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Meet the Expert | Dr. Christian Weller, Author of *Retirement on the Rocks*

Dr. Christian Weller is one of the nation's most foremost academic experts on retirement income security. He is also known for his work in the fields of macroeconomics, money and banking, and international finance.

Currently, Christian serves in two roles - as a fellow at the Center for American Progress and as a professor of public policy at the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts, Boston.

Born in Germany, Christian worked at the Center for European Integration Studies at the University of Bonn and served in the banking sector in Germany, Belgium, and Poland.

This month, Christian is releasing his first book, *Retirement on the Rocks, Why Americans Can't Get Ahead and How New Savings Policies Can Help*. We spoke with him to learn about his new book.

Dr. Christian Weller, Author of *Retirement on the Rocks*

What compelled you to focus your research on retirement security issues?

For me, ensuring the economic security of an aging population is a question of what we value as a society. Older Americans have worked all their lives to build a strong and growing economy, from which we all benefit. They deserve the economic security to stay in control of their own lives as they age. That can mean leaving the labor market to volunteer, for instance, by helping out with grandchildren. It can also mean starting a business with their children. And, people should be able to leave their jobs if they no longer are physically or mentally up to doing them. But, most importantly, it means aging with dignity without having to rely on family or the government for assistance. We owe this much to those who helped raise and provided for us.

Yet, just as our society is aging, the share of working-age households that can expect to have to make significant and potentially hurtful cuts to their spending in retirement has grown for thirty years. The population over the age of 85 years is projected to grow faster than any other segment of the U.S. population by the middle of the century. That is, we have a growing problem within the fastest growing population group, posing a serious policy challenge.

What happens if we do not respond to this challenge? More people will live in poverty and face material hardships, such as not being able to pay for their medication. More Americans will have to move in with their relatives and financially depend on them. More people will have to depend on public assistance, especially from state and local governments. More people will have to shelve their desire to volunteer or start a new business based on their long-standing experience. And finally, more people will have to keep working longer, even if they are in poor health. The bottom line is that the retirement crisis, if left unaddressed, will leave families economically struggling, strain public finances and slow economic growth.

Why did you write *Retirement on the Rocks*?

I wrote my book because I noticed several interconnected problems. Experts often did not fully appreciate some of the complexity that underlay the growing retirement crisis. Researchers and policymakers alike often ignored, in my view, that saving for retirement had become harder over time simply because labor and financial markets had become more volatile.

This also meant that experts often dispensed well meaning, but ultimately ignored advice that people should just save more and not worry about the associated risks. Yes, people need to save more for retirement than has been the case. But, people will not feel it is worth their time or money to save more if they are already struggling while they are working and if they feel that their money will just be lost in the next stock and housing market crashes. That is, getting people to better prepare for retirement means to also show them how to protect their savings, not just getting them to save more. But, protecting savings from economic risks has not been part of the policy conversation.

Addressing the fallout from economic risks for people's retirement preparedness requires a serious discussion over how to improve retirement policies. But, federal policymakers in Congress have largely been absent from this discussion. That is too bad since, as I show in the book, the retirement crisis has grown because policymakers have implemented the wrong policies for a time of growing economic uncertainty.

What are the most important facts about the retirement crisis that have emerged from your research?

Researchers have regularly studied how well Americans are prepared for retirement at least since the early 1990s with some studies dating back to the 1970s. Three main facts arise from this substantial literature.

First, a significant share of households is inadequately prepared for retirement - they will have to make large and potentially harmful cuts in their spending when they retire. One middle-of-the-road estimate shows that more than half of all working age households in 2013 could expect to have to make large spending cuts when they retire.

Second, some household groups are more likely than others to face a shortfall in their retirement income. In particular, people with less education, single women and communities of color are more likely to face retirement income shortfalls than is the case for people with more education, single men and whites.

Third, the crisis has been getting worse. Studies that allow for comparisons over time show that a growing share of working-age households face income shortfalls in retirement. And, a number of studies show that younger workers today are less well prepared than previous generations at the same age.

Can you explain your view that rising labor and financial market risks are making retirement more challenging?

Volatile labor and financial markets can hurt people's chances to save enough for retirement in a number of ways. For instance, frequent and long spells of unemployment, flat or even declining wages, and disappearing benefits make it harder for people to save because people have less money than they otherwise would have to save and because people are so worried about their current economic security that they cannot plan for the future.

And, once people decide to save part of their hard-won earnings, they have to worry how secure their savings will be amid stock and housing market fluctuations. Large market booms and busts in fact can, at least for a while, keep people from investing their savings at all, so they put money in checking accounts - the banking world's equivalent of "putting it under the mattress" - and thus forego investment earnings. But, investment earnings make up a large part of people's total retirement savings, so that not investing money for fear of losing it after a big market crash can ultimately put a real dent in people's retirement prospects.

The book indicates that the retirement crisis outlook in the U.S. has worsened over the past three decades. Why?

The growing retirement crisis is in large part related to growing labor and financial market risks and people's increasing exposure to these risks.

To put it mildly, people have been trying to save for retirement, while also having to navigate a perfect economic storm. Labor market outcomes - jobs, wages and benefits - have become more volatile over time, while booms and busts in stock and housing markets have become common place. And, more and more people had to manage these growing risks on their own, rather than being able to rely on the knowledge of experts, for instance, in defined benefit pensions.

The combination of rising labor and financial market uncertainty with increasing exposure to these risks has meant that a growing number of American workers struggle to adequately prepare for retirement.

What are the retirement obstacles created by public policy?

The growing retirement crisis results in large part from people's increasing exposure to the growing labor and financial market risks. To use a metaphor, the savings crisis is akin to people not having life rafts just as perfect storm is brewing and their boat is taking in water. By the same token, though, the perfect storm would have little effect on people's life if they never went out on the water or were in a very secure large vessel. In retirement savings terms, risk exposure matters for the economic insecurity that people feel today and in the future.

The increasing exposure to growing economic risks in the labor and financial markets of most Americans has been the result of several shortcomings of retirement policy. These include the reduction of Social Security benefits and the decline of defined benefit pensions that Congress has tried to replace with 401(k) plans. And, savings incentives in the tax code heavily favor high-income earners, who arguably need the least help saving more. Furthermore, existing retirement savings tools are unnecessarily complex and this complexity often keeps people from saving more. Moreover, saving for retirement is easier when working for an employer that offers substantial retirement benefits, but fewer and fewer private-sector workers work for such employers. Even in the public sector, employers have reduced the level of retirement benefits for many of their employees.

Finally, Congress has paid scant attention to what happens to people's savings when financial markets go through booms and busts. The combination of these various policy shortcomings means that people face additional challenges when saving for retirement and that those people, who need the most help, receive the least assistance.

What public policies can be enacted to improve American's ability to achieve retirement security?

Because policy shortcomings are at the heart of the increasing retirement crisis, the solutions also lie with policy. The five major problems - the decline of Social Security and defined benefit pensions, inefficient savings incentives, unnecessarily complex savings tools, overreliance on employers, and inattention to growing risks - lead to five main policy approaches to solve the crisis.

Congress could update Social Security by offering stronger benefits to the most vulnerable. Congress and state legislators could provide better targeted tax incentives to lower-income earners. And, Congress could stream line existing savings tools. Moreover, Congress and state legislators could give people access to new savings instruments outside of the employer relationship. Finally, Congress could systematically emphasize risk protections in all savings policies, for instance, through better disclosure of the associated risks.

The bottom line is that there are a range of realistic and doable policy steps that Congress and state legislators could take to address the looming retirement crisis.

Most teachers still have pensions, and some have Social Security and individual savings. How important is preserving this model?

It's critically important. Many teachers and employees - not just in the public sector - have access to Social Security, defined benefit pensions and individual retirement savings accounts. The combination of these three retirement savings income sources can provide Americans with sufficient income in old age and adequate security of their savings.

But, fewer and fewer people have access to this combination of Social Security, defined benefit and retirement savings. My own calculations show that about one-fifth of households do not have any tax advantaged savings - defined benefit pensions, 401(k) plans, IRAs, life insurance and housing - and this share has been going up since 2001. The majority of households has no or only one or two such savings. That is, only a small and shrinking minority of Americans enjoy the full advantages and economic security of substantial retirement savings.

The important lesson here is not to take away the benefits of those teachers and public employees who have real retirement security, but to re-envision public policy so that all hard-working Americans can have a decent and dignified retirement.

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