REFERENCE LIST
June 2014

IAA Newsletter

June 2014 – IAA

The June 2014 issue of the IAA Newsletter includes highlights from:

- Supranational Activities
- Upcoming Events in 2014/2015
- Public Statements
- Interesting numbers
- Section news
- Publications

http://www.actuaries.org/LIBRARY/Newsletters/2014_June.pdf

2014 MetLife Qualified Retirement Plan Barometer

June 2014 – MetLife

The Barometer was created by MetLife to assess whether and to what extent a new culture is taking hold among plans sponsors at FORTUNE 1000™ companies – one which places equal emphasis on retirement savings and retirement income. The higher the value on the Barometer, stronger the overall culture of retirement income. While the high score of 89 remains the same from the inaugural study in 2011, the range of scores has narrowed significantly, driven by improvement in the lowest scores, rising from 19 to 30.
The QRPB found other indicators that plan sponsors are moving from a culture focused on the accumulation of retirement savings to one focused on retirement income. The study found that a majority of companies that only offer a DC plan communicate to all or most of their participants about key topics related to retirement income.

https://www.metlife.com/assets/cao/institutional-retirement/MetLife2014QualifiedRetirementPlanBarometerStudyFinal.pdf

Spend More Today Safely: Using Behavioral Economics to Improve Retirement Expenditure Decisions with Speedometer Plans

June 2014 – Risk Management and Insurance Review

This article examines how behavioral economics can be used to improve the spending decisions of retirees, using a SPEEDOMETER (or Spending Optimally Throughout Retirement) retirement expenditure plan that employs defaults within a choice architecture. The plan involves just four key behavioral nudges: (1) first, make a plan—ideally by being auto-enrolled into one or with the help of a financial adviser; (2) automatic phasing of annuitization, which is designed to tackle the aversion to large irreversible transactions and losing control of assets, and so allows the greatest possible degree of flexibility in managing the rundown of retirement assets; (3) capital protection in the form of "money-back" annuities that deals with loss aversion, that is, the fear of losing your money if you die early; and (4) the slogan "spend more today safely" that utilizes hyperbolic discounting to satisfy the human trait of wanting jam today, and to reinforce the idea that "buying an annuity is a smart thing to do."

http://www.pensions-institute.org/workingpapers/wp1014.pdf

Depression Up After Pension Benefits Cut

June 2014 – Center for Retirement Research at Boston College

Sudden changes in older workers' financial expectations for retirement can cause depression, according to a 2011 study. The study, which came out of the Netherlands, suggests that cuts in Dutch pensions, announced on very short notice, produced feelings of differential treatment and a loss of control that increased the incidence of depression among the workers who were adversely affected.

http://squaredawayblog.bc.edu/squared-away/depression-up-after-pension-benefits-cut/

The Funding of State and Local Pensions: 2013-2017

June 2014 – Center for Retirement Research at Boston College

The *brief's* key findings are:
Despite a strong stock market, the funded status of public plans in 2013 remained unchanged at 72 percent for two reasons:

- Actuarially smoothed assets grew modestly
- CalPERS, one of the nation's largest plans, significantly revised its reported funded ratio.

An encouraging sign is that sponsors appear to be paying a larger share of their annual required contribution. Going forward, the funded ratio is projected to gradually move above 80 percent, assuming historical stock market returns.

http://crr.bc.edu/briefs/the-funding-of-state-and-local-pensions-2013-2017/

Adding Employer Contributions to Health Insurance to Social Security's Earnings and Tax Base

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/briefs/medicaid-and-the-elderly/

Commentary: Sustainability Assessment for the US Social Security System

June 2014 – The Buffin Foundation

The paper discusses the important issue of sustainability in the context of financial stability and actuarial solvency. It should be noted that, at the time of going to press, the 2014 annual report of the Social Security Trustees had not been published and so the latest available numbers quoted in Commentary are from the 2013 trustees' annual report.

http://buffinfoundation.org/sustainability-assessment-for-the-us-social-security-system/

The Consequences Of Not Having To Buy An Annuity

June 2014 – Pensions Institute

On this paper there are some findings:

- Individuals are notoriously bad at estimating their own life expectancy; so if a retiree plans to draw down their pension fund in line with their own estimate of their life expectancy, a typical male will outlive their pension pot by five years and a typical female by three.
- One might assume that the government would be better at estimating life expectancy than individuals; unfortunately this is not the case. Lifetime annuities are by far the greatest single financial innovation of all time. The fact that a group of people can pool their pension pots and each one can draw an income for however long they live is truly remarkable.
- It is essential that the decumulation stage of a DC scheme is institutionalized in the same way that auto-enrolment has institutionalized the accumulation stage
- and taken it out of the high-charge world of retail accumulation products, such as personal pensions.
- It will also be necessary to draw on the lessons of behavioral economics to find ways of nudging pension scheme members into buying annuities when the time is right.

http://www.pensions-institute.org/workingpapers/wp1409.pdf

Improved Inference in the Evaluation of Mutual Fund Performance using Panel Bootstrap Methods

June 2014 – Pensions Institute

Two new methodologies are introduced to improve inference in the evaluation of mutual fund performance against benchmarks. First, the benchmark models are estimated using panel methods with both fund and time effects. Second, the non-normality of individual mutual fund returns is accounted for by using panel bootstrap methods. Using a dataset of UK equity mutual fund returns, it has been found that fund size has a negative effect on the average fund manager's benchmark-adjusted performance. Further, when time effects are allowed and the non-normality of fund returns, there is no evidence that even the best performing fund managers can significantly out-perform the augmented benchmarks after fund management charges are taken into account.

http://www.pensions-institute.org/workingpapers/wp1405.pdf

New Evidence on Mutual Fund Performance: A Comparison of Alternative Bootstrap Methods

June 2014 – Pensions Institute

This paper compares the two bootstrap methods of Kosowski et al. (2006) and Fama and French (2010) using a new dataset on equity mutual funds in the UK. We find that: the average equity mutual fund manager is unable to deliver outperformance from stock selection or market timing, once allowance is made for fund manager fees and for a set of common risk factors that are known to influence returns; 95% of fund managers on the basis of the first bootstrap and almost all fund managers on the basis of the second bootstrap fail to outperform the zero-skill distribution net of fees; and both bootstraps show that there are a small group of "star" fund managers who are able to generate superior performance (in excess of operating and trading costs), but they extract the whole of this superior performance for themselves via their fees, leaving nothing for investors.

http://www.pensions-institute.org/workingpapers/wp1404.pdf

The Tradeoff Between Health and Wealth in Retirement Decisions

May 2014 – Center for Retirement Research at Boston College

In the United States, because access to health insurance is tied to employment, the availability of retiree health insurance interacts with post-retirement income to shape the retirement decision. This paper uses administrative data from the California Department of Education to highlight the following:

- Estimate the rate at which individuals' trade off post-retirement health insurance benefits for a longer retirement and for retirement income benefits.
- This estimate is then compared to the sensitivity of retirement to pension generosity in order to determine the implied rate at which individuals substitute between health insurance and pension benefits.
- The two estimation methods used leverage plausibly exogenous benefit variation driven by the sharp features of the retiree benefit programs. The results imply that individuals will delay retirement to become eligible for retiree health benefits, but that the effect is small relative to the effect of pension benefits on retirement timing.

http://crr.bc.edu/working-papers/the-tradeoff-between-health-and-wealth-in-retirement-decisions/

What Impact Does Social Security Have on the Use of Public Assistance Programs Among The Elderly

May-2014 Center for Retirement Research at Boston College

This paper seeks to measure the causal effect of the benefit levels on elderly enrollment in two public assistance programs – the Supplemental Nutrition Assistance Program (SNAP) and the Supplemental Security Income (SSI) program – by using the variation in SNAP and SSI eligibility and benefit levels introduced by Social Security retirement benefits. The findings are three-fold:

- First, the low take-up among the elderly is not driven by changes in the composition of the eligible pool: individuals who become eligible as they age exhibit average take-up patterns that are similar to those who were eligible before reaching Social Security benefit claiming ages.
- Second, Social Security has a significant impact on the use of public assistance programs among the elderly, because the increase in income decreases the potential benefits available from public programs.
- Third, we estimate different behavioral responses to SNAP and SSI programs: a $100 increase in SSI benefits leads to a 4-6-percentage-point increase in the probability of taking up SSI, but we are unable to estimate consistent results on how benefits impact the take up for SNAP.

http://crr.bc.edu/working-papers/what-impact-does-social-security-have-on-the-use-of-public-assistance-programs-among-the-elderly/

The Impact of Mandatory Coverage on State and Local Budgets

May 2014 – Center for Retirement Research at Boston College

The main argument against mandatory coverage is that it would raise costs to public employers and workers. The actual cost increase depends on the extent to which employers reduce their existing pensions when adopting Social Security. This paper estimates the costs under four different integration strategies: 1) no adjustment to existing pensions; 2) match the level of the first-year benefit; 3) match the lifetime benefit; and 4) match the benefit to levels in neighboring states with Social Security coverage. This analysis is conducted for 22 state-administered plans in 13 states that were identified as lacking coverage. The results show that the cost of adding Social Security varies significantly, with the smallest increase for the "match lifetime benefit" option and the largest increase for the "no adjustment" option.

http://crr.bc.edu/working-papers/the-impact-of-mandatory-coverage-on-state-and-local-budgets/

Interest Rates and Economic Growth: Are They Related?

May 2014 – Center for Retirement Research at Boston College

Each year the Board of Trustees of the Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds projects the future financial status of the programs extending as far as 75-years into the future. These projections incorporate anticipated trends in both demographic and economic determinants of future costs. Particularly with regard to the economic determinants, the Trustees rely on past trends to project the future, and the projections of individual elements are largely independent of one another. This paper explores the long-term determinants of interest rates, and, in particular, the relationship between variations in interest rates and the rate of economic growth. Is there a positive correlation, as suggested by standard growth theory, or is the role of economic growth overshadowed by a larger array of domestic and foreign influences.

http://crr.bc.edu/working-papers/interest-rates-and-economic-growth-are-they-related/

The Effect of Increasing Earnings Dispersion on Social Security Payroll Tax Receipts

May 2014 – Center for Retirement Research at Boston College

This paper decomposes trends in the distribution of earnings over the period 1982-2009 and calculates the effect of increases in dispersion in wage and salary earnings on revenues from the U.S. Social Security Old-Age and Survivors Insurance payroll tax. This tax is levied on earnings, up to a maximum that, with minor changes, has been indexed since 1975 to movements in average wages. If the earnings of very high earners increase more rapidly than those of individuals with earnings below the taxable maximum, the percentage of total earnings that is subject to the tax will decrease and tax revenues will be lower than would otherwise be the case.

http://crr.bc.edu/working-papers/the-effect-of-increasing-earnings-dispersion-on-social-security-payroll-tax-receipts/

International Pension Plans versus Pan European Plans

May-2014 Society of Actuaries

This report presents an overview of differences between International Pension Plans and European Ones. IPPs have been around for many years, with well over 500 now in existence. Pan European plans are a more recent development – there are just over 80 now in existence based on recent information from the European Insurance and Occupational Pensions Authority (EIOPA). However, a more depth analysis of EIOPA's report suggests that pan European plans have had a very limited appeal so far.

http://www.soa.org/library/newsletters/international-section-news/2014/may/isn-2014-iss62-colton.aspx

Differential Mortality and Retirement Benefits in The Health and Retirement Study

April 2014 – Brookings Economic Studies

This analysis uses data from the Health and Retirement Study (HRS) to examine the sources of variation in mortality for individuals of varying socio-economic status (SES). The use of the HRS allows a distinction between education and a measure of career earnings as primary determinants of socio-economic status for men and women separately.
We use those predictions of mortality to estimate the distribution of annual and lifetime OASDI benefits for different birth cohorts spanning the birth years from 1900 to 1950. We find differential rates of mortality have had substantial effects in altering the distribution lifetime benefits in favor of higher income individuals.

http://www.brookings.edu/~/media/research/files/papers/2014/04/differential%20mortality%20retirement%20benefits%20bosworth/differential_mortality_retirement_benefits_bosworth_version_2.pdf

Adding Employer Contributions to Health Insurance to Social Security's Earnings and Tax Base

April 2014 – Center for Retirement Research at Boston College

The inclusion of employer-sponsored health insurance (ESI) in taxable income would increase income and payroll tax receipts, but would also increase Old Age, Survivors, and Disability Insurance (OASDI) benefits by adding ESI to the OASDI earnings base. This study uses the Urban Institute's DYNASIM model to estimate the effects of including ESI premiums in taxable earnings on the level and distribution by age and income groups of income tax burdens, payroll tax burdens, and OASDI benefits. We find that the increased present value of OASDI benefits from including ESI in the wage base in 2014 offsets about 22 percent of increased income and payroll taxes, 57 percent of increased payroll taxes, and 72 percent of increased OASDI taxes. The overall distributions of taxes and benefits by income group follow the same pattern, with both taxes and benefits increasing as a share of income between the bottom and middle quintiles and then declining as a share of income for higher income taxpayers.

http://crr.bc.edu/working-papers/adding-employer-contributions-to-health-insurance-to-social-security%E2%80%99s-earnings-and-tax-base/

Employment, Late-Life Work, Retirement, and Well-Being in Europe and the United States

March-2014 IZA Journal of Economic Studies

Flexible work arrangements and retirement options provide one solution for the challenges of unemployment and underemployment, aging populations, and unsustainable public pension systems in welfare states around the world. We examine the relationships between well-being and job satisfaction on the one hand and employment status and retirement, on the other, using Gallup World Poll data for several European countries and the United States. We find that voluntary part-time workers are happier, experience less stress and anger, and have higher job satisfaction than other employees. Using statistical matching, we show that late-life workers under voluntary part-time or full-time arrangements have higher well-being than retirees. There is no well-being premium for involuntary late-life work and self-employment compared to retirement, however. Our findings inform ongoing debates about the optimal retirement age and the fiscal burdens of public pension systems.

http://www.izajoels.com/content/pdf/2193-9012-3-5.pdf

A Framework for Pension Risk Management

March-2014 Society of Actuaries

This paper is based on four steps to achieve an efficient pension risk management:

- Diagnose and inventory pension risk factors
- Decide which risk factors to address
- Utilize the pension risk management toolkit
- Select a strategy
- Monitor the strategy

http://www.soa.org/library/newsletters/risk-management-newsletter/2014/march/jrm-2014-iss29-cantor.aspx

Lower-Income Individuals Without Pensions: Who Misses Out and Why?

March-2014 Center for Retirement Research at Boston College

In 2010, only 19 percent of individuals ages 50-58 whose household incomes were less than 300 percent of the poverty line participated in a pension of any kind at their current jobs, compared to 56 percent of those above 300 percent of poverty. This paper investigates this pension gap. In particular, the pension participation is decomposed rate into its four elements in order to compare coverage between higher- and lower-income individuals:

1. The fraction of people who are currently working (the employment rate)
2. The fraction of workers who are in firms that offer pension benefits to at least some workers (the offer rate)
3. The fraction of workers who are eligible for pension benefits, conditional on being in a firm where it is offered (the eligibility rate)
4. The fraction of workers who enroll in a pension plan when they are eligible (the take-up rate).

http://crr.bc.edu/working-papers/lower-income-individuals-without-pensions-who-misses-out-and-why/

Improving Public Pensions: Balancing Competing Priorities

February-2014 Brown Center on Education Policy Brookings

In this paper shows a clear framework to evaluate proposed reforms to public pension systems with the overarching goal of balancing the sometimes competing interests of public employees and taxpayers. It is clear that there is no one specific policy that will solve the problems of every state and local pension plan, as priorities and constraints vary widely, but we argue that any well-designed pension plan will strive to meet three goals: providing retirement security to workers, ensuring fiscal sustainability, and maintaining or improving the productivity of the public-sector workforce. We show how existing defined-benefit pension systems largely fail to meet these goals by providing retirement security to some workers but not others, creating incentives for underfunding that many states have failed to resist, and embedding incentives for workers to stay in or quit the workforce that are difficult to justify.

http://www.brookings.edu/~/media/research/files/papers/2014/02/26%20public%20pension%20reform/improving%20public%20pensions_final.pdf

Hybrid Pensions: Risk Sharing Arrangements for Pension Plan Sponsors and Participants

February-2014 Society of Actuaries

Because of the proliferation of types of hybrid plans and their growing importance, this paper evaluates a number of hybrid pension plans, including hybrid plans used to provide social security benefits in some countries. The paper provides an overview of types of hybrid plans provided around the world. Most of the hybrid plans are fairly new, but some have been in existence for many years, and some have not been developed but are proposals. The paper describes in less depth a broad range of hybrid plans that have been developed in different countries or that have been proposed. These plans are categorized as to the risks transferred to participants. Lastly, the paper constructs a risk index for further categorizing hybrid plans. In an appendix, the paper presents a survey of the types of hybrid pension plans used in a small selection of countries.

http://www.soa.org/files/research/projects/research-2014-hybrid-risk-sharing.pdf

Good Practice Principles in Modelling Defined Contribution Pension Plans

September-2013 Pensions Institute

The paper establishes 16 good practice principles in modelling defined contribution pension plans. These principles cover the following issues: model specification and calibration; modelling quantifiable uncertainty; modelling member choices; modelling member characteristics, such as occupation and gender; modelling plan charges; modelling longevity risk; modelling the post-retirement period; integrating the pre and post-retirement periods; modelling additional sources of income, such as the state pension and equity release; modelling extraneous factors, such as unemployment risk, activity rates, taxes and entitlements; scenario analysis and stress testing; periodic updating of the model and changing assumptions; and overall fitness for purpose.

http://www.pensions-institute.org/workingpapers/wp1302.pdf