**REFERENCE LIST**
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## *Social security*

ISSA (the International Social Security Association) has released the **"ISSA Social Security Research and Policy Manual"** described here:
http://www.issa.int/Resources/ISSA-Publications/ISSA-Social-Security-Research-and-Policy-Manual
The full document can be downloaded from:
http://www.issa.int/content/download/135361/2753864/file/2-ISSA-RPM.pdf

## *Pension systems reform*

**"The Role of Social Partners in Transforming the German Pension System"**, Csaba Burger (2010), Saint Peter's College, Oxford, http://ssrn.com/abstract=1701748
**Summary**: Social partners, trade unions and employer associations have been involved in most changes to the corporatist welfare state of Germany. In 2001, the government enacted a pension reform to replace the generous but - due to demographic constraints - unsustainable pay-as-you-go public pension system. The decrease of public pensions was offset by strengthening the occupational and private pillars. This paper examines the social partners' political lobbying before the reform, contrasted with their involvement in supplementary pension provision afterwards. The study, based on an in-depth personal interview with Mr. Walter Riester, the Labour Minister brokering the reform, shows that the parallel application of pension reform and social pacts literature contribute to the understanding of the pension structure. The social partners' internal division prevented the cooperation with the government; however, they could prevent the implementation of a mandatory supplementary system, and could achieve concessions in exchange for not vetoing the reform. Subsequently, their involvement in pension provision turned out to be the gold standard.

**"How Sensitive are Subjective Retirement Expectations to Increases in the Statutory Retirement Age? The German Case"**, Michela Coppola and Christina B. Wilke (2010), Mannheim Research Institute for the Economics of Aging (MEA) Discussion Paper No. 207-10, http://ssrn.com/abstract=1701630
**Summary**: Population Aging poses an evident threat to the financial sustainability of pension systems based on "pay-as-you-go" (PAYG) financing. To cope with this threat, pension systems have undergone numerous reforms in many countries in order to keep people longer at work.

One crucial element of these reforms typically is an increase in the statutory retirement age at which workers are legally allowed to retire. Two questions still remain unanswered: Will people really work longer? Who is more likely to retire before the new legal retirement age? In this paper, we focus on subjective retirement expectations, analysing if and to what extent they are affected by such a policy change. We consider the legislative reform introduced in Germany in 2007, which gradually will increase the statutory retirement age (SRA) from 65 to 67 years. Using the SAVE survey, a representative panel of German households, we estimate the increase of the individuals' expected retirement age (ERA) as an effect of the reform. Our results show that less productive workers living in relatively wealthier households are more likely to plan an early retirement. The introduction of the reform seems to motivate better educated workers to remain longer in the labour force although it does not seem to completely succeed in keeping women longer in the labour force: especially among the younger cohorts, whose SRA will be 67 years, women are still more likely than men to plan an early retirement. In terms of the magnitude of the effect, we find that the reform shifted the expectations of the younger cohorts by almost two years – if these expectations will be realized, this reform would have been quite successful.

## *Retirement savings*

**"The Role of Behavioural Economics and Behavioural Decision Making in Americans' Retirement Savings Decisions"**, Knoll, Melissa (2010), Social Security Bulletin, Vol. 70, No. 4, pp. 1-23, http://www.ssa.gov/policy/docs/ssb/v70n4/v70n4p1.pdf

**Summary**: Traditional economic theory posits that people make decisions by maximizing a utility function in which all of the relevant constraints and preferences are included and weighed appropriately. Behavioural economists and decision-making researchers, however, are interested in how people make decisions in the face of incomplete information, limited cognitive resources, and decision biases. Empirical findings in the areas of behavioural economics and judgment and decision making (JDM) demonstrate departures from the notion that man is economically rational, illustrating instead that people often act in ways that are economically suboptimal. This article outlines findings from the JDM and behavioural-economics literatures that highlight the many behavioural impediments to saving that individuals may encounter on their way to financial security. I discuss how behavioural and psychological issues, such as self-control, emotions, and choice architecture can help policymakers understand what factors, aside from purely economic ones, may affect individuals' savings behaviour.

**"Retiring in Debt? An Update on the 2007 Near-Retiree Cohort"**, Chris E. Anguelov and Christopher R. Tamborini (2010), Social Security Bulletin, Vol. 70, No. 4, pp. 1-23, http://www.ssa.gov/policy/docs/ssb/v70n4/v70n4p69.pdf

**Summary**: This research note uses 2007 Survey of Consumer Finances (SCF) data to update work reported in an earlier Social Security Bulletin article, "Retiring in Debt? Differences between the 1995 and 2004 Near-Retiree Cohorts". The analysis documents whether there have been changes in the debt holdings of near-retirees in 2007, a point in time reflecting the start of the recent financial and economic crisis, relative to 2004. Results show that near-retirees' debt levels in 2007 were modestly higher than in 2004, overall and across a number of subgroups. The results do not capture the full impact of the financial crisis, which manifested at the end of 2007 and in 2008.

**"How Do Responses to the Downturn Vary by Household Characteristics?"**, Norma B. Coe and Kelly Haverstick (2010), CRR Boston IB#10-17,
http://crr.bc.edu/images/stories/Briefs/IB_10-17.pdf
**Summary**: To measure the response of older workers to the downturn, the Center for Retirement Research at Boston College (CRR) carried out the *2009 Retirement Survey* in July-August 2009. This *brief* is the second of four based on this nationally-representative survey of workers aged 45-59 who had substantial retirement assets prior to the downturn. The brief's key findings are firstly that half of respondents to the 2009 CRR survey planned to respond to the downturn by working longer, saving more, or both; and secondly their choice was influenced by different factors. "**Work longer**" was favoured by those with large losses or a greater dependence on assets, less time to recover, and high anxiety; "**Save more**" was favoured by those with higher incomes, higher expectations for stock returns, and greater job security; "**Work longer and save more**" predictably reflected a blend of these responses plus lower contribution rates.

**"Children and Household Utility: Evidence from Kids Flying the Coop"**, Norma B. Coe and Anthony Webb (2010), CRR Boston WP#2010-16,
http://crr.bc.edu/images/stories/Working_Papers/wp_2010-16.pdf
**Summary**: Using consumption and wealth data from the Health and Retirement Study (HRS), this paper explores the impact of children leaving home on household consumption. We find that households maintain their household-level consumption, despite the fact that the number of individuals in the household has decreased, increasing per-capita consumption. Further, we find no evidence of increases in total net wealth, or any of its components, after children leave the household. These findings suggest that households do not dramatically change their savings or consumption patterns when their children fly the coop. Those households who are already behind in their retirement preparations will remain at risk of entering retirement with insufficient wealth to maintain their pre-retirement standard of living.
**"State Wage-Payment Laws, the Pension Protection Act of 2006, and 401(k) Saving Behaviour"**, Gary V. Engelhardt (2010), CRR Boston WP 2010-14,
http://crr.bc.edu/images/stories/Working_Papers/wp_2010-14.pdf
**Summary**: State wage-payment laws, which forbid deductions from wages and salaries without the written permission of the employee, constituted a binding constraint on firms' choices to adopt automatic enrolment in 401(k) plans prior to 2006. Since the passage of the Pension Protection Act of 2006, which clarified the legality of auto-enrolment plans and superseded these state laws, 401(k) participation has been higher in states that previously required written permission.

**"The Impact of a DROP Program on the Age of Retirement and Employer Pension Costs"**, Samson Alva, Norma B. Coe, and Anthony Webb (2010), CRR Boston WP 2010-11,
http://crr.bc.edu/images/stories/Working_Papers/wp_2010-11.pdf
**Summary**: This paper investigates the impact of a Deferred Retirement Option Plan (DROP) on the age of retirement of employees covered by defined benefit pension plans provided by the City of Philadelphia. We show that the program results in significant and substantial increases in the age of retirement: 1.25 years on average for municipal employees. Employees make use of the program in ways that maximize the expected present value of their pension benefits, with municipal employees entering the program an average 2.1 years before the age at which they would otherwise have retired. Consequently, the program results in a substantial increase in pension cost. We

estimate that the program has cost the city around $258 million over the period to 31 December 2009. We construct an indicator of employee quality and find that some classes of high-quality employees are disproportionately likely to delay retirement as a result of the program.

**"Housing Consumption in Late Life: The Role of Income, Health Shocks, and Marital Shocks"**, Douglas A. Wolf and Janet M. Wilmoth (2010, CRR Boston WP 2010-10, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-10.pdf

**Summary**: Past research has shown that income from the Social Security program has contributed to trends towards smaller households, greater residential independence—the tendency to live alone rather than with others—and a greater prevalence of home ownership late in life. However, the mechanism through which these associations operate has remained relatively unstudied.

This study seeks to uncover the mechanism through which income influences housing consumption in late life. We find no effects of Social Security income on housing consumption once we control for selection and endogeneity, a result that contrasts sharply with past research findings. We also fail to find any evidence that Social Security mediates either health or marital shocks. We do, however, find main effects on housing consumption of the two "shock" variables considered. Health shocks, and especially relatively catastrophic shocks such as a stroke or a hip fracture, produce substantial reductions in housing consumption, conditional on remaining in the community. These reductions surely reflect the individual's increased need for hands-on help and assistance with daily tasks, a type of help that is facilitated by (and may even necessitate) co-residence with a helper. For many such health shocks, the period of dependency on others may be temporary, and a subsequent recovery of function may be accompanied by a further adjustment in housing consumption.

**'The Case for Security Plus Annuities"**, Pamela J. Perun (2010), Aspen Institute - Initiative on Financial Security,
http://www.aspeninstitute.org/sites/default/files/content/upload/Case%20for%20SPA.pdf

**Summary**: As Americans live longer and increasingly rely on 401(k) plan savings as a prominent source of income in retirement, they will need to find ways to convert their savings into income that lasts a lifetime. Because the financial situations and goals of American savers are diverse, they will need a variety of products and services to secure their income. One solution that could become operational quickly is a proposal called "Security Plus Annuities." Developed by the Aspen Institute Initiative on Financial Security (Aspen IFS), the proposal partners private industry with the Social Security Administration to offer low-cost, inflation-protected, "starter" life annuities.

It would enable new retirees to purchase another layer of Social Security-like income that lasts a lifetime. Moreover, it would provide immediate assistance to two groups of Americans who have critical unmet needs for longevity-protected products: low- and moderate-income workers who frequently have not had access to a 401(k) plan at work, and near retirees whose work-based plans don't currently offer lifetime income products.

The **November 2010 EBRI Issue Brief** is now online at
http://www.ebri.org/pdf/PR.901.22Nov10.401k_Update.pdf with an article titled "Average 401(k) Account Balance Among Consistent Participants Rose Nearly 32 Percent In 2009".

## *Longevity and life expectancy*

**"Retirement Savings: Confronting the Challenge of Longevity"**, Pamela Perun (2010), Aspen Institute - Initiative on Financial Security,
http://www.aspeninstitute.org/sites/default/files/content/upload/ConfrontingLongevity_AspenIFS.pdf
**Summary**: In 2010, Aspen IFS launched its Lifelong Financial Security project to provide the integrative thought leadership critical to framing a successful U.S. retirement policy on lifelong income. As the world of defined contribution retirement savings has grown, and with the potential vast expansion of private retirement savings through automatic IRAs, the majority of savers now nearing retirement and in the generations to come will have nest eggs, which they will have primary responsibility for managing during retirement. Annuities are traditional means for managing the risk of outliving savings in retirement. But annuities as an investment or distribution option are virtually absent from defined contribution plans. Outside of the plan universe, payout annuities have never been popular with mass market consumers and could be considered the cod liver oil of investment products — a product that may be good for you but hard to swallow and too often avoided. The initial work of the Lifelong Financial Security Project is to lay the groundwork for constructing a policy that will provide secure income for low- and moderate-income workers, provide employers with an appropriate role, and provide industry with options that meet market realities. Above all, such a policy must be fair, secure and suitable for the many millions of retirees who will be trying to stretch hard-earned nest eggs throughout retirement, both today and in the future.

## *Regulation*

**"Designing adequate defined contribution (DC) pensions: Global experience and lessons from Asia-Pacific"**, Annual OECD/IOPS Global Forum on Private Pensions,
2-3 November 2010, Sydney, Australia,
http://www.oecd.org/document/24/0,3343,en_2649_34853_45296472_1_1_1_1,00.html
Hosted by the Australian Prudential Regulation Authority (APRA), the Global Forum took place in Sydney, Australia, on 2-3 November 2010 with participation from over 50 countries. The main objective of the Global Forum was to examine innovative governmental policies intended to enhance the security and adequacy of defined contribution (DC) retirement plans – which represent a growing share of retirement savings in the Asia-Pacific region and globally. The recent financial crisis, which had a negative impact on the asset value and benefit adequacy of such plans, has further compelled governments around the world to take action to strengthen regulatory requirements and supervisory policies with respect to the operation of these plans.
The topics addressed at the Global Forum included:

- Pension reform process and recent developments in Asia-Pacific
- Supervisory techniques and approaches to oversee DC pensions
- Challenges and costs of introducing guarantees for DC pension plans
- Innovative approaches to measure the 'retirement readiness' of ageing populations
- Optimal structure and design of DC pension plans

The full programme can be accessed at the above URL. Two background papers may be of particular interest:
**"Managing and Supervising Risks In Defined Contribution Pension Systems"**, John Ashcroft, Fiona Stewart (2010), IOPS Working Paper No. 12 2010,
http://www.oecd.org/dataoecd/2/19/46260971.pdf

**Summary**: Defined contribution (DC) plans are playing a larger role in pension systems around the world. Pension supervisory authorities are consequently asking if their oversight approaches need to adapt to this development – given that the risks within DC systems are born by the plan members themselves. This paper highlights the key challenges for DC supervisors, outlining the different mechanisms which can be used to control risks within DC systems, and how the use of these mechanisms informs the supervisory approach. Case studies of IOPS members overseeing DC systems are also provided.

**"Protecting Retirement Income: Improving The Design of DC Pension Plans"**, Session 5 Background Document, OECD/IOPS, http://www.oecd.org/dataoecd/2/31/46263062.pdf
**Summary**: The design of defined contribution (DC) pension plans needs to improve. The financial and economic crisis has highlighted the need to improve their design. People with DC pension plans saw their accumulated pension saving disappear as they were heavily exposed to risky assets. Unfortunately, even people very close to retirement had exposures to equities. Moreover, these plans are becoming more prevalent in OECD countries as a means to finance retirement. They are already the main source to finance retirement in many OECD countries (e.g. Australia, Chile, Hungary, Poland), and they may become in the near future the main source in some other OECD countries (e.g. Canada, the UK and the US).
There is a wide range of issues to consider when improving the design of DC pension plans. First, one needs to assess the nature of the parameters affecting retirement income, as some of them are uncertain. Secondly, default investment strategies and guarantees can play a role in partially offsetting the negative impact of this uncertainty. The issue then becomes which is an appropriate default investment strategy. As regard guarantees, such as minimum return guarantees, one has to consider than these guarantees may be costly. Finally, when designing DC pension plans, one needs to look at the payout phase as well as the accumulation or saving. In particular, the role of annuities and how to reach a balance between providing protection from longevity risk, on one side, and flexibility and liquidity, on the other side.

There are also three presentations available from the section of the programme on **"Supervising DC Pension Systems"** that one may like to look at:
"Overview", Fiona Stewart, OECD, http://www.oecd.org/dataoecd/1/62/46261051.pdf
"Liquidity Risk", Ross Jones, APRA, http://www.oecd.org/dataoecd/60/43/46350610.pdf
"Conflicts of Interest", Darren McShane, Mandatory Provident Fund Schemes Authority, Hong Kong, http://www.oecd.org/dataoecd/4/57/46269723.pdf

And one to watch how it develops may be the Forum discussion on the role of deferred annuities. A particular point made was that annuities viewed as investments are unpopular (die and you lose your remaining capital), whereas a deferred annuity can be made more palatable if viewed as insurance against living longer than expected rather than as an investment.