significant levels of annuities via government pension and healthcare benefits. But there are other factors, such as counterparty risk and inflation risk which come into play. The major factor, however, is likely to be liquidity risk, namely the need of households to come up with, what for them is, a large amount of money over a short period of time in order to deal with health and other emergencies. This is where the annuity options (refundable annuities) that Sheshinski recommends can be very important.

In sum, the legacy of this terrific book will surely go beyond being an instant academic economics classic to helping the financial community understand the innovations needed to make annuity markets really work.

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Personal saving rates have been dropping dramatically around the world over the last few decades, with important macro and micro implications. Crucial among them is uncertainty surrounding how working-age individuals will finance their retirement. While such concerns are hardly new, they have received renewed attention as the formerly predominant collective approach to retirement with defined benefit plans has increasingly given way to a more individualistic defined contribution approach, in both developed and developing countries.

An implicit and often overlooked assumption underlying the new DC approach is that individuals will make informed, knowledgeable, and rational decisions. Three conditions must be in place, though, for individuals to make such decisions. First, they must be aware of available saving alternatives and how they can be accessed. This assumes a certain degree of knowledge of markets and of the relevant agents within them. Second, individuals must be capable of evaluating each alternative, aware of the possible money streams implied by each one, and incorporating them into their future budget constraints. This assumes knowledge of financial concepts such as compound interest, capitalization, and annuities. The third condition is that individuals can always pick the alternative best suited to their needs. This assumes perfect foresight and no procrastination, among others behavioral traits. In reality, though, individuals are not always as financially sophisticated as they need to be, nor do they always behave as *homo economicus*. Nevertheless, the transition from one retirement paradigm to the other implicitly shifts to individuals much of the responsibility for saving and investment decisions. Moreover, such choices involve not only accumulation but also, and no less important, the decumulation process during retirement. The proverbial “man on the street” requires a substantial amount of help with these decisions, and help is most urgently needed in the areas of financial education and saving commitment devices. What shape such assistance should take, however, remains an open question.

Annamaria Lusardi, one of the pioneers in research on those issues, has assembled an interesting collection of papers from a wide range of authors who analyze the financial literacy situation of different segments of the world population and explores some tools that have been used in different countries and setups. Numerous lessons emerge.

For one thing, given heterogeneity across individuals and families, a wide diversity of tools is needed for improving personal retirement saving. These will widely differ along both observable dimensions (age, gender, schooling, occupation, etc.) and unobservable characteristics (preferences, risk aversion, inter-temporal substitution, impatience, etc.). This is clearly a market where one size does not fit all.
The book also shows that, while improving financial literacy – both information and knowledge – is necessary for increasing retirement saving, it is far from sufficient. In fact, most individuals can do very little when they are not provided incentives to commit and take action. Efforts in this direction have displayed some potential but must nonetheless be improved. Education programs, for example, should be revised so as not to focus exclusively on products. In addition, a previous condition for learning is interest. If individuals act myopically and do not care much about their future finances, no financial literacy program can be expected to improve savings.

Symptoms of this lack of interest are also documented in the book. Even in the simplest world, in which individuals have to pick a retirement plan and let the employer do the rest, there are substantial information mismatches between what individuals have chosen and what they think have chosen. People often do not even know the type of retirement plan in which they enrolled. And when they are interested in their financial future and have an idea of the importance of their retirement plans and what is best for them, they still may not take the necessary steps to pick the retirement plan that fits their needs. Procrastination is often the norm in decisions that affect the long run. Thus, in a world of inaction, the design of default options (retirement plans in which individuals are automatically enrolled but which they can opt out of only if they take action) becomes very important. The design of such options, moreover, is a far from trivial matter in a world of heterogeneous agents, and difficult policy questions are likely to arise.

Another central set of policy lessons flows from the presence of intermediaries in retirement markets. Given the need for large amounts of information and the complexity of the decision-making process, there is clearly an important role for intermediary agents. Problems arise, however, when the incentives of such intermediaries are not perfectly aligned with those of other agents in the market. Much as realtors served as a catalyst for the current housing market crisis, intermediaries may likewise exacerbate potential problems in retirement markets. It is difficult to envision intermediaries’ incentives as perfectly aligned with those of the market, a difficulty seen in the introduction of the new private pensions systems in Latin America. Intermediaries promoted affiliation even for individuals near retirement for whom it was clearly not optimal to switch from the old defined-benefits system. Additionally, fees can easily be overlooked, and further regulation appears to be needed.

The book also explores important behavioral aspects of retirement planning decisions. Of particular importance is the timing of financial education. For example, newly hired employees are more prone to think and act about retirement planning than others. Another interesting lesson in this regard is that psychological barriers to buying annuities can be lowered with deferred payout options. As psychological barriers exist in several different aspects of this market, the details of financial products and the way in which they are presented matter substantially, and “hand-holding” could be important for important segments of the population. All these considerations highlight the often overlooked role of marketing and psychology.

More than advocating a single silver-bullet solution, this book discusses a wide set of tools that can be used to increase personal saving around the world. We owe a debt of gratitude to Lusardi for having assembled a collection that is more than food for thought; it is a banquet.

Hugo Ñopo

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This in a stimulating monograph which explores the relationship between the evolution of public pension (social security) programs and fertility choices made by families. Drawing on the classic Samuelson analogy of pay-as-you-go (PAYG) pensions as “social contracts”