“Social Security’s Financial Outlook: The 2010 Update in Perspective”, Alicia H. Munnell (2010), Boston CRR IB#10-15,
http://crr.bc.edu/briefs/social_securitys_financial_outlook_the_2010_update_in_perspective.html

Summary: After being held up for four months while estimates were modified to reflect the expected effects of the Affordable Care Act (ACA), the 2010 Trustees Report for the Social Security system finally emerged in early August. The report contains no surprises, which may explain the relative lack of attention it has received in the press. But the fact that the future of Social Security has been relatively untouched by the market collapse and ensuing recession is itself newsworthy. Despite reduced revenues and increased benefit claims in the short run, the system continues to face a 75-year deficit equal to about 2 percent of taxable payroll. This brief puts the current report in perspective and discusses a few interesting wrinkles, such as the outlook for a cost-of-living adjustment in 2011 and the implications of a decline in the Average Wage Index. Unfortunately, for the third year in a row, the Social Security Trustees Report has not been signed by any public trustees. The absence of these independent voices from the valuation process reflects a persistent failure of the political process, but not of the program itself.

Two ILO publications are scheduled for release on September 30:
“Extending Social Security to All: A Guide through challenges and options”,
http://www.socialsecurityextension.org/gimi/gess/RessShowRessource.do?ressourceId=16152
Summary: This document, which is a “Guide” to the ILO approach to social security policy development, has been compiled largely from the materials and deliberations of the Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage (September 2009). It includes the contents of the Background Paper prepared for the meeting, together with the Chairperson’s Summary, as formulated at the closing of the meeting. The document has two major parts: (A) the development of a paradigm for the extension of social protection on the basis of an analysis of existing needs, existing old and new coverage patterns and the internationally recognized right to social security; and (B) the evidence and information base for the policy consideration in Part A.

Summary: This report is the first of a series whose chief aim is to present the results of regular statistical monitoring of the state and developments of social security in the world. The series will look at: (a) the scope, extent, levels and quality of coverage by various social security branches; (b) the scale of countries’ investments in social security measured by size and structure of social security expenditure and sources of its financing; and (c) the effectiveness and efficiency of social security systems in reaching various national social policy objectives as well as other impacts of the policies which may be of special
interest. It is based to a large extent on information and statistics collected within the ILO Social Security Inquiry, and in this respect it may be seen as a continuation of the reports produced over past decades (since the 1950s) by the ILO on the cost of social security, but with broader ambitions. Such reports will be in the future published periodically, with fixed sections and topics (i.e. focus on social security coverage and a defined set of tables presented in annex) and chapters featuring special topics (in this first report: Responding to crisis with social security).

**Pension systems reform**


**Summary:** The OECD’s “Average-Wage” (AW) concept is commonly used as a benchmark for tax-benefit and pension modeling. The purpose of this paper is to examine whether it is possible to use richer sets of earnings data in order to customize these modeling exercises to the situation of different groups of workers, such as high or low-earning men or women. We first take stock of available sources of earnings distribution data and provide a careful assessment of measurement and definitional differences relative to the AW. In a second step, information on the shape of earnings distributions in OECD countries is used to derive synthetic distributions around the AW, distinguishing between the earnings of men and women. We argue that this pragmatic approach yields data that allow extending the scope of tax-benefit and pensions modelling. Moreover, it does so in a way that is consistent with past modeling exercises that relied on the AW. We highlight data quality issues and discuss the potential limitations of the imputed AW-consistent earnings distributions.


**Summary:** As widely publicized, the financial crisis dramatically worsened the funded status of state and local pension plans. In response, public sector sponsors are making a number of changes. Most of these changes involve increasing employer and employee contributions and cutting benefits for new employees primarily by increasing the age for full benefits. A couple of states have cut cost-of-living adjustments for current retirees, but they are in the process of being sued. One item not on anyone’s agenda is reconsidering the basic design of public-sector defined benefit plans. Defined benefit pension plans for public employees – both here and abroad – almost universally compute benefits based on final pay. That is, employees’ initial pension benefits are based on their age at retirement, their years of service, and their average earnings in a small number of years. It is unclear whether the motivation for relying on short periods of earnings was record-keeping constraints before the age of computers, an interest in relating pre-retirement to post-retirement income in a seemingly transparent way, a desire to reward long-service employees, or some other factor. Whatever the initial motivation, final pay plans suffer from serious shortcomings: they (1) severely “backload” benefits; (2) treat very differently workers on different career trajectories; and (3) invite mischief in terms of sudden late-career promotions. They are also riskier for workers than they appear...
Retirement savings
Summary: Longevity risk management was a family obligation in the old days; in the 20th century, as development, migration, and the scattering of families became more common, government and employers took over the role of providing longevity insurance. In the 21st century, demographic shift and government overspending has put all of these sources under stress. This chapter asks whether the future will be an era of more general and formalized private longevity insurance provision through annuities, and we explore answers across several different countries. Some nations have adopted mandatory annuitization; others have mandatory accumulation plans without requiring annuitization; and still others remain heavily dependent on traditional social security with private annuities representing what might best be described as a residual market. Also in some nations, innovations in longevity insurance products have been embraced, apparently rather successfully, while in others – notably among emerging economies, people lack a significant annuity market.

Summary: This book chapter analyzes the structure of demand for retirement products in Sweden using both aggregate and individual data. We show that all occupational groups except white collar workers are more likely to choose a 5-year withdrawal rather than a life annuity, as are women and those with less education. The result for women possibly reflects the fact that most in the cohort examined qualify for a public a widow’s benefit, available to women born prior to 1945, so the litmus test is still to come. Information on tax deductions indicates that future demand for private annuities will be strong, but it is unclear whether the pattern of taking short-term withdrawals will reverse.

Summary: India will need to develop a robust annuity market if it is to enable its rapidly aging population to address longevity risk. As the fraction aged triples by 2050, driving a huge potential demand for annuity-type products that will need to be matched by responses from annuity providers. Developing a deeper and broader market for annuities will require disaggregated morbidity and mortality databases for better price discovery; supply of financial instruments enabling better matching of assets and long-term liabilities; innovations in annuity products and distribution channels; greater financial literacy, and more robust regulation.

Employee Benefit Research Institute
Stephen Blakely advises the September 2010 EBRI Issue Brief is now online at www.ebri.org and contains initial results from a unique new EBRI database on individual retirement accounts (IRAs), which for the first time will allow researchers to more accurately measure IRA assets and ownership across multiple data providers, and to track retirement assets as they move through different types of retirement plans.
The September 2010 EBRI Notes include "Retirement Income Adequacy for Today's Workers: How Certain, How Much Will It Cost, and How Does Eligibility for Participation in a Defined Contribution Plan Help?" This analysis builds on EBRI's Retirement Security Projection Model(r) (RSPM) to determine how much households need to save each year until retirement to maintain a probability level they will be able to afford simulated retirement expenses for the remainder of the lifetime of the family unit. The RSPM model shows that eligibility for a defined contribution (primarily 401(k)) retirement plan has a significant positive impact on reducing the additional compensation most families need to achieve the desired level of retirement income adequacy. This finding has major implications for any policies that would decrease the percentage of workers eligible to participate in defined contribution retirement plans.

Longevity and life expectancy
Living to 100 Symposium IV, January 5-7, 2011, Renaissance Hotel at SeaWorld Orlando, FL, http://livingto100.soa.org/sym-overview.aspx
This conference organised by the US Society of Actuaries is the fourth in a series. Sessions will focus on the estimation of future longevity and the implications of changing longevity. Sessions on implications will consider a variety of groups affected by longer life, including individual citizens, insurers and other financial service companies, managers of social insurance programs, sponsors of private employee benefit plans and policymakers. Distinguished speakers will present information from current papers on topics including: predictors of exceptional longevity; slowing the aging process; factors affecting mortality; mortality analysis and trends; public pension reform; effects of obesity and other controllable factors on survival; and long-term care issues.

Regulation
Summary: Occupational pensions play a major role in OECD countries and worldwide, complementing retirement income from state sources. At the end of 2009, private pension savings reached USD 25 trillion. Population ageing has led many OECD countries to undertake a wide range of pension reforms – the overall effect of which has been to reduce public pension promises and, in turn, to increase the importance of private pension savings for retirement. The Core Principles cover seven key areas: i) Conditions for effective regulation and supervision; ii) Establishment of pension plans, pension funds, and pension fund managing companies; iii) Pension plan liabilities, funding rules, winding up, and insurance; iv) Asset Management; v) Rights of members and beneficiaries and adequacy of benefits; vi) Governance; and vii) Supervision. Each of the seven core principles consists of a main text and a set of implementing guidelines. In the case of the core principle of supervision, the supporting guidelines integrate the IOPS Principles of Private Pension Supervision. The Methodology provides a structured approach for evaluating a jurisdiction’s occupational pension regulatory system in relation to the OECD Core Principles of Occupational Pension Regulation.

Other
Nothing this month.