Book Review

The Predictable Surprise: The Unraveling of the U.S. Retirement System

Barbara O'Neill[1]

Author: **Sylvester J. Schieber**
Publisher: Oxford University Press (2012)
ISBN # 978-0-19-989095-8

Like the title of this book implies, *The Predictable Surprise* describes a situation that has been apparent for decades: *The Unraveling of the U.S. Retirement System*. Nevertheless, the country has failed to muster the political will to address this situation and it has progressively gotten worse over the last four decades. Social Security is in jeopardy, most private sector pensions have closed or are badly underfunded, and many public sector pensions are also poorly funded and straining federal, state, and local government budgets. Fortunately, the book does have some positive notes. Interspersed throughout the book are possible solutions to America's retirement crisis developed by the author and others. Many require shared sacrifice. Action toward a sustainable "fix" has stalled, however, and solutions will become more drastic as the timeline to implement them shortens.

The Predictable Surprise is 452 pages long, including a glossary, index, and extensive endnotes that reference hundreds of quotes, statistics, and research reports. For people who are interested in public policy and politics, as well as the precarious state of Americans' retirement preparation, the book is a "policy wonk's" dream with extensive references to political battles past and present. The author, Dr. Sylvester Schieber, is a well-respected retirement policy expert with 40 years of government and industry experience. He is eminently qualified to discuss U.S. statistics and public policy with respect to retirement planning. Schieber has authored or edited 12 books on changing demographics, retirement security, and health issues; written numerous journal articles and policy analysis papers; and is a frequent speaker for business and professional groups and Congressional committees. A former member and chair of the U.S. Social Security Board, Schieber worked for the benefits consulting firm Watson Wyatt (now Towers Watson) from 1983 to 2006. Prior to that, he was the first research director for the Employee Benefit Research Institute and worked for the Social Security Administration.

The book is divided into five parts that together contain 29 chapters covering 376 pages. Part I describes the historical roots of America's modern-day retirement system and Part II describes the development and evolution of Social Security. In Part III, Schieber focuses on employer-sponsored retirement plans including problems that spurred the passage of the ERISA law and the fact that ERISA does not cover state and local pensions. Part IV discusses costs and benefits of operating the U.S. retirement system at year-end 2010 and Part V describes U.S. retirement policy issues and available options to secure the future financial security of Americans. Throughout the book, Schieber, himself a baby boomer born in 1946, warns of dire consequences if America fails to address problems that have been long known: "Our situation is not hopeless if we act. If we fail to act, we threaten the prosperity of younger generations, a prospect President Clinton declared would be 'horribly wrong and unfair'" (p. 22). Below is a chapter by chapter summary of key points followed by an overall assessment of *The Predictable Surprise* and its usefulness for financial counseling and education practitioners.

Part I, *Foundations and Fault Lines*, contains two chapters. Chapter 1, *Retirement USA*, begins with a description of how retirement in the 1970s and 1980s differed from earlier times. Retirees received Social Security and Medicare and many received employer pensions. The chapter then describes retirement today: "Social Security doesn't seem to be the good deal our parents enjoyed. On top of that, over the last 10 or 15 years, the pensions that many of my parents' generation enjoyed have either disappeared or been completely re-engineered" (p. 6). The chapter further describes America's

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financial woes with examples such as Caterpillar freezing its pension plan and Illinois state pension woes. One of many startling statistics to come is revealed: "all birth cohorts from 1938 onward will receive less in Social Security benefits than the value of their lifetime contributions" (p. 11). Frailties in employer retirement plans are also revealed and key actuarial ratios and intergenerational fairness issues are described. The chapter ends with a preview of the upcoming chapters. Chapter 2, *Early Motivations Behind the Pension Movement*, describes just that. Military pensions were traced back to the Revolutionary war and public and private pensions both increased in use by the early 20th century. Older workers' declining productivity was a major motivating factor. "Aging dependency" became a major societal issue after the Great Depression as the unemployment rate peaked at 25.2% of the workforce in 1932 (p. 29). During this time period, the U.S. followed other countries in establishing a national retirement system.

Part II, *Social Security: The Dream and Reality*, contains nine chapters. In Chapter 3, *Development and Passage of the Social Security Act*, Schieber describes in minute detail how Social Security evolved from the "New Deal," a concept overlaying programs designed to offer hope to victims of the Great Depression. Even at the program's inception, President Roosevelt was concerned that the program would run significant deficits within several generations. The initial payroll tax rate was 1% each on workers and their employers on the first $3,000 of annual earnings. Chapter 4, *Early Concerns Prove Nagging and Persistent*, describes the establishment and operation of the Social Security trust funds and ongoing funding concerns since the 1935 Social Security Act, including 1939 amendments which effectively put today's current benefit structure in place. Additional historical background is provided in Chapter 5, *Moving to Pay-As-You-Go Financing*. Here, Schieber describes concerns about inter-generational equity as early as the 1930s and concerns about future dependency ratios. He also discusses repeated delays in payroll tax increases in the 1940s and 1950s, amendments that expanded Social Security coverage, increased benefits for existing beneficiaries by nearly 80%, and increased payroll taxes.

In Chapter 6, *A Deal Too Good to Last*, Schieber returns to the roots of Social Security and FDR's insistence that participants should receive fair market returns on their contributions. It was also widely known back then that the "price" of establishing the program would be generous benefits to early participants such as Ida Mae Fuller, the first Social Security recipient in January 1940. Windfalls for those born through 1937 and "negative net transfers" for those born later are described in detail: "Since the windfalls were given away, the interest they would have earned in the trust funds has been lost. Without that interest to help support benefit payments, higher payroll taxes have been required to cover the benefits of subsequent generations. But their higher contributions will not generate commensurately higher benefits" (p. 63). Schieber notes that, as FDR predicted, Congress is now confronting large unfunded liabilities. The current combined employer-employee payroll tax for Social Security is 12.4% of pay and is insufficient to cover current benefit costs. "Policymakers are reluctant to raise the tax rate because it is already the largest tax many households bear" (p. 67).

Chapter 7, *Operations Under Pay-As-You-Go Financing*, delves further into America's Social Security funding crisis. Topics covered include U.S. fertility rates and beneficiary-to-worker dependency ratios, the creation of Medicare, 1972 program changes that involved the automatic indexation of benefits, and the "notch babies" indexing glitch from 1977 amendments that provided unintended windfalls that some retirees are still seeking to recover. Chapter 8, *Crisis and Reactions: Conflict, Consensus, and Surprise*, continues the history lesson and describes the work of the bipartisan Greenspan commission that led to the 1983 amendments that were designed to keep Social Security fully financed for 75 years. As a result, full retirement age was raised to 67, but on a delayed basis. Concerns by legislators about the use of accumulating trust fund accounts are also detailed. Chapter 9, *Sorting Out the Trust Fund Semantics and Realities*, describes the process of converting money from payroll taxes into electronic bonds at the current short-term interest rate. It also discusses the growing gulf between the assets in the Social Security trust funds and unfunded obligations for benefits already earned.

Policy Stalemate at the Demographic Divide is the title of Chapter 10, which updates readers on the1990s proposals to stabilize Social Security. The political intrigue behind different proposals developed by a fractured 1994-1996 advisory council is described in detail, including calls for individual accounts. The chapter also describes the infamous "lock box" analogy used during the 2000 presidential campaign, a new Commission to Strengthen Social Security in 2001, and an increasingly divided political environment that has resulted in a failure to find common ground for reform. Alluding to the funding crisis of the early 1980s, Schieber notes "some policymakers will avoid taking up Social Security reform

until the trust funds are nearly depleted and we again face the prospect of coming up short on the monthly payroll" (p, 117). In chapter 12, *Understanding Social Security in Modern Times*, Schieber provides an overview of the features and benefits of the program including preretirement survivor insurance, disability insurance, and insurance against longevity risk.

Part III, *Employer-Based Pension Provision*, contains nine chapters. In Chapter 12, *Employer Pensions Taking Root*, Schieber examines the early development of employer-sponsored pensions. Interestingly, "U.S. employer-sponsored retirement plans pay out more in annual benefits than Social Security" (p. 129). Nevertheless, many workers have experienced employers reneging on promised benefits. The chapter describes the evolution of employer pensions during the 20th century and factors that stimulated their creation and demise. Chapter 13, *Growing Pains for Private Retirement Plans*, goes into greater detail about problems in pension management. Historical examples are cited including auto manufacturer Studebaker's plan liquidation in the 1960s and calls by the United Auto Workers union "to press federal policymakers to establish something like the FDIC, which protected depositors' bank accounts against default, to protect pensions" (p. 139). This effort eventually resulted in passage of ERISA, the Employee Retirement Income Security Act, in 1974 shortly after the resignation of President Nixon. In Chapter 14, *ERISA: The Transition to a New Regulatory Regime*, the various titles of ERISA are explained along with a description of ERISA premiums and pension plan growth during the 1970s.

Chapter 15, *The 1980s: A Decade of Regulatory Schizophrenia*, continues the story of employer pensions through the 1980s. Topics covered include the 1984 Retirement Equity Act which requires survivors to provide written consent before spousal pension benefits are waived, and the Tax Reform Act of 1986 which reduced vesting requirements and imposed limits on benefits favoring highly paid workers. The chapter also describes how some plan sponsors tapped pension assets for other uses when the stock market performed well and the creation of 401(k) plans in 1978 which "proved more popular than anyone expected" (p. 161). The story continues in Chapter 16, *Good Intentions Gone Awry.* Schieber notes that new pension rules and restrictions increased the administrative costs of pensions. "When the benefits stopped being a good deal, many employers closed their defined benefit plans and shifted to less costly defined contribution plans" (p. 164). Schieber refers to the 1970s as "the pinnacle of the golden era of the private defined benefit pension movement" (p. 170). *Some Good News…Or Not*, Chapter 17, describes the increasing impact of private retirement plans on the retirement security of American workers despite the fact that they were fraying. Changes in labor force patterns, average retirement ages of male and female workers, and the duration of retirement are also reviewed.

Like the Social Security discussion in Part II, Schieber's analysis of employment-based retirement benefits does not end happily either, as noted in the three remaining chapters of Part III. In Chapter 18, *The Unfolding of a Predictable Defined Benefit Surprise*, problems affecting pension plans following 2000-2002 stock market declines are described, exposing both underfunding problems and ERISA premium flaws. The increased use of hybrid pensions and cash balance plans is also described. Not surprisingly, many affected older workers are unhappy with these changes. "The accrual pattern was being changed just as they were about to hit the jackpot" (p. 193). Some employers went even further and froze their pension plans completely, often motivated less by greed but, rather, by the economic realities of global competition.

Chapter 19, *And Then, A Predictable Defined Contribution Surprise*, delves into the shift from defined benefit to defined contribution plans between 1975 and 2010. "By 2007, 401(k) plans had 2.6 times as many active participants as private defined benefit plans and received roughly four times the contributions made to defined benefit plans" (p. 205). The chapter also describes the growing use of automatic enrollment features, pre-retirement leakage when workers cash out their account balance, and modest accumulations by low earners. Chapter 20, *Public Pensions: The Good, the Bad, and the Ugly*, focuses on the underfunding of defined benefit pensions for public employees. "In the aggregate, state and local pensions are estimated to be under-funded to the tune of about $500 billion against total liabilities of around $3 trillion" (p. 215). Moreover, many economists believe the problem is even worse! Public pensions are exempt from most ERISA regulations. Instead, government entities (read: taxpayers) are expected to backstop any shortfalls. The chapter includes a description of controversies about public plan generosity, pension plans in a private-public sector compensation context, public pension abuses, growing unfunded pension obligations, and federal government pensions.

Part IV, *Delivering Benefits and Providing Retirement Security*, contains five chapters that discuss the current state

of the U.S. retirement system. In Chapter 21, *Retirement Income Security and Workers' Residuals*, Schieber reminds readers that companies consider retirement plan contributions as a cost of hiring: "To employers, wages and benefits are both labor costs" (p. 239). He then argues that, when health or retirement benefits rise faster than workers' productivity, wage growth and employment are negatively impacted. Other topics discussed include compensation and pay for workers by decile and declining employer contributions to worker savings plans. In Chapter 22, *End Game: A Gold Watch, Pat on the Back, and More*, the retirement security of older Americans is further explored. In 1967, 29.5% of those age 65 and over had incomes below the poverty line. By 2009, this percentage had declined to 8.9%. Almost 90% of couples in a sample of early baby boomers had earned a retirement benefit. The chapter also explores early retirement incentives and Social Security. Schieber notes that, while pension benefits usually grow faster as retirement nears, this is not the case with Social Security: "For most full-career employees, working beyond 35 years nets little benefit advantage because each extra year merely removes an earlier year from the computation and, with indexing, the marginal value of the later is negligible in the 35-year averaging process" (p. 259).

Chapter 23, *We've Killed the Goose, Let's Gild the Eggs*, explores the theme of helping retirees make their savings last a lifetime. Specific topics included in the chapter include financial illiteracy, financial decision-making by older adults, annuity avoidance, ("Some people want to leave money to their surviving heirs, and converting accumulated assets into an annuity with no residual value for a survivor would defeat that goal" (p. 266)), and proposals to automatically annuitize retirement savings. In Chapter 24, *Tax Benefits and Benefit Taxes,* Schieber describes the expected value of Social Security benefits relative to accumulated lifetime contributions for single men and women and one- and two-earner couples: "one-earner couples' benefits are by far the most generous" (p. 283) due to their larger net benefits, especially when one spouse earns significantly less than the other. Lifetime net benefits from tax-qualified retirement savings accounts by workers at four different earning levels are also explored. High-earning workers who "max out" qualified limits actually incur net economic losses when tax benefits from qualified plans are combined with losses from Social Security.

Chapter 25, *Retiree Health Benefits: Misfortune or Malpractice?*, describes the history of employer-provided retiree health insurance benefits and the establishment of Medicare. It also describes how retiree health coverage evolved from being viewed as a relatively inexpensive "throwaway" benefit to a major drain on employer financial statements as a result of Financial Accounting Standard No. 81: "Many companies that had appeared financially sound looked much less robust with their unfunded retiree benefits in full view" (p. 301). The three industries hit hardest by retiree health liabilities were steel, airlines, and the auto industry. The chapter also looks ahead to potential changes in store for retirees as a result of the Affordable Care Act (e.g., more comprehensive coverage of drug benefits under Medicare).

The four chapters in Part V, *Truth and Consequences*, describe retirement income adequacy challenges and possible policy solutions. In Chapter 26, *The Fellow Behind the Tree*, the cost of retirement is explored: "The cost of financing a livable replacement income has risen from around 7% of workers' earnings in the mid-1950s to nearly 21% of earnings by 2011" (p. 309). Under current payroll tax structures, this will rise further to 23% by 2020. Other chapter topics include political hearings on Social Security, ways to pay for workers' retirement security, financing health care, generational equity issues, and shifts toward people working longer. Chapter 27, *Securing the Social Security Foundation*, focuses on proposals to shore up Social Security and sobering realities about workers' low return on investment. Once again, Schieber provides dire warnings about the consequences of inaction: "the ticking clock is taking us closer to Social Security insolvency every day, and the longer we go without a solution, the more drastic the adjustments that must be made" (p. 330). Also discussed in this chapter are the post-financial crisis payroll (FICA) tax reduction, proposals for individual savings accounts, and the need for political common ground to craft a Social Security fix. Schieber also strongly states that all generations should bear some of the cost of reform: "While some complain that this is changing the rules of the game when current and near-term retirees have little or no time left to play, it appears that many of the rules must be changed regardless, and we should share in the burden of doing so" (p. 344).

In Chapter 28, *Securing Tax-Favored Benefits and Living Standards*, Schieber describes the economic impact of so-called legacy costs on corporate profitability and the unfairness of charging high Pension Benefit Guaranty Corporation (PBGC) premiums on companies in industries unrelated to those experiencing problems (e.g., technology) to subsidize those with unfunded pension obligations (e.g., autos and steel). Underfunded private and public pensions and the need for pension annuities to provide peace of mind

are explored with suggestions to encourage annuitization (e.g., automatic enrollment of older workers in an annuity installment program with an opt-out provision). In Chapter 29, *Remembering the Future*, Schieber makes his final appeals for change: "Are we going to risk abandoning the 'dream' that our children and grandchildren will have a better life as the fruit of their toil because we refuse to get the financing of our retirement house in order?" (p. 365). Among his proposed solutions to America's retirement woes are including the baby boomer generation in any future reforms and giving the PBGC authority to adjust premiums, "to take into account the risks that different sponsors pose to their retirees and to the PBGC" (p. 375).

The Predictaable Surprise is a meticulously researched book with a logical progression of chapter themes that will especially appeal to those interested in politics and public policy. It presents a sobering look at Americans' future financial fragility, an issue that affects everyone one way or another. Retirement security prospects for many retirees are not good now and are poised to get worse. The author's expertise as a retirement policy expert is clearly evident in descriptions of his previous publications and Congressional testimony. Most of the book's take-aways are proposals for policymakers to consider although individuals can certainly deduce that current retirement savings programs are inadequate and they should save as much as they can as early as possible. I found the book a bit "dry" and wished that there could have been more stories or case examples interspersed with all of the stark statistics. It would also have been helpful if the myriad of proposals for change that were scattered throughout the 29 chapters could have been summarized in a table or appendix for easy review.

About the Reviewer:

Dr. **Barbara O'Neill** holds the rank of Distinguished Professor in the School of Environmental and Biological Sciences at Rutgers University, and is Rutgers Cooperative Extension's Specialist in Financial Resource Management. She also provides national leadership for the Cooperative Extension program *Small Steps to Health and Wealth*™. Dr. O'Neill has written over 1,500 consumer newspaper articles and over 125 articles for academic journals and conference proceedings. She is a certified financial planner (CFP®), chartered retirement planning counselor (CRPC®), accredited financial counselor (AFC), certified housing counselor (CHC), and certified financial educator (CFEd), and served as president of the Association for Financial Counseling and Planning Education (AFCPE) in 2003. Dr. O'Neill received her Ph.D. in family financial management from Virginia Tech. She has received over three dozen awards for program excellence and over $910,000 in funding to support her financial education programs and research.

Book Review

Financial Literacy and Adult Education

Barbara O'Neill[1]

Editors: **Karin Sprow Forte, Edward W. Taylor, and Elizabeth J. Tisdell**
Publisher: Josey-Bass, Wiley Periodicals, Inc. (2012)
ISSN 1052-2891

Financial Literacy and Adult Education is a publication of New Directions for Adult and Continuing Education, which is part of the Josey-Bass Higher and Adult Education Series published quarterly by Wiley Subscription Services. Short in length compared to many scholarly books reviewed for the *Journal of Financial Counseling and Planning*, and, thus, a great read for a short flight, it packs a lot of useful information about teaching personal finance to adults within its 104 pages. The book begins with a two-page introduction and contains nine chapters written by leading scholars in the fields of *financial literacy* and *adult education*, several of whom are AFCPE members. The book also includes an index and extensive lists of references at the end of each chapter.

The purpose of the book is to explore the interrelatedness of these two fields and how concepts and knowledge about adult education can provide insights for adult financial education. The ultimate goal is to help learners put new personal finance knowledge into action for improved financial well-being. Anyone interested in evidenced-based findings about the impact of personal finance instruction on adult learners' lives will want to read this book from cover to cover and incorporate its insights into their professional practice.

In the introductory Editor's Notes section, the three book editors describe the origins and chapter content of *Financial Literacy and Adult Education*. The book followed a four-year research project, funded by the National Endowment for Financial Education (NEFE), that involved an in-depth search of adult education and financial education literature and a survey of financial education interventions used by financial education professionals (see http://www.nefe.org/what-we-provide/primary-research/penn-state.aspx). In the process of completing this work, the editors "found that there was little overlapping empirical research or conceptual work in the two fields of adult education and financial literacy education" (p. 1). They also discovered that the influence of learners' life circumstances was rarely addressed in financial education literature and that increased interest in financial education within adult education circles had not occurred. The book was written "to bring together scholars from both the fields of adult education and financial literacy, to explore financial education from a sociocultural context" (p. 2). All three editors are faculty members at Penn State University-Harrisburg, the recipient of the NEFE research grant to study effective financial education pedagogical strategies.

Chapter 1, *Sociocultural Issues in Adult Financial Education*, was written by one of the three co-editors, Karin Sprow Forte, the English as a Second Language (ESL) Program Director at Penn State University-Harrisburg. She begins the chapter by describing a financial education program for Latinas that considers not only their financial knowledge, but also their families, jobs, educational backgrounds, and language skills. The program sponsors work hard to build community in the classroom. By acknowledging sociocultural aspects of learners, they can connect with audiences more effectively and help them learn more. The chapter goes on to explain, "Culture and society influence what we see, how we speak, how we think, what we think about, and, therefore, how we learn and experience the world" (p. 5). Nevertheless, when it comes to financial education, sociocultural factors are rarely discussed and standardization of program content is common. Examples of problematic teaching practices and results of the NEFE-funded research are provided. For example, financial literacy courses are predominately taught by educated, white women. Key take-aways for practitioners are: meeting life needs of learners (e.g., providing child care at classes and referrals to human service agencies); giving learners opportunities to apply what they learn; sharing stories

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as a learning device and to build connections; developing a culturally diverse knowledge base (i.e., learning about your learners); and asking people what they need instead of telling them literally or through the content of materials.

Jerry Buckland, a professor and dean at Menno Simons College in Winnipeg, Canada is the author of Chapter 2, *Structural Barriers, Financial Exclusion, and the Possibilities of Situated Learning for Financial Education*. The chapter begins with the story of a financial educator self-disclosing her use of a payday loan to both warn learners about their pitfalls and connect with students on a personal level. From there, the chapter describes the concept of "financial exclusion," where structural barriers reinforce poverty. An example is fringe banks such as payday lenders, check cashers, and rent-to-own shops. "These services are purely transactional and do not support steps toward overall health, such as learning about savings and credit establishment" (p. 15). The chapter provides an overview of how financial exclusion works and its links to financial literacy and the concept of situated learning where learning takes place through one's daily life. "Three major factors influence situated learning: relationships, community, and tools (e.g., technologies, services, and products)" (p. 18-19). Key take-aways for practitioners are: financial access is difficult in low-income neighborhoods; alienated consumers will not take advantage of products and services from financial institutions without a relationship with bank staff; and convenience of bank branches is important because of transportation limitations.

Contextual Influences on Financial Behavior: A Proposed Model for Adult Financial Literacy Education is the title of Chapter 3 written by University of Wisconsin professor and associate dean, Wendy L. Way. Way is also the co-author of a widely circulated national study of K-12 teachers' limited preparation and capacity to teach personal finance published in the *Journal of Financial Counseling and Planning* in 2009 (see http://afcpe.org/assets/pdf/vol20_2way_holden.pdf). In this chapter, Way turns her attention to adult financial education and proposes an Ecological Model for Financial Literacy Education Intervention. Among the model's key components are Learner Characteristics, Affordances of Technology for Learning (i.e., how technology-based tasks and processes and accessibility to technology "afford" or allow learning to occur), and the Space of Educational Intervention. The model "provides insight into how educational interventions, including digital pedagogies, may contribute to educational outcomes and positive financial behavior" (p. 25). Included within the chapter are discussions of other theoretical models that could be useful for financial education and results of financial education studies. A key take-away for practitioners is to consider informal learning as an opportunity to impact financial behavior.

Chapter 4, *Financial Literacy Education for Women*, has three co-authors: Jodi Jerecke and Edward W. Taylor from Penn State University-Harrisburg and AFCPE past-president Tahira Hira, a professor at Iowa State University. The chapter begins with brief descriptions of four women and their financial "issues" (e.g., widowhood). These introductory paragraphs catch readers' interest and put a human face on otherwise dismal statistics about the financial struggles that many women face. From there, the chapter discusses research findings about women and financial literacy, best practices in women's financial literacy education programs, and pedagogical strategies for women's financial literacy education. The latter include incorporating a constructivist approach (i.e., "providing [women] the opportunity to construct meaning based upon their unique conceptions of finance" p. 40), creating opportunities for contextualizing learning (i.e. applying classroom knowledge to their own contexts), and providing opportunities for relationship building. Key take-aways for practitioners are: to explore their own biases in development and delivery of financial education for women; create a welcoming, caring, trusting and/or safe learning environment; and make content meaningful and applicable for learners "empowering them to engage with one another as well as content in order to bring to light new perspectives and enhance financial literacy knowledge and skills" (p. 45).

Financial Literacy: A Critical Adult Education Appraisal is the title of Chapter 5, written by Leona M. English, a professor of adult education at St. Francis Xavier University in Canada. The chapter provides an analysis of financial education programs and research and implications for adult education. Readers are presented with alarming statistics about financial behavior (e.g., low savings rates) and a critique of financial literacy initiatives in both Canada and the U.S. For example, "There is a sense that the so-called 'poor' are essentially being blamed for being poor, and told that if they follow the suggestions of the available financial literacy programs, they will somehow manage to escape their debt, regardless of the structural and economic barriers that are at play in the global economy" (p. 49). In addition, "Western nations have uncritically embraced the ideologies of the self-made person, the strong individual, and the possibility of instant solutions to even the most complex of social and economic

problems" (p. 50). Hence, we have a prevailing "quick financial fix" ideology, including fast rollout of financial education programs. English also discusses social class factors and issues related to race and gender. Key take-aways for practitioners are to: critically self-reflect upon the underlying assumptions of financial education programs; ask who is not there; and identify sources of power, including purse strings, in financial literacy programs (e.g., banks, government sponsors of programs, and adult educators).

Barbara J. Robles, who works in the Division of Consumer and Community Affairs for the Board of Governors of the Federal Reserve System, is the author of Chapter 6, *Economic Inclusion and Financial Education in Culturally Diverse Communities: Leveraging Cultural Capital and Whole-Family Learning*. As the title implies, "Financial education can happen in many contexts and can be especially effective when the entire family is engaged. It can even happen at cultural festivals and celebrations" (p. 57). Robles describes financial education sessions based on Loteria, a Spanish language form of the game Bingo that is played by many Mexican origin families, as well as community asset-building initiatives and "informal savings circles" based on communal trust building. The latter, called ROSCAS, don't charge interest but, rather, rely on "a high degree of social and cultural capital among the savings participants" (p. 63), including many who are college educated. A key take-away for practitioners is to leverage family cultural capital by including the family unit in financial education curricula. For example, discussing the impact of a personal financial decision on the well-being of a spouse and/or children. Other recommended strategies are to understand geographic and culturally anchored traditions in diverse low-wealth communities. For example, the word "family" is likely to mean a multi-generational extended family in many cultures rather than the typical American stereotype of the nuclear family unit.

Chapter 7, *Raising Employee Engagement Through Workplace Financial Education*, was written by Lois A. Vitt, a long-time AFCPE member, financial literacy advocate, and founding director of the Institute for Socio-Financial Studies (ISFS). She begins the chapter with two thought-provoking sentences: "Financial capability does not reside solely within the individual. Instead, it results from the relationship between individuals and their social reality" (p. 67). Successful workplace education programs require educators "to incorporate sociocultural contexts into the pedagogy in order for it to be effective" (p. 67). The chapter includes a description of the history of employee benefits and workplace financial education efforts. In addition, conflicting messages to consumers to simultaneously resist spending to save and to spend to boost the economy are discussed. Vitt also addresses the question "Does Financial Education Work?" and discusses the business case for financial education in the workplace. Key take-aways for practitioners are: to incorporate employees' goals, culture, family circumstances, and personal values and needs into financial education programs; to help employers show employees that they care through the delivery of high quality financial education programs; and to focus program evaluations "on pedagogical approaches consonant with the social structure in which individuals are embedded" (p. 71) rather than on presumed behavior changes or knowledge of financial facts.

Measuring the Impacts of Financial Literacy: Challenges for Community-Based Financial Education is the title of Chapter 8 which was written by University of Wisconsin-Madison faculty J. Michael Collins and Karen C. Holden. In 2010, Collins wrote a widely cited article that reviewed the evaluation literature on financial education and counseling (see http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1529422). Holden co-authored the paper with Way, noted above, that examined teachers' preparation to teach personal finance. The chapter begins by describing the underlying rationale that people will make better financial choices given exposure to information. Yet, "the link between the delivery of financial education and increased financial capability and both to financial outcomes remains poorly documented" (p. 80). The chapter then describes a number of financial education evaluation studies, theory-driven approaches for designing program evaluations, and methodological "issues," including lack of a control group, sampling problems, and social or peer effects. Key take-aways for practitioners include: "engage learners around salient financial topics with the intent to influence downstream financial behaviors" (p. 85); develop an explicit theory of change; "include a role for peers in influencing learning and behavior" (p. 85); and embed evaluation into program design.

The final chapter (9), *The Role of Emotions and Assumptions in Culturally Responsive Financial Education Practice in a Capitalist Economy*, was written by Elizabeth J. Tisdell, professor of adult education at Penn State University-Harrisburg. It describes strategies to engage learners in culturally responsive ways taking emotions and educational context into account. For example, having learners draw a picture of their financial situation. Also included in this chapter is a discussion of underlying assumptions of financial

education in North America. These assumptions include a capitalist economy and an implied relationship between knowledge and behavior. Tisdell notes that "there really is not a cookbook for how to be a culturally responsive financial educator" (p. 93) and describes the ADDRESSING Framework as a way to analyze how multiple dimensions of culture inform people's lives. ADDRESSING is an acronym for Age and generational influences, Developmental and acquired Disabilities, Religion and spiritual orientation, Ethnicity, Socioeconomic status, Sexual orientation, Indigenous heritage, National origin, and Gender. Many of these cultural influences overlap and intersect and some subcultures, like the military and the homeless, have unique financial realities that are not reflected in this model. Key take-aways for practitioners include: help people get in touch with their money "scripts" as a step toward changing their behavior; make use of the arts and storytelling; and encourage participant engagement.

In summary, anyone who is delivering financial education to adults at the grassroots level or researching the impact of financial education on financial behavior will find *Financial Literacy and Adult Education* to be a valuable resource. The book provides specific suggestions for educators to connect with learners in a culturally responsive educational environment and insights to inform future research. It is grounded in both theory and evidence-based studies of financial education with extensive reference lists for those who wish to delve deeper.

The only thing that I wished for personally was an appendix of suggested learning activities to achieve the lofty goals that the chapter authors set forth for financial educators. I consider it a weakness to tell readers what they should do without providing them with specific methodologies such as online learning tools and interactive lesson plans. Having such an additional section would make the book much more useful for practitioners. Nevertheless, it still has a lot to offer. As the various chapter authors indicate throughout *Financial Literacy and Adult Education*, financial educators are urged to create a culturally responsive environment that provides multiple ways of knowing and learning.

About the Reviewer:

Dr. **Barbara O'Neill** holds the rank of Distinguished Professor in the School of Environmental and Biological Sciences at Rutgers University, and is Rutgers Cooperative Extension's Specialist in Financial Resource Management. She also provides national leadership for the Cooperative Extension program *Small Steps to Health and Wealth*™. Dr. O'Neill has written over 1,500 consumer newspaper articles and over 125 articles for academic journals and conference proceedings. She is a certified financial planner (CFP®), chartered retirement planning counselor (CRPC®), accredited financial counselor (AFC), certified housing counselor (CHC), and certified financial educator (CFEd), and served as president of the Association for Financial Counseling and Planning Education (AFCPE) in 2003. Dr. O'Neill received her Ph.D. in family financial management from Virginia Tech. She has received over three dozen awards for program excellence and over $910,000 in funding to support her financial education programs and research.

Book Review

Economics & Consumer Decisions (Third Edition)

Ann C. House[1]

Authors: **Michael L. Walden and Jessie X. Fan**
Publisher: Kendall Hunt
ISBN 978-1-4652-2538-2

I remember learning in my economics classes that people, on average, make rational decisions based on logic, practicality, and intelligence. Individuals will make decisions that bring them the greatest benefit and most satisfaction, and will act in their own best interest. Most mainstream economic assumptions and theories are based on the rational choice theory, which is that humans will act to maximize their outcomes. To put it another way, people want the most benefit and profit from their actions.

From my consumer finance classes and through years of teaching and counseling, I know that humans are not all that rational, especially when it comes to making financial decisions. People's spending and saving is based on habits, mostly formed early on without revisiting or acknowledging these habitual behaviors as adults. Many people choose wants over needs, such as that sexy car over a lasting and reliable one. People can look at money differently, depending on where it came from, yet money is money. *Economics & Consumer Decisions* teaches economic principles so that fallible human consumers can use an economic-based approach to make good financial decisions.

The book contains eleven chapters including a "Summing Up" section, and twelve appendices. Each chapter has several problems or applications called "Consumer Topic." Each topic concludes with "The Bottom Line" a succinct summary or lesson of the topic, and each chapter ends with a list of concepts and words that one should know, a summary, a list of discussion questions, and word problems to solve. There are a total of 834 pages.

This text is the collaborative work of Dr. Michael L. Walden and Dr. Jessie X. Fan. Walden is an educator at North Carolina State University. In addition to his teaching, he has authored eight books and, over 250 journal articles, presents daily radio programs, hosts a monthly radio call-in program, and writes a biweekly newspaper column. Fan teaches courses related to family and consumer economics at the University of Utah. Her research focuses on consumer expenditure behaviors, financial management and consumer health issues. She is the director of the Certified Financial Planner® program at the university.

Chapter one, *Microfoundations: Concepts for Making Consumer Decisions*, plunges readers into the world of practical economics and states that one cannot make wise choices without the knowledge of economic principles. We are introduced to the price of a commodity and how this term may not be that straightforward. The price can include other costs, be calculated over time, or be relative to other goods or services. We learn that it is important to consider the total costs of a commodity in the price and that "time is money" is more than a mere cliché. In looking at the relative price of a good, consumer habits may or may not change, depending on the good. When the price of chicken goes up, many people continue to purchase chicken without substituting it for another meat, but when the price of pork goes up, many people will substitute chicken or beef. The chapter introduces us to market changes, inflation, and interest rates.

In chapter two, *Microfoundations*: *What You Can't Control but Should Know About*, the authors explain how the markets work, and how our lives are affected by events such as inflation and interest. One topic discussed is why wages and prices controlled by laws are a failure and do more harm to the economy than good. Examples point out that both quality and quantity of goods and services are reduced. Controls can get mired in government bureaucracy, but most importantly, wage and price controls disrupt basic economics. So while the idea of controlling inflation and interest rates through policy sounds

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appealing, it doesn't work well in practice.

The dreaded "B" word, budget, is discussed in chapter three titled *Organizing Your Financial Life*. We usually think that only those who live beyond their means, those who can't save or those who have erratic incomes need to budget. The chapter states that while many people don't have these issues, budgeting can do a lot for getting one's finances organized. For example, a budget is used to track spending for tax planning purposes, calculating life insurance needs, and for retirement planning. There are tables that show consumer spending by age and income group, allowing one to compare their spending against U.S. household averages. Another dreaded word for consumers, taxes, is examined. State and federal taxes are explained, then the authors take on the debate about tax progressivity and regressivity with their pros and cons. For the consumer, there are examples of considering tax implications when making decisions, for example in the purchase of a home or taking on a second job.

For the consumer, a home is usually the largest expenditure with many issues to consider. This chapter, titled *Shelter*, addresses these issues in a practical and realistic way as well as applies a few simple economic concepts to each topic. For example, the reader is taught how to calculate the relationship between house price and location, and how to calculate house appreciation. In the section, "What Determines the Price of Shelter" factors are addressed that are perhaps not obvious, such as building materials, crime rates in the neighborhood, neatness of the yard, demographic composition of the neighborhood, local air quality, and others. One of the authors' "Consumer Topics" discussed in this chapter deals with having a house or a child. While many newly married couples typically don't consider this an "either or" proposition, the economic fact is, we can't have everything we want. The problem posed forces one to think of basic economic principles and how to use them in decision making. Without considering their choices consumers are exposed to potential financial disasters further down the road. Consumer decisions almost always have trade-offs.

Chapter five, *Buying Consumer Durables and Using Credit*, delves into credit, a hot topic among students and adults alike. The history of credit is not addressed nor is consumer policy related to credit, just the everyday application of purchasing goods and how to pay for them. Total costs are discussed, such as depreciation, finance costs, maintenance costs, foregone interest earnings, and other costs. There are many tables, calculations, and examples to review and practice.

An interesting discussion centers on why people use rent-to-own (RTO) shops. The interest rates are high and this is an expensive decision that consumers make, yet we know these services are thriving. Why? The authors cite a study (Swagler & Wheeler, 1989) that indicates that RTO services appeal to particular demographics. The users of RTO, on average, had low incomes, less than high school educations, and had been previously denied credit. The study also points out that two-thirds of the RTO patrons said that the ability to get the product right away was their first or second reason for using these companies. This chapter on purchasing goods and services is long and thorough.

Chapter six, titled *Life Insurance*, begins by telling readers that insurance is not a complicated topic. It is the insurance agents who overcomplicate the issue and confuse consumers. I have always thought that agents do this so we don't know what we are doing and thereby spend more than we need to. Understanding risks and knowing the best insurance products to protect against them is what this section of the textbook provides to readers. This chapter is a good exercise in understanding and calculating how much money one needs to live on by using the expense approach and the income approach. An interesting discussion point in mid-chapter looks at how life insurance companies calculate premiums based on gender and whether or not this is a fair practice. Medical researchers are discovering more about environmental and lifestyle factors and how these affect death rates. Perhaps insurers need to look at other issues besides age and gender to determine premiums.

Death isn't the only risk that people need to insure for. *Health, Property, and Auto Insurance* is covered in chapter seven. This chapter takes the principles described in chapter six and uses them to assess other ways that consumers may want to insure for risk. This chapter is less precise as health, property, and auto vary and assessing our risk in these categories is incalculable. That is, economically speaking, we don't know our probability of occurrence and how can we put a dollar value on the loss of satisfaction in these categories. However, from a consumer prospective, these issues need to be addressed as we all face risk. Key economic terms are covered, such as the two types of risk, pure and speculative. As we would expect, health insurance takes up a huge portion of this chapter. I recently moved my aunt from another state to live near me and we had a difficult time assessing her needs and choosing her Medicare supplemental plans. A table spelled out these choices very well. With all the information given in this section, I appreciated the "Bottom Line" comments from

the authors which give the reader the essential points to wrap up the topic.

Chapter eight, *Fundamentals of Investing*, covers calculating returns, diversifying investment products, how the economy influences investments, and investment risk. Do Americans save? Studies over the past few years say saving rates are down, but the authors point out pensions, Social Security contributions, and most of all, investments made in the stock market should be included in assessing how much Americans are saving. With this in mind, Americans aren't doing as badly as some research suggests. This chapter doesn't just cover investing in the stock market, as one would presume. This chapter examines investing in oneself, investing in education, on-the-job-training, investing in your health, and investing in your family. An interesting section of the chapter describes marriage, divorce, and children from an economic perspective.

This next chapter in the textbook, *Types of Investments*, applies the investing fundamentals from the previous chapter to evaluate specific kinds of investment products. A graph explains the different kinds of government bonds available for consumers to purchase, outlines the basics of each, and describes how they compare. One of the "Consumer Topics" in this chapter discusses making money from collectibles and the example of baseball cards is given. This topic is sure to hit home with consumers (and their Beanie Baby collections). Purchasing gold is also addressed with the caveat that nothing is guaranteed with gold, not the initial investment or the rate of return. It can be a small portion of one's portfolio, but not the main-stay. The authors end the chapter by reminding readers that there is no quick-rich formula. By implementing the basics of economics though, one can make the most of their financial choices.

Chapter ten is *Retirement Planning*. The authors note that most people who are reading this textbook will be young and retirement is a long way in the future. The text then explains why retirement planning is still a relevant topic for young adults, especially since saving at this age requires only small amounts of money, and then motivates readers to plan early for financial security in later life. One portion of this chapter shows readers how to insure that they won't outlive their retirement nest egg, a necessary lesson for all who will retire someday. There is also a section devoted to Social Security and whether it will survive to the next generation. Research suggests that young people are worried; with most believing that it won't be available to them. The text points out that for Social Security to remain viable, something needs to change, and unfortunately, policy change is difficult to pass in Congress especially if people will be taxed at a higher rate.

A good informational book for consumers is going to cover shopping and marketing. This final chapter titled *Shopping and Information Gathering*, covers these topics with headings such as "Do higher prices indicate higher quality?" and "Are warranties and service contracts 'good deals'?" The equation for the costs of shopping around to find the best deals consists of time spent, the quality of the product bought, and dollars for transportation costs. One study mentioned suggests that age ought to be a part of the equation as older people tend to spend less time shopping around than do younger people. Car purchasing is covered thoroughly as this is a topic that more consumers need to understand so as not to be at the mercy of car sales people.

Economics & Consumer Decisions features in-depth analyses of consumer decisions. It is intended to present finances in a consumer-friendly manner that teaches relationships between economic concepts and how these concepts affect spending and saving. The book also connects individual consumer decisions with their impact on the national and local economy. One goal of the authors was to expose the mistakes of "pop personal finance" books and to take the "fluff" out of personal money management messages. The answers to home-ownership, cash vs. credit, and other consumer decisions are not simple. For example, nonprofessional investors make many mistakes as a result of not understanding all the inherent elements associated with the complex financial markets.

The book's premise is that it will teach the practical tools of economic analysis so that readers can intelligently, and independently, address everyday questions of personal finance. This book tells the readers that by getting beyond theories and impractical concepts one can utilize economics and see that it is indispensable in making decisions on purchasing and saving.

Does *Economics & Consumer Decisions* succeed by changing the way consumers go about tackling personal financial choices? Will a consumer sit down and calculate the cost / benefits of putting off starting their family with the cost / benefits of homeownership? Will a consumer use the calculation in the text before shopping around town for the best products and prices? Probably not, is my guess. Having children and homeownership are emotional and value-based decisions. Shopping around can be more of an adventure than a time and money-saving device. However, I do believe that

many of the concepts and calculations will be put into use and the tables and scenarios will be reviewed before consumer decisions are made. Readers are compelled to think about their options after studying this book as they are given much information to consider when faced with decisions. A couple may still have a desired child, but will base financial decisions, e.g. life insurance, saving for college, and living within a budget, around this life choice.

This text was definitely written with the undergraduate student in personal finance / family economics in mind. Students can feel confident that they will understand the material even without an economic, business, or math degree. For consumer educators, they will find the content helpful in providing a conceptual framework with practical applications in their teaching.

However, this textbook is not just for the classroom. Financial counselors can use Economics & Consumer Decisions to explain the "whys" of personal finance decisions. The example in the textbook of saving early to begin a retirement saving creates a visual in readers' minds of the importance of the time-value of money. Additionally, the two approaches to calculating life insurance, the income approach and the expense approach, illustrate that the usual approach to purchasing life insurance, the "sound rule" or what sounds right, results in consumers purchasing too much or not enough insurance. This book with its explanations, graphs, tables, and appendices lays it all out. Overall, I believe that this textbook succeeds, and students, teachers, and counselors will welcome this edition to their libraries.

About the Reviewer

Ann C. House is the Coordinator of the Personal Money Management Center. She has a B.S. in Human Development and Family Studies and a M.S. in Family Ecology, both from the University of Utah. She is a personal financial counselor and educator, and has managed project grants associated with public education of adults and youth in the areas of personal financial management and micro-economics. House is a published author and has received numerous state and national awards. She serves her local community through many partnerships and sits on the boards of numerous organizations.