
# REFERENCE LIST — June 2009

## *Social security*

The OECD has just announced the release of **Pensions at a Glance 2009: Current trends and policy topics in retirement-income provision in OECD countries**. Details of the release, including links to sub-reports, are available from
http://www.oecd.org/document/49/0,3343,en_2649_34757_42992113_1_1_1_1,00.html

**"Adequacy of Saving for Old Age in Europe"**, Elsa Fornero, Annamaria Lusardi, Chiara Monticone (2009), Center for Research on Pensions and Welfare Policies, Collegio Carlo Alberto, Turin, http://www.dartmouth.edu/~alusardi/Papers/OldAge.pdf
**Summary**: this paper contributes to the ESF Forward Look project "Ageing, Health and Pensions in Europe" by providing an overview of policy questions and research literature on the adequacy of saving for old age in European countries. Given the current status and practices, the paper describes remaining knowledge gaps and the requirements in terms of research infrastructures, data, and methodologies to fill such gaps.

## *Pension systems reform*

**"Transition to retirement: can a new program help older workers continue to work and protect those who cannot?"**, David C. Stapleton (2009), AARP Research Report 2009-05, http://assets.aarp.org/rgcenter/econ/2009_05_transition.pdf
**Summary**: There are compelling reasons for policy reforms that would encourage later retirement, but one important drawback to many reforms is that they would adversely affect the household incomes of many workers who experience large involuntary earnings losses as they approach retirement. Employment Support for the Transition to Retirement (ESTR) is a set of supports designed to encourage and help such workers increase their earnings and postpone reliance on their retirement benefits until the benefits are larger. This paper describes the need for such a program; presents options with respect to eligibility and benefit design; considers the potential cost, financing and administration of the program; and compares the approach embedded in ESTR with other approaches designed to address the needs of those most adversely affected by retirement policy reforms.

## *Retirement savings*

**"Risk Pooling and the Market Crash: Lessons From Canada's Pension Plan"**, Ashby H.B. Monk and Steven A. Sass, (2009), CRR Boston IB#9-12, http://crr.bc.edu/images/stories/Briefs/ib_9-12.pdf

**Summary**: the key findings are:

- In the United States, workers hold equities in their 401(k)s, fully exposing them to a stock market crash.
- Canada's Pension Plan (CPP) offers an alternative approach - it pools equity risk, dampening the effects on individual households.
- The CPP responds to a market crash by prompting policymakers to modestly adjust taxes and/or benefits.
- With a very long-term horizon, the CPP can also respond to a market decline by buying assets at low prices, which helps stabilize the financial market.

**"Employers' (Lack of) Response to the Retirement Income Challenge"**,
Steven A. Sass, Kelly Haverstick, and Jean-Pierre Aubry (2009), CRR Boston IB#9-13, http://crr.bc.edu/images/stories/Briefs/ib_9-13.pdf

**Summary**: Employers have long had a significant impact on workers' retirement prospects. Aside from Social Security, employer retirement income plans are the most important source of income for the great majority of retirees. How long workers can stay employed also largely depends on employer hiring and retention and retirement decisions. Both of these functions – retirement income support and the separation process – are now in flux given scheduled declines in Social Security replacement rates, the shift from traditional defined benefit pensions to 401(k)-type defined contribution plans, and the decline in career employment relationships.

To assess the employers' response to changes in retirement income support and the work-separation process, the Center for Retirement Research at Boston College conducted a nationally representative survey of 400 employers. The survey was conducted in 2006 and focused on the employers' response to the prospects of employees in their 50s. As reported in previous Issue in Briefs, the survey found that employers expect: 1) half these employees will lack the resources needed to retire at the organization's traditional retirement age; 2) one out of four will respond by wanting to stay on the job at least two years past that traditional retirement age; but 3) the employers are lukewarm about creating opportunities for even half of these employees to work longer. Note that the survey was conducted well before the financial crisis; the retirement preparedness of workers has deteriorated since the survey – making potential employer responses all the more important.

**"How Ordinary Consumers Make Complex Economic Decisions: Financial Literacy and Retirement Readiness",** Annamaria Lusardi and Olivia S. Mitchell (2009), Dartmouth College, http://www.dartmouth.edu/~alusardi/Papers/LusardiMitchellOrdinaryConsumers.pdf

**Summary*:*** In this paper we report on several new self-assessed and objective measures of financial literacy obtained using the American Life Panel (ALP); we also link these performance measures to efforts consumers make to plan for retirement. We evaluate the causal relationship between financial literacy and retirement planning by exploiting information about respondents' financial knowledge acquired in school - before entering the labor market and certainly before starting to plan for retirement. We show that those with more advanced financial knowledge are those more likely to be retirement-ready.

**"Investment Risk and Pensions: Measuring Uncertainty in Returns"**, d'Addio, A. C., J. Seisdedos and E. R. Whitehouse (2009), OECD Social Employment and Migration Working Papers, No. 70, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT00002EF2/$FILE/JT03266331.pdf
**Summary**: This paper explores how uncertainty over investment returns affects pension systems. The scale of investment risk is measured in this paper using historical data on returns on equities and bonds in major OECD economies over the past quarter century.

**"Investment Risk And Pensions: Impact On Individual Retirement Incomes And Government Budgets",** Whitehouse, E. R., A. C. D'Addio and A. Reilly (2009), OECD Social Employment And Migration Working Papers, No. 87,
http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT00002ECE/$FILE/JT03266135.pdf
**Summary**: This paper explores how uncertainty over investment returns affects individuals' retirement incomes and government budgets. The paper uses the OECD pension models to explore the implications of a range of possible outcomes for investment returns.

A little belatedly, one may note the OECD released the **OECD Private Pensions Outlook 2008** in February this year. There is no direct download available of the full book but the link to the announcement is at
http://www.oecd.org/document/60/0,3343,en_2649_34853_41770428_1_1_1_1,00.html
and the executive summary **is** downloadable, from
http://www.oecd.org/dataoecd/44/60/42153142.pdf

## *Longevity and life expectancy*

A little less belatedly, articles from the May 2009 edition of **The Actuary** that may be of interest:
**"Goldilocks and the three cohorts"**, http://www.the-actuary.org.uk/853401
*Douglas Anderson and Andrew Gaches share Club Vita's findings on longevity within occupational pension schemes.*
**"Long term solutions",** http://www.the-actuary.org.uk/853790
*Chris Watts and Matt Fewster look at hedging longevity risk, how a liquid market could develop in longevity and the implications for valuing liabilities.*
**"What the future holds",** http://www.the-actuary.org.uk/853818
*Tom Kirkwood and Carol Jagger compare longevity statistics between different European countries.*

The UK **Continuous Mortality Investigation** (CMI) has announced the publication of Working Paper 38 together with the prototype version of the Mortality Projections Model.
This reports the work of a Working Party established to develop a projection model which:

- reflects the latest experience on trends in mortality;
- is relatively straightforward to understand and describe;
- allows users the flexibility to modify projections to suit their own views and purpose; and
- can be regularly updated over time to reflect emerging experience.

The structure of the Model is based on the projection of annual rates of mortality improvement, and assumes that 'current' rates of change will blend over time into a 'long-term' rate of improvement specified by the user. The Model produces a single, deterministic, mortality projection for each set of

user inputs and may be operated at different levels of complexity, reflecting the needs and resources of different users and uses.

Working Paper 38, the prototype Model and details of the meetings can be found on the CMI section of the UK Actuarial Profession's website at: http://www.actuaries.org.uk/knowledge/cmi

## *Regulation*

**"Change management"**, Tim Sharples, The Actuary (UK) July 2009, http://www.the-actuary.org.uk/863103

**Summary**: this article briefly compares the supervision of pensions across Europe and the response of regulators to the economic slowdown (note that the electronic version does not include a comparative table).

A statement from the UK Pensions Regulator was released in June on **"Scheme Funding and the Employer Covenant"**. The statement is at:
http://www.thepensionsregulator.gov.uk/pdf/EmployerCovenantStatementJune2009.pdf
An accompanying press release titled "**Prudent funding targets are key to the health of pension schemes"** is at:
http://www.thepensionsregulator.gov.uk/mediaCentre/pressReleases/pn09-07.aspx

## *Other*

**"Income of the Elderly Population Age 65 and Over"**, McDonnell, Kenneth J., (2009). EBRI Notes, Vol. 30, No. 5, May 2009. Abstract available at: http://ssrn.com/abstract=1416860

**Summary**: The U.S. retirement income system -- including employment-based retirement plans, Social Security, individual saving, and post-retirement employment -- can be assessed in part by examining the income of the current elderly population (age 65 and older). This paper reviews the latest available data on the older population's income (from the U.S. Census Bureau's March 2008 Current Population Survey) and how it has changed over time, as well as how the elderly's reliance on these sources varies across demographic characteristics.