REFERENCE LIST
January 2010

Social security

"Retirement Expectations in the Netherlands", Luc Bissonnette, Jan Nelissen and Arthur van Soest (2009), Netspar DP 11/2009-039, http://arno.uvt.nl/show.cgi?fid=97248

Summary: We analyze expectations of the Dutch population of ages 25 and older concerning the future generosity of Dutch state and occupational pensions, the two main pillars of the Dutch pension system. Since the summer of 2006, monthly survey data were collected on the expectations of Dutch households concerning purchasing power of occupational pensions, eligibility and purchasing power of old age social security benefits, and the average retirement age ten or twenty years from now. We investigate how these expectations have changed over time and how they vary with socio-economic characteristics. Exploiting the fact that our data also cover 2008 and the first half of 2009, we also analyze the effect of the recent financial and economic crisis. We find significant differences in expectations of different socio-economic groups, mainly suggesting that groups who are probably better informed were also more pessimistic.

"Technical Aspects of the Financing of the Canada Pension Plan: Actuarial Study No. 8", J.-C. Menard (2009), Office of the Chief Actuary, Canada, (French)http://www.osfi-bsif.gc.ca/app/DocRepository/1/fra/bac/etudes/actetd8_f.pdf, (English)http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/oca/studies/actetd8_e.pdf

Summary: The Canada Pension Plan (CPP) is a defined benefit pension plan providing a replacement rate of 25% of pre-retirement earning up to a certain maximum. It is financed using a partial funding approach known as "steady-state funding". Steady-state funding involves a steady-state contribution rate that is the lowest rate sufficient to ensure the long-term financial sustainability of the Plan without recourse to further rate increases. The purpose of the steady-state methodology is to produce an asset/expenditure ratio that is relatively stable over time. While the CPP was never intended to a fully funded plan, the Actuarial Reports of the CPP include a section on an unfunded obligation of the Plan evaluated on a closed group basis. The Actuarial Study # 8 was prepared primarily as a response to a concern of the independent peer review panel that the "inclusion of items such as a balance sheet suggest to the casual reader that the CPP's funding is hopelessly inadequate, which is simply not true".

This paper could be also of interest in view of ongoing debates regarding reporting for social insurance initiated by the accounting profession.

Pension systems reform

"Retirement, pensions, and ageing", Ben J. Heijdra and Ward E. Romp (2009), Journal of Public Economics, 93(3-4), 586-604, http://arno.uvt.nl/show.cgi?fid=88365

Summary: We study the effects of demographic shocks and changes in the pension system on the macroeconomic performance of an advanced small open economy facing a given world interest rate. We construct an overlapping-generations model which includes a realistic description of the mortality process. Individual agents choose their optimal retirement age, taking into account the time- and age profiles of wages, taxes, and the public pension system. The early retirement provision in most pension systems acts as a trap, inducing most workers to retire well before the normal retirement age. Simulations show that pension reform must be drastic for it to have any effects on the retirement behaviour of workers.

Retirement savings

"Collective Investments for Pension Saving: Lessons from Singapore's Central Provident Fund Scheme", Benedict S. Koh, Olivia S. Mitchell and Joelle HY. Fong (2010), PRC WP 2010-01, http://www.pensionresearchcouncil.org/publications/document.php?file=821

Summary: Singapore's mandatory national defined contribution pension system permits participants to invest their retirement savings in a wide range of investment instruments if they wish, rather than leaving their savings in CPF accounts to earn interest rate by default. This paper asks whether workers seeking to earn higher returns can expect to do better than the CPF-managed default, by moving their money into professionally-managed unit trusts. We use historical data to investigate whether fund managers possess superior stock-picking and market-timing skills, as well as whether they exhibit persistence in performance and offer diversification benefits to participants. The evidence is mixed, which could explain why so few participants opt out of the CPF-run default fund.

"Implications of the Financial Crisis for Long Run Retirement Security", Olivia S. Mitchell (2010), PRC WP2010-02, http://www.pensionresearchcouncil.org/publications/document.php?file=822

Summary: Managing retirement risk has become extraordinarily difficult in this era of financial turmoil, global interlinkages, and global population aging. It is particularly fraught since consumers must now engage in long-term contracts with themselves, employers, financial institutions, and governments, regarding the future of retirement financing. Moreover, these agreements will need to remain in force extraordinarily long, for fifty or even one hundred years into the future. This note reviews what institutions and instruments that have a successful track record in retirement risk management over such a long time horizon.

"Will Automatic Enrollment Reduce Employer Contributions to 401(k) Plans?", Mauricio Soto and Barbara A. Butrica (2009), CRR Boston WP#2009-33, http://crr.bc.edu/images/stories/Working_Papers/wp_2009-33.pdf

Summary: Many employers match employee contributions to 401(k) plans. However, the employer cost of continuing this practice may increase rapidly as trends towards automatic enrollment boost employee participation. This paper examines the relationship between employer matching behavior and automatic enrollment. Using a sample of large 401(k) plans, we find that match rates are about 7 percentage points lower among firms with automatic enrollment than among those without automatic enrollment, even controlling for firm characteristics. So while autoenrollment increases the number of workers participating in private pensions, our findings suggest it might also reduce the level of pension contributions.

"401(k) Auto-enrollment and Employer Matches" Jack VanDerhei (2010), EBRI, http://www.ebri.org/pdf/PR.863_21Jan10.Matches.pdf

Summary: The Employee Benefit Research Institute (EBRI) has published results of a new analysis that finds employers adopting automatic enrollment in their 401(k) plans have also generally increased the "employer match" to participant's accounts-in some cases, by a significant amount. The URL above gives the press release announcing the results.

The EBRI research is the first using actual plan information on both actual auto enrollment and actual match rate information both before and after adoption of auto enrollment. The new EBRI analysis uses plan-specific data for large employers from Hewitt Associates, and finds that employers instituted more generous contribution rates after adopting automatic enrollment, and did so when measured by several different standards.

The EBRI results contradict the earlier publication (listed above) of the Boston CRR which concluded that among a sample of large 401(k) plans, match rates are lower among firms with automatic enrollment than among those without automatic enrollment after controlling for firm characteristics.

"Is Pension Inequality Growing?", Nadia Karamcheva and Geoffrey Sanzenbacher (2010), CRR Boston IB 10-1, http://crr.bc.edu/images/stories/Briefs/ib_10-1.pdf

Summary: Among workers whose employers offer a pension plan, participation rates are much lower for low earners and have declined over time; the decline is largely due to the rise of 401(k)s; low earners often cite monetary constraints, though non-monetary reasons are also important . On the non-monetary side auto-enrollment should help, but little movement occurred between 2004 and 2007.

Longevity and life expectancy

"Time To Drop Time-To-Death? – Unraveling The Determinants Of LTC Spending In The Netherlands", Claudine de Meijera, Marc Koopmanschap, Teresa Bago d' Uvac and Eddy van Doorslaerc (2009), Netspar DP 11/2009-045, http://arno.uvt.nl/show.cgi?fid=97294

Summary: A better understanding of what drives long term care (LTC) expenditures is important for all countries with aging populations. We employ unique new data sources to analyze the determinants of LTC spending in the Netherlands. First, we use two-part models, to analyze institutional LTC and homecare expenditures for the entire 55+ population, conditioning not only on age, sex, time-to-death (TTD), but also on cause-of-death and co-residence status. These have profound effects. Those living alone, as well as those who deceased from diabetes, mental illness, stroke, diseases of the respiratory or digestive system have higher LTC expenditures, while a neoplasm death resulted in lower expenditures.

Secondly, we examine homecare expenditures among a sample of noninstitutionalized individuals conditioning, additionally, on morbidity and disability. Finally, we reconsider the roles of age and TTD, when controlling for the most important determinants of LTC use - morbidity, disability and co-residence - and illustrate their relevance for forecasting LTC expenditures. Our analysis reveals that TTD is not a predictor of homecare expenditures when disability is controlled for, while age and co-residence are. We therefore conclude that it is time to drop time-to-death from LTC expenditure models as it merely acts as a proxy for disability status.

"Mortality in Ireland at advanced ages, 1950-2006: Part 1: Crude Rates", S F Whelan (2009), Annals of Actuarial Science Vol 4 (1) (*online access available only to members of the UK profession*).

Summary: We examine the data and techniques underlying the estimation of mortality rates at older ages in Ireland since 1950. Previous attempts to elucidate the level and trends in mortality at advanced ages in Ireland have been frustrated by significant non-random biases arising from age exaggeration and age heaping, together with a lack of correspondence, growing with increasing age, between the exposed-to-

risk estimated from census data and the death count from registration data. Applying the method of extinct generations, we re-estimate crude mortality rates and report the somewhat unexpected result that mortality rates were lower, and did not increase as steeply with age, than those recorded in the official Irish Life Tables. The reestimated crude rates show, for both sexes, a very slight decrease in mortality rates between the 1950s and 1980s up to age 90 years, with no improvement discernible at older ages. Improvements at advanced ages in Ireland have lagged behind those in England and Wales and other developed countries over the same period. The companion paper, *Mortality in Ireland at Advanced Ages, 1950-2006: Part 2: Graduated Rates*, Whelan (2009), graduates the crude rates and extends the method of extinct generations to estimate mortality rates of more recent, still surviving, generations.

Increasing longevity and the economic value of healthy ageing and working longer is the title of a joint debate being held by ILC-UK and the Actuarial Profession on Wednesday 17 February 2010 at the Royal College of Physicians, Edinburgh. The flyer for the debate is at http://www.actuaries.org.uk/media_centre/events_folder/ap_events/?a=165012
The paper on which the debate is being based is **"Increasing longevity and the economic value of healthy ageing and working longer"**, Les Mayhew (2009), Cass Business School, http://www.hmg.gov.uk/media/33715/economicsofageing.pdf

CMI Working Paper 42 was published on 10 December 2009. This contains a report on the 2003-2006 life office mortality experience, including annuitant experience.
http://www.actuaries.org.uk/__data/assets/pdf_file/0003/163353/WP42_LOM_03-06.pdf

Regulation

Nothing this month.

Other

"Actual and Anticipated Inheritance Receipts", Norma B. Coe and Anthony Webb (2009), CRR Boston WP#2009-32, http://crr.bc.edu/images/stories/Working_Papers/wp_2009-32.pdf
Summary: Using data from the Health and Retirement Study, we compare actual inheritances received during the period 1994 to 2004 with the amounts that, in 1994, households anticipated receiving within 10 years. We find little evidence of systematic forecasting errors. The factors affecting inheritance receipt also affect expectation formation. Although the distribution is highly skewed, inheritances are generally modest in amount and uncorrelated with lifetime income, and therefore have almost no effect on various measures of inequality. We find no evidence that households anticipating receipt of an inheritance save less than that of similar households, although this could reflect unobserved heterogeneity in tastes for saving.

The Society of Actuaries has posted a call for papers on **"Retirement Security in the New Economy: Paradigm Shifts, New Approaches and Holistic Strategies."** For details see http://www.soa.org/research/other-research-projects/data-requests/cfp-2009-retire-security-econ.aspx

Pension Research Council
The PRC website has an article **"So You Want to Live to 100?"** available at http://knowledge.wharton.upenn.edu/article.cfm?articleid=2398.

They have also announced a new publication entitled **"Fundamentals of Private Pensions"**, 9th edition, by Dan McGill, Kyle N. Brown, John J. Haley, Sylvester Schieber, and Mark J. Warshawsky. This reference book on US private pensions is a completely revised and updated edition with new perspectives on behavioral finance, the Pension Protection Act, and other insights for academics and professionals working in the area of pensions and pension management.

Netspar

A website strongly recommended to readers of this list for investigation if they have time is http://www.netspar.nl, the Dutch-based **Network for Studies on Pensions, Ageing and Retirement**. Netspar usefully sets three-year themes for research purposes; themes potentially of particular interest last year were:

October 2009

Value and Risk on the Balance Sheet of Pension Funds and Insurance Companies
http://www.netspar.nl/research/themes/2009/balancesheet/
Reconciling Short Term Risks and Long Term Goals for Retirement Provisions
http://www.netspar.nl/research/themes/2009/retirementprovisions/

April 2009

Supporting consumer pension decision-making online
http://www.netspar.nl/research/themes/2009/supporting/
The economics and psychology of life cycle decision making
http://www.netspar.nl/research/themes/2009/economics/
The influence of market imperfections on recovery strategies for pension funds
http://www.netspar.nl/research/themes/2009/influence/

To search for papers, the publications database URL is:
http://www.netspar.nl/research/database/
Most papers appear to be in English, and most are available online – three are cited in this month's reference list, but there are many more.