REFERENCE LIST
November 2009

Social security

"How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", Willem Adema and Maxime Ladaique (2009), OECD Social, Employment and Migration Working Paper No. 92,
http://titania.sourceoecd.org/vl=4968203/cl=39/nw=1/rpsv/cgi-bin/wppdf?file=5ks712h5cg7l.pdf
Summary: This paper presents information on trends and composition of social expenditure across the OECD. This paper also accounts for the effects of the tax system and private social expenditure. An extremely useful source document.

"Social security systems: Responding to the crisis", International Social Security Association (2009), Social Policy Highlight 10,
http://www.issa.int/aiss/content/download/90840/1821545/file/2-SPH-10.pdf
Summary: Social security systems have been negatively affected by the current financial and economic crisis. Financial portfolios have been undermined by slumping markets and negative investment performance. Yet many governments have seized on social security systems as a vital policy tool to counteract the crisis. The challenges presented by the crisis have drawn attention to the strengths of these systems, thus energizing arguments in favour of the more vigorous promotion of social security worldwide.

Pension systems reform

"Labor Market Uncertainty and Pension System Performance", Olivia S. Mitchell and John A. Turner (2009), Wharton School WP2009-11,
http://www.pensionresearchcouncil.org/publications/document.php?file=804
Summary: The financial market crisis has prompted policymakers to devote substantial attention to ways in which capital market risks shape pension performance, but few analysts have asked how shocks to human capital shape retirement wellbeing. Yet human capital risks due to fluctuations in labour earnings, employment volatility, and survival, can have a profound influence on pension accumulations and payouts.
This paper reviews existing studies and offers a framework to think about how human capital risk can influence pension outcomes. We conclude with thoughts on how future analysts can better assess sensitivity of pension plan outcomes to a labour income uncertainty.

"The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers", Iams, Howard, Butrica, Barbara A., Smith, Karen E. and Toder, Eric J. (2009). Social Security Bulletin, Vol. 69, No. 3, pp. 1-28,
http://www.socialsecurity.gov/policy/docs/ssb/v69n3/v69n3p1.pdf
Summary: This article uses a microsimulation model to estimate how freezing all remaining private-sector and one-third of all public-sector defined benefit (DB) pension plans over the next 5 years would affect retirement incomes of baby boomers. If frozen plans were supplemented with new or enhanced defined contribution (DC) retirement plans, there would be more losers than winners, and average family incomes would decline. The decline in family income would be much larger for last-wave boomers born from 1961 through 1965 than for those born from 1946 through 1950, because younger boomers are more likely to have their DB pensions frozen with relatively little job tenure. Higher DC accruals would raise retirement incomes for some families by more than their lost DB benefits. But about 26 percent of last-wave boomers would have lower family incomes at age 67, and only 11 percent would see their income increase.

"The Declining Role of Private Defined Benefit Pension Plans: Who is Affected, and How", Craig Copeland and Jack VanDerhei (2009), Wharton School WP2009-18,
http://www.pensionresearchcouncil.org/publications/document.php?file=811
Summary: This paper analyses the impact of future freezes among corporate defined benefit (DB) pension plans. We simulate the impact on expected future pension wealth by assuming all existing private DB plans immediately freeze accruals for new employees. While this indicates the potential reduction in retirement wealth attributable to such plans, it does not recognize that sponsors freezing accruals may increase employer contributions to existing defined contribution (DC) plans or establish new DC plans. Using an empirical distribution of enhanced contributions to DC plans from sponsors freezing their DB plans, we simulate the nominal annuity that could be purchased at retirement age from these enhanced contributions. We then back out the net pension loss experienced by employees in the future.

"The Effect of Uncertain Labor Income and Social Security on Life-cycle Portfolios", Raimond Maurer, Olivia S. Mitchell, and Ralph Rogalla (2009), Wharton School WP2009-17,
http://www.pensionresearchcouncil.org/publications/document.php?file=810
Summary: This paper examines how labor income volatility and social security benefits influence life-cycle household portfolios. We examine how much the individual saves, and where, taking into account liquid financial wealth and annuities, and stocks versus bonds. Higher labour income uncertainty and lower old-age benefits boost demand for stable income in retirement, but also when young. In addition, a declining equity glide path with age is appropriate for the worker with low income uncertainty but for the high income risk worker, equity exposure rises until retirement. We also evaluate how changes in social security benefits influence retirement risk management.

"Retirement income and assets: how can pensions and other financial assets support retirement?", Pensions Policy Institute, UK
The PPI held a seminar on 22 October 2009 to launch its latest report, "Retirement income and assets: how can pensions and other financial assets support retirement?". A write up of the seminar can be obtained from
https://www.pensionspolicyinstitute.org.uk/uploadeddocuments/Events/2009%20events/PPI_Pension_and_Finanacial_Assets_Seminar_write_up_Oct_2009.pdf
The report itself is at
https://www.pensionspolicyinstitute.org.uk/uploadeddocuments/2009/PPI_Retirement_income_and_assets_PandFAs_October_2009.pdf

"Pension reforms in Europe and their impact on women", Ivosevic, Vanja (2009), Education International, Brussels
http://download.ei-ie.org/Docs/WebDepot/EIResearch_PensionStudy_Eng_final_web.pdf
Summary: The trend of pension reforms in Europe in general has been to shift the risk of financial sustainability away from employers and the state on to workers. This study displays the broad picture of the diverse situations in 33 European countries. An original analysis, it combines data from general published sources with a special survey of 48 organizations distributed throughout these countries. The survey subjects were unions affiliated with Education International, and so the information supplied gives special coverage to teachers' pensions, along with the broader national pension schemes upon which teachers also draw to varying degrees. Because so many teachers are women, the results give detailed coverage of the subtle ways in which gender bias finds its way into retirement incomes.

Retirement savings

"Debt of the Elderly and Near Elderly, 1992-2007", Craig Copeland (2009), Employee Benefit Research Institute (EBRI), EBRI Notes, Vol. 30, No. 10, October 2009,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1486303
Summary: When predicting the future income security of retirees, researchers typically focus on measures concerned with retirees' accumulated financial assets. However, any debt that a near-elderly or elderly family has accrued going into retirement or during retirement is likely to offset its asset accumulations, resulting in a lower level of retirement income security. This paper focuses on the trends in debt levels among those age 55 and older who are approaching or are in retirement, as financial liabilities are a vital but often ignored component of retirement income security.
As described in this paper, debt levels of the elderly and near-elderly are heading up: Among elderly families--and especially among the lower-income elderly--both housing debt and consumer debt levels are rising. For some cohorts, a significant percentage have debt levels well beyond the threshold considered problematic. Although rising debt levels are not necessarily a sign of danger for all elderly or near-elderly families (especially if they are also high-income), rising housing debt is of particular concern, since housing typically is the major asset elderly families have, and leveraging it at this point in their lives may leave them without a major resource to finance an adequate retirement, especially after the downturn in the housing market during 2008-2009.

"Avoiding Pitfalls In Retirement: A Report on Defined Contribution Pensions", the Pensions Committee and the Investment and Financial Risk Committee of the Groupe Consultatif (2009),
http://www.gcactuaries.org/documents/DC_Working_Group_Report_final_261009.pdf
Summary: Improving longevity, volatile investment markets and inflation uncertainty can present significant risks for individuals retiring from a DC scheme. These risks can be mitigated by careful scheme design and product choice. Policymakers can help raise awareness of the risks and help members achieve maximum benefits by removing infrastructure barriers to efficient design and product pricing.

"An Update on 401(k) Plans: Insights from the 2007 Survey of Consumer Finance", Alicia H. Munnell, Richard W. Kopcke, Francesca Golub-Sass, and Dan Muldoon (2009), CRR Boston, WP#2009-26,
http://crr.bc.edu/images/stories/Working_Papers/wp_2009-26.pdf
Summary: The maturation of the 401(k) system and the enactment of the Pension Protection Act of 2006, which made 401(k) plans easier and more automatic, were expected to enhance the role that 401(k)s played in the provision of retirement income. So, originally, the release of the Federal Reserve's 2007 Survey of Consumer Finances (SCF) seemed like a great opportunity to reassess 401(k)s. But the 2007 SCF reflects a world that no longer exists. Interviews were conducted between May and December, when

the Dow Jones was at 14,000 (the peak was October 9, 2007) and housing prices were only slightly off their peak.
This paper uses the 2007 SCF data as a starting point in evaluating the condition of 401(k)s and the factors that affect participation and contributions, and relies on more recent data and estimates to paint a full and current picture. It concludes that whereas 401(k) plans were showing some improvement in 2007 and the analysis of participation and contribution decisions confirmed the trend toward auto-enrollment and the maturation of the system, the events of 2008 highlight the limitations of 401(k) plans in serving as the only supplement to Social Security.

"The Wealth of Older Americans and the Sub-Prime Debacle", Barry Bosworth and Rosanna Smart (2009), CRR Boston WP#2009-21,
http://crr.bc.edu/images/stories/Working_Papers/wp_2009-21.pdf
Summary: This study explores the consequences of the housing price bubble and its collapse for the wealth of older households. We utilize micro survey data to follow the rise in home values to 2007, observing which households enjoyed home price appreciation and how they responded in terms of equity withdrawal. We then use the SCF survey data on wealth holdings from 2007 in combination with national price indexes to simulate the magnitude and distribution of wealth loss from the 2008-2009 financial crisis. The collapse of the housing market triggered a broad decline of asset prices that greatly reduced the wealth of all households.
Prior to the financial crisis, our study and others had concluded that the current baby-boom cohort of near retirees were surprisingly well-prepared for retirement compared with similarly aged households over the past quarter century. Unless there is a strong recovery of asset values in the next few years, that favorable assessment is no longer true.

"Retirement Saving Adequacy and Individual Investment Risk Management Using the Asset/Salary Ratio", P. Brett Hammond and David P. Richardson(2009),Wharton School WP2009-13,
http://www.pensionresearchcouncil.org/publications/document.php?file=806
Summary: This paper uses the Asset-Salary Ratio (ASR) to examine the factors that increase the likelihood that defined contribution plan participants will have sufficient assets to generate adequate retirement income, similar to the defined benefit plan full-funding ratio. We apply this measure to a sample of TIAA-CREF participants, and we show that participant assets are on average consistent with at least a 70 percent income replacement ratio. Key factors explaining
success are an adequate contribution rate and long tenure in the system; having a portfolio weighted to equities is beneficial but to a lesser extent. Thus good funding and early participation is more important than 'chasing returns.' Measures such as the ASR can help participants make more informed choices.

Longevity and life expectancy

"Pension Buyouts: What Can We Learn From The UK Experience?", Ashby H. B. Monk (2009), CRR Boston WP#2009-19,
http://crr.bc.edu/images/stories/Working_Papers/wp_2009-19.pdf
Summary: managing (or at least slowing) the decline of private defined benefit (DB) pensions has been a top priority for US policymakers. Any market-related developments or regulatory changes that alter the provision or sustainability of private DB pensions in other countries are thus relevant to policy and worth understanding. One such development taking place in the United Kingdom, pension fund buyouts, has enjoyed measured success.
This paper analyzes the growing market for DB pension buyouts in the UK and considers its implications for the US. It contributes to our understanding of the future prospects for employer-sponsored defined benefit pensions, and how they will contribute to retirement income over time. While certain types of

solvent buyouts have fallen out of favour, such as non-insured buyouts, the paper concludes that buyouts of the insured variety have a bright future.

"What Drives Health Care Spending? Can We Know Whether Population Aging Is A 'Red Herring'?", Henry J. Aaron (2009), CRR Boston WP#2009-18,
http://crr.bc.edu/images/stories/Working_Papers/wp_2009_18.pdf
Summary: Several empirical studies have presented evidence that per-person health care spending does not rise with calendar age but with proximity to death. Hence, it is alleged that increases in longevity will not, by themselves, boost health care spending. Unfortunately, available data provide no basis for assuming that the curve relating average health care spending to age will, or will not, flatten with increases in longevity. For this reason, budget projections based on the assumption that increases in longevity will not boost health care spending may understate projected growth of health care spending.

"Longevity Risk and Annuities in Singapore", Joelle H.Y. Fong, Olivia S. Mitchell, and Benedict S. K. Koh (2009), Wharton School WP2009-20,
http://www.pensionresearchcouncil.org/publications/document.php?file=813
Summary: This paper explores the current annuity market in Singapore and discusses the pros and cons of a proposal to mandate annuitisation under the Singaporean Central Provident Fund (CPF). We evaluate the pricing of various annuity policies in order to assess whether plan participants might benefit from higher annuity returns per dollar premium and lower adverse selection costs under the new annuitisation mandate. Our results indicate that private annuity providers currently offer good value-for-money annuities, with money's worth values in
line with those found for other developed countries. This has implications for proposals to mandate annuitisation.

"Outsourcing Pension Longevity Protection", Igor Balevich (2009), Wharton School WP2009-21, http://www.pensionresearchcouncil.org/publications/document.php?file=814
Summary: Steadily improving mortality rates are boosting pension liabilities, and plan managers are starting to evaluate ways to handle this exposure. We explore the impact of increasing longevity on pension plans and what can be done about it. Responses include plan design
changes, transferring this risk to an insurance company, and development of strategies to hedge this risk without completely eliminating it.

CMI Working Paper 41 and the launch of the new CMI Mortality Projections Model

The UK-based CMI is pleased to announce the launch of the new CMI Mortality Projections Model alongside the publication of Working Paper 41.
This follows the CMI's publication in June 2009 of a prototype Mortality Projections Model. The prototype Model was issued for consultation and was accompanied by its user guide and two CMI Working Papers: Working Paper 38 provided an overview of the Model and set out specific questions for the consultation; Working Paper 39 detailed further analysis to help inform the setting of parameter values for the Model.

Working Paper 41 summarises the responses to each of the questions posed in Working Paper 38, together with the Working Party's comments and details of the actions taken. The Model has been updated and the CMI is pleased to publish the first live version of the Model, together with a user guide and a set of parameter sensitivity test results.
The new version of the Model, and all the accompanying papers, can be found on the CMI section of the UK Actuarial Profession's website at:
http://www.actuaries.org.uk/knowledge/cmi

Longevity hedging
A UK profession event being held 3 December 2009 may be of interest. At this session Paul Kitson, a senior consultant specialising in these solutions from Watson Wyatt, and Andrew Reid, a director in Credit Suisse's Life Finance Group responsible for its UK longevity business will:

- outline their view of the current market;
- use the Babcock transaction as a case study to go through how a longevity hedge operates in practice and the pros and cons versus other de-risking solutions; and
- give their views on how the longevity hedge market may develop over the coming months.

http://www.actuaries.org.uk/media_centre/events_folder/ap_events/longevity_hedging

Regulation

"Impact of the Pension Protection Act on Financial Advice: What Works and What Remains to be Done?", Lynn Pettus and R. Hall Kesmodel, Jr.(2009), Wharton School, WP2009-15,
http://www.pensionresearchcouncil.org/publications/document.php?file=808
Summary: In light of the challenges and complexity of managing income for retirees, and the lack of overall financial literacy of our workforce, advice and financial planning services must be effectively delivered to help more participants achieve financial security, today and in retirement. A challenge that emerged in the wake of the Pension Protection Act of 2006 is how to deliver such advice without compromising plan sponsors' fiduciary responsibilities, and without relying on participants to indirectly fund the cost of advice programs through their purchase of ancillary financial products.

Other

"Behavioural economics and complex decision making: implications for the Australian tax and transfer system", Andrew Reeson and Simon Dunstall (2009), CSIRO,
http://taxreview.treasury.gov.au/content/html/commissioned_work/downloads/CSIRO_AFTS_Behavioural_economics_paper.pdf
Summary: This paper summarises the relevant literature (from behavioural economics and psychology) on how individuals make simple and complex decisions; considers how these findings can provide a basis for designing policies adapted to these human behaviours; and concludes by considering some implications of these findings for the tax and transfer system (such as the decision making consequences of removing the burden of complexity from individuals)

"State Pension Fund Management, *The challenge of 21st century demographics*", edited by Aaron Woolner (2009), Risk Books, http://riskbooks.com/
Summary: Individual chapters focus on: Asia's demographic challenge, China's pension system, governance and risk management, establishing benchmarks, the challenges faced by the Asia's developed pension sectors, the use of external managers and the opportunity and risk of alternative assets.

Authors include: Alan Brown, Professor Mukal Asher, Stuart Leckie, Carl Redondo, Naomi Denning, Hiroshi Yamabana, Douglas Robertson and Professor Jennifer Wang.

The third issue of the **Rotman International Journal of Pension Management** is now available. Its theme is New Insights into Pension Management, Design, and Shareowner Stewardship. Individual articles can be downloaded at no charge and hardcopies of the Journal can be ordered at a cost of C$50 per copy by visiting
http://www.rotman.utoronto.ca/icpm/details.aspx?ContentID=223

"Financial Literacy and Financial Sophistication Among Older Americans", Annamaria Lusardi, Olivia S. Mitchell, and Vilsa Curto (2009), Wharton School WP2009-25, http://www.pensionresearchcouncil.org/publications/document.php?file=818

Summary: This paper analyses new data on financial literacy and financial sophistication from the 2008 Health and Retirement Study. We show that financial literacy is lacking among older individuals and for the first time explore additional questions on financial sophistication which proves even scarcer. For this sample of older respondents over the age of 55, we find that people lack even a rudimentary understanding of stock and bond prices, risk diversification, portfolio choice, and investment fees. In view of the fact that individuals are increasingly required to take on responsibility for their own retirement security, this lack of knowledge has serious implications.

"The business of ageing", John Llewellyn and Camille Chaix-Viros (2008), Nomura Global Equity Research, http://www.nomura.com/resources/europe/pdfs/TheBusinessOfAgeing.pdf

Summary: This came out at the end of 2008, but have included it here for any who may have missed it. It is of interest as a view on the business opportunities presented by an ageing population, and hence the prospects for equity investment.