REFERENCE LIST
November 2012

Communicating Pension Risk to DC Plan Members
THE CHILEAN CASE OF A PENSION RISK SIMULATOR

18 October 2012 – Organisation for Economic Co-Operation and Development

The purpose of this paper is to discuss a few issues related to how best to communicate uncertainty about projections of future pension benefits to members of DC plans, and especially to present a pension risk simulator developed by the Chilean regulator (Superintendencia de Pensiones, SP) that addresses directly how to convey that uncertainty and aims at eliciting a pro-active response from individuals in terms of contributing more and for longer.

(http://www.oecd-ilibrary.org/docserver/download/5k9181hxzmlr.pdf?expires=1353957524&id=id&accname=guest&checksum=C4E86DC5CF2B76AF465653BE68DDF4B6)

The Role of Funded Pensions in Retirement Income Systems
ISSUES FOR THE RUSSIAN FEDERATION

19 October 2012 – Organisation for Economic Co-Operation and Development

This paper reviews the recent development of the funded pension system in the Russian Federation and considers it role in the context of the overall retirement income system. By describing current OECD practices and policy recommendations and comparing them with the current Russian pension system, the report aims to facilitate ongoing discussions between the OECD and the Russian Federation regarding the latter's pension system.
The report is based to a large extent on existing OECD published material, in particular the latest edition of OECD Pensions at a Glance (2011) and the OECD Pensions Outlook 2012. It also draws on the OECD review of labour and social policy published in December 2011.

(http://www.oecd-ilibrary.org/docserver/download/5k9180xv25xw.pdf?expires=1353957654&id=id&accname=guest&checksum=84B92F66F4F979687CF572461DF67A9C)

Dicey Retirement: The Long Ride Down

November 6, 2012 - Center for Retirement Research at Boston College

More than half of Americans are at risk of a decline in their living standards when they retire. Trace this grim reality back, in part, to the gradual extinction of employer pensions that guaranteed retirees a stable income.

(http://fsp.bc.edu/dicey-retirement-the-long-ride-down/)

Shock factor

1 November 2012 – Investment and Pensions Europe

Liam Kennedy spoke with Theo Kocken and Kerrin Rosenberg about pensions, behavioural finance and a new definition of fairness.
Cardano's CEO, Theo Kocken, likes to shock audiences with a slide showing how hard it is for an underfunded pension fund ever to recover nowadays.

(http://www.ipe.com/magazine/shock-factor_48157.php?issue=#.ULZaz-SzKSo)

Deterministic Shock vs. Stochastic Value-at-Risk – An Analysis of the Solvency II Standard Model Approach to Longevity Risk*

January 2010 – Institute of Insurance. Ulm University & Institute for Finance and Actuarial Sciences

In general, the capital requirement under Solvency II is determined as the 99.5% Value-at-Risk of the Available Capital. In the standard model's longevity risk module, this Value-at-Risk is approximated by the change in Net Asset Value due to a pre-specified longevity shock which assumes a 25% reduction of mortality rates for all ages.
We analyze the adequacy of this shock by comparing the resulting capital requirement to the Value-at-Risk based on a stochastic mortality model. This comparison reveals structural shortcomings of the 25% shock and therefore, we propose a modified longevity shock for the Solvency II standard model.
We also discuss the properties of different Risk Margin approximations and find that they can yield significantly different values. Moreover, we explain how the Risk Margin may relate to market prices for longevity risk and, based on this relation, we comment on the calibration of the cost of capital rate and make inferences on prices for longevity derivatives.

(http://www.uni-ulm.de/fileadmin/website_uni_ulm/mawi.mort/pdf/Application/2009_Boerger.pdf)

Employee Mobility and Employer-Provided Retirement Plans

November 2012 – Center for Retirement Research at Boston College

This paper provides new insights into the effect of the widespread transition from defined benefit (DB) to defined contribution (DC) pension plans on employee mobility. Pension plans may affect employee mobility both through an "incentive effect," where the bundle of benefit characteristics, such as vesting rules, relative liquidity and the risk/return tradeoff affect turnover directly, and a "selection effect," where employees with different underlying mobility tendencies select into firms with different types of pension plans. In this paper, we quantify the role of selection by exploiting a natural experiment at a single employer in which an employee's probability of transitioning from

a DB to a DC plan was exogenously affected by the default provisions of the transition. Using a differences-in-regression-discontinuities (DRD) estimator, we find evidence that employees with higher mobility tendencies self-select into the DC plan. Furthermore, we find a negative direct effect of DC enrollment on turnover that takes place within one year. Our results suggest that selection likely contributes to an observed positive relationship between the transition from DB to DC plans and employee mobility in settings where employees choose plans or employers.

(http://crr.bc.edu/wp-content/uploads/2012/11/wp_2012-28-508.pdf)

The National Retirement Risk Index: An Update

November 2012 – Center for Retirement Research at Boston College

The brief's key findings are:

• The National Retirement Risk Index (NRRI), based on newly released Survey of Consumer Finances data, shows that over half of households may be unable to maintain their standard of living in retirement.

• Between 2007 and 2010, the NRRI jumped by 9 percentage points due to:

- the bursting of the housing bubble (4.5 percentage points);
- falling interest rates (2.2 percentage points);
- the ongoing rise in Social Security's Full Retirement Age (1.6 percentage points); and
- continued low stock prices (0.8 percentage points).

• The hardest hit households were those nearing retirement and those with high incomes.

(http://crr.bc.edu/wp-content/uploads/2012/10/IB_12-20.pdf)

From ugly duckling to swan

01 Nov 2012 – Investment and Pensions Europe

Michael Kjeller of KPA Pension tells Nina Röhrbein about his fund's transformation.

"A decade ago, KPA Pension was regarded as the ugly duckling of Sweden's pension industry – recently we were told we had become a swan," says Michael Kjeller, CIO at KPA Pension.

(http://www.ipe.com/magazine/from-ugly-duckling-to-swan_48158.php#.ULfjpuSzKSo)