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IAA PENSIONS, BENEFITS AND SOCIAL SECURITY SECTION

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Social security

"Cash by any other name? evidence on labelling from the UK Winter Fuel Payment", briefing from the Nuffield Foundation, London, http://www.ifs.org.uk/events/679

Summary: On 8 June 2011 at 28 Bedford Square, London WC1B 3JS, 10:00 - 11:30 (registration from 09:30), researchers from the UK Institute of Fiscal Studies will present the results of new research, funded by the Foundation. The first part of this research considers whether older households in the UK face a "heat or eat" trade-off, and must cut back on food expenditures to meet the extra heating expenses associate with spells of very cold weather. The second part of this research looks whether the labels given to cash benefits, such as the "Winter Fuel Payment", affects how they are spent.

In the first paper, the authors merge detailed household level expenditure data from older households with historical local weather information. Using these data, they find evidence that the poorest of older households are unable to smooth spending over the worst temperature shocks. Statistically significant reductions in food spending are observed in response to temperatures two or more standard deviations colder than expected (which occur about one winter month in forty) and reductions in food expenditure are considerably larger in poorer households.

In the second paper, the authors investigate whether the labels sometimes given to government transfers (e.g. "Child Benefit or "Winter Fuel Payment") have any influence on what those payments are spent on. Standard economic theory implies that the label of a particular transfer should have no bearing on how that transfer is ultimately spent since all income is interchangeable. The empirical literature to date tends not to contradict this proposition. In the paper to be presented, they study the case of the UK Winter Fuel Payment (WFP), which is a cash transfer to older households. Sharp differences in the eligibility criteria provide an opportunity to assess the impact this transfer has on fuel spending using a regression discontinuity design. The authors find robust evidence of a behavioural effect of the labelling. Households spend an average of approximately 41% of the WFP on household fuel. If the payment was treated in an equivalent manner to other (unlabelled) increases in income they would expect households to spend approximately 3% of the payment on fuel.

Pension systems reform

"A review of the pension systems in Latin America", David Tuesta (2011), BBVA Research, http://www.bbvaresearch.com/KETD/fbin/mult/WP_1115_tcm348-255095.pdf?ts=2352011

Summary: Latin America is one of the pioneers in introducing individual schemes as part of the compulsory component of their pension systems. Thirty years have passed since Chile took the first step. Now what reforms have been achieved today? What challenges lie ahead? This paper reviews the motivations of the reforms and their progress, using the experience of Colombia, Chile, Mexico and Peru. The main results are presented in terms of coverage, replacement rates, and fiscal sustainability, with projections to 2050. The results show that while the reforms of both the public and private pension systems have been key to providing fiscal sustainability and have strengthened retirement savings for groups with greater permanence in the labour market, there are still many pending challenges in order to address the significant percentage of people who are self-employed, within the informal sector or frequently unemployed. For each of the countries studied, recommendations are explored that could help reduce the level of vulnerability at the retirement stage, incentivize savings, focus resources on the truly poor, and maintain fiscal balance.

"Pension funds and infrastructure in Peru", Rosario Sanchez (2011), BBVA Research, http://www.bbvaresearch.com/KETD/fbin/mult/PensionWatch_Peru_170511_tcm348-257264.pdf?ts=2052011

Summary: Peru still has a high infrastructure deficit, which could be financed using pension fund resources. The slow process of awarding concessions leads to a lack of projects to finance, and thus to an accumulation of committed resources that are still awaiting investment. Significant efforts have been made in recent years to channel investments into the infrastructure sector through a series of measures that range from the creation of financial instruments (an infrastructure trust and infrastructure fund) to regulatory changes. There is still much room for improvement in regulatory matters. These changes could range from alterations in the concession process to more specific regulations covering limits to investment in pension funds.

"Pension Funds and Infrastructure Investment in Mexico", Liliana Castilleja Vargas (2011, BBVA Research,

http://www.bbvaresearch.com/KETD/fbin/mult/PensionWatch_120511_i_tcm348-256923.pdf?ts=1652011

Summary: the investment regime of the Specialized Retirement Funds (Siefore) has gradually become more flexible and now allows for greater portfolio diversification and the possibility of channelling resources to infrastructure projects through structured instruments. Resources from pension funds represent a potentially significant source of long-term financing for infrastructure investment in Mexico. The growing participation of pension funds in domestic infrastructure projects could strengthen the mediation of financial resources in the long-term and in the domestic currency.

Of the structured instruments, Capital Development Certificates (CKDs), offer pension funds diversification and potentially attractive performance, and at the same time, represent an interesting opportunity for those companies requiring long-term financing. There are other elements that could boost infrastructure investment, such as the bill on Public-Private Associations (APPs). Despite the advances made, the need to continue working to obtain a favourable institutional framework is clear; this framework would have to evolve according to the objectives of pension fund savers, infrastructure development and the growth of the country as a whole. The goal established of placing Mexico among the

top thirty countries in infrastructure will be attainable to the extent that the required changes are made to the regulatory framework.

"Progress and key challenges in the delivery of adequate and sustainable pensions in Europe (A Joint Report on Pensions)", European Commission (2010), Directorate-General for Economic and Financial Affairs, Occasional Papers, 71, Brussels,

http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/op71_en.htm

Summary: This report analyses pension systems in the EU, assesses the pension reforms in the light of aggravated challenges and develops an updated agenda for delivering adequate and sustainable pensions. The analysis focuses on: (i) results of the last decade of reforms, (ii) impacts of the crisis, and (iii) long term perspectives beyond the crisis. The aim is to re-assess the pension reforms in the light of aggravated challenges and develop an updated agenda for delivering adequate and sustainable pensions.

The report notes that ensuring that public policies cater for sustainable, accessible and adequate retirement incomes now and in the future remains a priority for the EU. While Member States share similar fundamental challenges there are considerable differences in the timing of demographic ageing, the design of pension arrangements, the growth potential and in constraints on account of the fiscal situation and external competitiveness. The projected increase in public spending due to population ageing poses an important challenge to EU Member States. Policy action to improve the long term sustainability of public finances while ensuring adequacy of pensions is crucial.

"First-Round Impacts of the 2008 Chilean Pension System Reform", Jere R. Behrman, Maria Cecilia Calderon, Olivia S. Mitchell, Javiera Vasquez, and David Bravo (2011), Pension Research Council Working Paper 2011-03,

http://www.pensionresearchcouncil.org/publications/document.php?file=937

Summary: Chile's innovative privatized pension system has been lauded as possible model for Social Security system overhauls in other countries, yet it has also been critiqued for not including a strong safety net for the uncovered sector. In response, the Bachelet government in 2008 implemented reforms to rectify this shortcoming. Here we offer the first systematic effort to directly evaluate the reform's impacts, focusing on the new Basic Solidarity Pension for poor households with at least one person age 65+. Using the Social Protection Survey, we show that targeted poor households received about 2.4 percent more household annual income, with little evidence of crowding-out of private transfers. We also suggest that recipient household welfare probably increased due to slightly higher expenditures on basic consumption including healthcare, more leisure hours, and improved self-reported health. While measured short-run effects are small, follow-ups will be essential to gauge longer-run outcomes.

Retirement savings

"Costly Portfolio Adjustment and the Delegation of Money Management", Hugh Hoikwang Kim (2011), Pension Research Council Working Paper 2011-04,

http://www.pensionresearchcouncil.org/publications/document.php?file=955

Summary: This paper investigates the theoretical impact of including two empirically-grounded innovations in a lifecycle portfolio choice model. The first innovation is a portfolio adjustment cost which employees face when managing their financial wealth rather than delegating the task to a professional money manager. When job-specific human capital is accumulated through learning-by-doing, investing time in financial management imposes opportunity costs in terms of current and future human capital

accumulation. The second innovation is the incorporation of age-dependent efficiency patterns in financial decision making. These two innovations replicate observed inactivity in portfolio adjustment patterns, especially for younger and older employees. This framework also allows an analysis of the choice between managing one's own money and delegating the task to a financial advisor. The calibrated model quantifies welfare gains that the delegation option can bring to the lifecycle setting.

"Is Today's Price-Earnings Ratio Too High?", Richard W. Kopcke and Zhenya Karamcheva (2011), CRR Boston IB#11-7,

http://crr.bc.edu/images/stories/Briefs/IB_11-7_508.pdf

Summary: The *brief's* key findings are: (1) To assess whether stocks are overvalued, analysts often compare stock prices to companies' cyclically-adjusted (10-year average) earnings; (2) Today's ratio of stock prices to cyclically-adjusted earnings appears high, which has often signaled a pending fall in prices; (3) However, cyclically-adjusted earnings are unusually low right now because they include two recessions; (4) As the recession of 2001-02 is replaced by higher earnings, the price-earnings ratio will drop back to its historic average by the end of 2012.

This article on US market approaches to provision of income in retirement, **"New strategies to lock in steady income for life"**, may be of interest:

http://www.globalaging.org/elderrights/us/2011/New%20Strategies.htm

Longevity and life expectancy

"A lost cause?", S. J. Richards (2011), http://www.richardsconsulting.co.uk/ActuarialPost.pdf

Summary: Actuarial practice as regards mortality analysis and projection is changing rapidly. This article provides a short introduction to some of the many limitations – and considerable risks – in using trends in cause of death as a means for projecting future mortality rates.

Longevity Bulletin

In the first edition of the Actuarial Profession's Longevity Bulletin, editor Alison O'Connell publishes the findings of a new comparison of a range of international projections of future longevity that reveals some consistent themes. They are: (1) **Uncertainty about the future range of longevity**: Most countries use a range of projections to illustrate this. Each variant projection is calculated using a different set of assumptions. The study examines the assumptions in detail; (2) **There are large differences in projected lifespan across countries**: The principal estimate for expected average lifespan for boys born in 2010 ranges from 82 years in the US to 89 years in the UK. The study looks at why these large variations exist; (3) **Females are expected to continue to live longer than males**: The gap is expected to be roughly around three to four years for complete lifespan and around 2.5 years for average remaining lifespan at age 65.

The Longevity Bulletin will be published every six months. It aims to provide a regular overview of research into longevity trends and a guide to the prospects for long life. It will present and explain actuarial perspectives on population longevity and will look beyond the actuarial world for statistics, research and the latest thinking on related subjects. Copies of the Longevity Bulletin are free to download from the Actuarial Profession's website at https://www.actuaries.org.uk/sites/all/files/documents/pdf/longevitybulletinmay2011.pdf and users are free to distribute and publicise the Bulletin to interested parties.

Regulation

The Australian Institute of Actuaries: Superannuation Risk Management Taskforce

A risk questionnaire was prepared and issued to industry fund CEOs and directors. The survey received a good response rate with results presented at the Biennial Convention in April 2011; refer presentation at http://www.actuaries.asn.au/library/events/Conventions/2011/FCRsInSuper-Presentation.pdf

The Taskforce has agreed that the support of the Australian prudential regulator, APRA, will be important for this matter to advance further, particularly if APRA is given standards making powers though the "Stronger Super" discussions and recommendations. While the Institute was not seeking a monopoly advisory status regarding operational risk reserves and financial management, the profession needs to continue pressing for change and advancing the status of actuaries in this field. It was felt that actuaries should focus on forward looking risk management, rather than having a compliance focus which tended to be the domain of auditors. The Taskforce is considering developing a best practice paper on risk management in superannuation and providing guidance for members to enhance leadership in this field.

"Overseas Research on Application of International Accounting Standard 19 and Its Implications", Yasuyuki Fujii for the Japanese Society of Pension Actuaries (2011), http://www.jscpa.or.jp/

Summary: This paper, translated from Japanese and available on the JSPCA website, represents the results of an in-depth investigation into reporting requirements under IAS 19 for defined benefit schemes in UK, Germany, Netherlands and Switzerland. The research was based on a questionnaire e-mailed in advance, followed up with face-to-face interviews. Since the research is based on interviews, it does not necessarily reflect statistical facts, and the JSCPA was concerned about the possibility of misinterpretation; however, exchange of information among research members during and after the field trip aimed to avoid such problems as far as possible. It is hoped these research findings and their implications will be of interest to the many people who are interested in accounting for post-employment benefits as well as to members of JSCPA.

Other

Registration is now open for the **19th Annual Colloquium of Superannuation Researchers** to be held at the University of New South Wales, Sydney, on 14-15th July 2011. The theme this year is '**Financing the retirement needs of an ageing population**'. Online registration is available at and the draft programme is at http://www.asb.unsw.edu.au/research/centreforpensionsandsuperannuation/australiancolloquiumofsuperannuationresearchers/Pages/default.aspx