REFERENCE LIST August 2009

Social security

"A Life-Cycle Analysis of Social Security with Housing", Chen, Kaiji (2009), http://ssrn.com/abstract=1412674

Summary: This paper incorporates two features of housing in a life-cycle analysis of social security: housing as a durable good and housing market frictions. We find that with housing as a durable good, unfunded social security substantially crowds out housing consumption throughout the life cycle. By contrast, aggregate non-durable consumption is higher when social security is present, although it is postponed until late in life. Moreover, in the presence of housing market frictions, social security lowers the aggregate home ownership rate and reduces the average size of owner-occupied housing. The effects of social security on housing position, furthermore, exhibit substantial heterogeneity across households of different income levels.

"Financial Hardship Before and after Social Security's Early Eligibility Age", Johnson, Richard W. and Mermin, Gordon (2009), Urban Institute, http://ssrn.com/abstract=1408728

Summary: Although poverty rates for Americans ages 65 and older have plunged over the past half century, many people continue to fall into poverty in their late fifties and early sixties. This study examines financial hardship rates in the years before qualifying for Social Security retirement benefits at age 62 and investigates how the availability of Social Security improves economic well-being at later ages. The results show that the likelihood of experiencing financial hardship increases significantly as people approach Social Security's early eligibility age. The increase in hardship rates is concentrated among workers with limited education and health problems. Hardship rates decline after age 62, when most people qualify for Social Security retirement benefits. These findings highlight the fragility of the income support system for Americans in their fifties and early sixties.

"How Much Do Households Really Lose by Claiming Social Security at Age 62?", Sun, Wei and Webb, Anthony (2009), Boston CRR working paper, http://crr.bc.edu/images/stories/Working_Papers/wp_2009_11.pdf

Summary: Individuals can claim Social Security at any age from 62 to 70 although most claim at 62 or soon thereafter. Those who delay claiming receive increases that are approximately actuarially fair. We show that expected present value calculations substantially understate both the optimal claim age and the losses resulting from early claiming because they ignore the value of the additional longevity insurance acquired as a result of delay. Using numerical optimization techniques, we illustrate that for plausible preference parameters, the optimal age for non-liquidity constrained single individuals and married men to claim benefit is between 67 and 70. We calculate that Social Security Equivalent Income, the amount by which benefits payable at suboptimal ages must be increased so that a household is indifferent between claiming at those ages and the optimal combination of ages, can be as high as 19.0 percent.

"The clock is ticking… Ageing and the long-term sustainability of public finances", European Economy News, No 14, July 2009, http://ec.europa.eu/economy_finance/een/014/article_8881_en.htm
Summary: In-depth media release on ageing population issues following the release of the 2009 Ageing Report.

"Shaping the Future of Care Together", UK Government Green Paper (2009), http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_102338?IdcService=GET_FILE&dID=200786&Rendition=Web
Summary: This is a consultation document issued by the UK Government on options for long term care provision. It includes a form of compulsory insurance as one of the possible directions.

Pension systems reform

"Should social security rely solely on the payroll tax?", Alicia H. Munnell (2009), Boston CRR Brief, http://crr.bc.edu/images/stories/Briefs/ib_9-16.pdf
Summary: This brief explores the question of the appropriate tax, or combination of taxes, to finance Social Security. It's no secret that Social Security is facing a long-term financing shortfall. This problem can be solved only by putting more money into the system and/or by cutting benefits.. So the following discussion is not to suggest that there is an easy way out, but rather to explore whether the entire financing of the Social Security system should rest on the payroll tax. The payroll tax may be a perfectly reasonable way for current workers to pay for their benefits. But is it the right tax to finance the costs left over from paying benefits far in excess of contributions to early generations?

"Pension Funds in a Highly Politicised Environment: The Case of the Philippines", Dela Rama, Marie (2009), Pensions: An International Journal, http://ssrn.com/abstract=1417378
Summary: This paper reviews the investment decisions and strategies of two government owned pension funds in a highly politicized environment. The Government Service Insurance System (GSIS) and the Social Security System (SSS) are both government owned pension funds located in the Philippines. Interviews were conducted in 2007 with representatives from both pension funds, and other public and private sector interviewees as part of a broader research into the turbulent corporate governance landscape of the country. A review of politicisation and presidential appointments provide the context in which the two pension funds operate in the country. Being government institutions, these two funds have experienced the delicate balancing act of pursuing organizational objectives concurrently with political wishes – more often than not, at the expense of the former to appease the latter.

"Should pension systems recognise "hazardous and arduous work"?", Asghar Zaidi and Edward Whitehouse (2009), OECD social, employment and migration working paper n°91, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT00004C06/$FILE/JT03268577.PDF
Summary: Special pensions for workers in hazardous or arduous jobs have long been a feature of the pension landscape and, recently, they are the subject of a great deal of debate. This paper discusses the incidence, structure and justification of these special pension schemes in OECD countries.

"Fairness of Public Pensions and Old-Age Poverty", Breyer, Friedrich and Hupfeld, Stefan (2008), DIW Berlin Discussion Paper No. 817, http://ssrn.com/abstract=1425044
Summary: In several OECD countries, public pay-as-you-go financed pension systems have undergone major reforms and in countries with a tight tax-benefit linkage, the retirement benefit claims of low-income workers might not even exceed the minimum income guarantee which the government provides the aged. In an earlier paper, we introduced the concept of 'distributive neutrality', which takes income-group-specific differences in life expectancy into account. The present paper estimates the relationship

between annual earnings and life expectancy of German retirees empirically and shows how the formula that links benefits to contributions would have to be modified to achieve distributive neutrality.

Macro-Financial Analysis of Mandatory Individual Retirement Saving Accounts in Emerging Europe: Broken Promises, Financial Crises and Lessons for Serbia", Nikola Altiparmakov (2009), University of Waterloo Research Institute in Insurance, Securities and Quantitative Finance
http://www.watrisq.uwaterloo.ca/Research/2009Reports/2009-7.pdf
Summary: Most Emerging European countries have undertaken major pension reform efforts around the turning of the millennium. A prominent feature of these reforms was the introduction of mandatory individual retirement saving accounts. This article explores the initial reform results from a macro-financial perspective. In particular, a simple model is developed in order to assess macro-financial feasibility of switching from PAYG to individual retirement saving systems. About a decade of empirical data shows that mandatory individual retirement saving accounts in Emerging Europe have failed to even match the performance of existing PAYG systems in practice. High operating costs and undeveloped capital markets are identified as major contributing factors to the failure of mandatory retirement saving systems to meet their expectations. The article concludes that future pension reforms in Serbia are best advised to follow practices of developed European countries and focus on parametric reforms of the public PAYG system.

"Micro Simulations on the Effects of Ageing-Related Policy Measures", Van Sonsbeek, Jan-Maarten (2009), http://ssrn.com/abstract=1411806
Summary: In the Netherlands, like in most OECD-countries, the ageing of the population endangers the sustainability of public finances. In this paper a dynamic micro simulation model is used for calculating the financial and economic implications of the ageing problem and the policy measures considered. The model uses micro datasets of all Dutch pensions and pension entitlements. The retirement decision is modeled by using an option value approach.
First, the paper discusses the baseline scenario of unchanged policies. Long term state pension costs are lower than previously assumed. On the other hand, the most recent population projections show a further increase of life expectancy . The model is also used to analyse the redistributive character of the Dutch pension system, both through differences in pension entitlements and through differences in life expectancy, for different subgroups. Secondly, the paper discusses the effects of four policy measures aimed at reducing the state pension costs and the sustainability gap: abolishment of the partner allowance, raising the retirement age from 65 to 67 years of age, introduction of a flat rate state pension at the same level as the current pension for partners of a couple and raising the taxation of wealthier pensioners by abolishing their tax exemption.

"The Funded Pension Scheme in Uzbekistan: An Analysis", Khasanbaev, Alisher and Pfau, Wade (2009, Sophia International Review, Vol. 31, No. 1, pp. 75-92, March 2009, http://ssrn.com/abstract=1416585
Summary: In recent years, the share of elderly in the total population is increasing around the world. Rising proportionally are claims on public pension systems and health care expenditures. This places extra pressure on government budgets. As a result, countries which implement only pay-as-you-go pensions face fiscal deficits. This paper examines Uzbekistan's statutory pension system, which consists of two pillars: a public pay-as-you-go defined-benefit pension scheme, and a mandatory public funded defined-contribution scheme. We focus in particular on the funded scheme and evaluate ways to improve it by considering the achievements of other developing and transitioning countries in similar positions. The analysis focuses on the choice of fund ownership, contribution rates, investment returns, the population coverage rate, and the feasibility of further reforms.

Retirement savings

"How would Target-Date Funds likely impact future 401(k) accumulations?", Jack VanDerhei (2009), Employee Benefit Research Institute (EBRI), http://ssrn.com/abstract=1422726

Summary: As part of EBRI's 2008 analysis of the likely impact of the Pension Protection Act's safe harbour automatic enrolment and automatic escalation provisions, we developed a stochastic simulation model to project future 401(k) balances as a function of various plan design variables as well as assumptions with respect to various employee behavioural responses. This paper reports on the results obtained using the EBRI simulation model to determine how target-date funds (TDFs) would likely impact 401(k) participants assumed to be automatically enrolled. TDF use in 401(k) plans is not limited to those automatically enrolled; however, based on our simulation results, it appears that this 401(k) auto-enrolment will represent the majority of TDF use in the future. Several scenarios are presented in terms of alternative rates of return as well as several different types of target date funds.

"Cohort Changes in the Retirement Resources of Older Women", Iams, Howard, Phillips, John W.R., Robinson, Kristen, Deang, Lionel and Dushi, Irena (2008). Social Security Bulletin, Vol. 68, No. 4, pp. 1-13, 2008, http://www.ssa.gov/policy/docs/ssb/v68n4/v68n4p1.html

Summary: Dramatic changes in life expectancy, women's roles in the labor market, the structure of the workforce, and pension systems have occurred in recent decades, all influencing the well-being of future retirees. This article uses different sources of United States data to focus on the retirement resources of women aged 55-64. By comparing the resources for this age group in 2004 to their counterparts in 1994 and 1984, this analysis provides some indication of changes in the retirement preparedness of three different cohorts of women. Our findings indicate that notable changes have occurred with women's pathways into retirement that are due to increased education and lifetime work experience. As a consequence, there are marked differences in potential retirement outcomes. We find that women aged 55-64 today are better prepared in several respects than their counterparts of the same age 10 or 20 years ago.

"Investment Regulations and Defined Contribution Pensions", Antolín, P. et al. (2009), OECD Working Papers on Insurance and Private Pensions, No. 37, http://www.oecd.org/dataoecd/38/15/43347646.pdf

Summary: This paper assesses the impact of different quantitative approaches to regulate investment risk on the retirement income stemming from defined contribution (DC) pension plans. It looks at how such regulations affect the spectrum of investment policies available and, through this channel, how they affect the retirement income that an individual may expect from a DC pension plan. The analysis shows that there is a trade-off between potential retirement income and protection from bad outcomes. Reducing the downside risk on retirement income from DC pension plans requires moving into relatively conservative investment policies where the share of assets allocated to bonds may be quite large. However, this comes at the cost of renouncing potentially higher replacement rates that are attainable but at a higher risk of unfavourable retirement income outcomes. Less risk adverse regulators and supervisors would aim at lower probability requirements as regard the downside risk, which will increase the range of investment policies available and thus the share of riskier assets.

"Extending working life: changing the culture - qualitative research into effective messages", UK Department of Work and Pensions (2009), http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep557.pdf

Summary: This report presents findings from qualitative research carried out to help develop messages that would be effective in changing the way people think about how and when to retire; and in particular in encouraging them to stay in work up to and beyond the current State Pension age. The research was

also designed to explore effective ways of communicating messages connected with Extending Working Lives (EWL), but not to test specific communication products. Three rounds of fieldwork were conducted between 2006 and 2007, comprising 21 focus groups and 12 in-depth interviews.

Longevity and life expectancy

"Should projections of mortality improvements be subject to a minimum value?",
S D Baxter (2007), British Actuarial Journal Vol 13, Parts III, Institute and Faculty of Actuaries.
Summary: This paper was presented at a Sessional Meeting in 2007 and will have been seen by the specialists, but is now just published, along with a record of the discussion. The discussion is particularly interesting for the range of views expressed. As with the Annals of Actuarial Science only UK Faculty or Institute members can access an electronic copy – so if not one yourself and interested, see if you have a friend who is a member who can get a copy for you.

Regulation

IASB proposal to amend the discount rate for measuring employee benefits (20 August 2009)
http://www.iasb.org/News/Press+Releases/IASB+proposes+to+amend+the+discount+rate+for+employee+benefits.htm
The International Accounting Standards Board (IASB) has published for public comment proposals to amend the discount rate for measuring employee benefits. The proposals respond to calls from stakeholders to address a problem that the global financial crisis has made increasingly significant.

Other

CAAR (Current Awareness in Aging Research) is a weekly email report produced by the Center for Demography of Health and Aging at the University of Wisconsin-Madison that offers to help researchers keep up to date with the latest developments in the field. For more information, including an archive of back issues and subscription information see: http://www.ssc.wisc.edu/cdha/caar.html