REFERENCE LIST
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Social security

"Population dynamics: Social security, markets, and families", Andrew Mason, Ronald Lee, Sang-Hyop Lee, International Social Security Review Volume 63, Issue 3-4, pages 145–175, July 2010, http://onlinelibrary.wiley.com/doi/10.1111/j.1468-246X.2010.01373.x/full

Summary: Upward intergenerational flows — from the working ages to old age — are increasing substantially in the advanced industrialized countries and are much larger than in developing countries. Population ageing is the most important factor leading to this change. Thus, in the absence of a major demographic shift (e.g. a return to high fertility), an increase in upward flows is inevitable. Even so, three other important factors will influence the magnitudes of upward flows. First, labour income varies at older ages due to differences in average age at retirement, productivity, unemployment, and hours worked. Second, the age patterns of consumption at older ages vary primarily due to differences in spending on health. Third, spending on human capital (i.e. spending on child health and education) varies. Human capital spending competes with spending on the elderly, but it also increases the productivity of subsequent generations of workers and the resources available to support consumption in old age. All contemporary societies rely on a variety of institutions and economic mechanisms to shift economic resources from the working ages to the dependent ages — the young and the old. Three institutions dominate intergenerational flows: governments which implement social security, education, and other public transfer programmes; markets which are key to the accumulation of assets (e.g. funded pensions and housing); and families which provide economic support to children in all societies and to the elderly in many. The objectives of this article are, first, to describe how population ageing and other changes influence the direction and magnitude of intergenerational flows; and, second, to contrast the institutional approaches to intergenerational flows as they are practiced around the world.

"Pensions and demographic change", ISSA Social Policy Highlight 15 (2010), www.issa.int

Summary: Currently, national pension systems are confronted with a number of major challenges. Among these, the multifaceted challenge of demographic change, involving falling fertility rates, increased longevity, changing migration patterns and evolving family structures, is pre-eminent. Most commonly, demographic change is viewed as threatening the financial sustainability of pension systems. In addition, the current global economic downturn has accentuated the financial pressures attributable to demographic change. This Social Policy Highlight examines the challenge of demographic change.

"Pensioners in the German Social Security System: Payments of Contribution and Benefits", Martin Gasche (2010), University of Mannheim - Mannheim Research Institute for the Economics of Aging (MEA) August 13, 2010 MEA Discussion Paper No. 203-10 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1676166 Note: Downloadable document is in German.

Summary: Pensioners receive pension payments as well as health insurance and nursing insurance benefits. But pensioners are also contributors to the health and nursing insurance. This study takes a closer look at the different pensions (old-age pension, disability pension and widow and widower pension) and their characteristics such as the age distribution of pension recipients, the income structure and the income distribution. The social security contributions and the expenditures of the social insurance for pensioners are determined age-specific and sex-specific. The study finds that the contributions of the pensioners to the statutory health insurance are not sufficient to cover the expenditures from age 45 on average; pensioners' own contributions cover 44% of the expenditures of the statutory health insurance and 27% of the expenditures of the long term care insurance.

Pension systems reform

"Trends in Pension Eligibility Ages and Life Expectancy, 1950-2050", Chomik, R. and E. R. Whitehouse (2010), *OECD Social, Employment and Migration Working Papers*, No. 105, http://www.oecd-ilibrary.org/social-issues-migration-health/trends-in-pension-eligibility-ages-and-life-expectancy-1950-2050_5km68fzhs2q4-en

Summary: The pensionable age is the most visible parameter of retirement-income systems. This paper surveys pensionable ages in the OECD for a period of a century: back to 1950 and forward to 2050. The average pensionable age in OECD countries dropped by nearly two years during the second half of the 20th century to 62.5 for men and 61.1 for women. Legislation already in place will increase it almost to 65 for both sexes by 2050. At the same time, life expectancy has increased in most countries at most times. Between 1960 and the turn of the century, life expectancy after pensionable age is grew from 13.4 to 17.3 years for men and 16.8 to 22.1 years for women on average in OECD countries. However, life expectancy after normal pension age is projected to reach 20.3 and 24.6 years (for men and women respectively) in 2050. This continued increase is projected despite many OECD countries having already legislated for phased increases in the pension age in the future.

"The history of state pensions in the UK: 1948 to 2010", Antoine Bozio, Rowena Crawford and Gemma Tetlow (2010), IFS Briefing Notes, http://www.ifs.org.uk/publications/5000

Summary: This Briefing Note describes state pension provision in the United Kingdom from the inception of the basic state pension in 1948, following the Beveridge Report, to Pensions Act 2007 and the plans of the Conservative/Liberal Democrat coalition government. The main objective is to provide a comprehensive description of the rules that currently determine pension benefits as well as those that have been in place in the past. However, we also provide a brief historical overview of the dilemmas facing policymakers when contemplating pension reforms and a summary of the most recent reforms. The history of the UK pension system is the story of a mainly non-contributory system, periodically tempted by the higher replacement rate of social insurance schemes, but always frightened once the costs become apparent. Recent reforms have tilted the system further in the direction of a universal flat-rate benefit, abandoning any social insurance design. This confirms that the main objective of the UK state pension system is to reduce poverty at old age. These flat-rate pensions will also reduce the reliance of the system on means-tested benefits, somewhat reinforcing the Beveridgean design of the system. Given these clarifications, it is unfortunate that the latest reforms have still sought to maintain much of the complex structure of the pre-existing system instead of reforming and rationalising it. However, once issues of transition have been dealt with, there may yet be scope for simplifying the presentation of the rules.

"Fair Demographic Risk Sharing in Defined Contribution Pension Systems", Daniel Gabay, Martino Grasselli (2010), University of Padua; Ecole Superieure d'Ingenierie Leonard de Vinci (ESILV), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1667579

Summary: In this article we relax the typical stationarity assumption on the population participating in a Defined Contribution pension scheme. We describe the demography with a general non stationary stochastic entry process and solve the problem of a social planner who aims at designing a fair (lump sum) pension contract including a minimum guaranteed benefit to the retirees of overlapping generations by smoothing the demographic fluctuations. Introducing the possibility to invest in a complete financial market, we solve the social planner (non Markovian delayed) stochastic optimization problem by duality and exhibit under which conditions the collective pension scheme can provide an additional benefit to its participants with respect to individual investment plans, even when investment opportunities are the same for the individuals and for the fund manager. This condition involves a coupling of demographic and market processes and leads to a comparison between past trajectories and future expectations. The article relies extensively on National Transfer Accounts (NTA), a system for measuring economic flows across age in a manner consistent with the United Nations' System of National Accounts. These accounts are currently being constructed by research teams located in 33 countries on six continents representing wide variations in the level of development, demographics, and policies regarding intergenerational transfers.

"Decomposing National Defined-Contribution Pensions: Experience of OECD Countries' Reforms", Whitehouse, E. R. (2010), *OECD Social, Employment and Migration Working Papers*, No. 109, http://www.oecd-ilibrary.org/social-issues-migration-health/decomposing-national-defined-contribution-pensions_5km68fw0t60w-en

Summary: This paper compares notional defined-contribution pension schemes (also known as notional accounts) with two alternative designs of earnings-related pension schemes: points systems and definedbenefit plans. It examines, in detail, four economic advantages of notional accounts that deliver retirement incomes in an equitable and economically efficient manner. The issue of equity arises in the treatment of people who draw their pensions at different ages and contribute for a different number of years. The issue of economic efficiency arises because pension systems can and do distort individual decisions to work and save. First, benefits are based on lifetime earnings, rather than a subset of "best" or "final" years' pay. Secondly, an extra year's contribution gives rise to an additional benefit. Thirdly, benefits are reduced to reflect the longer expected duration of payment for people who retire early and, similarly, increased for people who retire late. Finally, benefits are reduced as life expectancy increases, again to reflect the longer duration for which benefits would be paid. An analysis of OECD countries' pension systems – of all different types – shows that most have already achieved most of these objectives, but without adopting notional accounts.

"Consultation response to HM Treasury: Removing the requirement to annuitise by age 75", UK Profession (2010), http://www.actuaries.org.uk/research-and-resources/documents/hm-treasury-removing-requirement-annuitise-age-75-consultation-resp

Summary: This is the response of the UK actuarial profession to a proposal to remove existing compulsory annuitisation rules.

Also from the UK profession: **"Pensions pressures bear highest on young people"**, http://www.actuaries.org.uk/news/press-releases/articles/pensions-pressures-bear-highest-young-people

Retirement savings

In the September 2020 list we noted three Pension Research Council papers relating to annuitisation. This was merely the tip of the iceberg, so to speak ...

"Annuities and their Derivatives: The Recent Canadian Experience", Moshe A. Milevsky and Ling-wu Shao (2010), Pension Research Council WP2010-16,
http://www.pensionresearchcouncil.org/publications/document.php?file=888
Summary: This chapter surveys recent developments within the Canadian "income annuity" marketplace. We start by computing the Money's Worth Ratio (MWR) using a unique dataset which includes a decade of Canadian annuity payouts. We then move-on to discuss the Guaranteed Lifetime Withdrawal Benefit (GLWB) product which has recently become available in Canada. This important innovation is extremely popular and shares many characteristics with a conventional income annuity. Finally, we conclude with thoughts on the optimal product allocation within the context of the Canadian retirement portfolio.

"The United States Longevity Insurance Market", Anthony Webb (2010), Pension Research Council WP2010-17,
http://www.pensionresearchcouncil.org/publications/document.php?file=889
This chapter documents the substantial decline in traditional sources of longevity insurance, and shows that published statistics on the individual annuity market greatly overstate its size and growth. It considers whether the decline in annuitisation rates is cause for concern. It then documents in more detail the structure, size, and pricing of the individual annuity market, and discusses product innovations. It concludes by discussing policy options for increasing rates of voluntary annuitisation.

"Too Much Risk to Insure? The Australian (non-) Market for Annuities", Hazel Bateman and John Piggott (2010), Pension Research Council WP2010-18,
http://www.pensionresearchcouncil.org/publications/document.php?file=890
Summary: While retirement income products have become more important in Australia in recent years, the growth in these has been predominantly in phased withdrawal products which offer no longevity insurance. The life annuity market has virtually disappeared, exposing Australians to much greater uncertainty about their well-being in later life than is necessary. We suggest that both the private market and government intervention will need to be harnessed to address this issue, including better co-ordination across key policy agencies. While inaction will lead to a long term prospect of arbitrary and ill-considered government action to meet the realised uninsured outcome, there are signs of a collaborative effort to revitalize the market.

"The Private Life Annuity Market in Germany: Products and Money's Worth Ratios", Barbara Kaschutzke and Raimond Maurer (2010), Pension Research Council WP2010-20,
http://www.pensionresearchcouncil.org/publications/document.php?file=892
Summary: We explore the workings of the German private annuity market to evaluate whether annuities are delivering an adequate value for money by measuring their money's worth. We examine key features of the German private annuity market and give a comprehensive description of the main product groups, taking into consideration the statutory obligation to distribute substantial parts of insurer's annual profits to the annuitant. Relying on a large dataset covering about 90% of the German market, we calculate money's worth ratios for private payout annuities and trace long-term developments.

"Annuity Markets in Japan", Junichi Sakamoto (2010), Pension Research Council WP2010-2,
http://www.pensionresearchcouncil.org/publications/document.php?file=893

Summary: In Japan, annuities are not currently very popular as a means to finance retirement, since many people rely on government social security benefits in old age. When annuities are sold, they tend not to be life payouts but rather term-certain products. In this sense, the annuity puzzle also applies to Japan. We discuss possible reasons for the unpopularity of annuity products, including costs and inequitable taxation that hinders people from buying them.

"Compulsory and Voluntary Annuity Markets in the United Kingdom", Edmund Cannon and Ian Tonks (2010), Pension Research Council WP2010-22,
http://www.pensionresearchcouncil.org/publications/document.php?file=894
Summary: This chapter describes the operation of both the compulsory pension annuity and voluntary annuity markets in the U.K. and evaluates prices using a money's worth approach. We find that the money's worth was about 0.90 to 2004 but it then fell to about 0.80, although there is uncertainty about the appropriate mortality table. We suggest that the level of the money's worth is comparable to that of other financial products and we consider possible reasons for the recent fall.

"Payouts in Switzerland: Explaining Developments in Annuitization", Monika Bütler and Stefan Staubli (2010), Pension Research Council WP2010-23,
http://www.pensionresearchcouncil.org/publications/document.php?file=895
Summary: Switzerland is one of the few countries with long-term experience on withdrawal decisions made by retirees in fully-funded pension plans. Switzerland is also atypical in its unusually high annuitisation rates, and indeed, a majority of retirees covered by mandatory occupational pension plans chooses an annuity at retirement. This chapter revisits the historical role of occupational pension plans in the provision of old age income, and examines the role of regulation in the payout phase. Recent developments in both market conditions and regulations are used to assess the impact of certain determinants of the annuitisation decision, such as money's worth ratios, means-tested benefits and behavioural factors.

The **October 2010 EBRI Notes** is now online at www.ebri.org with an article titled
"Retirement Savings Shortfalls for Today's Workers".
Summary: Using its unique Retirement Security Projection Model,(r) EBRI can estimate the total national aggregate and individual retirement deficits at age 65 for Early Boomers (born between 1948-1954, now ages 56-62), Late Boomers (born between 1955-1964, now ages 46-55), and Generation Xers (born between 1965-1974, now ages 36-45). This article reports these 2010 Retirement Savings Shortfalls (RSS). The average RSS varies by age cohort as well as gender and marital status. The RSS per individual is always lowest for households, somewhat higher for single males, and more than twice as large for single females. The estimated retirement shortfall for any gender/marital status combination increases for younger cohorts, largely due to the impact of health care-related costs rising faster than the general inflation rate.

Fact Sheet, Center for Retirement Research, Boston: **"The NRRI and Annuities"**, October 2010, http://crr.bc.edu/images/stories/factsheets/2.pdf
Summary: The National Retirement Risk Index (NRRI) measures the share of American households 'at risk' of being unable to maintain their pre-retirement standard of living in retirement. The Fact Sheet's key findings are that since the measure assumes that households buy an annuity at retirement, the NRRI (the percent of households 'at risk' in retirement) increases from 51 percent to
53 percent if households instead withdraw 4 percent per year and to 60 percent if households live off their interest. Not annuitising hurts high-income households the most, because they rely more on their nest eggs in retirement, and while few buy annuities today, annuities could improve retirement security for future retirees.

Longevity and life expectancy

"Adjusting Social Security For Increasing Life Expectancy: Effects On Progressivity", Courtney Monk, John A. Turner, and Natalia A. Zhivan (2010), Boston CRR WP 9, http://crr.bc.edu/images/stories/Working_Papers/wp2010-9.pdf

Summary: Achieving long-run Social Security solvency requires addressing rising life expectancy. Increasing the Full Retirement Age (FRA), while holding the Early Entitlement Age (EEA) fixed, could be effective but eventually will result in replacement rates that are viewed by many as too low. A possible policy to prop up replacement rates is to raise the EEA, which has been age 62 for more than 40 years. However, an increase in the EEA introduces unfairness because the variation in life expectancy across socioeconomic groups is positively correlated with lifetime income. Using data from the Health and Retirement Study to investigate how earnings relate to mortality risk and health limitations, this project explores the possibility of constructing a flexible FRA that could preserve or even enhance the progressivity of Social Security benefits. If life expectancy were correlated with lifetime income, Social Security policy could use the AIME (Average Indexed Monthly Earnings) to target policies that are more equitable for people with both lower lifetime income and lower life expectancy. Unfortunately, we find that while life expectancy is strongly correlated with AIME for men, it is only weakly correlated for women, and when pooling the genders the correlation disappears. We then investigate whether targeting could be done by the max AIME, which is the AIME for single persons and the maximum of the husband's or wife's AIME for married couples. We find that the max AIME, which is a household measure of lifetime income, could be used for constructing a flexible FRA because it is negatively correlated with mortality risk and also negatively correlated with other measures of economic vulnerability or inability to work at older ages. With a flexible FRA, individuals in households with a low max AIME would have a lower FRA than other individuals.

Regulation

"The New IAS 19 Exposure Draft", Severinson, C. (2010), *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 5, http://www.oecd-ilibrary.org/finance-and-investment/the-new-ias-19-exposure-draft_5km7rq4hlw5g-en

Summary: At the end of April 2010, the International Accounting Standards Board (IASB) published an exposure draft with proposed changes to International Accounting Standard No. 19 (IAS 19). IAS 19 is the current standard for the financial reporting of company pension obligations that stem from defined benefit (DB) and similar plans. It is required for exchange-listed companies in many parts of the world. If enacted, the changes to IAS 19 proposed by the IASB are expected to have a significant impact on company financials on a global basis. The following paper summarizes the proposed changes as presented in the April 2010 exposure draft and explores some of their implications. This paper does not cover all the changes proposed by the IASB but attempts to focus on some key and controversial issues.

Other

Independent Public Service Pensions Commission (IPSPC), UK: Lord Hutton's interim report 7th October 2010

The UK Government Actuary's Department has produced a summary of some of the key points: refer http://www.gad.gov.uk/Documents/Press%20Releases/IPSPC%20-%20Lord%20Hutton's%20interim%20report.pdf

The summary says the first headline is that "the current structure of public service pensions is in need ofreform". The other key points are split into three broad headings: short term reform, long term reform and miscellaneous.

ILC-UK has also responded to the interim report. Refer http://blog.ilcuk.org.uk/2010/10/07/hutton-review-showing-promise-but-must-try-harder/

Chief-Executive Baroness Sally Greengross said: "ILC-UK welcomes the publication of the interim report. Public sector pensions are a huge challenge within an ageing society. It is right that the coalition government addresses this challenge urgently, in an objective manner and based on evidence. In particular, we welcome the commitment to protect pensioners' accrued rights. However, using higher contributions from today's public sector workforce to fund exisiting entitlements risks undermining intergenerational fairness."

"The Impact Of Public Pensions On State And Local Budgets", Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby (2010), Boston CRR, SLP#13, http://crr.bc.edu/images/stories/Briefs/slp_13.pdf

Summary: The brief's key findings are as follows. Currently, state and local pension contributions equal 3.8 percent of total budgets. To get back on a path to full funding, sponsors will need to contribute 5.0 percent of budgets if liabilities are discounted by 8 percent; or 9.1 percent of budgets if liabilities are discounted at 5 percent. But states with seriously underfunded plans and/or generous benefits – like CA, IL, and NJ – will need to contribute significantly more.

"Intergenerational Fairness and the Spending Review 2010", International Longevity Centre – UK, http://www.ilcuk.org.uk/record.jsp?type=publication&ID=72

Summary: A new report, published by the ILC-UK, and sponsored by poverty charity, Elizabeth Finn Care, finds that nearly two-thirds of people (65%) think that job creation should take precedence over reducing government debt. The report urges the Government to consider intergenerational fairness as it makes its decisions about spending cuts over the next week. In the report, ILC-UK sets out three principles for maintaining intergenerational fairness in relation to the Spending Review. First, it argues that it should impact fairly across different generations; second, that it should not exacerbate the causes of poverty in later life and lastly, it should not undermine the drivers of increased longevity.