REFERENCE LIST
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Social security

"Retirement Security and the Financial and Economic Crisis: An Overview", Raimond Maurer, Olivia S. Mitchell, and Mark Warshawsky (2011), PRC Wharton WP2011-08, http://www.pensionresearchcouncil.org/publications/document.php?file=976

Summary: The global financial and economic crisis severely undermined the future of retirement security. At a recent Impact Conference sponsored by the Wharton School's Pension Research Council (PRC) and the Boettner Center for Pensions and Retirement Research at the University of Pennsylvania, academics, practitioners, and policy analysts joined to explore how retirement planning and long-term financial security have changed, following the crisis. This paper summarizes key lessons and conclusions.

"Early retirement: the dawn of a new era?", Joseph Quinn, Kevin Cahill, Michael Giandrea (2011), TIAA-CREF policy brief, http://www.tiaa-crefinstitute.org/pdf/research/dvds_books/pb_earlyretirement0711.pdf

Summary: Americans reaching traditional retirement ages during the past two decades (and today) face a different retirement environment than did prior cohorts. Mandatory retirement has been eliminated for the vast majority of American workers, and important work disincentives (or retirement incentives) in Social Security and in employer pension plans have been eliminated or reduced. Americans are living longer and healthier lives, fewer have physically arduous jobs, and technology has increased the options about where and when people work. In addition, the age of eligibility for 'full' Social Security retirement benefits has been increased from 65 to 66 (and will soon increase to 67), which is equivalent to an across-the-board benefit cut, and fewer firms are offering employer-sponsored post-retirement health insurance. There are concerns about the future of Social Security, Medicare and Medicaid. Some of these changes are good news for older workers and some bad, but they all have altered the relative attractiveness of work and leisure late in life in favour of work.

In response to a very different environment, retirement patterns have changed dramatically since the mid 1980s. A century-long trend toward earlier and earlier retirement by American men has come to a halt and has subsequently reversed. Among older women, there was a similar break in trend, and many more older men and women are working today than the pre-1980s trends would have predicted. In addition, the majority of Americans retire not all-at-once, but gradually, in stages, utilizing bridge jobs between full-time career employment and complete labour force withdrawal. Since the structural changes we describe are not about to be reversed, we think that

recent trends are a good guide for the near future. We have entered a new era of retirement, which, we argue, is mostly good news – for the individuals themselves, for employers, and for the nation as a whole, facing the challenges of an aging society.

"Intergenerational Risk Sharing and Redistribution under Unfunded Pension Systems: An Experimental Study", Siqi Pan (2011), Research Master Thesis 2011-004, Netspar, http://arno.uvt.nl/show.cgi?fid=115373

Summary: In the presence of idiosyncratic income risk and rate of return risk, does an unfunded pension play a role in intragenerational risk sharing? Towards its redistributive nature, what are the attitudes of high- and low-income earners respectively? How do people adjust their saving and risk management behaviors under different pension systems? As a result, how does a pension system affect the social welfare when taking into account the issue of risk exposure? This paper intends to answer these questions using an experimental method.

Consistent with most theoretical predictions from the model, the main findings are: (i) low-income earners shows more support for unfunded pensions; (ii) when high-income earners take a larger proportion in a society, people of all income levels are more supportive for unfunded pensions; (iii) an unfunded pension discourages savings in funded pensions; (iv) people tend to take on more risk in their funded pensions as the unfunded pension expands; (v) low-income earners benefit more from an unfunded pension; (vi) more risk averse agents benefit more from an unfunded pension.

"What Is the Average Retirement Age?", Alicia H. Munnell (2011), Boston CRR IB#11-11, http://crr.bc.edu/images/stories/Briefs/IB_11-11_508.pdf

Summary: The first section of this brief describes the long-run decline in labour force participation of men. The second looks at the turnaround that began in the mid-1980s. The third section discusses the trends for women, which combine their increasing labour force activity, on the one hand, and incentives to retire, on the other. The final section concludes that labour force activity of both men and women has increased significantly since the mid-1980s as many incentives now encourage work. Several hurdles remain to continued increases, however, including the sluggish economic recovery, the move away from career employment, the availability of Social Security at 62, and employer resistance to part-time employment.

Pension systems reform

"Beyond Age and Sex: Enhancing Annuity Pricing", Joelle HY. Fong (2011), PRC Wharton Working Paper 2011-07,
http://www.pensionresearchcouncil.org/publications/document.php?file=975

NB: *access to Pension Research Centre documents requires (free) registration*

Summary: Prices of standard annuity products in the United States do not currently reflect buyers' personal characteristics other than age and sex. I show that several readily-measurable risk factors can significantly increase explained variability in mortality outcomes in a proportional hazards framework and use them to construct alternative pricing schemes. Simulation results show that more detailed pricing may help reduce adverse selection in annuity markets because shorter-lived groups are made much better off (and thus enter the market) while longer-lived groups are made only slightly worse off (and thus remain in the market).

"Retirement 20/20: Innovation in Pension Design", Robert L. Brown (2011), Department of Statistics & Actuarial Science, University of Waterloo, http://www.watrisq.uwaterloo.ca/Research/2010Reports/2010-02.pdf

Summary: Traditional sponsors of DB plans appear to have concluded that their cost (or the variability of that cost) is not commensurate with the rewards of a loyal work force. At the same time, two stock market meltdowns in less than a decade have indicated to all the frailties of Individual Account DC systems. Explored here is a new pension system that brings most of the advantages of the DB and DC plans to the participating parties, but minimizes their disadvantages. This is done in a manner that admits to the skill set of the participants (e.g., we cannot expect a blue collar worker to be an investment professional) and does not anticipate or require anomalous markets (e.g., ever-stronger equity returns).

The proposed model is one described as a "Jointly Governed Target Benefit Defined Benefit Pension plan". The paper shows that such plans would have many features in common with today's Ontario Multi-Employer Pension Plans (MEPPs) the Canada/Quebec Pension Plans (C/QPP), TIAA-CREF in the United States and the Dutch national plan.

Retirement savings

"Did the Housing Boom Increase Household Spending?", Shenyi Jiang, Wei Sun, and Anthony Webb (2011), Boston CRR IB#11-10, http://crr.bc.edu/images/stories/Briefs/IB_11-10_508.pdf

Summary: Between 1995 and 2007, inflation-adjusted house prices more than doubled in some areas of the United States. During this unprecedented boom, households spent more and reduced their saving rate. A key question is how much of the increased spending was related to rising house prices, as opposed to other factors? And, if households spent more when prices soared, are they likely to cut back during the housing bust? The answers can help in assessing retirement saving trends.

This brief uses the Health and Retirement Study to examine the spending behaviour of older households during the housing boom and subsequent bust. It compares changes in spending on non-durable goods (e.g., meals out, vacations, and entertainment) of households in areas with rapid growth in house prices to those in areas with relatively stable prices. The results show that rising house prices led to a modest increase in annual consumption that, if sustained over time, could eat up a significant portion of the gain. Interestingly, the study also finds that households experiencing a decline in house prices do not correspondingly reduce their consumption.

"Individual Investors and the Financial Crisis: How Perceptions Change, Drive Behaviour, and Impact Performance", Arvid Hoffmann, Thomas Post and Joost Pennings (2011), Netspar discussion paper 07/2011-041, http://arno.uvt.nl/show.cgi?fid=115633

Summary: We show how during the 2007–2009 financial crisis individual investor perceptions change, drive trading and risk-taking behaviour, and impact investment performance. Based on a unique combination of monthly survey data and matching brokerage records of a sample of brokerage clients from April 2008 to March 2009, we find that investor perceptions fluctuate significantly over the sample period, with risk attitudes and risk perceptions being less volatile than return expectations. In particular, revisions in return expectations and risk attitudes are positively, and revisions in risk perceptions negatively, related to overall market developments. Overall, successful investors had higher return expectations and higher risk aversion, which led them to trade less, take less risk, and have lower buy-sell ratios. Investors who outperformed

during the height of the crisis (September–October 2008) also performed better before. Afterward, however, they became less risk averse, were no longer less likely to trade, and no longer outperformed, suggesting that their success made them overconfident about their investment skills.

Longevity and life expectancy

"Longevity Risk in Life Insurance Products", Ralph Stevens (2011), PhD Thesis 2011-002, Netspar, http://arno.uvt.nl/show.cgi?fid=113827
Summary: This PhD thesis groups five papers, covering longevity risk (systemic rather than idiosyncratic), insurance capital requirements in the light of longevity risk, the effect of product design, hedge effects in a portfolio of life insurance products with investment risk, and annuity decisions with systemic longevity risk.

Regulation

Public Consultation: OECD/IOPS Good Practices on Pension Funds' Use of Alternative Investments and Derivatives
Deadline for comment: 9 September 2011
Building on previous standard-setting work in the area of asset/risk management by pension funds, the OECD and the International Organisation of Pensions Supervisors (IOPS) have developed a new set of good practices on the use of alternative investments and derivatives by pension funds in view of the increasing use of these types of investments and the opportunities and risk they present to the security and safety of retirement benefits.
The OECD and IOPS are now inviting comment on these draft Good Practices on Pension Funds' Use of Alternative Investments and Derivatives. The public consultation is open from 7 July to 9 September 2011. Comments received will be taken into account by delegates before finalisation of the text.

Other

UK Pension conference
Some attendees at the June 2011 Pension Conference in Newport volunteered to provide reviews of the plenaries and sessions they attended. Other helpful summaries have been provided by the presenters. The URL for the write ups is given below.
http://www.actuaries.org.uk/practice-areas/pages/pensions-conference-2011-reviews-presentations?utm_medium=email&utm_campaign=Pensions+newsletter+-+August+2011&utm_content=Pensions+newsletter+-+August+2011+CID_1656686a04265e267de5be4bbc13abba&utm_source=Email+marketing&utm_term=Pensions+Conference+write+ups
Conference paper URLs are included in the write ups where available.

UNSW Centre for Pensions Research superannuation conference
This July conference held in Sydney had a number of interesting papers. They are not as yet posted on the CPS website, but included two papers in this month's list ("Beyond Age and Sex: Enhancing Annuity Pricing" and "Individual Investors and the Financial Crisis: How Perceptions Change, Drive Behaviour, and Impact Performance"). More details later.

Squared away blog
Last month the URL for this blog, hosted by the Boston CRR, was noted: to repeat, it's http://fsp.bc.edu/squared-away-blog/. Recent postings that may be of interest are:
Online Calculator Takes on Annuities
There are numerous calculators online to help working individuals tally how much money they will need to accumulate for their retirement. Fidelity Investments may offer the first online calculator that proposes how individuals should invest and draw down their nest egg to ensure it will last through retirement.
'Finglish' Is the Problem
In this video, a "word consultant" asks people on the streets of downtown Chicago to define financial terms such as "dollar-cost averaging" and "beta." Their answers are all over the map, but demonstrate one thing: the language used by financial professionals can be incomprehensible.
Why Baby Boomers Can't Retire
The average retirement age for Americans has risen steadily since the 1980s, according to a new study (*see the TIAA-CREF policy brief under Social Security*). So what are the economic and cultural forces that have left an entire generation of baby boomers financially unprepared – and unable – to retire?