**REFERENCE LIST**
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## *Social security*

**"Intergenerational Solidarity: Policy Challenges and Societal Responses",** Asghar Zaidi, Katrin Gasior and Alexandre Sidorenko (2010), European Centre for Social Welfare Policy and Research, Policy Brief July 2010, Vienna, http://www.euro.centre.org/data/1277212383_19649.pdf

**Summary**: The dilemmas facing the European Union countries associated with population ageing have until recently been articulated in two ways: (a) the financial sustainability of public welfare systems, and (b) the adequacy of retirement incomes and basic social services. The concept of social sustainability, though less clearly defined, encompasses both these challenges while addressing also the awareness of the need to ensure intergenerational solidarity in countries experiencing the demographic transition. In such ageing societies, the notion of social sustainability requires the enabling of practical, mutually beneficial and satisfying relationships between generations.

This Policy Brief addresses these inter-generation policy challenges and appraises the progress made so far within international policy frameworks (from UN and the European Commission) while also reporting on the opinions of European citizens on the challenges of intergenerational solidarity. The results are drawn from the Flash Eurobarometer survey of 2009, conducted by the GALLUP organisation, sponsored by the European Commission.

There is no shortage of mention of intergenerational solidarity in UN policy frameworks. As for responses, a key finding is that European citizens believe in the common fallacy of work-sharing – ie, that older people working later into life would result in fewer jobs for younger people. This can only negatively affect public opinion and policy decision-making, while also damaging the case for raising the retirement age. A strong verdict is being given by Europeans against the performance of their governments in promoting a better understanding between the young and the old, in particular by citizens of Eastern European countries.

**"Shaping Private Pensions: Analyzing the Link Between Social Security and Retirement Adequacy"**, Mussio, Irene and Garabato, Natalia (2009), Towers Watson Technical Paper No. 1424495, http://ssrn.com/abstract=1424495

**Summary** Public pension schemes are most often discussed from a social welfare and public policy point of view. Nevertheless, the design of public pensions should also be taken into close consideration by companies planning and designing private pension plans for their employees. Social security and private pensions are both very important parts of retirement resources for the vast majority of the population and the adequacy of these resources thus depend not only on the generosity of social security but also on the financial commitment employers choose to make to private arrangements.

In this sense, private pensions come to complement social security benefits and, in many cases, they are either explicitly or implicitly integrated with public provision. In many countries, private pension designers consider

projected social security benefits and contributions when defining their overall benefit strategy. It is vital, nevertheless, that more employers take into account the specificities of first pillar pensions in each country so as to develop benefit packages that complement social security benefits effectively. The paper examines and analyses social security systems across eight developed nations (Canada, France, Germany, Italy, Japan, Netherlands, UK and US). The comparison is based on three key aspects: the generosity of state benefits; whether the focus rests on the insurance or redistributive role of social security; and the long term sustainability of public pensions.

**"Income of the Elderly Population Age 65 and Over, 2008"**, Ken McDonnell, Employee Benefit Research Institute, EBRI Notes June 2010, Vol. 31, No. 6,
http://www.ebri.org/pdf/notespdf/EBRI_Notes_06-June10.Inc-Eld.pdf
**Summary**: This article reviews the latest available data on the US older population's income (from the U.S. Census Bureau's March 2009 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.
Social Security the dominant source: In 2008, Social Security was the largest source of income for those currently age 65 and older, accounting for 39.8 percent of their income on average. Pension and annuities income was 19.7 percent, income from assets 13.0 percent, and income from earnings was 25.6 percent. Nearly all individuals (89.2 percent ) age 65 and over were receiving income from Social Security in 2008, while 55.3 percent received income from assets, 35.4 percent received income from pensions and annuities, and 20.4 percent received income from earnings.
Median income levels: Real median income of the elderly (the midpoint, 50 percent above and 50 percent below) reached $18,001 in 2008, the highest point in the Census Bureau time series.

**"Family benefits and demographic change"**, 2010, Social Policy Highlight 14, ISSA, http://www.issa.int/aiss/Resources/Social-Policy-Highlight
**Summary:** In many countries, family benefits programmes are being impacted by a number of common factors, including demographic ageing, the emergence of new social groups at risk and women's changing roles in society. This complex situation poses a difficult set of challenges, and there is a growing requirement for proactive policy measures tailored to meet the social needs of children, which also help develop human capital, combat chronic poverty and enable families to better reconcile the work-life balance.

## *Pension systems reform*

**"The Future of Retirement"**, Craig Berry (2010), An ILC-UK discussion paper June 2010, http://www.ilcuk.org.uk/files/pdf_pdf_134.pdf
**Summary:** The meaning of retirement was originally bound up with the receipt of a pension, but has changed over time. There are no clear lines of causality regarding 'early' and 'late' labour market exits, due to a complex interaction of factors.
The UK's average retirement age started to rise in the 1990s, following decades of decline, despite increasing life expectancy. Most people do not retire at state pension age (SPA), but nevertheless increases in SPA may create equity concerns. There is a need to ascertain why people retire early, to determine whether planned and further increases are fair, as well as to help the extended working lives become more effective.
Good pensions coverage generally increases the likelihood of early retirement, and vice versa. Other things being equal, low-paid/low-skilled workers retire later due to financial compulsion. Over the long-term, defined contribution pension schemes are likely to encourage later retirements, in part due to their inherent incentive structure, but also because they tend to be less generous than defined benefit schemes.
Industrial change has resulted in *de facto* early retirement for large numbers of people. Retirement in these circumstances is a result of labour market conditions rather than individual choice.

Many older workers seem to favour a gradual transition from work to retirement. Such arrangements could help people to cope with care responsibilities. Generally, however, gradual retirement options such as downshifting and consultancy work are available only to high-skilled workers. Line managers also exercise significant discretion in allowing workers to downshift. More research is required on how the pensions system could incentivise gradual retirement options.

*Another ILC-UK item worth taking a look at is* ***"In Defence of Annuities"****, David Sinclair,* http://blog.ilcuk.org.uk/2010/05/26/in-defence-of-annuities/

**"The Changing Role of Political Parties in the Reform of Continental Pension Regimes - Changing Electoral Constituencies as Drivers of Reform"**, Häusermann, Silja, (2009). APSA 2009 Toronto Meeting Paper, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1450386

**Summary:** Over the last decade, the main puzzle in the analysis of continental European welfare states has shifted from the explanation of stability to the explanation of change. Rather than being "frozen landscapes", most continental welfare states have indeed undergone far-reaching retrenchment and restructuring, even in the field of pensions, which supposedly is the most "path dependent" welfare policy. Moreover, even left-wing political parties and even trade unions have played a major role in cutting back existing pension rights in several countries. How can we explain the contents and coalitional dynamics of these reforms?

This contribution argues that we need to link the analysis of policy-making by political parties and unions with an analysis of the changing socio-structural constituencies these actors represent. When looking empirically at the profile and preferences of the electorate and membership of parties and trade unions, it can be shown that the recent reforms cater to new constituencies, rather than the blue-collar workers, who were the core beneficiaries of the industrial welfare state. However, since the left-wing electorate has become very heterogeneous, the left is increasingly divided. Empirically, socio-structural transformations and the preference profiles of constituencies in Switzerland, Germany and France are analysed by means of survey data. In a second step, an analysis of collective actor positions in the reform space shows how these micro-level transformations affect the coalitional dynamics in three major pension reform processes in the early 2000s. Methodologically, factor analysis is applied to analyse the dimensionality of the policy space, and the configuration of actors in this space.

**"Social Security Reform with Self-Control Preferences"**, Kumru, Cagri S. and Thanopoulos, Athanasios C., (2010). UNSW Australian School of Business Research Paper No. 2010 ECON 11, http://ssrn.com/abstract=1616262

**Summary:** This paper analyses a fully funded social security system under the assumption that agents face temptation issues. Agents are required to save through individually managed Personal Security Accounts without, and with mandatory annuitisation. When the analysis is restricted to constant relative risk aversion (CRRA) preferences our results are congruent with the literature in indicating that the complete elimination of social security is among the reform scenarios that maximise welfare. However, when self control preferences are introduced, and as the intensity of self control becomes progressively more severe the "social security elimination" scenario loses ground very rapidly. In fact, in the case of relatively severe temptation the elimination of social security becomes the least desirable alternative. Under the light of the above findings, any reform proposal regarding the social security system should consider departures from standard preferences to preference specifications suitable for dealing with preference reversals.

**"Key Issues Regarding Japan's Public Pension Reform"**, Akiko Nomura (2009),
Nomura Journal of Capital Markets, Vol. 1, No. 2,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1456870#

**Summary:** Japan's public pension system underwent radical reforms in 2004, and the results of the first financial review under the new regime were released in February 2009. Although the review concluded that systemic revisions were unnecessary, some observers have criticized the report for its use of overly optimistic assumptions. In addition, there has been a rekindling of the debate over whether the basic pension should be funded by premiums or by taxes. If demographics and socio-economic conditions necessitate further reforms, it is essential that those reforms be started without delay.

**"Several Issues in Reform and Development of China's Old-Age Security System"**, Yanzhong Wang, Chinese Academy of Social Sciences (CASS), China Economist, forthcoming (no free download available at present)

**Summary:** Since China's reform and opening to the outside world, especially since the mid-1990s, China's social security system has undergone a number of reforms and adjustments. We can say that the basic framework of social insurance system had been established, but it is still facing many difficulties such as small coverage, high payment rates, "empty" individual accounts, etc. The question is whether China will choose the proper way from so many suggestions inside and outside China to solve the above issues. The author analyses some important issues on pension reform and old age security system construction and gives his own view.

## *Retirement savings*

**"Pension Reform in the United States: Guaranteed Pension Accounts Are Key"**, Teresa Ghilarducci (2009), Rotman International Journal of Pension Management
Volume 2, Number 2 /2009,
http://utpjournals.metapress.com/content/h1108312q5q42j45/fulltext.pdf

**Summary:** Policy makers in the United States reacted swiftly to the recession by restructuring the nation's collapsing financial institutions, yet they ignored the failing pension system. President Obama is now proposing pension reforms that will likely exacerbate its current problems of asset volatility and inadequate income replacement. This article offers an alternative: Guaranteed Savings Accounts administered by the Social Security Administration. At the start, retirement savings accumulated in Defined Contribution plans could be swapped for Guaranteed Savings Accounts guaranteeing a minimum three percent real rate of return. Over time, Guaranteed Savings Accounts would grow through contributions from employers and employees. Tax expenditures related to current 401(k) pension contributions could be distributed more fairly. This would allow lower-income workers to build their Guaranteed Savings Accounts further through pension tax credits. Accumulating retirement savings would be co-mingled, and professionally managed at low-cost. On retirement, Guaranteed Savings Accounts would be converted into life annuities. Guaranteed Savings Accounts would eliminate four major problems besetting the current American Defined Contribution-based pension system: high asset volatility, high fees, and the hedging difficulties with longevity and inflation risks.

*For comment on this and related matters (and including a quote from Machiavelli that should be compulsory reading!), an article by David Pratt in the Journal of Pension Benefits, Vol 14, #4, can be found here:*
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1518592

**"Assessing Default Investment Strategies in Defined Contribution Pension Plans"**, Antolín, P., S. Payet and J. Yermo (2010), OECD Working Papers on Finance,
Insurance and Private Pensions, No. 2, http://www.oecd.org/dataoecd/22/63/45390367.pdf

**Summary:** This paper assesses the relative performance of different investment strategies for different structures of the payout phase. In particular, it looks at whether the specific glide-path of life-cycle investment strategies and the introduction of dynamic features in the design of default investment

strategies affect significantly retirement income outcomes. The analysis concludes that there is no ―one-size-fits-all default investment option. Life cycle and dynamic investment strategies deliver comparable replacement rates adjusted by risk. However, life cycle strategies that maintain a constant exposure to equities during most of the accumulation period, switching swiftly to bonds in the last decade before retirement seem to produce better results and are easier to explain. Dynamic management strategies can provide somewhat higher replacement rates for a given level of risk than the more deterministic strategies, at least in the case of payouts in the form of variable withdrawals. The length of the contribution period also affects the ranking of the different investment strategies with life cycle strategies having a stronger positive impact the shorter is the contribution period.

**"The Shrinking Tax Preference For Pension Savings: An Analysis Of Income Tax Changes, 1985-2007"**, Gary Burtless and Eric Toder (2010), Boston CRR WP 2010-3,
http://crr.bc.edu/images/stories/Working_Papers/wp_2010-3.pdf
**Summary:** The value of the tax preference for pensions depends on the marginal tax schedule and on the tax treatment of income from assets held outside a pension account. We examine the change over time in the value of pension investing, accounting for changes in the tax schedule and in the treatment of equity and bond income. We find that changes in U.S. tax law, especially the treatment of equity income, have led to sizeable changes in the value of the pension tax preference. On balance the value of the pension tax preference to worker-savers is modestly lower than it was in the mid-1980s and substantially lower than it was in the late 1980s.
For example, tax law changes enacted in 2001 and 2003 increased the tax preference for long-term capital gains, provided a new tax preference for qualified dividends, and lowered marginal tax rates on ordinary income. Each of these changes reduced the benefit from saving in qualified retirement plans by increasing the relative after-tax return on savings accumulated outside of qualified plans.

**"Valuing Liabilities in State and Local Plans"**, Alicia H. Munnell, Richard W. Kopcke, Jean-Pierre Aubry, and Laura Quinby (2010), Boston CRR SLP 11,
http://crr.bc.edu/images/stories/Briefs/slp_11.pdf
**Summary:** This brief attempts to separate the question of valuing liabilities from the questions of funding and investment. As background, it explains the current approach to valuing liabilities in the private and public sectors. Second, it discusses why, given their guaranteed status, state and local pension liabilities should be discounted at a riskless rate and shows how much measured liabilities would increase by applying such a rate. Third, it argues that valuing liabilities is only one factor entering the funding calculation, and that using a riskless discount rate does not necessarily mean that contributions should increase immediately.
In addition, it explains that selecting a discount rate and choosing whether or not to invest in risky bonds and equities are quite separate decisions. The conclusion is that whereas using a riskless rate instead of the assumed return on assets produces a very high measure of public pension liabilities, such a change does not have immediate implications for funding or investment. And adopting a riskless rate has clear advantages: it would accurately reflect the guaranteed nature of public sector benefits; it would increase the credibility of public sector accounting with private sector analysts; and it could well forestall unwise benefit increases when the stock market soars.

**"Saving Britain: A White Paper on Rebuilding Britain's Savings Culture"**, Association of Independent Financial Advisers and Aegon Insurance (2010), UK,
http://dms.aegonse.co.uk/download/907a532a6375495fc1631c186a172795
**Summary**: This short paper (15 pages) explores some of the behavioural nudges which could help move the UK towards a culture of saving. It observes that until recently, initiatives to encourage saving have come through tax and regulation and assumed a rational consumer. But a combination of regulatory

complexity and cost, alongside a consumer with a preference for consumption is argued to have resulted in an aggregate savings rate near the bottom of the OECD.
The report makes a number of recommendations including moves towards a culture of "save back" not "cash back",a need to build a savings culture in the young and a need for a new advice infrastructure.The report points to auto enrolment as an example of a move towards behavioural finance and notes that it highlights a change in the approach of Government.

**"Getting to the Top of Mind: How Reminders Increase Saving"**, Dean Karlan, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman (2010), Boston CRR WP#2010-4, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-4.pdf
**Summary**: We develop and test a simple model of limited attention in intertemporal choice. The model posits that individuals fully attend to consumption in all periods but fail to attend to some future lumpy expenditure opportunities. This asymmetry generates some predictions that overlap with other models of present-bias. Our model also generates the unique predictions that reminders will increase saving, and that a reminder that makes a specific expenditure more salient will be especially effective. We find support for these predictions in three field experiments that randomly assign reminders to new savings account holders.

**"Social Security, Benefit Claiming and Labor Force Participation: A Quantitative General Equilibrium Approach"**, Selahattin İmrohoroğlu and Sagiri Kitao (2010), Boston CRR WP#2010-02, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-2.pdf
**Summary**: We build a general equilibrium model with endogenous saving, labor force participation, work hours and Social Security benefit claiming, in which overlapping generations of individuals face income, survival, and health expenditure risks in incomplete markets. We use the model to study the impact of three Social Security reforms: reductions in benefits and payroll taxes, an increase in the early retirement age from 62 to 64, and an increase in the normal retirement age from 66 to 68. We show that a reform can have a significant effect on the budget of Social Security through changes in savings as well as benefit claiming and labor force participation. When the projected aging of the population is taken into account, the case for a reform that encourages labor force participation of the elderly becomes stronger.

## *Longevity and life expectancy*

**"The Case For Longevity Bonds"**, David Blake, Tom Boardman, and Andrew Cairns (2010), Boston CRR IB#10-10, http://crr.bc.edu/images/stories/Briefs/ib_10-10.pdf
**Summary:** Insurance companies and defined benefit pension plans face the risk that retirees might live longer than expected. This risk might adversely affect both the willingness and ability of financial institutions to supply retired households with financial products to manage their wealth decumulation. Longevity bonds are instruments that would allow financial institutions to hedge aggregate longevity risk. Longevity bonds, which involve no repayment of principal, would pay a coupon that is linked to the survivorship of a cohort, say, 65-year-old males born in 1945. If a higher-than-expected proportion of this cohort survived to age 75 – a development that would cost the insurance company or pension plan more than expected – the coupon rate would increase, offsetting some of the provider's cost.
This brief highlights the benefits that could flow from a transparent and liquid capital market in longevity risk, and argues that the government could play an important role in helping this market grow. The line of reasoning comes from the United Kingdom, but has validity for all countries with mature funded pension systems.
The first section explains the problems longevity risk poses. The second section looks at how longevity bonds can help hedge aggregate longevity risk. The third section considers who should issue longevity bonds, while the fourth section highlights pricing considerations. The final section concludes with a discussion of the merits of government-issued longevity bonds.

## *Regulation*

**Solvency and other matters relating to pension schemes in Europe**

The European Commission on July 7 2010 launched a Europe-wide public debate on how to ensure adequate, sustainable and safe pensions and how the EU can best support the national efforts. The consultation document, a Green paper, poses a series of questions inviting all interested parties to contribute views, opinions and ideas on confronting the pension challenge - one of the biggest facing Europe and most parts of the world today – and how the EU can contribute to the solutions. Refer http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes

The Green Paper reviews the European pension framework in a holistic and integrated manner, covering different topics such as: longer working lives, the internal market for pensions, mobility of pensions across the EU, gaps in EU regulation, **the future solvency regime for pension funds**, **the risk of employer insolvency**, informed decision-making and governance at EU level.

Among the issues it aims to address are: (a) ensuring adequate incomes in retirement and making sure pension systems are sustainable in the long term; (b) removing obstacles to people who work in different EU countries and to the internal market for retirement products; (c) making pensions safer in the wake of the recent economic crisis, both now and in the longer term; and (d) making sure pensions are more transparent so that people can take informed decisions about their own retirement income .

The consultation is a joint initiative from Commissioners Andor (Employment, Social Affairs and Inclusion), Barnier (Internal market and services) and Rehn (Economic and monetary affairs), covering economic and social policies as well as financial market regulation. It does not make specific policy proposals but seeks views on possible future actions at European level.

The consultation period will run for four months (ending 15 November 2010) during which anyone with an interest in the subject can submit their views via a dedicated website. The European Commission will then analyse all responses and consider the best course for future actions to address these issues at EU level.

## *Other*

**"Actuaries and Discount Rates: A discussion paper"**, C. Patel and C.D. Daykin (2010), UK Actuarial Profession,
http://www.actuaries.org.uk/__data/assets/pdf_file/0005/169934/patel_Discount_Rates.pdf

**Summary**: The Management Board of the Actuarial Profession is undertaking a thought leadership cross-practice research project on discount rates. Part of that project has been the commissioning of objective research on current practice in this area. The preliminary output was presented at a forum of thought leaders across the Profession and externally on 23 March 2010. This discussion paper is the final version of the report and was presented to the Discount Rate Steering Committee in May 2010. It covers the authors' initial research into past and current practice in the setting of discount rates in the UK, and a survey of existing research and debate. The report covers some initial steps towards developing a common language whilst acknowledging further work is needed on the most appropriate classification and ways of describing the concepts involved.

**"Public Sector Pensions: Rationale and International Experiences"**, Eich, Frank (2009). Pension Corporation Research, http://ssrn.com/abstract=1594122

**Summary:** This paper is about public sector pensions, an issue that has become increasingly contentious in a number of countries in recent years, including in the United Kingdom. In the UK the public debate has focussed on the perceived generosity of these pensions, which, it is often claimed, contrasts with the pension promises made in the private sector. This paper does not attempt to answer whether public sector pension promises are relatively generous in the UK or elsewhere but instead aims to provide the bigger picture against which a discussion of public sector pension provision could be held. In most countries working for the state comes with a number of privileges (e.g. job security) but also with

certain responsibilities (e.g. relinquishing the right to strike). An international comparison reveals that in a number of countries the state is also a special employer in the sense that it offers more generous pensions than the private sector. This is, however, not the case in all countries. The paper argues that the government might pursue a number of objectives going beyond poverty alleviation by offering more generous pensions but also stresses that more generally the objectives of efficiency, equity and sustainability remain desirable even in the context of public sector pensions.

**Notices**

The University of Michigan Retirement Research Center, the Center for Retirement Research at Boston College, and the NBER Retirement Research Center are pleased to announce the 12th annual conference of the **Retirement Research Consortium**, Retirement, Planning, and Social Security in Interesting Times, which will be held in Washington, DC, on August 5 & 6, 2010.

And the Faculty and Institute of Actuaries are holding a seminar on **"Variable annuities: bridging the divide"** on 17 September 2010, at Staple Inn, London. This seminar aims to confront the issues and challenges associated with a volatile financial environment together with a moving regulatory landscape. This event is intended to equip attendees to understand these issues better and move beyond the challenge to deliver meaningful client products and appropriately reward the companies that provide them. Refer
http://www.actuaries.org.uk/media_centre/events_folder/ap_events/variable_annuities