

# SAFETY NETS, TRAMPOLINES, & THE ART OF BOUNCING BACK

Without more sustainable policies,  
are major economies destined for collapse?

By Rhea Wessel

“Today’s entitlement policies will drive economic failure,” says Michael Falk, CFA. “But we can change this with better policies.”

Trying to avoid this situation is why Falk wrote *Let’s All Learn How to Fish... To Sustain Long-Term Economic Growth*, which is about structural economic problems that are often overlooked because they’re categorized as social problems. He aims to start a discussion about finding more effective approaches to such issues as retirement, education, and healthcare. Published by CFA Institute Research Foundation, the publication is a slight departure from previous books in that it is written in non-technical language and discusses matters of policy.

“These problems are all interconnected, and we have to solve for them together,” says Falk, who is a partner at Focus Consulting and member of the Financial Analysts Seminar (FAS) Board of Regents at CFA Institute. “We need to find ways to afford the agedness that is in front of us, and we need a whole new way of thinking about how to pursue sustainable economic growth. Purely economic accounting doesn’t capture the full picture.”

In this interview, Falk discusses the widespread risk of people outliving their retirement funds, the long-term impact of poor care during early childhood, student indebtedness, and sky-high medical costs.

## Why do you like the fishing metaphor?

The age-old wisdom “Give a person a fish, and you feed him or her for a day; teach a person to fish, and you feed him or her for a lifetime” is the ethos of this book. If we are going to have sustainable, long-term economic growth, we need people to take responsibility. For those who are unable to take responsibility, we need to have more durable and better-constructed safety nets.

After I graduated from university, I moved back home with

my parents for a while. During that time, I saw my father, who was 59, lose his job because his employer filed for bankruptcy. I saw what happened to my parents as the reality hit them that the company had absconded [with] some of the employees’ retirement funds and my father was out looking for a job at his age. Because my parents had paid for college for three kids, they did not have substantial retirement savings.

It struck me that the concept of retirement was wrong. I began to wonder if there was a false goal that when you attain a certain age, you must retire. I did some research and saw that the concept of retirement was that it was a “place” where people went who had no more productivity.

When the concept was created, labor itself was very physical. It meant heavy lifting—literally. People beyond a certain age were not capable to produce the way they had before. Governments in the late 19th century began to re-characterize people above a certain age as retired instead of unemployed. Basically, they manipulated the statistics!

Experiencing all this changed my career trajectory. I began to understand that retirement is so expensive today for so many people that it’s a false goal. There’s got to be a different, better way. I believe that we need to redefine retirement so that it is a concept that promotes a person’s well-being and is founded on the latest research about happiness. The definition needs to be more expansive to better serve people.

## Who is your target reader?

This is for individuals, policymakers, regulators—everybody. This is my passion. I want to positively influence the financial lives of as many people as possible. I believe the book may be able to have a strong impact on emerging economies because their entitlement systems are not ingrained or do not exist as they do in developed societies.

I argue in the book for a stronger version of first-pillar retirement benefits, what’s called Social Security in the US. This will help by acknowledging the costs of agedness and

defraying the cost of agedness while also communicating that, folks, you don't get to retire on the backs of everybody else. That doesn't work. When everybody is responsible, nobody's responsible. We see that in the US: About 36% of Americans receive 90% of their retirement income from Social Security. Some 65% of Americans receive 50% of their retirement income from Social Security. We can ask the question: Would all these people be out on the street if not for Social Security? We need to restructure and reform Social Security so that it's sustainable. It's not today.

### **What about retirement in Europe?**

In the US, you could argue that the retirement system is largely voluntary. It's a "do-it-yourself" system. That comes with its own problems. Still, the system is arguably more sustainable than others, even if it's dysfunctional. In Europe, an oversimplified description is high taxes and state-sponsored benefits. It's working, but it's not sustainable in the long run when one considers the demographics and low economic growth rates. In the US, the system may limp along, but when the European system falls, it will not be able to get back up. Moreover, the damage that will be done to people's lives will be much more complete across a larger swath of the population.

### **What about education?**

The problem we have with healthcare is the same we have for education. When you separate the user of the services from the payer of the system, the users overuse. This has happened in healthcare, and in the US, it allows suppliers, like pharmaceutical companies [in the case of healthcare], to charge more. They don't have to face a revolt by the users who don't want to or can't pay high prices, because the users are not paying. The same thing happens in education in the US. You can borrow to go to college. Your grades may not matter; what you choose to study may not matter. You are guaranteed the ability to borrow to go to college if you can get in. We haven't stopped and asked if someone is really designed for college, if their courses will likely lead to employment after graduation or rather if they might be better suited to work in a trade. If we could do better on teaching financial literacy in the US, then students going into college might have a better understanding of the impact of debt on their lives and may be appropriately skeptical about a particular degree or college in general.

The book was always meant to be linked to retirement. The International Monetary Fund (IMF) found that agedness will cost societies 10 times what the Great Recession cost. Many say that people will just have to work longer. I say, that's such first-level thinking. We have to go to the second level. There are two assumptions built into that perspective: first, that people will be able to work, and second, that people will be able to get work.

### **What are the most critical areas of concern?**

Retirement is stressful on relationships, on finances, on your physical health. People don't necessarily know the harmful sides of retirement. They think it's a period of travel and

relaxation. The truth needs to come out. There are some darker sides to retirement, such as boredom, loss of purpose, and even too much togetherness with your significant other.

On healthcare, I think a single-payer system will exacerbate the problem long term, either in the quality of care or the supply of and access to care. We need a multi-payer system. The key component here is that the person getting care has to have a greater stake in getting that care. Deductibles and co-payments should be reasonably high, and after that, liability should be completely limited. I go through 10 aspects of how such a system could be constructed, such as designing it for individual responsibility for your own health. I look at how technology will help build a better and cheaper healthcare system than the sick-care system we have now, and how proper end-of-life planning can help everyone and the system, too.

Regarding education, I say that we need to seriously rethink what we do with children from ages 0 to 8. If we do not attempt to correct for the three key things that negatively impact kids in this age range, then all other reforms are greatly hindered. Brain development is so significant in these ages. We must ensure proper nutrition and access to good schools, and though it's not something I could address in the book, we need more stable homes. We need whole-day kindergarten, more consistent pre-kindergarten, plus nutritional breakfast and lunches provided at kindergarten and elementary school. We also need to lengthen the school day and the school year. Most school calendars are still based on the farming calendar, and that's absolutely ludicrous.

### **Anything else you'd like to say?**

While we need stronger safety nets, we also need good trampolines. What I mean is that those who are capable need to bounce back. The safety nets are for those who are incapable of bouncing back. There's no nice way to say it, but society has "imprisoned" too many people in welfare systems by giving them strong incentives to remain part of those systems. I personally think that these people have so much to offer and that we don't have any clue what society could be if we could raise these people up by providing them the right incentives.

There are many measures of economic growth, but if we look at the heuristic of the growth that is the number of workers plus the growth in the productivity of those workers, then think about what we're doing. In retirement, we're paying people not to work. During unemployment, we're paying people not to work. Considering this, unless productivity will skyrocket in the future, because of the shrinkage in the number of workers, today's entitlement policies will drive economic failure. But we can change this with better policies.

Rhea Wessel is a freelance writer based in Frankfurt.

### **KEEP GOING**

"Let's All Learn How to Fish... To Sustain Long-Term Economic Growth": [www.cfapubs.org](http://www.cfapubs.org)