REFERENCE LIST
July 2014

2014 Retirement Research Consortium Meeting

July 2014 – Pension Research Council

The 2014 RRC Meeting will be held on August 7-8, 2014 at the National Press Club in Washington, DC. The event is free of charge, but registration is required. The meeting will be streamed in real time.

http://crr.bc.edu/about-us/events/2014-retirement-research-consortium-meeting/

2015 Pension Research Council Newsletter

July 2014 – Pension Research Council

The 2015 Pension Research Council Newsletter is now available.

http://www.pensionresearchcouncil.org/pdf/newsletter.pdf

An Update on Pension Obligation Bonds

July 2014 – Center for Retirement Research at Boston College

The brief's key findings are:

- Some state and local governments issue Pension Obligation Bonds (POBs) to cover their required pension contributions.
- POBs offer budget relief and potential cost savings, but also carry significant risk.
- POBs had a negative average real return from 1992-2009, but show a small gain when the time period is extended to 2014.
- POBs could be a useful tool for fiscally sound governments or as part of a broader pension reform package for fiscally stressed governments.
- But results to date suggest that, instead, POBs tend to be issued by governments under financial pressure who have little control over the timing.

http://crr.bc.edu/wp-content/uploads/2014/07/slp_40_508rev.pdf

How Much Should People Save?

July 2014 – Center for Retirement Research at Boston College

The brief's key findings are:

- The National Retirement Risk Index framework is used to address how much working-age households need to save for retirement.
- A typical household should get a third of its retirement income from a savings plan, with the low income needing one quarter and the high income one half.
- A typical household needs to save about 15 percent of earnings, with the low income requiring less and the high income more.
- For those with a savings shortfall, the necessary savings hike is much more feasible for younger households than for older households.
- Starting to save early and retiring late dramatically reduce a household's required saving rate.

http://crr.bc.edu/wp-content/uploads/2014/07/IB_14-11.pdf

Social Security's Financial Outlook: The 2014 Update in Perspective

July 2014 – Center for Retirement Research at Boston College

The brief's key findings are:

- The 2014 Trustees Report shows little change from last year:
- Social Security's 75-year deficit rose modestly to 2.88 percent of payroll.
- But the deficit as a percent of GDP is still 1 percent.
- And trust fund exhaustion is still 2033, after which payroll taxes still cover about three quarters of promised benefits.
- The shortfall is manageable but, with the deficit rising to about 4 percent in two decades, action should be taken soon to avoid larger tax/benefit changes later.
- And the disability insurance program needs immediate attention, as its trust fund is expected to be exhausted in 2016.

http://crr.bc.edu/wp-content/uploads/2014/07/IB_14-12.pdf

Market-Consistent Valuation of a Defined Benefit Pension Find's Employer Covenant and its Use in Risk-Based Capital Assessment

July 2014 – British Actuarial Journal

During the last ten years or more there has been a pervasive global trend across all financial services sectors towards the use of more market-based, quantitative and probabilistic measures of risk, capital and value for the purposes of financial reporting and regulatory capital assessment. Major regulatory developments in recent years that have move the assessment of DB pension fund liabilities and their funding in this direction, albeit to a more limited degree than has occurred in insurance and banking. A recent initiative by the European Insurance and Occupational Pension Authority (EIOPA) could pave the way for a significantly more quantitative and market-based approach to the assessment of the funding adequacy of the European Union's Defined Benefit pension funds. This initiative could provide greater consistency between the treatment of equivalent obligations that can arise in policies written by insurance companies such as fixed and deferred annuities and in the promises made to Defined Benefit pension fund members. With the bulk of DB pension funds now closed and with liability structures that are increasingly convergent with those of annuity-writing life insurers, such consistency has attractions. It may provide greater transparency on the comparable levels of security of similar assets that the public own in the form of insurance policies and accrued pension funds benefits. And for the UK actuarial profession, it may provide a means for developing their understanding of how some of the quantitative and market-based risk management expertise developed in the insurance sector over the last ten years can be applied to risk management of DB pension funds.

http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9297973&fulltextType=RA&fileId=S1357321713000433

Annuitization Behavior: Tax Incentives vs. Product Design

July 2014 – ASTIN Bulletin

We analyze and compare the impact of tax incentives and of introducing enhanced annuities on annuitization behavior considering heterogeneity among the insured. We find that tax incentives for annuitization result in a significant increase of the portion of people who should annuitize and also an increase of the insurer's profit since less healthy individuals also annuitize, i.e. adverse selection is reduced. However, the problem that different insured receive a different value for money is even increased by tax incentives. If enhanced annuities are introduced, the percentage of insured who should annuitize further increases. Adverse selection is further reduced and the differences in value for money from annuitizing shrink.

http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9303310&fileId=S0515036114000178&utm_source=First_View&utm_medium=Email&utm_campaign=ASB

Actuarial Fairness And Solidarity In Pooled Annuity Funds

July 2014 – ASTIN Bulletin

Various types of structures that enable a group of individuals to pool their mortality risk have been proposed in the literature. Collectively, the structures are called pooled annuity funds. Since the pooled annuity funds propose different methods of pooling mortality risk, we investigate the connections between them and find that they are genuinely different for a finite heterogeneous membership profile. We discuss the importance of actuarial fairness, defined as the expected benefits equaling the contributions for each member, in the context of pooling mortality risk and comment on whether actuarial unfairness can be seen as solidarity between members. We show that, with a finite number of members in the fund, the group self-annuitization scheme is not actuarially fair: some members subsidize the other members. The implication is that the members who are subsidizing the others may obtain a higher expected benefit by joining a fund with a more favorable membership profile. However, we find that the subsidies are financially significant only for very small or highly heterogeneous membership profiles.

http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9310428&fileId=S051503611400018X&utm_source=First_View&utm_medium=Email&utm_campaign=ASB

The Value of Tail Risk Hedging in Defined Contributions Plans: What Does History Tells Us

July 2014 – Journal of Pension Economics and Finance

Hedging against tail events in equity markets has been forcefully advocated in the aftermath of recent global financial crisis. Whether this is beneficial to long horizon investors like employees enrolled in defined contribution (DC) plans, however, has been subject to criticism. We conduct historical simulation since 1928 to examine the effectiveness of active and passive tail risk hedging using out of money put options for hypothetical equity portfolios of DC plan participants with 20 years to retirement. Our findings show that the cost of tail hedging exceeds the benefits for a majority of the plan participants during the sample period. However, for a significant number of simulations, hedging result in superior outcomes relative to an unhedged position. Active tail hedging is more effective when employees confront several panic-driven periods characterized by short and sharp market swings in the equity markets over the investment horizon.

http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9296864&fileId=S1474747214000225&utm_source=First_View&utm_medium=Email&utm_campaign=PEF

How Much Do Respondents in the Health and Retirement Study Know About Their Contributions to Tax-Deferred Contribution Plan? A Cross-Cohort Comparison

July 2014 – Journal of Pension Economics and Finance

We use information from Social Security earnings records to examine the accuracy of survey responses regarding participation in tax-deferred pension plans. As employer-provided defined benefit pensions are replaced by voluntary contribution plans, employees' understanding of the link between their annual contributions and their post-retirement wealth is becoming increasingly important. We examine the extent to which wage-earners in the Health and Retirement Study (HRS) correctly report their inclusion in tax-deferred contribution plans and, conditional on inclusion, their annual contributions. We use three samples representing different cohorts in three different periods: the original HRS cohort interviewed in 1992 at ages 51–56, the War Babies cohort interviewed in 1998 at ages 51–56, and the Early Baby Boomer cohort interviewed in 2004 at the same ages. Our findings indicate that while respondents interviewed in 1998 and 2004 were more likely to correctly report whether they were included in defined contribution plans, they were no more accurate when reporting whether they had contributed to their plans than respondents interviewed in 1992. Contributors in the three cohorts, moreover, overstated their annual contributions and thus would be likely to realize lower than expected account balances at retirement. The magnitude of this error is not negligible. In all three cohorts, the mean reporting error (the absolute difference between respondent-reported and Social Security earnings record contributions) was approximately 1.5 times larger than the mean contribution in the W-2 earnings record.

http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9300958&fileId=S1474747214000237&utm_source=First_View&utm_medium=Email&utm_campaign=PEF

The table of contents of the Journal:
http://journals.cambridge.org/action/displayIssue?jid=PEF&volumeId=-1&seriesId=0&issueId=-1

Discretion In The Accounting for Defined Benefit Obligations – An Empirical Analysis of German IFRS Statements

July 2014 – Journal of Pension Economics and Finance

Following the research approach of Hann et al. (2007), this study investigates how discretion in the determination of the defined benefit obligation (DBO) is perceived by investors using a sample of listed German companies in the period of 2005‑2011. For this, actuarial assumptions ‑ discount interest rates, compensation growth rate and projected future pension increases ‑ are replaced by their respective industry medians to obtain that component of the DBO, which can be attributed to discretion. We find that the discretionary component is not value relevant in overall terms, which is in contrast to prior research. We provide an explanation in the country-specific characteristics of Germany. Furthermore, we find weak evidence that the discretionary component is incorporated in investor's equity valuations when pension plans are distinctly underfunded.

http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9306772&fileId=S1474747214000249&utm_source=First_View&utm_medium=Email&utm_campaign=PEF

Flattening Tax Incentives for Retirement Saving

July 2014 – Brookings Economic Studies

The United States' pension system has failed millions of workers who enter into retirement with very limited assets relative to what they need to live securely the rest of their lives. According to Survey of Consumer Finance data, about 40 percent of households headed by someone near retirement (ages 55–64) do not hold any assets in retirement savings accounts. The median retirement savings account balance for all households in this age group is only $12,000 (Rhee 2013). At the same time, the pension landscape has been gradually shifting away from defined benefit (DB) pension plans toward defined contribution (DC) plans. The shift is especially pronounced in the private sector. Between 1989 and 2012, the proportion of private industry full-time workers participating in DB pension plans declined from 42 to 19 percent, while the share participating in DC plans increased from 40 to 51 percent (Bureau of Labor Statistics 2013; Wiatrowski 2011). While DB plans often provide significant benefits for the lucky minority who have been in a single job for many years before retirement, DC plans can be more beneficial for a mobile workforce. At the same time, the transition from DB to DC plans has also presented new challenges.

http://www.brookings.edu/~/media/research/files/reports/2014/07/01%20flattening%20tax%20incentives%20for%20retirement%20saving/flattening_tax_incentives_for_retirement_saving.pdf

What's Next for VEBAs? The Impact of Declining Employer-Provided Health Care Coverage and the Affordable Care Act

July 2014 – Pension Research Council

A voluntary employee beneficiary association or VEBA, is a U.S. tax-exempt organization set up to pay for employee health and welfare benefits. The 2007 establishment of a stand-alone VEBA trust funded by the Big Three US automakers and managed by the UAW seemed to mark a defining moment for employer-provided retiree health care benefits. After years of declining employer-provided medical benefits, the VEBA trust seemed to offer an innovative structure to maintain these promises while moving the liability off of the employer's balance sheet. Nevertheless, the 2008 financial crisis and government-assisted bailouts of GM and Chrysler immediately tested the stand-alone VEBA structure. Additionally, the passage of the Affordable Care Act is expected to accelerate the decline of employer-provided retiree health care benefits. With retirees able to receive medical coverage through the Affordable Care Act's health care exchanges, the number of VEBA plans has already begun to decline. VEBAs will still serve a purpose as a tax-advantaged benefit funding mechanism and will be important for companies in financial distress looking to reduce the level and uncertainty of their significant benefit liabilities.

http://pensionresearchcouncil.org/publications/document.php?file=1204&download=1

Role of an Actuary in Consulting Firm for Pensions – Trijot Singh

July 2014 – Actuarial Intern at Future Track Edutech Pvt. Ltd.

This is the edited extract of interview taken by Vardaan Kohli (me) & Shubham Jain as a part of our summer project "Life of an Actuary" under the guidance of Shagun Gupta. Please look forward to the link to know more about the role of an Actuary in pension industry. We expect that this endeavor will lead to discussions in the form of comments and questions which will result in an improved learning experience for all**.**

http://www.futuretrack.org/blog/role-of-an-actuary-in-consulting-firm-for-pensions-trijot-singh/

Medicaid and the Elderly

June 2014 – Center for Retirement Research at Boston College

The brief's key findings are:

- Medicaid covers not only the low-income elderly but also those with higher incomes who become impoverished by health costs, such as nursing home care.
- The percentage of high-income single retirees receiving Medicaid rises with age – from near zero for those in their 70s to 20 percent for those in their late 90s.
- Even higher-income retirees who never receive Medicaid benefit from the insurance value that it provides, which allows them to maintain smaller reserves.
- The analysis suggests that single retirees of all incomes value current Medicaid benefits at more than their cost but an expansion at less than its cost.

http://crr.bc.edu/wp-content/uploads/2014/06/IB_14-10_508rev.pdf

Communicating the Financial Health of Public Pension Plans

June 2014 – Society of Actuaries

The goal of the plan reports is to give interested readers a clear overview of the state of a plan's finances and its benefits. They are intended to serve as examples to the plan management staff that would be called upon to prepare reports for their own pension systems. Having been prepared by an outsider, they are limited in some respects.
An outsider cannot commission simulations on the impact of changes in actuarial or economic assumptions, for example, although these may have been reported in the CAFR or elsewhere. Without a simulation model of a plan, it is very difficult to gauge the impact of measures taken to improve the plan's finances. Nonetheless, the proposed report can still serve as an expository model for plan "insiders." The reader should note that sentences in square brackets represent the researcher's conjectures, and are intended to stand in for what would be more solidly based analyses by drafters from plan management.

https://www.soa.org/files/research/projects/2014-pension-research-report.pdf

Will Divestment from Employment-Based Health Insurance Save Employers Money? The Case of State and Local Governments

June 2014 – The National Bureau of Economic Research

Reforms introduced by the Affordable Care and Patient Protection Act (ACA) build new sources of coverage around employment-based health insurance. But what if firms find it cheaper to have their employees obtain insurance from these sources, even after accounting for penalties (for non-provision of insurance) and employee bonuses (to ensure the shift is cost neutral for them)? State and local governments (SLGs) have strong incentives to consider the economics of such "divestment"; many have large unfunded benefits liabilities. We investigated whether SLGs would save under two scenarios: (1) shifting all employees and under-65-retirees to alternative sources of coverage; (2) shifting only employees whose household incomes indicate they would be eligible for federally subsidized coverage and all under-65-retirees. Full divestment would cost SLGs more than they currently pay, due primarily to penalty costs. Selective divestment could save SLGs nearly $119 billion over 10 years at the expense of the federal government.

http://www.nber.org/papers/w20222.pdf

Changes to the UK State Pension Age

May 2014 – Society of Actuaries

The Pensions Bill proposes to implement a new single-tier state pension from April 2016 that will replace the current Basic State Pension (BSP) and the State Second Pension (S2P). It also makes proposals for increases to the State Pension Age. The White Paper illustrates the new pension as being set just above the current Guarantee Credit level, at 144 per week in (2012/13 prices), although the actual level will not be set out in primary legislation, but will be announced by the Government of the day closer to the implementation date of April 2016. The changes will not apply to people who are over State Pension Age (SPA) in April 2016, including those people who reach State Pension Age between now and then.

https://www.soa.org/library/newsletters/pension-section-news/2014/may/psn-2014-iss83-changes-policy-institute.aspx

SOA Pension Mortality Study: Exposure Drafts Released

May 2014 – Society of Actuaries

On Feb 4, 2014 the SOA released in exposure draft form two research reports that were recently completed by its Retirement Plans Experience Committee (RPEC):

- The RP-2014 Mortality Tables report
- The Mortality Improvement Scale MP-2014 report

These two papers represent the SOA's first comprehensive reexamination of U.S. pension-related mortality assumptions in over a decade and the culmination of a Pension Mortality Study begun by RPEC in late 2009.

https://www.soa.org/library/newsletters/pension-section-news/2014/may/psn-2014-iss83-soa-pension-pinzur.aspx

Canadian Pensioners' Mortality: A Review of the Final Report

May 2014 – Society of Actuaries

This article provides an overview of the Final Report on Canadian Pensioners' Mortality of the Pension Experience Subcommittee of the Canadian Institute of Actuaries Research Committee following its landmark study of mortality patterns in Canada. In 2008, the research committee formed the subcommittee to review mortality experience of Canadian pensioners and to develop and maintain Canadian pension mortality tables and improvement scales.

https://www.soa.org/library/newsletters/pension-section-news/2014/may/psn-2014-iss83-canadian-siddiqi.aspx

Accounting and Actuarial Smoothing of Retirement Payouts in Participating Life Annuities

May 2014 – The National Bureau of Economic Research

Life insurers use accounting and actuarial techniques to smooth reporting of firm assets and liabilities, seeking to transfer surpluses in good years to cover benefit payouts in bad years. Nevertheless, these techniques been criticized as they make it difficult to assess insurers' true financial status. We develop stylized and realistically-calibrated models of participating lifetime annuities, an insurance product that pays retirees guaranteed lifelong benefits along with variable non-guaranteed surplus. Our goal is to illustrate how accounting and actuarial techniques for this type of financial contract shape policyholder wellbeing, along with insurer profitability and stability. Smoothing adds value to both the annuitant and the insurer, so curtailing smoothing could undermine the market for long-term retirement payout products.

http://www.nber.org/papers/w20124.pdf

Health, Disability Insurance and Retirement in Denmark

May 2014 – The National Bureau of Economic Research

There are large differences in labor force participation rates by health status. We examine to what extent these differences are determined by the provisions of Disability Insurance and other pension programs. Using administrative data for Denmark we find that those in worse health and with less schooling are more likely to receive DI. The gradient of DI participation across health quintiles is almost twice as steep as for schooling – moving from having no high school diploma to college completion. Using an option value model that accounts for different pathways to retirement, applied to a period spanning a major pension reform, we find that pension program incentives in general are important determinants of retirement age. Individuals in poor health and with low schooling are significantly more responsive to economic incentives than those who are in better health and with more schooling. Similar gradients in outcomes and behavior by health and schooling partially reflects the less educated having poorer health on average, but also that the less educated have worse job prospects and higher replacement rates due to a progressive formula for DI and other pension benefits.

http://www.nber.org/papers/w20114.pdf

Pathways to Retirement and the Role of Financial Incentives in Sweden

May 2014 – The National Bureau of Economic Research

We study how economic incentives affect labor force exit through different income security programs, old-age pensions as well as income taxes in Sweden. We use the option value for staying in the labor force as a measure of economic incentives and estimate an econometric model for the choice of leaving the labor market. Besides old-age pension, we focus on the Disability Insurance (DI), which is the most important exit path before age 65. By simulating the effect of different probabilities to be admitted DI we show how changes in the stringency of DI admittance affects labor supply among older workers through economic incentives.

http://www.nber.org/papers/w20123.pdf

Social Security Programs and Retirement Around the World: Disability Insurance Programs and Retirement

May 2014 – The National Bureau of Economic Research

This is the introduction and summary to the sixth phase of an ongoing project on Social Security Programs and Retirement Around the World. The first phase described the retirement incentives inherent in plan provisions and documented the strong relationship across countries between social security incentives to retire and the proportion of older persons out of the labor force. The second phase documented the large effects that changing plan provisions would have on the labor force participation of older workers. The third phase demonstrated the consequent fiscal implications that extending labor force participation would have on net program costs—reducing government social security benefit payments and increasing government tax revenues. The fourth phase presented analyses of the relationship between the labor force participation of older persons and the labor force participation of younger persons in twelve countries. We found no evidence that increasing the employment of older persons will reduce the employment opportunities of youth and no evidence that increasing the employment of older persons will increase the unemployment of youth. The fifth phase on "Historical Trends in Mortality and Health, Employment, and Disability Insurance Participation and Reforms" was intended to set the stage for this current phase.

http://www.nber.org/papers/w20120.pdf

Retirement Security in an Aging Society

February 2014 – The National Bureau of Economic Research

The share of the U.S. population over the age of 65 was 8.1 percent in 1950, 12.4 percent in 2000, and is projected to reach 20.9 percent by 2050. The percent over 85 is projected to more than double from current levels, reaching 4.2 percent by mid-century. The aging of the U.S. population makes issues of retirement security increasingly important. Elderly individuals exhibit wide disparities in their sources of income. For those in the bottom half of the income distribution, Social Security is the most important source of support; program changes would directly affect their well-being. Income from private pensions, assets, and earnings are relatively more important for higher-income elderly individuals, who have more diverse income sources. The trend from private sector defined benefit to defined contribution pension plans has shifted a greater share of the responsibility for retirement security to individuals, and made that security more dependent on choices they make. A significant subset of the population is unlikely to be able to sustain their standard of living in retirement without higher pre-retirement saving.

http://www.nber.org/papers/w19930.pdf