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

IAA PENSIONS, BENEFITS AND SOCIAL SECURITY SECTION

PBSS

REFERENCE LIST — April 2011

Social security

"Do Social Security Statements Affect Knowledge and Behavior?", Giovanni Mastrobuoni (2011), CRR Boston IB#11-6, http://crr.bc.edu/images/stories/IB_11-6_updated.pdf

Summary: The brief's key findings are that (a) the US Social Security's annual Statement of estimated benefits at different ages helps people plan for retirement; (b) those receiving it are more likely to provide an estimate of their benefits, and their estimates tend to be more accurate; and (c) the Statement does not appear to change retirement behaviour; further research is needed to determine why.

A special report on pensions: The Economist, April 9 2011,
http://www.economist.com/printedition/index.cfm?d=20110409

This 14 page brief covers a lot of ground. Section titles are: *Falling short* ; *Too much, too young*; *Working longer* (Hiring grandpa); *Defined-contribution plans* (Over to you); *Behavioural economics* (A nudge and a wink); *Public-sector pensions* (State of war); *A storm in the windy city*; *Valuing pensions* (Pick a number, any number); *The outlook for pensions* (Sharing the burden). Up to five sections can be freely accessed.

Pension systems reform

"Retirement income and assets: the implications of ending the effective requirement to annuitise by age 75", Daniela Silcock, Daniel Redwood and John Adams (2011), Discussion Paper, the Pensions Policy Institute,
http://www.pensionspolicyinstitute.org.uk/uploadeddocuments/2011/20110414_RIA5_-_the_implications_of_ending_the_effective_requirement_to_annuitise_by_age_75.pdf

Summary: The fifth report in the PPI's retirement income and assets series looks at the future of retirement income and assets in the UK. The research explores the implications of the Government's new legislation that ends the effective requirement to purchase an annuity by age 75. From April 2011,
people will be allowed from the age of 55 to access their private pension savings through one, or a combination of the following methods: (a) Purchasing an annuity at any point, (b) Investing their pension savings in an income drawdown arrangement with no upper age limit and with a withdrawal cap of 100% of what they would have received from an equivalent annuity ('Capped Drawdown'), (c) Withdrawing unlimited amounts from their pension savings, provided that they can demonstrate that they have a secure income already in payment, guaranteed for life of £20,000 per year in 2011 ('Flexible Drawdown'). This report explores how the new legislation could impact on the risks people face when accessing private pension savings and on individual financial outcomes in retirement.

"The unavoidable role of private pensions in retirement income systems", Juan Yermo (2011), Working Paper from chapter 2 of Fuentes F., Herrero G. y Escrivá JL. (2010) (eds) "Pension reforms in Latin America Balance and challenges ahead", BBVA Research, Madrid,
http://www.bbvaresearch.com/KETD/fbin/mult/WP_1111_tcm348-251034.pdf?ts=2432011

Summary: This paper describes the growing need that governments face to reform their pension systems into more financially sustainable structures, especially in light of the recent financial crisis and the rapidly ageing population. The study identifies two main types of structural reforms: those that automatically link the public pension system's parameters to the demography or actuaries, and those that lead to a partial replacement of the PAYG-financed public pension systems by private pension arrangements and the transfer of a part of social security contributions to fully-funded, DC accounts. While both types of reform bring about long-term improvements in the financial balance of the public pension system, their design may have very different implications for the adequacy and equity of pension systems that policymakers need to address. (Also available in Spanish.)

"The Impact Of Modifying The Exclusion Of Employee Contributions For Retirement Savings Plans From Taxable Income: Results From The 2011 Retirement Confidence Survey", Jack VanDerhei, Employee Benefit Research Institute, EBRI Notes March 2011, http://ebri.org/pdf/notespdf/EBRI_Notes_03_Mar-11.K-Taxes_Acct-HP.pdf

Summary: In recent years, proposals have surfaced to reform the 401(k) system based on the assumption that higher-income individuals receive more tax-related benefits from these programs than do individuals in lower marginal tax brackets (as well as those who may pay no federal income taxes in a particular year). Some of these proposals have included modifications of the current federal income taxation treatment that excludes some or all of the contributions employees make to tax-qualified defined contribution plans. Who would be affected? Results from EBRI modeling from the 2011 Retirement Confidence Survey (RCS) finds that these proposals may have unintended consequences. Instead of reducing the contribution levels of those with larger taxable incomes (and hence higher marginal tax rates), the RCS results suggest that the categories of full-time workers most likely to reduce (in some cases completely) their contributions are those with the lowest household income; the lowest current amounts in savings and investments; the lowest educational levels; those who are single, never married or not married, or living with a partner; and those who work for small private organizations.

"Longevity, Life-cycle Behavior and Pension Reform", Peter Haan and, Victoria Prowse (2011), Netspar Discussion paper 2011-36, http://arno.uvt.nl/show.cgi?fid=114336

Summary: How can public pension systems be reformed to ensure fiscal stability in the face of increasing life expectancy? To address this pressing open question in public finance we estimate a life-cycle model in which the optimal employment, retirement and consumption decisions of forward looking individuals depend on, inter alia, life expectancy and the design of the public pension system. We calculate that, for the case of Germany, the fiscal consequences of the 6.4 year increase in age 65 years life expectancy, anticipated to occur over the 40 years interval between 2007 and 2047 ,can be offset by either an increase of 4.5 years in the full pensionable age or a reduction of 26.3% in the per-year value of public pension benefits. Of these two distinct policy approaches to coping with the fiscal consequences of improving longevity, increasing the full pensionable age generates the largest responses in labour supply and retirement behaviour.

"Can State and Local Pensions Muddle Through?", Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby (2011), CRR Boston, SLP#15, http://crr.bc.edu/images/stories/Briefs/slp_15.pdf

Summary: The finances of state and local pension plans are headline news almost daily. Indeed, although these plans were moving toward prefunding their promised benefits, two financial crises in 10 years have thrown them seriously off course. Applying the rules of the Government Accounting Standards Board, between 2008 and 2009 the ratio of assets to liabilities for our sample of 126 plans dropped from 84 percent to 79 percent. But this decline is only the beginning of the bad news that will emerge as the losses are spread over the next several years. Furthermore, the funded levels are closer to 50 percent if liabilities are discounted by a riskless rate, as recommended by economists and financial experts. What do these numbers imply for the future of these plans?

"A Role for Defined Contribution Plans in the Public Sector", Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby (2011), CRR Boston SLP#16,

http://crr.bc.edu/images/stories/Briefs/slp_16.pdf

Summary: Key findings are that (a) In recent years, several states have shifted from defined benefit (DB) to defined contribution (DC) pension plans; (b) Many of the new plans are "hybrids" with a slimmed down DB plan and a minimal DC plan, which shifts substantial risk to employees; (c) A better hybrid design could offer a full DB plan up to an income cap and "stack" a DC plan on top for those with higher incomes; (d) The "stacked" approach would give those with modest incomes the full protection of a DB plan while limiting taxpayers' commitment to those with higher incomes.

Retirement savings

"Pension Watch: The Role of Pension Funds during the Financial Crisis", Soledad Hormazábal (2011), BBVA Research, Madrid,
http://www.bbvaresearch.com/KETD/fbin/mult/Observatorio_Pensiones_140311_i_tcm348-250776.pdf?ts=2432011

Summary: The flow of resources to pension funds does not experience significant changes with the business cycle, i.e. there should be a relatively stable availability of these resources. This paper reviews the performance of pension funds as financiers in the private sector, given the contraction in bank credit to firms during the subprime crisis in three Latin American countries with individually funded pension systems: Chile, Colombia, and Peru. It finds that the bank credit squeeze increased the use of alternative debt instruments, and pension funds held a large amount of resources invested in these products that served as a substitute for bank credit. (Also available in Spanish.)

"Pension fund capitalism in Europe: institutional organisation and governance of Finnish pension insurance companies", Ville-Pekka Sorsa (2011), DPhil thesis, Oxford University, UK,
http://ora.ouls.ox.ac.uk/objects/uuid%3A64a98d6a-92f8-4a7d-a00f-46785162125a

Summary: Pension capital is the single largest block of capital in the global domain of finance and a transformative social force. However, the studies on pension fund capitalism have been geographically limited. Although vast pools of pension capital have been generated outside the Anglo-American institutional environments, we still have little knowledge on the social construction of pension fund capitalism outside that context. The purpose of the study is to develop theoretical-methodological tools for studying the institutional differences in pension fund investments with habitual institutionalist theory at the level of organisation fields, and to apply these tools in an empirical case study that has theoretical relevance concerning the recent financialisation of European pension provision. The case study is focussed on the field of Finnish pension insurance companies and based on multiple sources of textual and interview data gathered and analysed with content analysis. The Finnish case shows that there are alternative institutional solutions for various domains of pension fund capitalism, but the strong Europe-wide trends have all characterised recent institutional change. It is concluded that although the European shift towards pension fund capitalism with the generation of increasingly independent portfolio investors with increasingly principle-based regulation and risk-based supervision has not necessarily implied strong institutional convergence, the European pension investors are likely to share a number of common questions in the future.

Longevity and life expectancy

ILC-UK events

The International Longevity Centre-UK is holding two events in June this year, to explore the financial circumstances and future economic prospects of young people, focusing in particular on the capacity and propensity of today's young people to save for retirement.

The first, on **7 June 2011**: 16:00 – 19.00 Governor's House, Laurence Pountney Hill, EC4R 0HH London has as speakers Steve Webb MP, Minister of State for Pensions; Rob Devey - Chief Executive, Prudential UK; and Ed Howker, author of the Jilted Generation. Register at http://ilcuk7june.eventbrite.com

The second, a joint debate with the Actuarial Profession, is on **14 June 2011**: 16.00 – 19.00 at the Royal College of Physicians of Edinburgh, 9 Queen Street, EH2 1JQ Edinburgh. Speakers include Lawrence Churchill, Chair, NEST; Wendy Loretto, University of Edinburgh; Miles Celic, Prudential; Hamira Khan, Scottish Youth Parliament; and Tam Baillie, Scotland's Commissioner for Children & Young People. Register at http://ilcuk14june.eventbrite.com

The events will also see the launch of a new report by Dr Craig Berry of the International Longevity Centre-UK titled Resuscitating Retirement Saving: How to Help Today's Young People Plan for Later Life. The report, which has been sponsored by Prudential, looks at the financial and economic circumstances of young people today, the socio-economic trends young people will face in coming decades, and what we can learn from behavioural economics to encourage young people to save more for their own retirement.

Regulation

OECD/ IOPS Good Practices for Pension Funds' Risk Management Systems
http://www.oecd.org/dataoecd/19/6/46864889.pdf
Jointly developed by IOPS and the OECD, and published in January this year, these good practices aim to outline the main features of risk management systems which pension funds employ. They cover the role of management, investment risk, funding risk and operational risk and risk management mechanisms. They also provide guidance for pension fund regulators and supervisors on how to check that such systems are not only in place but are operating effectively.
Despite country-specific situations and supervisory approaches, the OECD and IOPS believe that general good practices on pension funds' risk management can be identified, and will be helpful to members in the supervision of their pension systems. Although these good practices therefore serve as a benchmark reference for all countries or jurisdictions, the question of how to best apply them in practice should take into account country-specific conditions and circumstances. Where the language used in the good practices is directional (such a 'should'), it reflects existing OECD/IOPS recommendations such as already approved principles and guidelines.

Other

"Implications of the Perceptions of Post Retirement Risk for the Life Insurance Industry: Inside Track Marketing Opportunity, But Requiring Focused Retooling", Steve Cooperstein (2011), The Product Development Section and The Committee on Life Insurance Research of the Society of Actuaries, http://www.soa.org/files/pdf/research-implication-perceptions.pdf
Summary: The emerging post-retirement market presents a significant opportunity for providers of financial services. It is an especially good opportunity for the insurance industry that has several inherent advantages for serving this market. Doing well in this market could also help the insurance industry to better penetrate other markets. However, product, marketing, and distribution retooling for this market could be key to success.
The upshot at this point isn't of a mass of people running out of assets, per se, especially with Social Security and other safety nets in place. Rather, lack of readiness raises the spectre of 40 to 50% reductions in standards of living. And if such under-funded people don't adjust their lifestyles and finances, then they, and government support, may in fact be even more seriously impacted.
In sum, people are in need of help in understanding and managing their retirement plans in general and their complex and at-risk retirement finances in particular. Surveys suggest that baby-boomers and retirees aren't sufficiently seeking or getting help. When they do they are better off emotionally as well as financially. Helping them is thus both the opportunity and the challenge.

Open forum on ERM opportunities for pensions actuaries

Fifty-five qualified actuaries and students attended this forum at Staple Inn on 17 March 2011, consisting of two separate presentations by Paul Sweeting, Professor of Actuarial Science at the University of Kent, and Colin Ledlie, Standard Life's Chief Risk Officer. A review by **Catherine Hildebrand** of the Pension Protection Fund can be found at https://www.actuaries.org.uk/practice-areas/pages/review-open-forum-erm-opportunities-pensions-actuaries-held-17-march-2011?utm_medium=email&utm_campaign=Pensions+newsletter+April+2011&utm_content=Pensions+newsletter+April+2011+CID_c68db97c012524d61d7f83c2101ef563&utm_source=Email+marketing&utm_term=here.

Actuarial Professional Standards

http://www.actuaries.org.uk/news/articles/pensions-actuarial-profession-standards-go-live-0

The Institute and Faculty of Actuaries has issued two new actuarial professional standards (APS) for pensions actuaries, which came into force on 1 April 2011. These are regarded as ethical standards rather than technical standards, and are issued by the profession. The independent Board for Actuarial Standards is responsible for issuing technical actuarial standards (TAS). The new actuarial professional standards are concerned with the duties and responsibilities of pension actuaries and compliance review (colloquially known as peer review).

The BAS Pensions TAS, along with other BAS standards, is mandatory for actuaries of the Institute and Faculty of Actuaries in relation to UK pensions practice from 1 April 2011 and can be viewed at: http://www.frc.org.uk/bas/standards/index.cfm