REFERENCE LIST
August 2016

Social Security Credits for Moms?

August 2016- Center for Retirement Research, Boston College

Dramatic changes in the U.S. family structure over several decades – more divorce, single motherhood, and unmarried couples – could have a big impact on the financial security of baby boomer women as they march into retirement – and on future retirees.

A review of studies on Social Security spousal and survivor benefits by the Center for Retirement Research, which sponsors this blog, examines the difficulty of providing retirement security for the growing ranks of women and mothers who do not fit the traditional family mold.

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Pension Participation, Wealth, and Income: 1992-2010

August 2016- Center for Retirement Research, Boston College

Using data from the 1992, 1998, 2004, and 2010 waves of the Health and Retirement Study (HRS), this paper compares pension participation, pension wealth, projected retirement income, and replacement rates attributable to past service, by pension type for households ages 51-56. The analysis includes workers' pension coverage during both current and past jobs. Defined contribution (DC) wealth is simply the current account balance. DC income is calculated by projecting current plan balances to retirement, assuming no further contributions, and assuming that households then annuitize. Defined benefit (DB) wealth and income are calculated by apportioning projected benefits to past and future service.

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Are Early Claimers Making a Mistake?

August 2016- Center for Retirement Research, Boston College

Using Health and Retirement Study (HRS) data and Latent Class Analysis for three cohorts (those born in 1931-1936, 1937-1941, and 1942-1947), this paper explores: 1) who claims Social Security benefits at age 62; 2) what percentage of households claiming at 62 are unprepared for retirement; and 3) whether the unprepared early claimers were pushed into claiming through job shocks and/or poor health or simply decided to take benefits early. Looking across three cohorts makes it possible to see whether these patterns have changed as the average claim age has increased and pension coverage has shifted away from defined benefit (DB) plans. That is, have those who have moved out of age-62 claiming been educated, financially prepared households or unprepared households that have recognized the need to delay claiming?

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How Would Investing in Equities Have Affected the Social Security Trust Fund?

August 2016- Center for Retirement Research, Boston College

Some observers believe that investing a portion of the Social Security Trust Fund in equities would strengthen its finances and improve the program's intergenerational risk-sharing. However, equity investments would also expose the program to greater financial risk and potentially greater political risk. Monte-Carlo simulation methods are used to investigate whether equity investments would likely strengthen the long-term outlook of the Trust Fund relative to the current policy of investing 100 percent of reserves in U.S. government bonds. The issues surrounding equity investments also go beyond expected returns on the Trust Fund portfolio. Concerns of government interference with the allocation of capital in the economy and with corporate decision-making as well as the accounting treatment of equity investments are also discussed.

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Rising Health Costs a Factor in Inequality

August 2016- Center for Retirement Research, Boston College

Inequality is frequently in the news. A new study puts an interesting spin on this now-familiar topic: rising health costs are a significant reason for wage inequality. The cost of employer-provided health insurance is a larger share of lower-paid employees' total compensation than it is for the people higher up in the organization. Since insurance costs have been increasing faster than total compensation, squeezing out pay raises, the nation's lowest-paid workers feel it most.

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401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2014

August 2016- Employee Benefit Research Institute (EBRI)

- Since 1996 the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI) have worked together on collecting and analyzing annual data on millions of 401(k) plan participants' accounts. This report reflects the year-end 2014 update of these data and EBRI's and ICI's ongoing research into 401(k) plan participants' activity.
- The bulk of 401(k) assets were invested in stocks. On average, at year-end 2014, 66 percent of 401(k) participants' assets were invested in equity securities through equity funds, the equity portion of balanced funds, and company stock. Twenty-seven percent was in fixed-income securities such as stable-value investments, bond funds, and money funds.
- More 401(k) plan participants held equities at year-end 2014 than before the financial market crisis (year-end 2007), and most had the majority of their accounts invested in equities. For example, about three-quarters of participants in their 20s had more than 80 percent of their 401(k) plan accounts invested in equities at year-end 2014, up from less than half of participants in their 20s at year-end 2007. Overall, more than 90 percent of 401(k) participants had at least some investment in equities at year-end 2014.

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Personal pensions with risk sharing

August 2016- Journal of Pension Economics and Finance

To improve the design of the pay-out phase of DC plans, this paper proposes a new approach to structure pension products: the Personal Pension with Risk sharing (PPR). By unbundling and valuing the investment, (dis)saving, insurance and risk-sharing functions of pensions, PPRs allow risk management and (dis)saving to be customized to the specific features of heterogeneous individuals. Unlike variable annuities, PPRs allow investment risks to be combined with longevity insurance without giving rise to high year-on-year volatility in consumption streams or opaque and rigid valuation and smoothing rules. The synthesis of a PPR structure provides new opportunities for product innovation and for the comparison of retirement products.

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How Job Options Narrow for Older Workers by Socioeconomic Status

August 2016- Center for Retirement Research, Boston College

The brief's key findings are:

- Job-changers over age 50 increasingly end up in "old-person" jobs, with a high share of older hires relative to prime-age hires.
- These basic findings hold by gender and by education.
- However, the overall outlook has improved since the late 1990s for all groups, particularly for older women with more education.
- Also, older job-changers hired into "old-person" jobs are paid no less than other jobs.

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Social Security Replaces Less for Couples

August 2016- Center for Retirement Research, Boston College

When Social Security was created in the 1930s, wives were mainly full-time homemakers, with their pension benefits based on their breadwinner husbands' earnings. But wives went to work in droves after Social Security's passage. Today, women make up nearly half of the U.S. labor force. Yet the program's design remains the same, with the result being a steady decline in married couples' replacement rates – the percentage of the combined earnings of two working spouses that Social Security replaces when both retire.

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No Love, Actuary

August 2016- The Economist

When it comes to funding the pensions of their workers, American states and local governments have not been doing a good job. Back in 2000, the average pension plan was fully funded, according to the Centre for Retirement Research (CRR); at the end of 2015, the official funding ratio was just 72%. So a report from a pension-finance task force into the way economic principles apply to public pension funds ought to make compulsory reading. But the paper, commissioned by the American Academy of Actuaries (AAA) and the Society of Actuaries (SoA), is not going to see the light of day. That is very disappointing, since the report (a draft of which has been seen by The Economist) highlights how the approach to valuing American public pensions is highly questionable.

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How Many Years Can You Do Your Job?

August 2016- Center for Retirement Research, Boston College

Physical power, fast reactions, steady hands, a crisp memory, and mental dexterity – these physical and mental abilities, taken for granted in youth, break down slowly but persistently over the years. A unique combination of physical and mental skills help to determine whether each worker's continued employment is more or less susceptible to aging. To better understand who can work longer and who can't, researchers at the Center for Retirement Research developed a Susceptibility Index to rank 954 U.S. occupations Using the skills required for each occupation in the federal O*Net database, they ranked the occupations from 0 to 100 based on the risk that age-related decline will affect a worker's ability to perform that particular job. The risk reflects the number and importance of the age-vulnerable abilities.

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Social Security Benefits, Finances, and Policy Options: A Primer

August 2016- National Academy of Social Insurance

Topics covered include:

- Who receives Social Security? What are typical Social Security benefits? How do benefits compare to earnings for retirees at different wage levels?
- Who pays for it?
- How many older Americans receive employer-sponsored pensions?
- How are Social Security retirement benefits projected to change in the future?
- What is Social Security disability insurance?
- What are the "best estimate" long-range projections of Social Security finances? What do the high-cost and low-cost projections show? What is the actuarial deficit?
- Why will Social Security cost more in the future? Can we afford Social Security in the future? How can we strengthen Social Security in the future? What are our options? Why consider revenue enhancements to balance Social Security?
- What do American workers say?

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Pension Fund Asset Allocation and Liability Discount Rates

August 2016- Social Science Research Network

This paper studies the regulatory incentives of U.S. public pension funds to increase risk-taking arising from their unique regulation linking their liability discount rates to the expected return on assets, which enables them to report a better funding position by investing more in risky assets. Comparing public and private pension funds in the U.S., Canada, and Europe, U.S. public funds seem susceptible to these incentives. More mature U.S. public funds as well as funds with more political and participant-elected board members take more risk and use higher discount rates. The increased risk-taking of U.S. public plans is negatively related to their performance.

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Working lives reduced by disability pensions

August 2016- Finnish Centre for Pensions

In this study, we examine the time spent on a disability pension and changes to it by disease category in a period ranging from 2005 to 2014. Our study is based on life tables of Statistics Finland and the age-specific proportions of people drawing a disability pension derived from the registers of the Finnish Centre for Pensions.

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Does Socioeconomic Status Lead People to Retire Too Soon?

August 2016- Center for Retirement Research, Boston College

The brief's key findings are:

- The ability to stay on the job long enough for a secure retirement may vary by socioeconomic status (SES).
- Using education for SES, the analysis calculates a retirement gap – the difference between how long households plan to work and how long they need to work.
- Not surprisingly, retirement gaps are both more common and larger among households in the bottom education quartile compared to those in higher quartiles.
- Even after controlling for demographic/financial characteristics and preretirement shocks, the bottom-quartile households still have much larger gaps.
- Thus, premature retirement by low-SES households is a big problem. However, relatively poor health and job prospects may make it harder for them to work longer.

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The Quantification of type-2 prudence in asset allocation by the trustees of retirement found

August 2016- Journal of Pension Economics and Finance

In this paper, consideration is given to the normative use of expected-utility theory for the purposes of asset allocation by the trustees of retirement funds. A distinction is drawn between "type-1 prudence", which relates to deliberate conservatism on the part of actuaries in the setting of assumptions and the determination of model parameters, and "type-2 prudence", which relates to the risk aversion of the trustees. The intention of the research was to quantify type-2 prudence for the purposes of asset allocation, both for defined-contribution (DC) and defined-benefit (DB) funds. The authors propose new definitions of the objective variables used as the argument of the utility function: one for DC funds and another for DB funds. A new class of utility functions, referred to as the "weighted average relative risk aversion" class is proposed. Practicalities of implementation are discussed. Illustrative results of the application of the method are presented, and it is shown that the proposed approach resolves the paradox of counter-intuitive results found in the literature regarding the sensitivity of the optimal asset allocation to the funding level of a DB fund.

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Aggregation of 1-year risks in life and disability insurance

August 2016- Cambridge University Press- Cambridge Journals

We consider large insurance portfolios consisting of life or disability insurance policies that are assumed independent, conditional on a stochastic process representing the economic–demographic environment. Using the conditional law of large numbers, we show that when the portfolio of liabilities becomes large enough, its value on aδ-year horizon can be approximated by a functional of the environment process. Based on this representation, we derive a semi-analytical approximation of the systematic risk quantiles of the future liability value for a homogeneous portfolio when the environment is represented by a one-factor diffusion process. For the multi-factor diffusion case, we propose two different risk aggregation techniques for a portfolio consisting of large, homogeneous pools. We give numerical results comparing the resulting capital charges with the Solvency II standard formula, based on disability claims data from the Swedish insurance company Folksam.

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Modelling the reverse and ultimate mortality experience of UK ill-health retirement occupational pension scheme members

August 2016- Cambridge University Press- Cambridge Journals

Retirements from the workforce can be split between those who are forced to retire early specifically for health reasons referred to as ill-health retirements and all other retirements referred to as normal-health retirements. Rates of ill-health retirement increase with age and are higher for females than males. Consequently, the mortality experience of ill-health retirement pensioners will become more important in the future as pension schemes increase their normal retirement age in line with increases in life expectancy and the proportion of women in the workforce and therefore in occupational pension schemes increases. This paper seeks to model the mortality of ill-health retirements from occupational pension schemes in the United Kingdom in the period immediately following retirement (reverse select mortality) and over the longer term (ultimate mortality) allowing for age at retirement. Females experience a longer reverse select period than males and for both males and females the improvement in mortality rates over the reverse select period is greatest at younger ages. Post the reverse select period the effect of age at retirement decreases over time with ultimate mortality rates converging by the mid-eighties for males and females.

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