REFERENCE LIST
October 2013

Technical Review Panel of the PIMS model

July 2013- The Pension Research Council

This article shows how the Pension Research Council convened a Technical Review Panel, comprising ten experts whose task was to review the Pension Benefit Guaranty Corporation's (PBGC) Pension Insurance Modeling System (PIMS), including inputs, outputs, and model assumptions. The review was intended to provide a formal evaluation of the technical adequacy of the model by outside experts. This report and the appended papers from the Technical Panel comprise the Final Report.

(http://www.pensionresearchcouncil.org/publications/document.php?file=1134)

Modeling and Management of Longevity Risk

October 2013- The Pension Research Council

In this article there is a review of the state of play in the use of stochastic models for the measurement and management of longevity risk. A focus of the discussion concerns how robust these models are relative to a variety of inputs. On the modeling front much still needs to be done on robust multipopulation mortality models, and on the risk management front it was developed a better understanding of what the objectives are of pension plans that need to be optimized. This article proposes a variety of ways forward on both counts.

(http://www.pensionresearchcouncil.org/publications/document.php?file=1150)

Debt and debt management among older adults

August 2013 - University of Michigan Retirement Research Council

This project analyzes older individuals' debt, debt management practices, and financial fragility using data from the Health and Retirement Study (HRS) and the National financial Capability Study (NFCS). Specifically, it examines three different cohorts (individuals age 56–61) in different

time periods, 1992, 2002 and 2008, in the HRS to evaluate cross-cohort changes in debt over time. It also draws on recent data from the National Financial Capability Study (NFCS) which provides detailed information on how families manage their debt. The goal is to assess how wealth and debt among older persons has evolved over time, along with the potential consequences for retirement security. The conclusion is that more recent cohorts have taken on more debt and face more financial insecurity, mostly due to having purchased more expensive homes with smaller down payments. In addition Boomers are more likely to have engaged in expensive borrowing practices. Protective factors include having higher income, more education, and greater financial literacy. Factors associated with financial fragility include having had more children and unexpected large income declines. Thus shocks do play a role in the accumulation of debt close to retirement, but it is not enough to have resources: people also need the capacity to manage those resources, if they are to stay out of debt as they head into retirement.

(http://www.mrrc.isr.umich.edu/transmit/rrc2013/papers/4A_LusardiMitchellDebt7-22-13.pdf)

Social Security's Real Retirement Age is 70

October 2013 - Center for Retirement Research at Boston College

The key findings of this article are:
*Due to increases in Social Security's Delayed Retirement Credit, the effective retirement age is now 70, with monthly benefits reduced for earlier claiming.

*Benefit levels at 70 appear appropriate given that rising deductions for Medicare and greater benefit taxation have reduced Social Security's net replacement rates.

*The shift to 70 should be feasible for many workers given increases in lifespans, health, and education.

*But vulnerable workers forced to claim early will have low benefits and will be particularly harmed by any further cuts.

*Policymakers need to inform those who can work that 70 is the new retirement age and devise ways to protect those who cannot work.

(http://crr.bc.edu/briefs/social-security%E2%80%99s-real-retirement-age-is-70/)

National Study of Health and Aging in Mexico

October 2013- INEGI

The National Study of Health and Aging in Mexico (ENASEM, Estudio Nacional de Salud y Envejecimiento en México), aims to achieve information about the process of aging, the impact of the diseases and the disability in the population over 50 years in the country. This research was realized with the collaboration of INEGI, the interest of Texas University, University of Wisconsin, ING and INSP.

(http://piensaama.files.wordpress.com/2013/10/2013-enasem.pdf)

Economic and Financial Approaches to Valuing Pension Liabilities

October 2013- The Pension Research Council

Financial economics holds that payment streams should be valued using discount rates that reflect the cash flows' risks. In the case of pension liabilities, the appropriate discount rate for pension funds' liabilities is the expected rate of return on a portfolio that would be held under a liability-driven investment policy. The valuation of defined benefit (DB) pension obligations involves choices revolving around deciding 1) what future benefit payments to recognize today (i.e., which liability concept to use); and 2) from whose point of view to value the liabilities.
Moving towards modeling the distribution of future liabilities using a "risk-neutral" framework would allow for calculating the present value of the future liabilities more accurately.
This would provide policymakers with information more relevant for decision making, and it would also permit easier communication of the risks facing the Pension Benefit Guaranty Corporation's PIMS model via a single univariate statistic.

(http://www.pensionresearchcouncil.org/publications/document.php?file=1136)

Recreating retirement Sustainability

October 2013- The Pension Research Council

The financial crisis and the ensuring Great Recession have alerted those concerned with old-age security to the extreme risk confronting our retirement system. This volume provides an in-depth analysis of the black swans' threatening pension plans around the world. Longevity risk, capital market shocks, regulatory and political risk, and model risk all have profound consequences for pension plan participants, plan sponsors, regulators, and consultants. This book also sketches various ways to manage and finance these risks, with a view to rebuilding a more resilient retirement system. In particular, the ensuing chapters take on longevity risk, capital market risk, model risk, and regulatory risk.

(http://www.pensionresearchcouncil.org/publications/document.php?file=1149)

Integrated Risk Management for Defined Benefit Pensions: Models and Metrics

September 2013- The Pension Research Council

The Pension Benefit Guaranty Corporation (PBGC) insures private sector defined benefit (DB) pension plans when an employer becomes insolvent and is unable to pay its pension liabilities. In principle, the insurance premiums collected by PBGC should be sufficient to cover potential losses; this would ensure that PBGC could pay the insured benefits of terminated pension plan without additional external funding (e.g. from taxpayers). Therefore, the risk exposure of the PBGC from

insuring DB pension plans arises from the probability of employer insolvencies; and the terminating plans' funding status (the excess of the value of insured plan liabilities over plan assets). This paper focuses on only the second component, namely the impact of plan underfunding for the operation of the PBGC. When a DB plan is fully funded, the PBGC's risk exposure for an ongoing plan is low even if the plan sponsor becomes insolvent. Thus the questions most pertinent to the PBGC are what key risk factors can produce underfunding in a DB plan, and how can these risk factors be quantified? It explores the most important risk factors that produce DB pension underfunding, namely investment risk and liability risk. Both are interrelated and must be considered simultaneously in order to quantify the risk exposure of a DB pension plan. This project proposed that an integrated risk management model (an Integrated Asset/Liability Model) can help better understand DB pension plan funding risk. Also examines the Pension Insurance Modeling System developed by the PBGC in terms of its own use of some of the building blocks of an integrated risk management model.

(http://www.pensionresearchcouncil.org/publications/document.php?file=1137)