REFERENCE LIST

January - February 2012

Pensions at a Glance Asia/Pacific 2011

OECD Publishing - 31 January 2012

Pensions are a major policy issue in developed and developing countries alike. However, pension reform is challenging and controversial because it involves long-term planning by governments faced with numerous short-term pressures. It often provokes heated ideological debates and, sometimes, street protests. Countries can learn valuable lessons from others' pension systems and their experiences of retirement-income reforms. However, national pension systems are very complicated, involving much institutional, technical, and legal detail. Consequently, international comparisons are very difficult to undertake, making it impossible to transfer policy lessons between countries. Hence, this publication aims to fill this gap, with a particular focus on countries in the Asia/Pacific regions

This study combines rigorous analysis with clear, easy-to-understand presentations of empirical results. It does not advocate any particular kind of pension system or type of reform. The goal is to inform debates on retirement-income systems.

(http://www.oecdbookshop.org/oecd/display.asp?sf1=identifiers&st1=812011091P1&LANG=EN)

Journal of Sustainable Finance & Investment 7

Benjamin J. Richardson - 16 June 2011

This article examines whether socially responsible investing (SRI) may be legally permissible if it fulfils the will of the beneficiaries in a fiduciary relationship, and considers potential legal reforms to give better effect to the interests of beneficiaries. It thus examines a relatively neglected aspect of fiduciary finance, which so far has focused on whether SRI is 'financially material' to investment performance. It argues that by reframing fiduciary finance as an active relationship rather than merely the mechanical application of legal duties, we may allow trustees to invest socially

pursuant to the wishes of beneficiaries. However, this article also suggests that considerable legal and practical obstacles confront this path to SRI. They include the trustees' duty to treat different beneficiaries even-handedly and the traditionally passive role that trust law has cast beneficiaries. Reliance on widely held social customs and evaluation of third parties' interests as a proxy for the will of beneficiaries, and the role of statutory reforms mandating consultation with and representation of beneficiaries on the governing boards of trustees, are also considered in this article. It concludes by suggesting some potential legal reforms to strengthen reliance on the will of beneficiaries as a means of SRI.

(http://www.unpri.org/academic10/Paper_2_Benjamin_Richardson_From%20Fiduciary%20Duties%20to%20Fiduciary%20Relationships%20for%20Socially%20Responsible%20Investment.pdf)

The Changing Causes and Consequences of Not Working Before Age 62

by Barbara A. Butrica and Nadia Karamcheva – February 2012

This study uses the Health and Retirement Study to deepen our understanding of the characteristics of nonworking adults ages 51 to 61 and how they support themselves before qualifying for Social Security benefits.

The results show that nonworking adults ages 51 to 61 are a heterogeneous group. A large share is poor, with low incomes and limited wealth. But a sizeable share has low incomes and abundant wealth. These individuals are income poor but asset rich. More than for singles, this phenomenon characterizes nonworking married adults. In general, we find that nonworking married adults are significantly better off than their unmarried counterparts. Many nonworking married adults have working spouses. On average, married adults without earnings have twice the per person income and more than ten times the per person assets of single adults without earnings. Additionally, married adults without earnings are 20-30 percentage points less likely to be poor than single adults without earnings...

(*http://crr.bc.edu/working_papers/the_changing_causes_and_consequences_of_not_working_before_age_62.html*)

How Do Subjective Mortality Beliefs Affect the Value of Social Security and the Optimal Claiming Age?

Wei Sun and Anthony Webb - November 2011

Households that delay claiming Social Security are, in effect, making additional purchases of the Social Security annuity. Theoretical calculations show the delayed claiming is optimal, even for

high mortality households. Yet most claim well before the theoretically optimal age. This paper investigates whether subjective mortality beliefs contribute to the prevalence of early claiming. The value of delay depends not only on life expectancy, but also on the degree of uncertainty surrounding the age of death. Using data from the Health and Retirement Study, we show that women approaching retirement understate their probabilities of surviving to age 75 by an average of 10 percentage points, whereas men's forecasts are, on average, correct. But both men and women exhibit greater confidence in their ability to forecast their age of death, relative to the predictions of life tables. But these subjective mortality beliefs have little effect on the value of Social Security or the optimal claim age, and cannot explain the prevalence of early claiming. We also find that self-assessed survival probabilities do not predict survival after controlling for health and socio-economic status, indicating a potential for medical underwriting to reduce adverse selection in the annuity market.

(http://crr.bc.edu/working_papers/how_do_subjective_mortality_beliefs_affect_the_value_of_social_security_and_the_optimal_claiming_age.html

The Pension Protection Act of 2006 and Diversification of Employer Stock in Defined Contribution Plans

by Gary V. Engelhardt / November 2011

This paper estimates the short-run impact of the Pension Protection Act of 2006 (PPA2006) on holdings of employer stock in defined contribution pension plans. PPA2006 allowed participants in plans with employer stock to diversify their holdings. However, stand-alone ESOPs, i.e., those that do not allow employee elective deferrals or after-tax contributions, were exempt from this provision. Using detailed Form 5500 financial data for stand-alone ESOPs and those that allow employee elective deferrals or after-tax contributions, so-called KSOPs, from 2003-5 (before) and 2007-9 (after) the PPA and a quasi-experimental empirical framework, two primary empirical findings emerge. First, the share of plan assets in company stock fell 7 percentage points for KSOPs, because of the diversification provisions in PPA2006, a substantial decline. There was no change in holdings for stand-alone ESOPs. Second, most of the decline occurred in plans that had between 25-50 percent of plan assets in employer stock. Nonetheless, in 2009 still two-thirds of KSOPs had more than 10 percent of assets in company stock, the statutory limit for defined benefit pension plans.

(http://crr.bc.edu/working_papers/the_pension_protection_act_of_2006_and_diversification_of_employer_stock_in_defined_contribution_plans.html)

The Impact of Temporary Assistance Programs on Disability Rolls and Re-Employment

Stephan Lindner and Austin Nichols - January 2012

Workers who lose their job draw from temporary assistance programs in order to buffer their income losses. They are also more likely to apply for Disability Insurance (DI) and Supplemental Security Income (SSI). Whether participating in temporary assistance programs influences the application decision for DI and SSI, however, is largely unknown. We address this question using panels from the Survey of Income and Program Participation (SIPP) matched to administrative records on DI and SSI applications. We distinguish between four temporary insurance programs: Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Unemployment Insurance (UI), and Temporary Disability Insurance programs (TDI). For each of these programs, we construct instruments based on state policies in order to address endogeneity concerns. Our results indicate that workers select into temporary assistance and disability programs by income and health status. When controlling for selection bias, we find evidence that increased access to UI benefits reduces applications for DI, while increased access to SNAP benefits increases applications for SSI. These results suggests that (i) applications for DI and SSI are sensitive to participation in temporary assistance programs; (ii) the strength of the net effect depends on the overlap between target populations; and (iii) the direction of the net effect depends on benefit levels or on institutional and population characteristics.

(http://crr.bc.edu/working_papers/the_impact_of_temporary_assistance_programs_on_disability_rolls_and_re-employment.html)

A window into the future: Understanding and predicting longevity

Swiss Re

Unprecedented increases in life expectancy experienced in recent decades have been consistently underestimated, causing funding difficulties for employers, insurers and governments. Forward-looking models provide better estimates of future longevity and will play a vital role in the overall solution, which should be driven by public and private bodies working together.

(http://www.ipe.com/whitepapers/)

Risk-Return analysis of dynamic investment strategies

Benjamin Bruder -Nicolas Gaussel- Lyxor - June 2011

When building a portfolio, investors have to choose from a wide range of investment styles. Value investors, trend followers, global-macro or volatility arbitragers, to name just a few, each offers a different way of generating returns. Under the reasonable – yet controversial – assumption that markets do work, any extra return is earned in exchange for a certain degree of risk. Hence, before even measuring it, it is essential to identify and understand that risk in order to analyse the returns from certain strategies. Unfortunately, this is a difficult task, especially in the case of dynamic investment strategies, which are known to generate asymmetric returns. So how should we proceed? Since it is well established that options can be replicated using dynamic strategies, the approach developed in this white paper consists in exploring the extent to which an option profile can be associated with a given dynamic strategy. To keep things simple, we focus on strategies running on a single asset. Excluding classical analysis of constant-mix strategies, some of this paper's key findings are: (1) Many dynamic strategies returns can be broken down into an option profile and some trading impact, (2) Contrarian strategies on a single asset tend to generate frequent limited gains, in exchange for infrequent larger losses, (3) Trend following strategies on a single asset will perform if the absolute value of the realised Sharpe ratio is above a certain threshold. The shorter-term the investment style, the higher this threshold.

(http://www.lyxor.com/fileadmin/_fileup/lyxor_wp/document/22/)

Pension fund governance: board of trustees under pressure

Kas Bank – June 2011

Why so much pressure? What has changed? For many people pension benefits are the financial pinnacle of an industrious life. Not so long ago nobody seemed to worry about his or her pension, as this was guaranteed and pension funds were well funded. However, times have changed. Since the financial crisis in 2008 many pension funds are in dire straits. In one fell swoop the „gilt-edged" pension fun lost billions of Euros of accumulated pension reserves. Almost forgotten words like „writing down" were reintroduced in the Netherlands. As well as the question of whether pensions will still be affordable in twenty years' time. For the general public the „pension crisis" may have come as a shock. Governments, supervisory institutions, sponsors, pension fund boards, asset managers, participants and pensioners have known for quite some time that the pension structure needs to be revised. This against the background of an ageing population and increasing life expectancy. The most obvious reaction is to increase the pensionable age. A number of European countries have already started this process. Furthermore, the discussion has focused on revising the pension contract. For example, within Europe there is a trend towards funded defined contribution (DC) schemes. Some parties also plead for more hybrid structures in

the form of combined DC and defined benefit (DB) schemes. Multinational organisations have appealed for cross-border pension schemes in preference to different schemes per country. Indeed, national legislation has already been adapted to facilitate cross-border provision. The Netherlands, for example, has created the Premium Pension Institution (PPI) to act as a new cross-border defined contribution pensions vehicle to operate define contribution schemes across Europe. The Dutch government is also exploring the defined ambition scheme set-up.

(http://www.kasbank.com/Nieuw%20bij%20KAS%20BANK/~/media/Files/Nieuw_bij_KAS_BANK/Whitepaper_Pension_Fund_Governance_PDF_ENG.ashx)

The People's Pension

Eric Laursen – 10 April 2012

"The People's Pension is both groundbreaking history and an indispensable guide for anyone concerned about one of the biggest issues in the upcoming election. With 95 percent of Americans participating in the program either as beneficiaries or through their payroll tax contributions, Social Security is quite literally the "glue" that binds Americans together as a community. Yet in the aftermath of the debt reduction deal between Barack Obama and congressional Republicans, the 2012 election promises to be a kind of referendum on the size and role of government—including economic support programs like Social Security. Arguing to democratize, not disable, the program, Eric Laursen suggests that the only solution for Social Security is taking it out of the government's hands altogether. "

(Résumé from amazon.com, http://www.amazon.com/Peoples-Pension-Struggle-Defend-Security/dp/1849351015).

Social Security and Retirement across the OECD

Jorge Alonso-Ortiz. Centro de Investigación Economica, ITAM - 16 December 2011

Employment to population ratios differ markedly across OECD countries, especially for people over 55. Social security features also differs markedly across the OECD, particularly with respect to replacement rates, entitlement ages and earnings tests. I conjecture that differences in social security features explain many differences in employment to population ratios at older ages. I assess my conjecture quantitatively with a life cycle general equilibrium model of retirement. At ages 60-64 the correlation between my model's simulations and observed data is .67. Replacement rates and the earnings tests are key features.

(http://www.public.asu.edu/~jalonso1/files/social_security.pdf)

Regulatory and Market Changes in the retirement Savings System (SAR) in Mexico towards the right direction

Carmen Hoyo Martíne – BBVA Research 5 March 2012

In recent years, regulatory changes in the Retirement Savings System (SAR) have been a gradual process to encourage greater growth in savings, increase profitability to accomplish better pensions for members, and recruit more workers to the defined contribution scheme (eg ISSSTE).

Although, challenges still remain for a better SAR, these changes can be viewed positively and are towards the right direction. Funds under management by the Afores as of January 2012 amount to 11.8% of the GDP, at a total of 1,640,892 million pesos that demonstrates a strong growth trend, in which the last 3 years have increased to an average of 1.6% of GDP annually. Due to the increase of savings, 2011 has been a successful year. For example, voluntary savings nearly tripled in comparison to the previous year at 12 billion pesos. In 2011, mandatory savings for retirement increased by 12.6% in nominal terms. The SAR has obtained good returns; gross returns over the last 24 months were a nominal 10.2 compared to the last 36 months which was 10.43%, while the historical gross performance over the 14 years of the system is an annual average of 13.37% nominally and 6.54% in real terms. Regulatory changes have helped optimize the risk-return profile of the SAR, thanks to the introduction of the multi-fund scheme linked to the life cycle of the worker, the more flexible investment regime of the Pension Funds (Siefores), and the construction of a long-term performance indicator to boost competition in the market. The reduction in fees charged by Afores has been gradual but constant over the last five years. Transfers between Afores and the assignation of non-registered accounts are subject to criteria that allow the worker to maintain his or her savings invested in Afores that have consistently provided good returns. The Net Return Indicator (IRN) helps the worker to objectively compare the returns from the different Afores. Recent regulatory changes allow greater diversification of investments, which will benefit workers by making it possible to obtain better returns on pension savings.

(http://www.bbvaresearch.com/KETD/ketd/bin/ing/publi/mexico/novedades/detalle/348_289781.jsp?id=tcm:348-183123-64)

Can the Actuarial Reduction for Social Security Early Retirement Still Be Right?

by Alicia H. Munnell and Steven A. Sass – March 2012

The option to claim Social Security benefits earlier than the program's Full Retirement Age, in exchange for receiving an actuarially reduced benefit, is a key feature of the nation's Social

Security program. This principle remained in place when Congress increased the Full Retirement Age from 65 to 67. Most workers choose to claim early and retire on the reduced benefits.

The option to claim early was enacted over 50 years ago, when Congress set 62 as the program's Earliest Age of Eligibility. To make up for the extra three years of benefit payments, those claiming at 62 received 20 percent less in monthly benefits than if they had claimed at 65. Despite a significant increase in life expectancy in the intervening years, benefits claimed at 62 today are still about 20 percent less than benefits claimed at 65. This brief asks whether this actuarial reduction is still correct...

(http://crr.bc.edu/wp-content/uploads/2012/03/IB_12-6-508.pdf)

ASTIN

Modeling and forecasting the mortality of the very old

Iain D.Currie - 2012

The forecasting of the future mortality of the very old presents additional challenges since data quality can be poor at such ages. We consider a two-factor model for stochastic mortality, proposed by Cairns, Blake and Dowd, which is particularly well suited to forecasting at very high ages. We consider an extension to their model which improves fit and also allows forecasting at these high ages. We illustrate our methods with data from the Continuous Mortality Investigation.

(http://www.ma.hw.ac.uk/~iain/research/Astin_2011_419_427.pdf)

Modelling adult mortality in small populations : the SAINT model

By Soren Flig Jarner and Esben Masotti Kryger

The mortality evolution of small populations exhibits substantial variability and irregular improvement patterns making it hard to identify underlying trends and produce plausible projections. We propose a methodology for robust forecasting based on the existence of a larger reference population sharing the same long-term trend as the population of interest. The reference population is used to estimate the parameters in a frailty model for the underlying intensity surface. A multivariate time series model describing the deviations of the small population mortality from the underlying mortality is then fitted and forecasted. Coherent long-term forecasts are ensured by the underlying frailty model while the size and variability of short - to medium-term deviations are quantified by the time series model. The frailty model is

particularly well suited to describe the changing improvement patterns in old age mortality. We apply the method to Danish mortality data with a pooled international data set as reference population.

(http://www.demografi.dk/andet/saint.workingpaper.pdf)

Groupe Consultatif on European pensions

Commission publishes White Paper on Pensions

Recognising that pensions are putting increased financial pressure on national budgets, especially with the added strain of the financial and economic crisis, the European Commission publishes a White Paper on adequate, safe and sustainable pensions. It looks at how the EU and the Member States can work to tackle the major challenges that confront pension systems. The White Paper points in particular to the following issues:

Develop complementary private retirement schemes by encouraging social partners to develop such schemes and encouraging Member States to optimise tax and other incentives;

Enhance the safety of supplementary pension schemes, including through a revision of the directive on Institutions for Occupational Retirement Provision (IORP) and better information for consumers;

Make supplementary pensions compatible with mobility, through legislation protecting the pension rights of mobile workers and by promoting the establishment of pension tracking services across the EU. This can provide citizens with information about pension entitlements and projections of their income after retirement.

The Commission makes it clear that the key aspects of pension systems are the responsibility of Member States. But the Commission stands ready to take its legislative responsibilities, for instance, the case for the 2003 Directive on Institutions for Occupational Retirement Provision and the Directive on portability of supplementary pension rights. Other types of measures, such as recommendations, codes of conduct, exchange of good practices are envisaged in these areas.

(http://www.gcactuaries.org/eu-news.html)

Measuring adequacy of pension systems in EU countries

The paper presents a multidimensional approach to the adequacy of the pension system, recognising it as the most relevant in comparative analyses of pension systems, as well as more authoritative than a one-dimensional approach based exclusively on pensioners' income

calculated on the basis of the replacement rate. Adequacy of the pension system can be also understood to mean the effectiveness of pension system when assessing its ability to realize income objectives.

(www.pensions-institute.org/workingpapers/wp1204.pdf)

Groupe Consultatif dismisses pensions comparable to insurance

Dismissing the idea that he had ever said, or implied, that "pension funds would be subject to Solvency II rules", EU Commissioner Michel Barnier, speaking at the Commission's open hearing on the review of the Institutions for Occupational Retirement Provision (IORP) directive in Brussels yesterday (1 March), also strongly rejected claims that, "the revision of the directive will cost the European businesses 800 billion Euros or more" as well as claims that, "an extension of the Solvency II Directive to cover pension funds is planned and would abolish defined-benefit occupational pension schemes". Read More...

(http://www.actuarialpost.co.uk/article/groupe-consultatif-dismiss-pensions-comparable-to-insurance-2124.htm)

Now is the time for auto-enrolment

By Chris Daykin, Director NOW:Pensions

Having been involved in pension reform in the UK and elsewhere for 25 years, I am keen to see the auto-enrolment (AE) project succeed. Other countries have implemented mandatory DC schemes to achieve universal funded pensions, with varying degrees of success. When the Pensions Commission recommended auto-enrolment, following closely on the heels of the adoption of such a system in New Zealand, it seemed to offer hope of giving everyone the chance to have a complementary pension

(http://www.actuarialpost.co.uk/article/now-is-the-time-for-auto-enrolment-2013.htm)

Age of Pension Eligibility, Gains in Life Expectancy, and Social Policy

By Frank T. Denton and Byron G. Spencer

Canadians are living longer and retiring younger. When combined with the aging of the baby boom generation, that means that the “inactive” portion of the population is increasing and there are concerns about possibly large increases in the burden of support on those who are younger. We

model the impact of continued future gains in life expectancy on the size of the population that receives public pension benefits. We pay special attention to possible increases in the age of eligibility and the pension contribution rate that would maintain the publicly financed component of the retirement income security system.

(http://socserv.mcmaster.ca/sedap/p/sedap276.pdf)