REFERENCE LIST
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Social security

2011 edition of Pension Markets in Focus, OECD ,
http://www.oecd.org/dataoecd/63/61/48438405.pdf

Summary: At the end of last year pension funds had returned to their pre-crisis levels in most countries. This year, however, with the Euro zone crisis and other financial market issues, growing risks are making the outlook less clear. The 2011 edition of OECD's Pension Markets in Focus shows that in 2010 pension funds in most OECD countries recovered, on average, more than 80% of the money they had lost in 2008. The exceptions were Ireland, Japan, Portugal, Spain and the United States where the losses continued. Net returns grew an average of 2.7% in real terms across OECD countries, lead by increases in New Zealand, Chile, Finland, Canada and Poland but flattened somewhat by decreases in Portugal and Greece.

Pension systems reform

"Public Pension Systems and the Fiscal Crisis in the Euro Zone: Lessons for Latin America", Javier Alonso, Rafael Doménech, and David Tuesta (2011), BBVA Research,
http://www.bbvaresearch.com/KETD/fbin/mult/WP_11_24_tcm346-263982.pdf?ts=2272011

Summary: The debt crisis in the Economic and Monetary Union has revealed the need in many member countries to engage in an unprecedented fiscal consolidation process, not only in the short term, but also in the long term. Therefore, the urgent need to accelerate in many cases the reforms of their pension systems with a view to ensuring the sustainability of their public finance over time has been revived. This paper analyses the circumstances that led to the reforms of the pension systems in Europe and the measures adopted, with a view to extracting some lessons that may be of use for Latin American countries. With this objective, reforms undertaken in Latin America are also described, specifically in Colombia and Peru, which are two cases where the capitalisation and distribution systems continue to compete simultaneously. This paper also quantifies and compares the actuarial balance of these countries, which is related to their financial sustainability in the long term.

Consultation response to the UK "A state pension for the 21st century" by the Actuarial Profession,
http://www.actuaries.org.uk/sites/all/files/documents/pdf/apdwpstatepension21stcentury20110624response.pdf

Summary: This is a response to the UK Department for Work and Pensions April 2011consultation paper. In respect of options for state pension reform, the Institute and Faculty believes that the public interest should be well served by making the change to the single-tier pension as described by Option 2. Areas where more detail on reform plans will be required are noted, and areas of concern and/or where Government may need to carry out further work identified, particularly on communicating the proposed reform.

In respect of the State Pension age, caution was expressed against an approach using a formula based on life expectancy that makes increases in SPA automatic. An outline of how a multidisciplinary regular Review could operate was provided, and actuarial expertise suggested valuable as part of this Review process.

"Unions and Public Pension Benefits", Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby (2011), CRR Boston SLP#19,
http://crr.bc.edu/images/stories/Briefs/slp_19.pdf

Summary: State and local pensions have been headline news since the 2008 financial collapse reduced the value of their assets, leaving a substantial unfunded liability. The deterioration in the funded status of these plans raised pension costs at the same time that the ensuing recession wreaked havoc with state and local budgets. Legislatures across the country have responded by reducing pension benefits – primarily for new employees – and increasing employer and employee contributions. As part of that process, governors in several states have launched initiatives to curb collective bargaining in the public sector. One possible implication is that governors view unions as responsible for pushing up state and local pension benefits. This brief identifies the impact of public sector unions and other factors on benefit levels, wages, and employment.

"What Do You Call a Glass That is 60-85% Full?", EBRI blog,
https://ebriorg.wordpress.com/2011/07/07/what-do-you-call-a-glass-that-is-60%e2%88%9285-full/

This is a detailed rebuttal to a July 11 Wall Street Journal article on automatic enrolment.

Retirement savings

"How Much Do Means-Tested Benefits Reduce the Demand for Annuities?", Monika Bütler, Kim Peijnenburg and Stefan Staubli (2011), Netspar DP 06/2011-052,
http://arno.uvt.nl/show.cgi?fid=114894

Summary: We analyse the effect of means-tested benefits on annuitisation decisions. Most industrialized countries provide a subsistence level consumption floor in old age, usually in the form of means-tested benefits. The availability of such means-tested payments creates an incentive to cash out (occupational) pension wealth for low and middle income earners, instead of taking the annuity. Agents trade-off the advantages from annuitisation, receiving the wealth-

enhancing mortality credit, to the disadvantages, giving up "free" wealth in the form of means-tested supplemental benefits. We find that the availability of means-tested benefits can reduce the desired annuitisation levels substantially. Using individual level data, we show that the model's predicted annuitisation rates as a function of the level of pension wealth are roughly consistent with the cash-out patterns of occupational pension wealth observed in Switzerland.

"Lifecycle Impacts of the Financial and Economic Crisis on Household Optimal Consumption, Portfolio Choice, and Labor Supply", Jingjing Chai, Raimond Maurer, Olivia Mitchell and Ralph Rogalla (2011), Netspar DP 06/2011-051, http://arno.uvt.nl/show.cgi?fid=114895

Summary: The direct financial impact of the financial crisis has been to deal a heavy blow to investment-based pensions; many workers lost a substantial portion of their retirement saving. The financial sector implosion produced an economic crisis for the rest of the economy via high unemployment and reduced labour earnings, which reduced household contributions to Social Security and some private pensions. Our research asks which types of individuals were most affected by these dual financial and economic shocks, and it also explores how people may react by changing their consumption, saving and investment, work and retirement, and annuitisation decisions. We do so with a realistically calibrated lifecycle framework allowing for time-varying investment opportunities and countercyclical risky labour income dynamics. We show that households near retirement will reduce both short- and long-term consumption, boost work effort, and defer retirement. Younger cohorts will initially reduce their work hours, consumption, saving, and equity exposure; later in life, they will work more, retire later, consume less, invest more in stocks, save more, and reduce their demand for private annuities.

"An Update on Locally-Administered Pension Plans", Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby (2011), CRR Boston SLP#18, http://crr.bc.edu/images/stories/Briefs/SLP18.pdf

Summary: The financial crisis and ensuing recession have had an enormous impact on state-administered pension plans. Funded levels declined sharply, the Annual Required Contribution (ARC) increased to make up for the fall in funding, and the percent of ARC paid declined as the bottom fell out of state revenues. In response, states have increased employer and employee contributions, cut employment, slowed wage growth, and lowered benefits for new employees (and in a few instances reduced COLAs for current employees, but these initiatives have been challenged and are currently in the courts). Less is known about how locally-administered plans have fared in the last four years. This brief attempts to fill that gap.

"Capping Tax-Preferred Retirement Contributions: Preliminary Evidence of the Impact of the National Commission on Fiscal Responsibility and Reform Recommendations", Jack VanDerhei, Employee Benefit Research Institute, http://www.ebri.org/pdf/notespdf/EBRI_Notes_07_July-11.TaxCao-UnionHI.pdf

Summary: Among the debt-reduction recommendations by the National Commission on Fiscal Responsibility and Reform is a proposal to cap annual "tax-preferred contributions to [the] lower of $20,000 or 20% of income" for 401(k)-type retirement plans (the "20/20" proposal). New results from EBRI's Retirement Security Projection Model™ (RSPM) show that the highest-income quartile within each age cohort would see the largest average percentage reduction in projected balances at retirement. However, for each age cohort other than the oldest one, the lowest-income quartile would see the second-highest average percentage reductions. Phrased

another way, the proposed cap would, as expected, most affect the highest-income workers; but it also would cause a very big reduction in projected retirement accumulations for the lowest-income workers.

Center for Retirement Research blog *Squared Away*

The blog is part of the Center's Financial Security Project (FSP). New posts are:

Income Source or Security Blanket? The American retirement system is in the throes of a foundational shift, and the burden is falling on employees to supply their own income and security in retirement. But research out of the National Bureau of Economic Research, shows that once they retire, those who have saved are being extremely cautious about using that money.

The Big Freeze Immobilizes Boomers A few reports published recently arrived at the same insight about baby boomers' approach to retirement: paralysis. The primary reason may be denial, but there are a lot of uneasy emotions roiling under the surface.

Widows Have Social Security Options Few realize that Social Security offers a variety of strategies for claiming benefits that can have a dramatic impact on their retirement security. Widows who work have even more options because they can claim either their own or their spouse's benefits – or both.

Longevity and life expectancy

"**Selected issues in modelling mortality by cause and in small populations"**, Richards, S.J. (2009) British Actuarial Journal, 15 (Supplement): 267-283, http://www.actuaries.org.uk/sites/all/files/documents/pdf/pp267283.pdf

Summary: Actuarial practice as regards mortality analysis and projection is changing rapidly. This paper provides a short introduction to some of the limitations and risks in using trends in cause of death as a means for projecting future mortality rates. It also covers recent developments in analysing the mortality of smaller populations, including survival models and "piggyback'' models.

"Longevity risk and annuity pricing with the Lee-Carter model", S. J. Richards and I. D. Currie, [Presented to the Faculty of Actuaries, 16 February 2009], http://www.actuaries.org.uk/sites/all/files/documents/pdf/facsm20090216.pdf

Summary: Several important classes of liability are sensitive to the direction of future mortality trends, and this paper presents some recent developments in fitting smooth models to historical mortality-experience data. We demonstrate the impact these models have on mortality projections, and the resulting impact which these projections have on financial products. We base our work round the Lee-Carter family of models. We find that each model fit, while using the same data and staying within the Lee-Carter family, can change the direction of the mortality projections. The main focus of the paper is to demonstrate the impact of these projections on various financial calculations, and we provide a number of ways of quantifying, both graphically and numerically, the model risk in such calculations. We conclude that the impact of our modelling assumptions is financially material. In short, there is a need for awareness of model risk when assessing longevity-related liabilities, especially for annuities and pensions.

"Longevity Risk, Retirement Savings, and Financial Innovation", João F. Cocco and Francisco J. Gomes (2011), Netspar DP 03/2011-061, http://arno.uvt.nl/show.cgi?fid=115095

Summary: Over the last couple of decades there have been unprecedented increases in life expectancy which have raised important concerns for retirement savings. We solve a life-cycle model with longevity risk, which can be hedged through endogenous saving and retirement decisions. We investigate the benefits of financial assets designed to hedge the shocks to survival probabilities. When longevity risk is calibrated to match forward-looking projections those benefits are substantial. This lends support to the idea that such hedging should be pursued by defined-benefit pension plans on behalf of their beneficiaries. Finally, we draw implications for optimal security design.

"Sense and sensitivity", Stephen Richards (2011), Longevitas UK,
http://www.longevitas.co.uk/site/informationmatrix/senseandsensitivity.html

Summary: Annuities are a good example of the cornerstone of actuarial work: discounting future probabilities of payment to allow for the time value of money. Low interest rates have had major consequences for savers looking for income in retirement, but they are also one reason behind renewed actuarial focus on longevity in recent years.

Regulation

Consultation response to Board for Actuarial Standards Exposure Draft TM1: Statutory money purchase illustrations of March 2011,
http://www.actuaries.org.uk/sites/all/files/documents/pdf/apbastm1statutorymoneypurchaseillustrationsresponse20110610.pdf

Summary: This is the UK Profession's response, identifying some areas of concern.

Other

Financial literacy papers

The Netspar site has a number of papers on financial literacy prepared earlier this year, reporting on a number of countries. Go to http://netspar2.uvt.nl/research2.php and enter "financial literacy" in the Title/Keywords box; select year 2011 to 2011.