

Letter from America —

On becoming superannuated

In which Angus compares the experience of dealing with the UK and US pension authorities and discovers that while some are worse than others, ‘... no one looks forward to dealing with bureaucracies.’

RETIREMENT AND RETIREMENT SAVING have been frequent topics of this *Letter* during the two years of its existence. In my first years at Princeton, I was greatly impressed by the differences between defined contribution (American academics) versus defined benefit (UK academics) pension schemes, and especially so by the enormous sums that could be accumulated at retirement in a booming stock market by top young superstars who were highly paid from the beginning of their careers. The 2008 crash was a pointed reminder that such returns are in part a reward for bearing risk, and for many ex-young stars, now middle-aged professors, it was an extremely unwelcome surprise to discover that half of their assets had evaporated. The subsequent recovery, now blithely supposed by many professors to have been both natural and inevitable, has saved them, their students, and their employers, from having to teach into an advanced and decrepit old age.

A defined contribution scheme presents an ageing professor with a huge disincentive to retire. Even for those of us who have an adequate accumulation, the decision to go from a large monthly paycheck to precisely nothing is a terrifying decision. A defined benefit scheme has a downward step, not a precipice. Academics are well-paid, but the world is a tough place, and many friends of my age cohort have grown-up children whose financial futures are far from assured, and who depend on their parents' support, now and in the future. Many who would be delighted to quit the classroom with a pension are entirely unwilling to do so with zero salary replacement.

A dean of the faculty at Princeton once told me that he spent almost all of his time on three tasks, trying to hire minorities, trying to find jobs for the spouses of potential new hires, and trying to persuade people to retire. He and his assistants had long stalked a recalcitrant 85-year-old, had explained to him (very loudly and with much repetition) the contents of the retirement document, only to see their prey drop the pen from his shaking hands and declare, ‘Damn it, I’m going to shoot for 90.’ It is unclear exactly why university administrations hound even much younger potential retirees. The endless spiral in economists’ salaries has narrowed the gap between the costs of the retirees and their replacements, who are themselves of

uncertain quality as either teachers or researchers. New faculty are also asked to do remarkably little in the way of teaching. But given their desire to have a perpetually young faculty, and the impossibility of forcing retirement on anyone who can actually show up to class, no matter in how sad a state, a defined benefit scheme would be an enormous boon to the Princeton dean.

Princeton does provide incentives to retire; these are not particularly generous, especially for those on light teaching loads, but I decided early last October that I would sign the papers before the deadline of my 70th birthday and take a bonus of half a year’s salary. The decision would have been easier had I anticipated the phone call from Stockholm that came four days later, but Anne and I had decided, not without trepidation, that we had enough for the future; Anne has no intention of retiring soon, and we are fortunate not to have needy dependents. At the same time, my calculations included claiming both my British and American state benefits, which required encounters with the pension administrations of both countries. I have always felt that how these dealings are conducted are a feature of state safety nets that are almost as important as the financial rules themselves.

Yet no one looks forward to dealing with bureaucracies. I had always been fortunate in Britain, and am of an age, born in the first days of the welfare state, so that I long shared my parents’ belief that the government is my friend. And so it still proved, many years later. The online forms were not easy, much that was demanded seemed not to apply and, as usual, there was insufficient space to explain just why, but I did the best I could and pressed the submit button. I received some (snail) mails, and even managed to successfully mediate an implausible but successful interchange between the American tax authorities and the British pension system. There were two phone calls to officials, whom I imagined as kindly middle-aged aunts wearing cardigans and drinking tea, who knew exactly what they were doing. Soon, I was the happy recipient of two modest but welcome monthly checks, one from the University Superannuation System, and one from the state. They appear in my bank account with neither fuss nor bother.

Not so with my application to the American system, though it promised an easy all-online experience. All went well at first, but my joint-citizenship must have raised a flag, and I was told to come into one of the Social Security Administration centers; I should have been just as pleased to be told to report to the nearby state prison. But when I got there, with an internet-issued appointment, I was seen quickly by a not very friendly employee behind very thick glass. I presented the number the system had given me, but was told that the computer had no record of it or of me. I was told to wait to be seen in an inner sanctum, and settled down and tried not to think of Dickens or of Kafka. I was surrounded by unhappy supplicants, almost all African American or Hispanic, some with physical or mental disabilities, and a good many in distress. People had lost documents, been cut off from support, and were battling not-always-responsive or helpful officials whose own powers were clearly limited; it was hard to know which group to sympathize with more.

Perhaps I was too readily conditioned by Dickens and

Kafka, for I was quite soon ushered through security into another office, without glass barriers this time, and quizzed by a young woman with a presumably more powerful or better connected computer. 'What will your income be this year?' she asked. Given the social security rules, this should not have been relevant, but I told her. In the US, unlike Britain, Nobel prizes are treated as ordinary income, and then there was my retirement bonus, as well as Anne's and my regular full year salaries (I was not retiring until the following July), and a little consultancy income, so when I named the preposterous amount, I thought that the game was up. My questioner did not react, but left her desk for a minute or two, and on her return told me that what I earned was irrelevant, and how would I like to be paid. As I got up to leave, one of her colleagues stood and asked if it was really true that I had won a Nobel Prize. Yes, I said. Wonderful, he said, shaking my hand, and as all of his co-workers rose to applaud, he said, 'We've never had a Nobel prizewinner in this office before.'

Digital Skills Boost Your Earning Power: New Evidence for OECD Countries

The Annual Congress of the European Economic Association took place in Geneva in August. One of the many papers to attract interest was by Oliver Falck, Alexandra Heimisch, and Simon Wiederhold¹ on the effect of digital skills on earnings. This is a shortened version of that paper.

Objective measures of ICT skills

FOR OUR ANALYSES, we use data from the Programme for the International Assessment of Adult Competencies (PIAAC), providing information on ICT skills in 19 developed countries. PIAAC is the product of collaboration between participating countries through the Organization for Economic Co-operation and Development (OECD), and uses leading international expertise to develop valid comparisons of skills across countries and cultures. The survey was conducted between August 2011 and March 2012. PIAAC was designed to provide representative measures of the cognitive skills possessed by adults aged 16 to 65 years, and had at least 5,000 participants in each country.

The PIAAC data are unique as they provide objective measures of numeracy, literacy, and ICT skills (each measured on a 500 point scale), which can be compared

within and across countries. To assess ICT skills, participants were given a series of problem scenarios and asked to find solutions to them using ICT-based applications such as an Internet browser and web pages, email, word processing, and spreadsheet tools. Often, solving the tasks required a combination of several applications, for exam-

Key findings...

“ Using novel data on ICT skills from PIAAC, the OECD's "PISA for Adults", we show that ICT skills are substantially rewarded in modern labour markets. These positive wage effects of ICT skills can partly be attributed to the fact that individuals with higher ICT skills work more often in jobs that involve abstract tasks (requiring problem solving, adaptability, and creativity), which pay substantial wage premia. At the same time, the higher an individual's level of ICT skills, the less often she works in routine, easily automatable jobs. Regarding the determinants of ICT skills, show that ICT skills are developed by performing ICT-related tasks, while having access to (high-speed) Internet is a precondition for this learning-by-doing. ”

ple, managing requests to reserve a meeting room using a web-based reservation system and sending out e-mails to decline reservation requests that could not be accommodated. Previous studies instead had to rely on measures of ICT skills reported by survey participants themselves, which are prone to substantial mismeasurement.

Estimating causal wage effects of ICT skills

The major empirical challenge was to assess whether any estimated association between ICT skills and wages