REFERENCE LIST
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Social security

"What is it that Makes the Swiss Annuitise? A Description of the Swiss Retirement System", Benjamin Avanzi (2010), Australian Actuarial Journal, Vol. 16, No. 2, http://www.actuaries.asn.au/library/50230_Journ_v16i2_combo.pdf
Summary: The Swiss model of retirement savings and benefits distinguishes itself in several aspects. The system is successful in encouraging substantial savings, which are exonerated from tax and guaranteed. The associated market risk is not transferred to the individuals. From an international perspective it is extraordinary that more than half of the Swiss who retire choose to annuitise their capital at retirement. In addition, not only does the retirement scheme offer annuity benefits at retirement, but it also offers annuity benefits on disability and death. In this paper, the Swiss old age security system is described with an emphasis on retirement benefits, giving some insights as to what in Switzerland could explain why the so-called `annuity puzzle' is not observed. This question is of relevance for countries that wish to encourage annuitisation as a powerful tool to deal with the longevity risk of their elder population.

"The Treatment of Married Women by the Social Security Retirement Program", Andrew G. Biggs, Gayle L. Reznik, and Nada O. Eissa, (2010), Boston CRR WP#2010-18, http://crr.bc.edu/images/stories/Working_Papers/wp2010_18.pdf
Summary: It is generally accepted that the Social Security program pays women a higher average ratio of lifetime benefits to lifetime taxes than it does men. Social Security's progressive benefit structure and annuity payment combine with women's lower average earnings and longer average life spans to provide women with more favourable treatment on a lifetime basis. This more favourable treatment does not necessarily imply that women are presented with stronger incentives to participate in the labour force and contribute to Social Security than are men. If anything, Social Security does the opposite. The auxiliary benefit provisions, including spousal and widow's benefits, mean that many women do not receive higher benefits in return for their contributions than they would have received had they never worked or contributed to the program.

"Catalysts for Social Insurance: Education Subsidies vs. Real Capital Taxation", Dirk Schindler and Hongyan Yang (2010), CESifo Working Paper Series No. 3278, http://www.cesifo-group.de/portal/pls/portal/docs/1/1197871.PDF
Summary: To analyse the optimal social insurance package, we set up a two-period life-cycle model with risky human capital investment in which the government has access to labour

taxation, education subsidies and capital taxation. Social insurance is provided by redistributive labour taxation. Moreover, both education subsidies and capital taxation are used as catalysts to facilitate social insurance by mitigating distortions from labour taxation. We derive a Ramsey-rule for the optimal combination of these two instruments. Relative to capital taxation, optimal education subsidies increase with their relative effectiveness to boost labour supply and with households' underinvestment into education, but they decrease with their relative net distortions. For the optimal absolute levels, indirect complementarity effects (i.e., influencing the effectiveness of the other instrument) do matter. Generally, a decrease in capital taxes should be accompanied by an increase in education subsidies.

"Challenges of Formal Social Security Systems in Sudan", Mohamed, Issam A.W., (2010), Alneelain University, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1728684
Summary: The paper discusses issues of challenges of social security systems in Sudan. Following parameters advanced by ILO and UNCOSOC, those systems are analysed. The conclusions focus on their applicability that faces axial difficulties mainly presented in the state of institutional interregnum facing the country. Moreover, it is important to revisit aspects of social cohesion that serves greater role in traditional social security in the Sudan.

The **World Social Security Report 2010/11** is the first in a new series of ILO reports monitoring social security. It monitors coverage across the world, and examines the role of social security in times of crisis. It maps social security coverage globally and by region or other country grouping, presenting methods and approaches to assessing social security coverage. It also identifies gaps in measurable statistical knowledge on not only social security coverage but its costs and impacts. The report includes full statistical annexes. The flyer with a description of contents is available at
http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/article/wcms_142224.pdf

International Social Security Review, Vol. 64, No. 1 (2011)
This has four papers of possible interest. No free downloads are available; for subscription information refer to http://onlinelibrary.wiley.com/journal/10.1111/(ISSN)1468-246X
Firstly, pp. 1-14, **"Pensions in Nigeria: The Performance of the New System of Personal Accounts"**, by Bernard H. Casey, discusses the outcome of Nigeria in 2004 copying the 1981 Chilean pension reform and establishing a funded system based upon personal accounts. The paper observes that the new system was neither appropriate for a country such as Nigeria, nor did it meet aspirations of improving pension coverage or helping economic growth. The current financial and economic crisis hit the scheme in so far as it hit stock values. However, more important has been the negative real interest rates that can be earned on government bonds and on bank deposits where the majority of contributions are invested. Bank scandals and rising fiscal deficits do not breed confidence in the system or the government's ability to deliver meaningful benefits in old age.
The second paper, pp. 53-71, **"Multi-Pillared Social Insurance Systems: The Post-Reform Picture in Chile, Uruguay and Brazil"** by Florencia Anta and Arnaldo Provasi Lanzara, focuses on an analysis of social insurance models and reforms in Chile, Uruguay and Brazil. Noting that these three countries are following different reform trajectories, the paper explores trends in the restructuring of each of these insurance systems across the course of successive reforms. In the systems, different trends are supporting a closer link between contributions and benefits, according growing importance to private individual accounts and favouring the expansion of the role played by social assistance. These trends all suggest a

move towards various forms of multi-pillared social insurance, but with uncertain results in terms of the dynamics of the fundamental objectives of social insurance.

The third paper, pp. 73-93, **"Working Life and Retirement Pensions in Spain: The Simulated Impact of a Parametric Reform"** by Rafael Muoz De Bustillo, Pablo De Pedraza, Jos Ignacio Antn and Luis Alberto Rivas aims to offer an ex ante evaluation of the impact of a parametric reform of the Spanish pension system that would involve increasing the reference period used to calculate benefits, an approach proposed many times by various actors in the socioeconomic field. Such gradual change may be categorized as a non-structural reform of the pension system. This contrasts with reforms of a structural nature that have been very popular in Latin America and elsewhere, involving the creation of defined contribution individual account schemes. As regards the parametric reform proposed in this article, the main findings indicate that it would have a small but negative impact on pension income for pensioners and would reduce income distribution.

Finally, pp. 95-110, is **"The Swiss Social Insurance System: Social Security and Grass-Roots Democracy"** by Philipp Portwich. This notes the foundations of Switzerland's social insurance system can be traced to 1890 when a public referendum voted the inclusion of an article into the Federal Constitution that gave the executive the task of creating a sickness and accident insurance scheme. Currently, as in other European countries, the Swiss social insurance system is facing challenges as a result of rising health costs and demographic shifts, which are placing a growing burden on both public finances and private households. To reach policy decisions to address these challenges, the Swiss system is distinguishable from those of its European neighbours because of a continuing tradition of political decision-making based on grass-roots democracy: through referenda, the Swiss people remain directly responsible for the development of the national social insurance system. Importantly, not only might this unique feature of Swiss democracy lead the Swiss people more readily to accept and identify with their social insurance system but it may offer a sound democratic base upon which to build a consensual approach to address the policy challenges that lie ahead.

Pension systems reform

"Improving Sweden's Automatic Pension Adjustment Mechanism", Nicholas Barr and Peter Diamond (2011), CRR Boston IB#11-2, http://crr.bc.edu/images/stories/Briefs/IB_11-2.pdf

Summary: The first section describes Sweden's NDC plan. The second describes the Swedish brake mechanism - the Swedish system uses a notional interest rate equal to the rate of growth of average earnings. However, if a calculation suggests a potential deficit, the notional interest rate is automatically reduced. The third section describes two problems with the current adjustment procedure: 1) it creates the likelihood of large shocks for retirees; and 2) while disadvantaging retirees, it tends to advantage workers. The fourth section presents possible fixes for the current problems. The final section concludes that the Swedish NDC plan could function more effectively with modest changes to the brake mechanism.

"Framing Social Security Reform: Behavioral Responses to Changes in the Full Retirement Age", Luc Behaghel and David Blau (2010), Michigan Retirement Research Center Research Paper No. 2010-243, http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp243.pdf

Summary: We use a US Social Security reform as a quasi-experiment to provide evidence on framing effects in retirement behaviour. The reform increased the full retirement age (FRA) from 65 to 66 in two month increments per year of birth for cohorts born from 1938 to 1943. We find strong evidence that the spike in the benefit claiming hazard at 65 moved in lockstep along with the FRA. Results on self-reported retirement and exit from employment are less clear-cut, but go in the same direction. The responsiveness to the new FRA is stronger for people with higher cognitive skills. We interpret the findings as evidence of reference dependence with loss aversion. We develop a simple labour supply model with reference dependence that can explain the results. The model has potentially important implications for framing of future Social Security reforms.

"Social Security Reform: Should the Retirement Age be Increased?", Templin, Benjamin A.(2010), Thomas Jefferson School of Law Research Paper No. 1720402, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1720402

Summary: This paper is a comprehensive analysis of the issues surrounding the retirement age provisions in the Social Security Act. The paper considers the four statutory age-related factors affecting benefits - the full retirement age (FRA), the early eligibility age (EEA), the retirement earnings test and the delayed retirement credit. The principal arguments - both for and against an increase - are analyzed to the degree to which each achieves the goals of the Social Security Act. The paper reviews the literature on relevant issues including longevity rates, poverty rates, capacity to work among the elderly, labour force participation among older workers, deficit reduction, and retirement income. The paper concludes that while most American workers have the capacity to absorb the impact of an increase in the full retirement age, the principal benefit of a deficit reduction could be achieved through alternative reforms, such an increase in the cap on taxable income, a change in COLA calculations and diversification of the Trust Fund. The paper does, however, endorse an increase in the early eligibility age from 62 to 64. While this reform would not seriously improve the long-term deficit, it would likely keep workers in the labour force longer and increase general tax revenues. Keeping workers in the labour force is a principal goal of the Social Security system; yet contains many disincentives to delay retirement. Behavioural economics helps inform the importance of this measure given that people sacrifice long term economic goals for short-term gains. Raising the early eligibility age by two years will make it necessary for most workers to stay in the labour force longer; thereby increasing their potential benefits and increasing their eventual retirement income. In order to soften the impact on workers engaged in psychically demanding labour, this paper agrees with the National Commission on Fiscal Responsibility and Reform recommendation to establish a hardship exception to an increase in the EEA for workers who don't qualify for disability but lack the physical capacity to work past 62.

"Pensions, debt and inflation risk in a monetary union", Yvonne Adema (2010), Netspar, http://arno.uvt.nl/show.cgi?fid=113198

Summary: This paper investigates the international spillovers of government debt and the associated risk of inflation within a monetary union when countries have different pension systems. I use a stochastic two-country two-period overlapping generations model, where one country has PAYG pensions and the other country has funded pensions. The paper shows that the PAYG country can shift part of its long-term debt burden to the funded country. Moreover, the PAYG country gains from unexpected inflation at the cost of the funded country. In response to these conflicting interests about inflation, inflation risk may rise with the level of debt in the PAYG country. Higher inflation risk harms both countries. Actually, in contrast to the debt burden, the PAYG country cannot share the negative effects of a rise in inflation risk with the funded country. The scenarios analysed might be especially relevant for the years to come.

"Commentary", Buffin Partners (2011), http://www.buffinpartners.com/Commentary_2011_01.pdf

Summary: This edition of the Commentary discusses the impact of the recommendations of the United States National Commission on Fiscal Responsibility relating to Social Security and presents an alternative approach to achieving long-term solvency and sustainability.

Retirement savings

"Predicting Sustainable Retirement Withdrawal Rates Using Valuation and Yield Measures", Wade Pfau (2010), National Graduate Institute for Policy Studies (GRIPS), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1726225

Summary: This study attempts to quantify whether a 4 percent withdrawal rate from a retirement lump sum can still be considered as safe for U.S. retirees in recent years when earnings valuations have been at historical highs and the dividend yield has been at historical lows. We find that the traditional 4 percent withdrawal rule is likely to fail for recent retirees. The maximum sustainable withdrawal rate (MWR) for retirees may continue declining even after the peak in earnings valuations in 2000. Our lowest point estimate for an MWR with a 60/40 allocation between stocks and bonds is 1.46 percent for new retirees in 2008. We also discuss confidence intervals for these predictions. The regression framework with variables to predict long-term stock returns, bond returns, and inflation (the components driving the retiree's remaining portfolio balance) produces estimates that fit the historical data quite well, and we use backtesting for a further robustness check. Nevertheless, there are important qualifications for these predictions. In particular, they depend on out-of-sample estimates as the circumstances of the past 15 years have not been witnessed before, and there is always potential for structural changes which could leave recent retirees in better shape than suggested by the model. Looking forward, this methodology can guide new retirees toward a reasonable range for their MWR so that the 4 percent rule need not be blindly followed.

"How Important Are Inheritances for Baby Boomers?", Alicia H. Munnell, Anthony Webb, Zhenya Karamcheva, and Andrew Eschtruth (2011), CRR Boston IB#11-1, http://crr.bc.edu/images/stories/Briefs/IB_11-1.pdf
(Full paper at http://crr.bc.edu/images/stories/Working_Papers/wp_2011-1.pdf)

Summary: The brief's key findings are that (1) baby boomers could inherit about $8.4 trillion, (2) two-thirds of boomer households will likely receive some inheritance, with a median amount of $64,000, (3) inheritances are not however a silver bullet, as 70 percent of the estimated total represents prospective amounts and market volatility can have a substantial impact, and (4) boomers' parents may pass on less if their own retirement needs are greater than expected.

"Responding to the Downturn: How Does Information Change Behaviour?", Norma B. Coe and Kelly Haverstick (2010), Boston CRR IB#10-20, http://crr.bc.edu/images/stories/Briefs/IB_10-20.pdf

Summary: To measure the response of older workers to the downturn, the Center for Retirement Research at Boston College (CRR) fielded the CRR 2009 Retirement Survey on a nationally representative sample of 45-59-year-old labour force participants with relatively high pre-downturn assets. The key findings are (1) over 40 percent of respondents to a 2009 CRR survey planned no response to the financial crisis, (2) but after it was made clear that their only options are to save more, work longer, or spend less in retirement, most opted to alter saving or work plans, (3) those who changed had greater needs in retirement, a history of high saving, and/or had not thought a lot about the downturn.

*See also **"Overview of the CRR 2009 Retirement Survey"**, Alicia H. Munnell, Norma B. Coe, Kelly Haverstick, and Steven A. Sass (2010), Boston CRR WP#2010-15,* http://crr.bc.edu/images/stories/Working_Papers/wp2010_15.pdf

"Is the Reduction in Older Workers' Job Tenure a Cause for Concern?", Sass, Steven A. and Webb, Anthony (2010). Boston CRR WP#2010-20, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-20.pdf

Summary: Using data from the Health and Retirement Study (HRS), we analyze trends in voluntary, pressured, and forced quits and risk factors associated with each type of quit. We show that leaving one's age-50 job between ages 50 and 56 in any of the above circumstances more than doubles the likelihood that an individual will be working part-time at age 60, relative to a base case of working full-time. Pressured and forced quits also substantially increase the likelihood that the individual will not be working for pay at that age. Statistical tests confirm that pressured quits represent a separate and distinct category with its own risk factors and that they cannot be regarded as a subset of either voluntary or forced quits.

"What is the Impact of Foreclosures on Retirement Security?", Irena Dushi, Leora Friedberg, and Anthony Webb (2010), Boston CRR WP#2010-17, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-17.pdf

Summary: Using data from several sources, we show that households nearing retirement have lower rates of housing distress than younger households, as measured by arrears and foreclosure rates. However, almost all of the housing wealth gains observed for cohorts aged 51-56 between 1992 and 2004 were erased by 2010, while their mortgages have grown throughout. As a consequence, their loan-to-value ratios are considerably higher, though the percentage paying more than 30 percent of their household income towards their mortgage remains flat. Worrisomely, their financial wealth also declined between 2004 and 2010. Declines in house prices will adversely affect households that need to liquidate housing wealth, and rising mortgage obligations will increase pressure on retirement resources. We develop an econometric model to show factors associated with housing distress and then use the results to forecast housing distress among older households through 2012. We project that the risk of arrears will increase to 3.4 percent in 2010 and 4.4 percent by 2012. We also find that 6.7 percent of HRS households have children or other relatives who are facing housing distress, potentially putting further pressure on their retirement preparedness.

"Barriers to Financial Advice For Non-Affluent Consumers", Dan Iannicola Jr. and Jonas Parker (2010), Society of Actuaries, http://www.soa.org/files/pdf/research-2010-barriers-consumers.pdf

Summary: The objective of this study is to identify and explain the barriers to professional, customized financial advice among non-affluent households in the U.S. As such, this study centers its attention on the threshold question of why financial advice is not delivered to or sought by this group.

This paper represents Phase 1 of a two-phase effort by the Society of Actuaries' (SOA), Product Development Section and Actuary of the Future Section. While Phase 1 focuses on identifying and explaining barriers to professional, customized financial advice, Phase 2 will focus on strategies for overcoming these barriers.

Longevity and life expectancy

Supplement to BAJ Volume 15

A supplement to British Actuarial Journal Volume 15 has been published and features papers presented to the Joining Forces on Mortality and Longevity conference which took place in Edinburgh in October 2009. Guest edited by Shane Whelan, the Journal takes an in-depth look at the current issues surrounding mortality and morbidity. Copies of the Journal are available from Nicky Wilkinson.

Living to 100 Symposium, Orlando, Florida

This was a wide ranging conference taking in many aspects of mortality, while providing an excellent update on recent developments from experts in biogerontology. A number of presentations are available from the website, http://livingto100.soa.org/sym-presentations.aspx. It is understood papers will be available through the US Society of Actuaries in due course.

Regulation

Nothing this month.

Other

"Subjective data in a test of the life cycle model", Joppe de Ree (2010), Netspar Discussion paper 10/2010-60, http://arno.uvt.nl/show.cgi?fid=112903

Summary: A frequently employed test on the validity of the life cycle model is based on the orthogonality conditions implied by the first order condition of the problem: the Euler equation of consumption (Hall 1978). These tests usually rely on arbitrary assumptions on functional form, and hence, test the empirical validity of one specific parameterization of the model. In this paper I relax this requirement. I propose to measure the marginal rate of substitution between today's and last period's consumption directly, using self reported information on preferences. I reject the life cycle model with constant discount rates. The model with household specific discount rates is (only) borderline rejected.

Centre for Pensions and Superannuation, UNSW, Australia

Call for Papers and Conference Announcement

The 19th Annual Colloquium of Superannuation Researchers will be held at UNSW on 14-15 July 2011. The theme this year is 'Financing the retirement needs of an ageing population'. The focus is on issues associated with retirement income adequacy, benefit design, and funding health and aged care in retirement, both in Australia and internationally.

The programme for the first day will include papers on the conference theme, while the second day will be devoted to retirement incomes, superannuation or pension issues more generally. The deadline for expressions of interest (in the form of a detailed abstract or paper) is Friday 1 April 2011. If you would like to discuss a possible presentation, please contact h.bateman@unsw.edu.au

Online registration will be available from mid April 2011.

"Developing a framework for the use of discount rates in actuarial work", C.A. Cowling, R. Frankland, R.T.G. Hails, M.H.D. Kemp, R.L. Loseby, J.B. Orr and A.D. Smith, Institute and Faculty of Actuaries,
http://www.actuaries.org.uk/sites/all/files/documents/pdf/final040111combined.pdf
The Management Board of the UK Actuarial Profession is undertaking a thought leadership cross-practice research project on the use of discount rates by UK actuaries. The timing for this research is particularly appropriate as there is a convergence of interest in discount rates from within and outside of the Profession. Discount rates are at the heart of most actuarial calculations and are of significant public interest. As part of this project, the Management Board wants a full and open debate on the significant issues and this paper is the next step in stimulating that debate, giving another opportunity to influence the future direction of the project. This paper has been developed by the cross-practice discount rate steering committee, which is making a number of recommendations to the Profession which are intended to help actuaries to speak clearly and with authority in future debates about discount rates and to support actuaries in communicating impartially and effectively. As part of further developing the recommendations to the Profession, the steering committee is seeking views from stakeholders from inside and outside of the Profession. The steering committee is committed to seeking feedback on the recommendations and hopes this paper will give those inside and outside the Profession an opportunity to add to the dialogue so that as wide a range or potential views as possible is heard.
In this paper, the steering committee has concentrated on the more technical aspects of developing a framework for communicating discount rates and associated risks and the report is aimed primarily at actuaries. But the committee is mindful of the need to help actuaries to communicate more clearly with those outside the Profession. During the first half of 2011, the steering committee will therefore concentrate on producing a document in less technical language to help non-actuaries to understand the issues around the selection and use of discount rates and to help actuaries in their communication with stakeholders.

Labour Force Statistics 2010, OECD. No free download publicly available; refer
http://www.oecdbookshop.org/oecd/display.asp?CID=&LANG=EN&SF1=DI&ST1=5KM3122TQCTB#TableOfContents for the table of contents.
This annual edition of *Labour Force Statistics* provides detailed statistics on population, labour force, employment and unemployment, broken down by gender, as well as unemployment duration, employment status, employment by sector of activity and part-time employment. It also contains participation and unemployment rates by gender and detailed age groups as well as comparative tables for the main components of the labour force. Data are available for each OECD Member country and for OECD-Total, Euro area and European Union. The time series presented in the publication cover 20 years for most countries. It also provides information on the sources and definitions used by Member countries in the compilation of those statistics.