REFERENCE LIST — April 2009

Social security

"The Rising Age at Retirement in Industrial Countries", Gary Burtless (2008), CRR WP 2008-6, http://crr.bc.edu/images/stories/wp_2008-6f.pdf

Summary: In the half century after World War II labor force participation in the population past age 60 fell substantially in nearly all rich countries. Declining participation rates became a matter of major concern when it became clear that population growth rates were slowing and the average age of citizens in most rich countries was rising. A rapidly growing number of aged was living longer but spending a smaller number of years in the paid workforce. This paper examines recent trends in retirement behavior in 21 rich countries. It proposes three straightforward measures of labor force exit, and it estimates labor force exit rates using a variety of labor supply indicators, including the labor force participation rate, the employment rate, average work hours in the population, and average weekly earnings in the population. The results suggest that in recent years exit rates from paid work are declining among older citizens. This pattern is found both for men and women, and it is found in a large majority of countries in the analysis.

"The 2009 Retirement Confidence Survey: Economy Drives Confidence to Record Lows; Many Looking to Work Longer", Ruth Helman, Craig Copeland and Jack VanDerhei (2009), Employee Benefit Research Institute, Washington, http://www.ebri.org/pdf/briefspdf/EBRI_IB_4-2009_RCS1.pdf

Summary: Workers who say they are very confident about having enough money for a comfortable retirement this year hit the lowest level in 2009 (13 percent) since the Retirement Confidence Survey started asking the question in 1993, continuing a two-year decline. Retirees also posted a new low in confidence about having a financially secure retirement, with only 20 percent now saying they are very confident (down from 41 percent in 2007).

Pension systems reform

"Reforming Pensions", Nicholas Barr and Peter Diamond (2008), CRR WP 2008-26, http://crr.bc.edu/images/stories/Working_Papers/fwp_2008-26.pdf

Summary: this article, based on two books by the authors, sets out a series of principles for pension design rooted in economic theory: pension systems have multiple objectives, analysis should consider the pension system as a whole, analysis should be framed in a second-best context, different systems share risks differently, and systems have different effects by generation and by gender. That discussion is reinforced by identification of a series of widespread analytical errors: tunnel vision, improper use of first-best analysis, improper use of steady-state analysis, incomplete analysis of implicit pension debt, incomplete analysis of the impact of funding (including excessive focus on financial flows, failure to consider how funding is generated, and improper focus on the type of asset in trust funds), and ignoring distributional effects.

The second part of the article considers implications for policy: there is no single best pension design; earlier retirement does little or nothing to reduce unemployment; unsustainable pension promises need to be addressed directly; a move from PAYG towards funding in a mandatory system may or may not be welfare improving; and implementation matters – policy design that exceeds a country's capacity to implement it is bad policy design.

"Private Pensions and Policy Responses to the Financial and Economic Crisis", Antolín, P. and F. Stewart (2009), OECD Working Papers on Insurance and Private Pensions, No. 36, OECD, http://www.oecd.org/dataoecd/37/54/42601323.pdf
Summary: This paper discusses responses to current financial and economic crisis by regulators, supervisors and policy makers in the area of private pensions. These responses are examined in the light of international guidelines, best practices and recommendations to improve the design of private pensions.

"Pension reform in Chile revisited: what has been learned?", Augusto Iglesias-Palau (2009), OECD Social, Employment And Migration Working Papers No. 86, OECD, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000028DE/$FILE/JT03262724.PDF
Summary: The paper describes Chile's pension reform of 1980, which replaced the existing pay-as-you-go public pension programs by a new funded pension program managed by private companies (the "AFP´s"). It comments on the main results of this reform so far, and identifies the current challenges faced by the country's pension system. The paper also describes the changes introduced to Chile's pension system in March 2008 and assesses their potential impact.

Reacting to the global financial crisis, **ISSA** (the International Social Security Association) has been running seminars that may be of interest. On 24-25 April there was a seminar on Social Security in Times of Crisis. The site reference is http://www.issa.int/aiss/News-Events/Events/Seminar-on-Social-Security-in-Times-of-Crisis-Impact-Challenges-and-Responses
An introduction was given by Mr Assane Diop to set out ILO views:
http://www.issa.int/aiss/content/download/67892/1269279/file/2Diop-note.pdf
followed by the results of a country survey:
http://www.issa.int/aiss/content/download/67454/1261244/file/2-Crisis-Survey-Results.pdf
Case studies on the sustainability of social security funds were given for Jordan, Ghana, Canada and Denmark; and on policy measures adopted as a result of the crisis by USA, Brazil, Australia, China and South Africa. These are all available for download from the site.

Our chairman, Chris Daykin, spoke at an earlier seminar for senior social security managers from Central and Eastern Europe – refer
http://www.issa.int/aiss/content/download/67898/1269306/file/2China%20case%20study%20Slides.pdf.
And while on the financial crisis, members may like to note the recently published IAA document "Dealing with Predictable Irrationality":
http://www.actuaries.org/CTTEES_TFRISKCRISIS/Documents/IAA_Financial_Risk_Management_EN.pdf

Regulation

An exposure draft from the Canadian Institute of Actuaries in respect of practice standards for pension plans is available from:
http://www.actuaries.ca/members/publications/2009/209026e.pdf

Retirement savings

"Ageing and the payout phase of pensions, annuities and financial markets", Antolin, P. (2008), OECD Working Papers on Insurance and Private Pensions, No. 29, OECD, http://www.oecd.org/dataoecd/48/54/41935201.pdf

Summary: This paper reviews the impact of ageing on private pensions, in particular on the payout phase, assesses the part that annuities can play in financing retirement, and examines the role of financial markets in facilitating the allocation on assets accumulated in defined contribution pension plans. A comprehensive set of recommendations for discussion is provided at the end of the paper.

"The Housing Bubble and Retirement Security", Munnell, Alicia H. and Soto, Mauricio (2008), CRR Working Paper No. 2008-13, http://ssrn.com/abstract=1360878

Summary: House prices rose 60 percent between 2000 and 2007 before the housing bubble burst. The question is whether the housing boom made people better or worse prepared for retirement. Theory says that infinitely-lived households experience no increase in their real net worth when housing prices increase and would therefore have no reason to borrow against the increment in their home equity to increase their consumption. Two pieces of evidence suggest that they did tap their equity: the big increase in mortgage borrowing has accompanied the run-up in house prices, and a number of studies have reported a positive relationship between house prices and consumption. Using the 2004 Survey of Consumer Finances (SCF) this paper investigates the probability of households extracting home equity through an increase in housing-related debt, the probability that they use their housing-related borrowing for consumption, and finally the factors that determine the level of consumption spending out of their increased debt. The results show that while homeowners appear to take the present discounted value of future rents into account, many of them extracted equity and used it for consumption. A substantial proportion - perhaps 30 percent - of older households will be less secure in retirement because of the housing bubble.

Longevity and life expectancy

"Securitization of Longevity Risks Using Percentile Tranche Methods", Kim, Changki and Choi, Yangho (2009), UNSW Australian School of Business Research Paper No. 2009ACTL02, http://ssrn.com/abstract=1349398

Summary: As a solution to the longevity risks in annuity business we consider securitizations which transfer the risks to the financial markets. We apply the classical Lee-Carter model to generate the future stochastic survival distribution. We show a method to design the survivor bonds using the percentile tranches and calculate the prices of the securities.