SECTION SUR LES PENSIONS, AVANTAGES SOCIAUX ET SÉCURITÉ SOCIALE DE L'AAI

IAA PENSIONS, BENEFITS AND SOCIAL SECURITY SECTION

PBSS

REFERENCE LIST
May 2010

Social security

From the International Social Security Association (ISSA)

The integrity of institutional "social security" – earnings-related social insurance programmes – must be safeguarded, according to a new book by a former Secretary General of the International Social Security Association (ISSA), Vladimir Rys, launched in Geneva on 5 May 2010.

In the book, ***Reinventing social security worldwide: Back to essentials***, Mr Rys responds to present evolutionary trends towards blurring the frontiers between social insurance and social assistance. Based on his lifelong experience of international social security, he advocates reinstating social insurance by reducing the volume of income redistribution, increasing the transparency of money flows and improving citizen information.

Additionally, he makes the case that in order to preserve social security institutions against any future economic upheavals, adequate financial reserves within the national economy should be *available.*

"The EU provisions on social security - Your rights when moving within the European Union", Update 2010 2010), Catalog No. KE-30-09-237-EN-D, refer en

Summary: This guide is an update of the publication The Community provisions on social security (KE-64-04-022-EN-C, ISBN 92-894-8490-X). It provides updated information for mobile Europeans so they know about their social security rights when moving between EU Member States. The guide details coordinated EU social security provisions and explains one's rights as a worker, a tourist, a student, an unemployed or other non-active person, a pensioner or a third-country national. This publication will be available in printed format in all EU official languages.

Pension systems reform

Two related papers with a subjective well-being orientation:

"**Retirement and Subjective Well-Being**", Eric Bonsang and Tobias J. Klein (2010), Netspar DP 04/2010-012, http://arno.uvt.nl/show.cgi?fid=105790

Summary: We provide an explanation for the common finding that the effect of retirement on life satisfaction is negligible. For this we use subjective well-being measures for life and domains of life satisfaction that are available in the German Socio-Economic Panel (GSOEP) and show that the effect of voluntary retirement on satisfaction with current household income is negative, while the effect on satisfaction with leisure is positive. At the same time, the effect on health satisfaction is positive but small. Following the life domain approach we then argue that these effects offset each other for an average individual and that therefore the overall effect is negligible. Furthermore, we show that it is

important to distinguish between voluntary and involuntary retirement. The effect of involuntary retirement is negative because the adverse effect on satisfaction with household income is bigger, the favourable effect on satisfaction with leisure is smaller, and the effect on satisfaction with health is negative rather than positive. These results turn out to be robust to using different identification strategies such as fixed effects and first differences estimation, as well as instrumental variables estimation using eligibility ages and plant closures as instruments for voluntary and involuntary retirement, respectively.

"Satisfaction with job and income among older individuals across European countries", Eric Bonsang and Arthur van Soest (2010), Netspar DP 02/2010-005, http://arno.uvt.nl/show.cgi?fid=100086

Summary: Using data on individuals of 50 and older from 11 European countries, we analyse two economic aspects of subjective well-being of older Europeans: satisfaction with household income, and job satisfaction. Both have been shown to contribute substantially to overall well-being (satisfaction with life or happiness).

We use anchoring vignettes – respondents are asked to evaluate not only themselves, but also hypothetical people whose situation is described in the survey question – to correct for potential differences in response scales across countries.

The results highlight a large variation in self-reported income satisfaction, which is partly explained by differences in response scales. When differences in response scales are eliminated, the cross country differences are quite well in line with differences in an objective measure of purchasing power of household income. Correcting for differences in response scales also alters the ranking across countries.

"Private pension schemes – their role in adequate and sustainable pensions", European Union (2010), Catalog No. KE-32-20-215-EN-C, refer en

Summary: This brochure has been produced in recognition that reforms to pension systems have been ongoing, and member states are facing the challenge of population ageing, putting a significant strain on current pension systems. The brochure examines the growing importance of privately managed funded pension schemes. It will be available in printed format in English, French and German and in electronic format in all other EU official languages.

***ILC-UK and Actuarial Profession Joint Debate:* Pensions Reform after the Election: Can Consensus be Maintained?**, The Actuarial Profession, Staple Inn Hall, High Holborn, London, WC1V 7QJ 16:00 for 16.30, 15 June 2010

A series of reforms to the UK pensions system are in the course of being implemented. For instance, the female state pension age is rising, the number of NICs qualifying years needed for a full basic state pension has been reduced, and the State Second Pension is becoming more flat-rate. In 2011 the National Employment Savings Trust will spring into life, and tax relief for the highest earners will be restricted. Beyond that, the earnings link will be restored, and state pension age will rise for men and women to 68. Will any of this change following the general election – and where does pensions reform go from here? If you would like to attend this event please email events@ilcuk.org.uk

Retirement savings

"Why Don't People Annuitize? The Role of Advice Provided by Retirement Planning Software", John A. Turner (2010), PRC WP2010-07,

http://www.pensionresearchcouncil.org/publications/document.php?file=858

Summary: This study investigates whether users of 25 free retirement planning programs available on the internet are advised to annuitize, in situations where it clearly would be advisable to do so. Our main conclusion is that the programs generally do not advise it, which contributes to other reasons why people do not annuitize. Many programs ignore longevity risk. Those which do deal with longevity risk tend to handle it by simply setting a high age for the end of the planning period – 95 or older. Phased withdrawals planned to an advanced age are an inefficient way of dealing with longevity risk.

"Optimal Portfolio Choice over the Life Cycle with Social Security", Kent A. Smetters and Ying Chen (2010), PRC WP2010-06,

http://www.pensionresearchcouncil.org/publications/document.php?file=857

Summary: This paper examines how households should optimally allocate their portfolio choices between risky stocks and risk-free bonds over their lifetime. Traditional lifecycle models in previous work suggest that the allocation toward stocks should start high (near 100%) early in life and decline over a person's age as human capital depreciates. These models also suggest that, with homothetic utility, the allocation should be roughly independent of a household's permanent income. The actual empirical evidence, however, indicates more of a "hump" shape allocation over the lifecycle; the lifetime poor also hold a smaller percentage of their portfolio in stocks relative to higher income groups. Households, therefore, appear to be making considerable "mistakes" in their portfolio allocation. Target date funds, which have grown enormously during the past five years, aim to simplify the investment process in a manner consistent with the predictions of this traditional model. We reconsider the portfolio choice allocation in a computationally-demanding lifecycle model in which households face uninsurable wage shocks, uncertain lifetime as well as a progressive and wage-indexed social security system. Social security benefits, therefore, are correlated with stock returns at a low frequency that is more relevant for lifecycle retirement planning. We show that this model is able to more closely replicate the key stylized facts of portfolio choice. In fact, when calibrated to the age-based income-wealth ratios found in the Survey of Consumer Finances, we demonstrate that the portfolio allocation "mistakes" being made by the vast majority of households actually lead to larger levels of welfare relative to the traditional advice incorporated in target date funds.

The 18th Annual Colloquium of Superannuation Researchers, 12-13th July 2010, Centre for Pensions and Superannuation, UNSW, Sydney, Australia

The conference aims to investigate all aspects of retirement saving choices over the lifecycle and their implications for individuals, industry and public policy. The first day of the 2010 colloquium (Monday 12th July) is specifically devoted to the conference theme, while the second day (Tuesday 13th July) is for contributed papers on issues relating to retirement incomes, pensions and superannuation more generally.

http://www.business.unsw.edu.au/nps/servlet/portalservice?GI_ID=System.LoggedOutInheritableArea&maxWnd=_ResearchCentre_CPS_Conferences

Longevity and life expectancy

"Economic growth and longevity risk with adverse selection", Ben J. Heijdra and Laurie S. M. Reijnders (2010), Netspar DP 01/2010-001, http://arno.uvt.nl/show.cgi?fid=100061

Summary: We study a closed economy in which individuals differ in terms of their mortality profile. Health type is private information but annuity firms can observe someone's age. With perfect annuities, the market features a separating equilibrium (SE) in which each health type obtains an actuarially fair insurance. However, informational asymmetry precludes the attainment of the SE. In the second-best pooling equilibrium (PE) individuals of all types annuitise at a common pooling rate. The growth- and welfare effects of PE versus SE are rather small, whilst those of PE versus no annuities are large. Imperfect insurance is better than no insurance.

News from the CMI: Working Paper 44

The CMI has published working paper 44: '***An analysis of the CMI SAPS mortality experience for the period 2001 to 2008 based on data collected by 30 June 2009***' This paper analyses pensioner mortality using the 'S1' series of mortality tables.

http://www.actuaries.org.uk/knowledge/cmi/cmi_wp/wp44

Regulation

Nothing this month

Other

"Does Staying Healthy Reduce Your Lifetime Health Care Costs?", Wei Sun, Anthony Webb, and Natalia Zhivan (2010), CRR Boston, IB#10-8,

http://crr.bc.edu/images/stories/Briefs/ib_10-8.pdf

Summary: Medical and long-term care costs represent a substantial uninsured risk for most retired households. An earlier brief from the Center for Retirement Research at Boston College reported new findings on average lifetime health care costs at selected ages and on the distribution of those costs. This second brief explores the relationship between health care costs and health status. That is, it considers whether current good health is a predictor of low health care costs over one's remaining lifetime. If so, healthy households could set aside less for health care expenditures than the unhealthy, and households that stay healthy could release for general consumption money that they had previously set aside for health care costs.

Our main finding is that although the current health care costs of healthy retirees are lower than those of the unhealthy, the healthy actually face higher total health care costs over their remaining lifetime. To illustrate, the expected present value of lifetime health care costs for a couple turning 65 in 2009 in which one or both spouses suffer from a chronic disease is $220,000, including insurance premiums and the cost of nursing home care, and 5 percent can expect to spend more than $465,000. The comparable numbers for couples free of chronic disease are substantially higher, at $260,000 and $570,000, respectively. This brief explains this somewhat counterintuitive finding.

The ILC-UK and Actuarial Profession Joint Debate: **The Economic Value of Healthy Ageing and Working Longer** was held on the 17 February 2010 in Edinburgh and on the 3 March 2010 in London. A report summarising the two events is now available on the ILC website:

http://www.ilcuk.org.uk/record.jsp?type=publication&ID=59. The presentations by Professor Les Mayhew, Cass Business School and Tom Boardman, Prudential can be downloaded, along with the Cass Business School report "Increasing Longevity and the Economic Value of Healthy Ageing and Working Longer": http://www.ilcuk.org.uk/record.jsp?type=event&ID=67