SECTION SUR LES PENSIONS, AVANTAGES SOCIAUX ET SÉCURITÉ SOCIALE DE L'AAI

IAA PENSIONS, BENEFITS AND SOCIAL SECURITY SECTION

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Social security

From the International Social Security Association (ISSA)

ISSA Social Policy Highlights #11 and 12 are now available.

Number 11, ***Dynamic Social Security for Europe: A social model for recovery and growth***, comments that the European "social model" has proven to be a robust and proactive instrument in meeting the challenges presented by the recent economic downturn. Its role in helping stimulate recovery across the region will be no less important. However, in a context of fiscal restraint, the longer-term financial challenge for social security programmes will be determined by the duration of the crisis and its lasting consequences, especially as regards the impact on employment levels and the pace of job creation.

Number 12, ***Social security in an ageing world: Adapting to demographic challenges***, summarises the evolving nature of global population ageing, reports on the challenges of rising elderly dependency ratios for social security systems in ageing societies, details the labour market and savings opportunities for societies with falling youth dependency ratios, considers how national collective goals may influence adaptation to population ageing, and presents policy lessons for national social security systems.

These can be obtained from http://www.issa.int/aiss/Resources/Social-Policy-Highlight

Also, the latest ISSA Social Security Observer is now available at http://news.issa.int/eng/newsletter/newsletter_repository/observer/en/social_security_observer_08

"Women's Family Histories and Incomes in Later Life in the UK, US and West Germany", Maria Evandrou, Jane Falkingham and Tom Sefton (2009), LSE STICERD Research Paper No. CASE138, http://sticerd.lse.ac.uk/dps/case/cp/CASEpaper138.pdf

Summary: Using data from several large scale longitudinal surveys, this paper investigates the relationship between older women's families histories and their personal incomes in later life in the UK, US and West Germany, By comparing three countries with very different welfare regimes, we seek to gain a better understanding of the interaction between the life course, pension system and women's incomes in later life. We conclude with a brief discussion of the 'women-friendliness' of different pension regimes in the light of our analysis.

"Impact of Immigration on the Distribution of American Well-Being", Gary Burtless (2009), Boston CRR, http://crr.bc.edu/images/stories/Working_Papers/wp_2009-34.doc_compatibility_mode.pdf

Summary: Changes in the net immigration rate and in the age distribution and skills of immigrants have important effects on the average age and skill mix of the population. In the short run, increases in immigration boost the number of workers and aggregate earnings and reduce the ratio of elderly to non-elderly. This paper examines the impact of U.S. immigration since 1980 on trends in wages and income and the relative incomes of young and old. It simulates the wage and income distributional impacts of a reduced flow of immigrants into the United States.

Pension systems reform

"What Drives Pension Worries in Europe? A Multilevel Analysis", Douglas A. Hershey, Kene Henkens, Hendrik P. Van Dalen (2009), Netspar Discussion Paper No. 10/2009-055, http://arno.uvt.nl/show.cgi?fid=100124

Summary: Nations in Europe have been developing rapidly since the formation of the European Union (EU), not only socially and demographically, but economically as well. One question a number of countries will face during this period of structural transition will be how (and how well) they are able to support their citizens in old age. A related question involves whether individuals worry about their financial future in retirement, and the extent to which they take active steps to save in order to ensure an adequate standard of living. In this study, we analyze data from the third wave of the European Social Survey, which represents 22,609 working adults from 23 countries in Europe. We used multilevel modelling to focus on the explanatory factors that underlie individual and country-level effects in future pension worry and saving behavior. Findings suggest that once individual-level dimensions are taken into account, country-level predictors explain appreciable variance in worry, but not saving practices. Pension worries are more severe in countries with a low retirement age and a strong projected increase in future population aging. This suggests that the drive toward raising the retirement age in a number of EU countries may alleviate some of the worries of its citizens.

"Coverage of the Privately Funded Old-Age Provision (Riester-Pension) in Germany - Did the Financial and Economic Crisis Left Its Mark? (Verbreitung Der Riester-Rente - Hat Die Finanz- Und Wirtschaftskrise Spuren Hinterlassen?", Martin Gasche, Michael Ziegelmeyer (2010), University Mannheim MEA Discussion Paper No. 198-10, http://www.mea.uni-mannheim.de/publications/meadp_198-10.pdf

Summary: The financial and economic crisis also left its mark on the privately funded old-age provision (Riester-Pension) in Germany: an analysis of the SAVE panel dataset shows that the coverage with Riester-contracts stagnated in 2008. Only households with low incomes exhibited small but positive growth of Riester-Pension coverage. The stagnation after a long and successful growth process should rather be interpreted as a consequence of the financial and economic crisis then as a saturation of demand. The privately funded old-age provision in Germany is not in a crisis: The saving volume per Riester-contract increased in 2008. This growth is mainly observed in the top income quintiles where a large fraction of Riester-savers increased their savings as required by the regulation to obtain full government subsidies. Available in German only.

"Optimal Retirement Benefit Guarantees", Stavros Panageas (2010), National Bureau of Economic Research (NBER) Working Paper 15805, http://www.nber.org/papers/w15805.pdf

Summary: Retirement benefit guarantees can ensure a minimum standard of living in retirement. I propose a normative framework to study the optimal design of such guarantees. The model features a standard life-cycle setting, in which individual agents' choices can have negative external effects on public finances, whenever their retirement consumption drops below a minimum level. Within this

framework, I show that two alternative forms of intervention are optimal. The first policy mandates that agents use part of their accumulated assets to purchase a claim providing a fixed income stream for the duration of their life. The second policy mandates the purchase of an appropriately structured portfolio insurance policy.

OECD information releases

The OECD has recently announced support for the Spanish government's pension reform proposal to postpone the retirement age from 65 to 67 and to increase the number of contribution years used to calculate pension benefits. This announcement includes graphs of labour force average exit ages and years in retirement for all OECD countries, which will be of interest.

http://www.oecd.org/document/10/0,3343,en_2649_34853_44529738_1_1_1_1,00.html

The OECD has also just published 7 key indicators comparing France's state pension arrangements with a variety of other OECD European countries.

http://www.oecd.org/document/51/0,3343,en_2649_34757_44981747_1_1_1_1,00.html

Retirement savings

The Funding of State and Local Pensions: 2009-2013, Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby (2010), CRR Boston SLP#10, http://crr.bc.edu/images/stories/Briefs/slp_10.pdf

Summary:The financial crisis reduced the value of equities in state and local defined benefit pensions and hurt the funding status of these plans. The impact will become evident only over time, however, because actuaries in the public sector tend to smooth both gains and losses, typically over a five–year period. The first year for which the crisis will have a meaningful impact on reported funding status is fiscal 2009, since in most cases the fiscal 2008 books were closed before the market collapsed. After 2009, the funding picture will continue to deteriorate to the extent that years of low equity values replace earlier years of high values. The current and future funding status of state and local pensions is crucially important, as state and local governments are facing a perfect storm: the decline in funding has occurred just as the recession has cut into state and local tax revenues and increased the demand for government services. Finding additional funds to make up for market losses will be extremely difficult...

"Returns on 401(k) Assets by Cohort", Alicia H. Munnell and Jean-Pierre Aubry (2010), Boston CRR IB#10-6, http://crr.bc.edu/images/stories/Briefs/ib_10-6.pdf

Summary: Key findings are: (a) early Baby Boomers were hit hard by the financial crisis but (b) over their careers, markets have treated them well: they have enjoyed 9-percent returns on equities; and they have fared much better than either Late Boomers or Gen Xers, while (c) Gen Xers have faced the worst investment climate, but Late Boomers are more vulnerable because they have less time to recover.

"How Seniors Change Their Asset Holdings During Retirement", Mauricio Soto, Rudolph Penner, and Karen E. Smith (2009), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1553268 (abstract only)

Summary: We use the 1998-2006 waves of the Health and Retirement Study (HRS) to investigate how households change their asset holdings at older ages. We find a notable increase in the net worth of older households between 1998 and 2006, with most of the growth due to housing. Our results indicate that, through 2006, older households did not spend all of their capital gains. This asset accumulation provides

older households with a financial cushion for the turbulence experienced after 2007. The wealth distribution is highly skewed, and the age patterns of asset accumulation and decumulation vary considerably by income group. High-income seniors increase assets at older ages. Middle-income seniors reduce their assets in retirement, but at a rate that for most seniors will not deplete assets within their expected life. Many low-income seniors accumulate fewer assets and spend their financial assets at a rate that will mostly deplete them at older ages, leaving low-income seniors with only Social Security and DB pension income at older ages.

"Performance Evaluation of Balanced Pension Plans", Laura Andreu and Laurens A. P. Swinkels (2009), Erasmus University Rotterdam (EUR), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1562466

Summary: This paper examines the ability of balanced pension plan managers to successfully time the equity and bond market and select the appropriate assets within these markets. In order to evaluate both market timing abilities in these balanced pension plans, we extend the traditional equity market timing models to also account for bond market timing. This performance evaluation has been conducted on two samples of Spanish balanced pension plans, one with Euro Zone and one with World investment focus. This allows us to decompose managers' skills in three components: selectivity, equity market timing, and bond market timing. Our findings suggest that the average stock picking ability of pension plans is positive. World schemes tend to have positive bond timing skills, while Euro Zone pension plans are on average not able to time equity or bond markets.

"The Impact of Automatic Enrolment in 401(k) Plans on Future Retirement Accumulations: A Simulation Study Based on Plan Design Modifications of Large Plan Sponsors", Jack VanDerhei (2010), Employee Benefit Research Institute, http://www.ebri.org/pdf/briefspdf/EBRI_IB_04-2010_No341_Auto-Enroll.pdf

Summary: The analysis indicates that the adoption of automatic enrolment in 401(k) plans is likely to have a very significant positive impact (even greater than EBRI projected in 2008) in generating additional retirement savings for many workers, especially for young and low-income workers. Under baseline assumptions, the median 401(k) accumulations for the lowest-income quartile of workers currently age 25-29 (assuming all 401(k) plans were voluntary enrolment plans as typified by the 225 large plan sponsors described above) would only be 0.08 times final earnings at age 65. However, if all 401(k) plans are assumed to be using the large plan sponsor auto-enrolment provisions, the median 401(k) accumulations for the lowest-income quartile jumps to 4.96 times final earnings (if 401(k) participants revert back to the default contribution when they change jobs) and 5.33 times final earnings (if they retain their previous contribution level when they change jobs). There are also large increases even for high-income workers: the multiple under a voluntary enrolment scenario is 2.41 times final earnings compared with 9.15 or 9.81 under auto-enrolment, depending on the assumptions for employee reversion to default contribution rates upon job change.

"The NRRI and the House", March 2010, Boston CRR Fact Sheet, http://crr.bc.edu/images/stories/Just%20the%20Facts/nrri_fact_sheet.pdf

Summary: The National Retirement Risk Index (NRRI) measures the share of American households 'at risk' of being unable to maintain their pre-retirement standard of living in retirement. The Index is calculated by comparing households' projected replacement rates – retirement income as a percent of pre-retirement income – with target rates that would allow them to maintain their living standard. To make the estimates as conservative as possible, the calculation assumes that households derive the maximum possible income from the assets they hold at retirement. A crucial component of that exercise is the highly unrealistic assumption that they access their home equity through a reverse mortgage and invest the proceeds in an inflation-indexed annuity – very few households actually take reverse mortgages or buy annuities.

This fact sheet looks at how not taking full advantage of housing equity affects the share of U.S. households 'at risk.' It finds (a) that despite the bursting of the bubble, the house is still a major component of most households' wealth; (b) if households don't tap their housing equity, the share of households 'at risk' in retirement jumps from 51 to 61 percent; and (c) while few have reverse mortgages today, ignoring housing equity may be a luxury that future retirees can ill afford.

Longevity and life expectancy

"Longevity: Trends, Uncertainty and the Implications for Pension Systems", Swarup, Dr. Amarendra and Eich, Dr. Frank (2009), London School of Economics Department of Management Pensions Tomorrow, http://ssrn.com/abstract=1574154

Summary: This paper presents historical trends in life expectancy in the United Kingdom and other countries and discusses how these trends might evolve over the coming decades. The paper argues that the expected increases in longevity are likely to have significant implications for the structure of pension systems in the future. Individuals, businesses and governments have already responded to these expected increases - for example by working longer, closing defined-benefit pension schemes or introducing parametric reforms to the state pension system - and are likely to change their behaviours further in the future. The issue is complicated by the fact that future longevity trends are uncertain. This makes it more difficult to allocate longevity risk efficiently and fairly across the different economic agents, while making it also more difficult to guarantee the sustainability of the system overall. The paper shows though that innovative solutions to this challenge are being developed, from businesses moving towards hybrid defined-benefit/defined-contribution pension schemes, to governments introducing mechanisms which automatically split the financial burden arising from future increases in life expectancy between state and individual, to businesses taking advantage of new products being developed to transfer any risk to the capital markets.

Society of Actuaries 2005-07 Individual Life Experience Report

The Individual Life Experience Committee has completed their latest report on intercompany mortality experience by amount of insurance under standard individually underwritten issues. This report covers the 2005-07 policy years in a format generally consistent with prior reports, including Excel pivot tables that allow more detailed examination of the material presented. A number of enhancements have been made to the current report, including high-level results for the 2002-07 period on a "common company" or consistent basis; similar results for 2004-07 for preferred products; results in broad Plan Type categories; quintile groupings of company results giving information on the variability in such results and mortality results with respect to the 2008 Valuation Basic Tables in the pivot tables.

http://www.soa.org/research/individual-life/2005-2007-ind-life-report.aspx

New association launched to promote trading of longevity risk as an asset class

For those who may have missed this 1 February 2010 announcement: http://www.pensioncorporation.com/press/press-20100201.pdf

Regulation

"Managing Investment Risk in Defined Benefit Pension Funds", Franzen, D. (2010), OECD Working Papers on Insurance and Private Pensions No. 38, http://www.oecd.org/dataoecd/49/17/44899253.pdf

Summary: This paper inquires into the forces that drive the practice of risk management at defined benefit (DB) pension funds in Germany, Netherlands, United Kingdom and the United States in the aftermath of the perfect pension storm. First, pension funds' risk management is grounded in the context of the development of modern risk management in the financial industry. Second, focusing solely on single-employer sponsored DB pension funds, this research critically examines the impact of recent changes in the regulatory and accounting environment for pension funds and their sponsors thereby explicitly taking into account the specific governance context in which pension funds are situated.

This paper argues that the risk-taking capacity is a central element of DB pension funds. The empirical results suggest that in general risk management has become much more sophisticated but that it is often driven more by regulatory and accounting issues than by the pension fund's specific risk profile. Furthermore, changes to the regulatory and accounting standards increasingly impede the risk-taking capacity of DB pension funds. This research draws on in-depth interviews with market participants within the pension fund industry and their advisers.

"Policy Action in Private Occupational Pensions in Japan since the Economic Crisis of the 1990s", J. Sakamoto (2010), OECD Working Papers on Insurance and Private Pensions No. 41, http://www.oecd.org/dataoecd/44/53/44862093.pdf

Summary: The public pension system of Japan provides coverage for all, irrespective of occupation and income. Corporate pension plans provide additional benefits over the public pension in order to meet the diversified financial needs in retirement and play a key role in enriching people's life after retirement. The majority of corporate pensions in Japan are defined-benefit type. Consequently, a great amount of attention is paid to benefit rights. Nevertheless, in order to avoid the discontinuation of pension plans due to over-emphasis on benefit rights, Japan introduced a measure under the stagnant economy during the 1990s allowing pension plans to reduce accrued benefits under certain strict conditions, only when the government acknowledges that the sponsoring company will go bankrupt if employers are forced to continue to contribute to the pension plans to the same extent. At the same time, Japan introduced another measure allowing pension plans to use smoothing for valuing its assets in order to avoid temporary market fluctuations. As a result, corporate pension plans in Japan became manageable from a long-term perspective and able to adopt a flexible plan design whilst still ensuring benefit rights.

Other

"Taxes and Pensions", Peter A. Diamond (2009), Southern Economic Journal 2009, 76(1), 2–15, http://econ-www.mit.edu/files/4304

Summary: Pension benefit rules depend on individual history far more than taxes do, and age plays a much larger role in pension determination than in tax determination. Apart from some simulation studies, theoretical studies of optimal tax design typically contain neither a mandatory pension system nor the behavioural dimensions that lie behind justifications commonly offered for mandatory pensions. Conversely, optimizing models of pension design typically do not include annual taxation of labour and capital incomes. After spelling out this contrast and reviewing (and rejecting) zero taxation of capital income based on the Atkinson-Stiglitz and Chamley-Judd results, this article raises the issue of tax-favoured retirement savings, a topic where the two subjects come together.

"The Role of Information for Retirement Behaviour: Evidence Based on the Stepwise Introduction of the Social Security Statement", Giovanni Mastrobuoni (2009), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1553243 (abstract only).

Summary: In 1995, the US Social Security Administration started sending out the annual Social Security Statement. It contains information about the worker's estimated benefits at the ages 62, 65, and 70. I use this unique natural experiment to analyse the retirement and claiming decision-making. First, I find that, despite the previous availability of information, the Statement has a significant impact on workers' knowledge about their benefits. These findings are consistent with a model where workers need to gather costly information in order to improve their retirement decision. Second, I use this exogenous variation in knowledge to analyse the optimality of workers' decisions. Several findings suggest that workers do not change their retirement behaviour: (i) Workers do not change their expected age of retirement after receiving the Statement; (ii) monthly claiming patterns do not show any change after the introduction of the Social Security Statement; (iii) workers do not become more sensitive to Social Security incentives after receiving the Statement. Either, workers are already behaving optimally, or the information contained in the Statement is not sufficient to improve their retirement behaviour.

The Society of Actuaries 2009 Risks and Process of Retirement Survey: Report of Findings

This report presents the results of a telephone survey among Americans aged 45 to 80 conducted by Mathew Greenwald & Associates, Inc., and the Employee Benefit Research Institute (EBRI) on behalf of the Society of Actuaries. The purpose of the study was to evaluate Americans' awareness of potential financial risks in retirement, how this awareness impacts the management of their finances with respect to retirement, and how Americans are managing the process of leaving the workforce.

http://www.soa.org/files/pdf/research-2009-retire-risk-survey.pdf