REFERENCE LIST
February/March 2011

Social security

"Social Security Across Generations: Benefit Cuts Will Fall on Today's Children and Grandchildren", Reno, Virginia P. and Walker, Elisa (2011), Social Security Fact Sheet, No. 1, January 2011,
http://www.nasi.org/sites/default/files/research/SS%20Fact%20Sheet%20No.01_Social%20Security%20Across%20Generations.pdf
Summary: This fact sheet argues the children and grandchildren of today's retirees will bear the brunt of the benefit cuts currently being proposed by some policymakers and commentators. It outlines how raising the retirement age means lowering benefits at any age they are claimed. The fact sheet also compares retirement benefits under current law to benefits under the plan proposed by the co-chairs of President Obama's fiscal commission.

"Framing Effects and Expected Social Security Claiming Behavior", Jeffrey R. Brown, Arie Kapteyn, and Olivia S. Mitchell (2010), Pension Research Council WP2010-42,
http://www.pensionresearchcouncil.org/publications/document.php?file=932
Summary: Eligible participants in the U.S. Social Security system have the ability to claim benefits anytime between ages 62 and 70, with the level of benefit being actuarially adjusted based on the date of claiming. This project shows that individual intentions with regard to Social Security claiming age are sensitive to the manner in which the early versus late claiming decision is framed. Using an experimental design that alters the manner in which the implications of Social Security benefits are framed, we find evidence that the use of a "break-even analysis" has the very strong effect of encouraging individuals to claim early. We show that individuals are more likely to report that they will delay claiming when later claiming is framed as a gain and when the information provides an anchoring point at older, rather than younger, ages. We also provide evidence that females, individuals with credit card debt, and individuals with lower expected benefits are more strongly influenced by framing. The finding that expected claiming decisions can be significantly altered by the framing of information suggests that individuals may not be making fully rational optimizing choices when it comes to choosing a claiming date.

Pension systems reform

Pensions at a glance 2011: Retirement-Income Systems in OECD and G20 Countries

The theme of this fourth edition of Pensions at a Glance is pensions, retirement and life expectancy. Many countries have increased pension ages in the face of population ageing and longer lives. Some have introduced an automatic link between pensions and life expectancy. Improvements to the incentives to work rather than retire are also a common part of recent pension-reform packages. However, ensuring that there are enough jobs for older workers remains a challenge.

An in-depth look at these important policy issues is provided by five special chapters on: pension ages, retirement behaviour, pension incentives to retire, the demand for older workers and linking pensions to life expectancy.

More countries are analysed than in previous editions, including four new members of the OECD: Chile, Estonia, Israel and Slovenia. Where possible, data are also provided for the other major economies in the G20: Argentina, Brazil, China, India, Indonesia, the Russian Federation, Saudi Arabia and South Africa. Along with data on the European Union's 27 member states, this brings to 43 the number of economies covered in the report.

The publication is not available on the OECD website as a free download except to subscribers. However, summarised information on individual countries and other material is available from http://www.oecd.org/document/49/0,3746,en_2649_34757_42992113_1_1_1_1,00.html

"Independent Public Service Pensions Commission – Final Report"

http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

Summary: The Independent Public Service Pensions Commission in the UK has conducted a fundamental structural review of public service pension provision, publishing its final report on 10 March 2011. The full Commission report is at http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf

The Commission sets out their recommendations to the Government on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights. They recommend increases in retirement ages, higher contributions by members and a shift from final salary benefits to career average revalued for future service accrual.

The UK government has also been consulting on the appropriate rate of discount to use for assessing public sector pension liabilities. The results of this consultation were published in March 2011. The Government has decided that the appropriate discount rate for calculating unfunded public service pension contribution rates should be based on the long term expectations of GDP growth. A discount rate of three per cent above CPI inflation will therefore be adopted for calculating unfunded public service pension contributions in actuarial valuations. This report is at http://www.hm-treasury.gov.uk/d/publicservice_pensions_060810.pdf

"How can we measure adequacy in the context of public sector pensions?", Pensions Policy Institute Briefing Note 58 March 2011,

https://www.pensionspolicyinstitute.org.uk/uploadeddocuments/Briefing%20Notes/PPI_Briefing_Note_58_-_Adequacy_in_the_context_of_Public_Sector_Pensions_March_2011.pdf

Summary: The Independent Public Service Pensions Commission in the UK has conducted a fundamental structural review of public service pension provision, publishing its final report on 10 March 2011 (see above). In its call for evidence, the Commission noted that a key outcome

for public service pensions is that they deliver an adequate level of income in retirement, particularly when people have devoted the majority of their life to public service.
In January 2011, the Pensions Policy Institute organised a seminar with a range of organisations with an interest in pensions policy to discuss questions raised by the Commission. This briefing note reports on the main aspects discussed in this seminar, including: a) how to measure adequate levels of resources in retirement?; b) what should be considered an adequate level of resources in retirement?; c) should a full state pension and a full public service pension ensure that people have adequate resources in retirement or should room be left for individuals to make their own arrangements?; d) how should this change where people work part careers?

"Making the Dutch Pension System Less Vulnerable to Financial Crises", Høj, J. (2011), OECD Economics Department Working Papers, No. 832,http://www.oecd-ilibrary.org/docserver/download/fulltext/5kgkdgg5fxd3.pdf?expires=1298330060&id=0000&accname=guest&checksum=DD724FEE2B063ECC7D9FD364BAE59B0F
Summary: The Dutch occupational pension system has been successful in securing high asset accumulation to fund generous pension promises. However, for the second time in this decade the pension system has been affected by a financial crisis and many pension funds' assets fell below levels needed to meet regulatory requirements. Insufficient funding raises solvency issues, which could eventually lead to large fiscal costs in case of bail-outs. In response to the crisis, most funds were required by the regulator to draw up recovery plans to restore their funding over five years. This has raised concerns that the adjustment required by the regulator is unnecessarily sharp, with possibly adverse macroeconomic implications. On the other hand, OECD simulations indicate that under current policies, it is unlikely that funding rates will be secured that enable the funds over the long term to fulfil their promises of a replacement rate of up to 80% of average wages. This raises the challenge of implementing parametric changes that secure pension benefits without large detrimental effects on intergenerational equity and growth. Occupational pensions are transferable, which enhances labour market mobility. But it is often very difficult for workers to assess how one pension scheme compares to another, posing practical barriers to mobility that should be eased. This Working Paper relates to the 2010 OECD Economic Survey of the Netherlands (www.oecd.org/eco/surveys/ netherlands).

"The Impact of Pensions on State Borrowing Costs", Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby (2011), CRR Boston SLP#14,
http://crr.bc.edu/images/stories/Briefs/slp_14.pdf
Summary: Both public pensions and municipal bonds are in the headlines. An important question is how pensions affect municipal bond rates. This analysis of 37,500 bond issues found that pensions raise rates by a modest 3-7 basis points. However, if pension costs rise as a share of state budgets, this impact could increase in the future. Interestingly, pensions do not appear to have an impact on bond ratings.

Retirement savings

"**Labor force participation rates of the population age 55 and older: What did the recession do to the trends?"**, Craig Copeland (2011), Employee Benefit Research Institute,
http://www.ebri.org/pdf/notespdf/EBRI_Notes_02_Feb-11.HCS_Part-Rts.pdf
Summary: Participation rates are up for those near or past retirement age. For those aged 55 and older, the labour-force participation rate continued to increase even after the economic downturn

of 2008-2009. For those aged 55-64, this is being driven almost exclusively by the increase in women in the work force; the male participation rate is flat to declining. But among those aged 65 and older, labour-force participation increased for both males and females. Education is a big factor: those with higher levels of education are more likely to stay at work. Need for health and retirement benefits is a driving factor. The upward trend is not surprising and is likely to continue because of workers' need for access to employment-based health insurance and for more earning years to accumulate assets in 401(k)-type plans, particularly after the stock market and economy downturn in 2008.

"Qualified Retirement Plans: Analysis of Distribution and Rollover Activity", Victoria L. Bryant, Sarah Holden, and John Sabelhaus (2011), Pension Research Council WP2011-01, http://www.pensionresearchcouncil.org/publications/document.php?file=935
Summary: One potential downside when employees have the freedom to manage their own retirement accumulations is "leakage" prior to the end of their working careers, which is proxied here using age 60. Leakage occurs when employees take withdrawals prior to retirement, when they cash out distributions at job separation, or when they fail to pay back loans taken out against their accounts. Although leakage has the potential to undermine a participant-driven retirement system, trend analysis shows that aggregate pre-retirement leakage is modest and trending down relative to assets, and stable as a share of gross contributions. The probability of receiving a distribution and the fraction of gross distributions cashed out are roughly equal across income groups, but the portion cashed out represents a higher percentage of income for the lower-income groups.

"The 2011 Retirement Confidence Survey: Confidence Drops to Record Lows, Reflecting 'the New Normal'", Ruth Helman, Mathew Greenwald & Associates, Craig Copeland and Jack VanDerhei (2011), Employee Benefit Research Institute, http://www.ebri.org/pdf/surveys/rcs/2011/EBRI_03-2011_No355_RCS-11.pdf
Summary: The 21st wave of the Retirement Confidence Survey (RCS) finds that Americans' confidence in their ability to afford a comfortable retirement has plunged to a new low at the same time that the recent declines in other retirement confidence indicators appear to be stabilizing. Instead of making fundamental adjustments to their spending and saving patterns in response to the decline in confidence, workers continue to change their expectations about how they will transition from work to retirement in what has been called an age of "the new normal." A sizable percentage of workers report they have virtually no savings or investments. Among RCS workers providing this type of information, 29 percent say they have less than $1,000. In total, more than half of workers (56 percent) report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000. More workers now expect to work for pay in retirement. Seventy-four percent report they plan to work in retirement (up from 70 percent in 2010), three times the percentage of retirees who say they actually worked for pay in retirement (23 percent).

"Health and Retirement Effects in a Collective Consumption Model of Elderly Households", Lewbel, Arthur and Seitz, Shannon (2011), Boston CRR Working Paper No. 2011-4, http://crr.bc.edu/images/stories/Working_Papers/wp_2011-4.pdf
Summary: Using data on older individuals and couples, we estimate a collective model of household consumption of a variety of goods, showing how resources are shared between

husbands and wives, and how this allocation is affected by retirement and health status. We identify the extent to which shared consumption of goods by older married couples reduces the costs of living together relative to living alone. We also identify the fraction of household resources consumed by wives versus husbands, taking the jointness of some consumption into account. The results are relevant for household bargaining models and for a variety of welfare calculations.
Among other results, we find that older couples save between 24 and 40 percent on expenditures by sharing consumption of goods, that older wives consume between 30 and 42 percent of total household expenditures (taking sharing of goods into account), and that these shares are little affected by retirement, but increase dramatically when the husband's health is poorer.

"A Post-Crisis Assessment of Retirement Income Adequacy for Baby Boomers and Gen Xers", Jack Vanderhei (2011), EBRI Issue Brief, No. 354,
http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=4742
Summary: The analysis in this paper was designed to answer two questions: (1) What percentage of U.S. households became at risk of insufficient retirement income as a result of the financial market and real estate crisis in 2008 and 2009?; (2) Of those who are at risk, what additional savings do they need to make each year until retirement age to make up for their losses from the crisis? The results are from the 2010 EBRI Retirement Security Projection Model® by the Employee Benefit Research Institute. Key findings include (a) the percentage of households that would not have been "at risk" without the 2008-2009 crisis but that ended up "at risk" varies from a low of 3.8 percent to a high of 14.3 percent; (b) looking at all Early Boomer households that would need to save an additional amount (over and above the savings already factored into the baseline model), the median percentage of additional compensation for these households desiring a 50 percent probability of retirement income adequacy would be 3.0 percent of compensation each year until retirement age to account for the financial and housing market crisis in 2008 and 2009, and for those desiring a 90 percent probability of retirement income adequacy , 4.3 percent of compensation.

Longevity and life expectancy

Emerging Trends in Mortality and Longevity - An international Multidisciplinary Symposium on Research in Mortality/ Morbidity/ Longevity
Tuesday 13 to Wednesday 14 September 2011, Warwick, United Kingdom
http://www.actuaries.org/index.cfm?lang=EN&DSP=CTTEES_TFM&ACT=EVENTS
The UK actuarial profession's Mortality Research Strategy Group and the IAA Mortality Working Group will be sponsoring a multidisciplinary symposium on research in mortality and longevity. This conference will be held at Warwick UK, from 13 - 14 September 2011 and aims to encourage collaboration between disciplines in, for example, the actuarial, medical, social science and demographic fields.
By hosting the conference adjacent to the Society of Social Medicine's Annual Scientific Meeting in 2011 it is hoped to attract further participation from the medical, epidemiology and demography academic communities as well as the UK and worldwide actuarial profession's core membership.

Media Release: Actuaries call for longevity risk focus - including new generation annuities - in Federal Budget, 17 February 2011, Sydney, http://www.actuaries.asn.au/Library/IAA%20Press%20Release%20-%202011%20Budget%20submission%20FINAL.pdf
The Institute of Actuaries of Australia (the Institute) has today urged the Government to prioritise longevity risk policies, including development of a new generation variable annuities market, to meet the challenges of Australia's ageing population. In its Federal Budget submission, the Institute's approach recognises that superannuation will likely provide an inadequate retirement income, due to both market risk and increasing retiree longevity. "We urge the Government to prioritise Budget policies aimed at managing Australia's ageing population, including flexible 'new generation' annuities which protect against the risk of outliving your retirement savings and the market risk of losing superannuation capital in retirement," said Melinda Howes, Institute CEO. She said while Australians had long been warned about the risk of outliving their savings, the Global Financial Crisis had underlined an additional market risk.

Other

"When a Nudge Isn't Enough: Defaults and Saving Among Low-Income Tax Filers", Erin Todd Bronchetti, Thomas S. Dee, David B. Huffman, Ellen Magenheim (2011), NBER working paper #16887, http://www.nber.org/papers/w16887.pdf
Summary: Recent evidence suggests that the default options implicit in economic choices (e.g., 401(k) savings by white-collar workers) have extraordinarily large effects on decision-making. This study presents a field experiment that evaluates the effect of defaults on savings among a highly policy-relevant population: low-income tax filers. In the control condition, tax filers could choose (i.e., opt in) to receive some of their federal tax refund in the form of U.S. Savings Bonds. In the treatment condition, a fraction of the tax refund was automatically directed to U.S. Savings Bonds unless tax filers actively chose another allocation. We find that the opt-out default had no impact on savings behavior. Furthermore, our treatment estimate is sufficiently precise to reject effects as small as one-fifth of the participation effects found in the 401(k) literature. Ancillary evidence suggests that this "nudge" was ineffective in part because the low-income tax filers in our study had targeted plans to spend their refunds. These results suggest that choice architecture based on defaults may be less effective in certain policy-relevant settings, particularly where intentions are strong.

"What Is 'CLASS'? And Will It Work?", Alicia H. Munnell and Josh Hurwitz (2011), CRR Boston IB#11-3, http://crr.bc.edu/images/stories/Briefs/IB_11-3.pdf
Summary: Although not yet commonly known to the public, the new health care reform legislation establishes a voluntary, long-term care insurance program known as the Community Living Assistance Services and Supports, or CLASS. CLASS is designed to overcome the major problems in the existing system, which forces families of those needing long-term care to impoverish themselves, places an enormous burden on relatives caring for loved ones, and supports institutionalisation over home care. This brief explores the potential for CLASS to solve the nation's long-term care challenge.
The first section discusses how families currently cover the burden of long-term care. The second section describes CLASS and compares it to private insurance. The third section identifies adverse selection – that is, participation mainly by the less healthy – as the major stumbling block facing CLASS. The fourth section presents a simple actuarial model to

demonstrate the sensitivity of the premiums to the health and age distribution of participants. The final section concludes that the program faces enormous challenges, but a number of programmatic changes and a major advertising campaign could improve its chances of success. Without adjustments, the brief says, adverse selection will create a death spiral of rising premiums and declining participation.

New Database Offers Quick Access to State & Local Pension Data

The Center for Retirement Research at Boston College has announced a new Public Plans Database (PPD) with 126 state and local pension plans, nearly 90 variables, and annual data for 2001-2009. The PPD allows users to browse tables with latest aggregate and individual plan statistics, create tables by searching data over time and across plans, and download data to conduct in-depth analysis. Refer http://pubplans.bc.edu/pls/htmldb/f?p=198:3:1296143521570409

Pensions conference 2011, 1-3 June, Southport

The actuarial profession UK advise that this year's conference will address many of the key issues facing pensions actuaries. For more information, including details about the plenary sessions on the future of the global economy, UK pensions, risk management and professionalism, and about the speakers, click here.