust, you know, the professionals, you know, AIG – because there's no trust, so –

MR. MADRICK: It's getting near to our final comments, so is there another question? I don't see one, but we have time for another question.

SPEAKER: I thought about this because of the fact that I have gone to countries and made advice, and one of the reasons that I thought that the World Bank's advice was often fundamentally misconstrued is because they took the experience of countries like the United States and the United Kingdom, which have had functioning capital markets in the case of the United States for 200 years, and in the case of the United Kingdom for 400 years, and assumed that the same kinds of –

MS. GHILARDUCCI: Trust and –

SPEAKER: -- trust and supervision and so on was available in countries. They thought, well, this is a great way to mobilize capital, we take contributions out of workers, we put them in pension funds, the pension funds then take the money and they support the development of new businesses, new enterprises in the company, and I said, well, you know, the whole argument that you have against the existing social security system in these countries is what I told the World Bank, is that you think that everybody regards the contributions as a complete waste of money, as a complete tax, you know, that they will never get any money back, why is this any different?

What reason is there for a citizen of the Ukraine or China to think that if they make contributions that are invested in a wholly new kind of way, a pension fund, that, in turn, invests in assets, no one knows the value of, why should they think this is anything other than a pure tax? They have no reason for supposing they're going to get their money back. And so it's a really tough issue, except the World Bank's great counter argument was, Chile. In Chile, the development of their privatized pension system did, indeed, contribute to a much better functioning capital market. I mean it really was a world in which this did help the development of Chile's capital market.

So this was the great counter example, but the question is, how many countries out there are there like Chile? And I think probably the Argentina's outnumber the Chile's, that would be my guess.

MR. MADRICK: A counter example is not necessarily a counter argument. Anybody else care to comment on this issue? Are there any other questions? I thought I saw one. You guys have been great. We've been here a while. I think this discussion has been terrific. As you know, I think the book is excellent, and I hope we'll put pensions and retirement security high on the crowded agenda in the new administration. So thank you all, a special thanks to the Brookings Institution.

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