



REFERENCE LIST — May 2009

Social security

“Working the graveyard shift : Why raising the Social Security retirement age is not the answer”, Monique Morrissey and Emily Garr (2009), The Economic Policy Institute, USA, Briefing Paper #232, http://epi.3cdn.net/65bf2e24d59cf56166_dym6ive5s.pdf

Summary: One of the ways this recession differs from past downturns is that it has been unusually hard on experienced workers. Data show that long-term unemployment, defined as being without a job for at least six months, is disproportionately high among workers over age 45. Many unemployed workers who are nearing retirement age say their job searches are fruitless.

It is a problem that underscores why raising the retirement age is neither a fair, nor practical, way to overhaul the Social Security system. This Briefing Paper refutes the argument that because some Americans are living longer everyone should have to work longer. The paper notes that most of the increases in American life expectancy made in recent decades have been among higher-wage workers, but raising the retirement age beyond 67 would effectively cut the benefits of all workers, including lower-income workers forced to retire because of poor health or poor job prospects. Rather than increasing the normal retirement age, reform efforts should start by raising the cap on taxable earnings to address the impact of growing wage inequality on the system's finances.

“Economic restructuring and retirement in urban China”, John Giles (2009),

CRR Boston WP 2008-24, http://crr.bc.edu/images/stories/Working_Papers/wp_2008-24.pdf

Summary: In its gradual approach to economic transition, China deferred the difficult process of restructuring state owned enterprises (SOEs) until the mid-1990s. When restructuring of large scale SOEs accelerated after 1997, China witnessed sharp declines in the employment of urban residents. While some dislocated state sector workers made a transition to work in the non-state sector, large shares of laid off workers spent long periods unemployed or out of the labor force. Much of the transition out of the state sector occurred through early retirement and exit from the labor force of older workers. While earlier work suggested that the sharp decrease in labor force participation of older women is driven by reappearance of discrimination in the labor market, analysis of reemployment decisions suggests that exit from the labor force reflects a choice. Women exited the labor force in great numbers after 1996, but women with adult children of college age are 60 percent more likely than other women to be re-employed within a year. We also find weak evidence that women who provide care for elderly family members are less likely to be employed. An increase in the labor supply of older women after 2004, however, suggests that the exit of older women from the labor force between 1996 and 2002 was driven primarily by generous early retirement pensions offered during the process of restructuring.

“Retirement and social security: A time series approach”, Brendan Cushing-Daniels and C. Eugene Steuerle (2009), CRR Boston WP 2009-1, http://crr.bc.edu/images/stories/Working_Papers/wp_2009-1.pdf

Summary: Traditional analyses of retirement decisions focus on the age, from birth, of the individual making choices about how much to work, consume, and save for old age. However, remaining life expectancy is arguably a better way of examining these issues. As mortality rates decline, people at a given age now have more remaining years of life expectancy than they did in the past. If participation rates at older ages remain constant (or decline), then average time spent in retirement will increase. Additionally, because health status and mortality are correlated, adults with more expected years of life are generally in better health (and better able to work) than those with fewer years of remaining life.

This paper examines labor force participation rates of older workers considering both chronological age and remaining life expectancy. Results show that participation by remaining life expectancy declines for men through the early 1990s, leveling off in the next decade. However, participation by age have been rising for men in their sixties since the mid-1990s. Whether we specify the empirical model by age or by remaining life expectancy, ages 62 and 65 both have strong negative effects on participation, confirming a major role in retirement decisions for Social Security. Finally, we find that controlling for other factors - education, marital status, and business cycle effects - magnifies the decline in participation attributable to cohort effects for men born between 1900 and 1960, but reduces the importance of cohort effects for women born in these years.

Pension systems reform

“Automatic balance mechanisms in pay-as-you-go pension systems”, Carlos Vidal-Melia, Maria del Carmen Boado-Penas, and Ole Settergren (2009), Geneva Papers on Risk and Insurance 34 (2): 287- 317, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1132686

Summary: The aim of this paper is twofold: to show the usefulness of automatic balance mechanisms (ABMs) and to explore the issue of introducing an ABM into the Spanish state contributory retirement pension system. With this in mind, we define the concept of the ABM and carry out an analysis of that existing in Sweden, Canada, Germany, Japan and Finland. We also present an indicator of the Spanish system's solvency which emerges from the actuarial balance sheet, and simulates the effect that certain changes in the parameters of the present system would have on solvency, showing the direction that could be taken if the mechanism were to be introduced in Spain. A comparison between the official balance sheet for the Swedish notional account system and our balance sheet for the Spanish contributory pension system is also provided.

“The Future of Social Security: Principles to Guide Reform”, Kathryn L. Moore (2009), John Marshall Law Review, Vol. 41, No. 4, <http://ssrn.com/abstract=1353552>

Summary: Reform of the USA Social Security system appears inevitable. The only questions are how and when. This article discusses the principles that should guide reform. It begins by describing Robert Ball's "nine guiding principles" underlying the current Social Security system. It then identifies the seven principles that should guide reform of the system. The principles call for retaining Social Security's fundamental structure but gradually introducing changes on both the revenue and benefit side so as to distribute the burden of reform widely across and within generations. Beyond that, the principles offer considerable flexibility in the final details of reform.

“Sources of Support for Pension Reform: A Cross-National Perspective”, Dion, Michelle and Roberts, Andrew (2009), <http://ssrn.com/abstract=1368811>

Summary: Many accounts of pension politics assign primary importance to societal forces. In the well-known formulation, pensions are the "third rail" of politics: politicians cannot cut benefits without suffering electoral retribution. In addition, some see the preferences of business as a key determinant of pension policy. This study takes aim at this problem by exploring what factors lead citizens and firms to support public pension systems and various reform efforts. To answer these questions, we analyze a survey of individuals and firms in 20 countries from five continents regarding attitudes toward pensions conducted by the Oxford Institute of Aging and the HSBC Bank. We examine separately variation in individual and then firm preferences regarding the role of government in pension provision and pension reform options. Then, we compare the preferences of firms to those of individuals to identify the potential space available for policy reform. The main results from the analysis are three. First, there are large cross-national differences in preferences of both individuals and firms. Second, these cross-national differences are not well explained by conventional theories. Third, there is some but not overwhelming support for micro-level theories about the reasons for differences between firms and individuals.

Retirement savings

“Evaluating Micro-Survey Estimates of Wealth and Saving”, Barry P. Bosworth and Rosanna Smart (2009), CRR Boston WP 2009-4,

http://crr.bc.edu/images/stories/Working_Papers/wp_2009-4.pdf

Summary: This paper presents an overview of changes in household wealth accumulation and saving using wealth data from three micro-level surveys: Survey of Consumer Finances (SCF), Panel Study of Income Dynamics (PSID), and Health and Retirement Study (HRS). We provide comparisons to the macroeconomic estimates of wealth accumulation and saving, explore problems in constructing household-level valuations of wealth, and assess the value of using household-level datasets to examine wealth accumulation and saving behavior in the United States.

Our first analysis compares the macroeconomic estimates of wealth from the Flow of Funds to comparable measures from the SCF, PSID and HRS. The estimates of wealth in the PSID and HRS are very similar to the SCF for the bottom 95 percent of the wealth distribution, diverging only for the top five percent of households.

Second, we evaluate the extent of bias in the wealth estimates that may have developed in the longitudinal surveys due to attrition. We conclude that both surveys remain very representative of the underlying population as judged by a comparison with the lower 95 percent of households in the SCF.

Finally, we use the panel nature of the PSID and HRS to construct household-level measures of wealth accumulation and partition those changes between the contribution of new saving and valuation changes. The overall changes in wealth match the macroeconomic data closely, showing a secular rise in wealth-income ratios. Although the measures of saving do demonstrate consistent differences in saving among major socio-economic groups, they do not reflect the general decline in saving rates that is apparent in the aggregate data for the past two decades.

“Financial Implications of Death of a Partner”, Corden, A., Hirst, M. and Nice, K. (2008), Social Policy Research Unit, University of York, York,

<http://php.york.ac.uk/inst/spru/pubs/1148/>

Summary: When a person's life partner dies there are often many changes in financial and economic arrangements for the bereaved member of the couple. Much research has explored the psychological impact of death of a partner, but little is known about the financial implications, especially for people

bereaved under pension age. This study investigated the financial and economic transitions of people whose partner died and explored their views and feelings about these experiences.

The report has implications for employment policy, social security, tax, pensions, housing and legal matters. The research was a mixed method study, involving in-depth interviews as well as analysis of the British Household Panel Study.

“What the 2008 Stock Market Crash Means for Retirement Security”, Barbara A. Butrica, Karen E. Smith, and Eric J. Toder (2009), The Urban Institute, Washington, D.C., http://www.urban.org/UploadedPDF/411876_2008stockmarketcrash.pdf

Summary: The one-third drop in the S&P 500 index between year-end 2007 and 2008 raises concerns about retirement security since Americans now hold more equities through their retirement plans. Those near retirement will fare the worst because they have no time to recoup their losses. Midcareer workers will fare better because they have more time to rebuild their wealth. They may even gain income if they buy stocks at low prices and get above-average rates of return. High income groups will be the most affected because they are most likely to have financial assets and to be invested in the stock market.

“Keeping up with the ageing Joneses”, Walter H. Fisher and Ben J. Heijdra (2009), Journal of Economic Dynamics & Control 33 53– 64, <http://arno.uvt.nl/show.cgi?fid=88300>

Summary: In this paper we consider the implications of relative consumption externalities in the Blanchard–Yaari overlapping generations framework. Unlike most of the macroeconomic literature that studies this question, the differences between agents, and, thus, in their relative position, persist in equilibrium. We show in our fixed employment model that consumption externalities lower consumption and the capital stock in long-run equilibrium, a result in sharp contrast to the recent findings of Liu and Turnovsky [2005. Consumption externalities, production externalities, and the accumulation of capital. Journal of Public Economics 89, 1097–1129]. In addition, we solve for the intertemporal path of the economy to investigate its response to demographic shocks, specifically, to permanent changes in the birth and death rates.

Longevity and life expectancy

“Variable Payout Annuities and Dynamic Portfolio Choice in Retirement” Horneff, Wolfram J., Maurer, Raimond, Mitchell, Olivia S. and Stamos, Michael Z. (2009), Journal of Pension Economics and Finance. No free download appears available but a brief can be accessed at <http://www.mrrc.isr.umich.edu/publications/briefs/pdf/UM08-24B1.pdf>.

Summary: Many retirees hope to continue earning capital market rewards on their saving while avoiding outliving their funds during retirement. We model a dynamic utility maximizing investor who seeks to benefit from holding both equity and longevity insurance. She is free to adjust her portfolio allocation of her financial wealth as well as of the annuity over time, and she can purchase variable payout annuities any time and incrementally. In this setting, we show that the retiree will not fully annuitize even without bequests; rather, she will combine variable annuities with withdrawals from her liquid financial wealth so as to match her desired consumption profile. Optimal stock exposures decrease over time, both within the variable annuity and the withdrawal plan. Welfare gains from this strategy can amount to 40% of financial wealth, depending on risk parameters and other resources; additionally, many retirees will do almost as well as the fully optimized outcome if they hold variable annuities invested 60/40 in stocks/bonds.

Other

AgeSource/AgeStats Worldwide

<http://www.aarpinternational.org/database/>

The American Association of Retired Persons (AARP) covers aging and aging-related topics quite well, and this website is one of their many compelling initiatives. The databases, AgeSource and AgeStats, on AARP's international website are designed to "facilitate the international exchange of policy and program-relevant information in aging." Under the "Aging Everywhere" tab is an interactive map that allows the visitor to read "Country Profiles" as well as read articles about a region selected from the map. A "Comparative Data Search" can also be done by clicking on the link above the map. There are multiple ways to search the information in the databases. On the left hand menu visitors can explore by topic or by region. Some of the topics include "Aging & Society", "Economic Retirement & Security", "Livable Communities" and "Long-Term Care". Searching for a particular topic can be accomplished by using the keyword search box in the middle of the page. The search can be further limited by deciding which databases to search, and by information type, geographic coverage, and language.