



REFERENCE LIST

September 2012

Improving the design of retirement saving pension plans

3 August, 2012 - Organisation for Economic Co-operation and Development

Retirement saving pension plans (e.g. defined contribution plans) are increasingly an integral part of most countries' overall pension system, while for some countries they are the main component of their pension system. Therefore, overall retirement income adequacy depends importantly on the pension benefits stemming from these plans.

This roadmap identifies elements of good design and public policy to assist countries to strengthen retirement income adequacy in an environment where pension benefits result from assets accumulated during working life.

<http://www.oecd.org/insurance/privatepensions/designingfundedpensionplans.htm>

Crucial assumptions

3 September, 2012 – Investment and Pensions Europe

Mortality assumptions used for the valuation of pension benefits can have a large impact on the calculation of pension liabilities, so the selection of appropriate mortality tables for companies operating in a single country is crucial. For multinational companies with pension obligations across several states, the selection of mortality assumptions is even more complicated. There is pressure to balance the desire for a globally consistent approach to assumption-setting with the need to consider the mortality tables used as standard in different countries. This article examines the impact of country-specific mortality assumptions on the pension liabilities of multinational companies and describes the options these companies should consider in selecting appropriate mortality tables.

http://www.ipe.com/magazine/crucial-assumptions_47161.php?s=pensions#.UEX2_11_cb0

It Pays More Than Ever To Delay

September 13, 2012 – Financial Security Project

Three out of four people sign up for Social Security at age 62, but the current economic environment has made it increasingly worthwhile to hold out. For couples, delaying can mean nearly \$124,000 in additional retirement income.

[\(http://fsp.bc.edu/it-pays-more-than-ever-to-delay/\)](http://fsp.bc.edu/it-pays-more-than-ever-to-delay/)

Using Participant Data to Improve Target Date Fund Allocations

September 2012 – Center for Research at Boston College

Economic theory says that participants in 401(k) plans should gradually rebalance their portfolios away from stocks and toward less risky bonds as they approach retirement. Conventional target date funds attempt to do so by automatically rebalancing the household's portfolio periodically, but they take account of only one aspect of the individual: his expected retirement age. This paper investigates whether plan providers could improve on this "one-size-fits-all" approach by making use of information that is known to the employer, namely each employee's income, 401(k) balance, and saving rate. Using a stochastic dynamic optimization model, incorporating both labor- and financial-market risk, it calculates the compensation a household following an optimal portfolio allocation would require for adopting three alternatives: a typical, a "one-size-fits-all," or a "semi-personalized" portfolio allocation.

[\(http://crr.bc.edu/working-papers/using-participant-data-to-improve-target-date-fund-allocations/\)](http://crr.bc.edu/working-papers/using-participant-data-to-improve-target-date-fund-allocations/)

Job Demand and Early Retirement

August 2012 – Center for Research at Boston College

Policy initiatives such as increases in the full retirement age implicitly reduce benefits for early retirement. Yet research suggests that those in physically demanding jobs may be particularly adversely affected by such policies. We examine to what extent physical job demand relates to early retirement decisions in a population of aging manufacturing workers. We follow a cohort of approximately 1,500 stably employed male Alcoa employees aged 51-58 in 2001 followed forward to 2008. We use a variety of models to examine whether externally rated physical job demand at middle age is related to early retirement. We also examine whether pension eligibility and payouts induce earlier retirement, especially for those with more physically demanding jobs, while accounting for wage differentials, injury history, and underlying health. Our results suggest that workers whose jobs have high physical demand retire earlier after accounting for the wage differential and health. We also find that the minority of workers who transition to lower demand jobs, due to previous injury or health issues, are less likely to retire early. Finally, while we find evidence that pension eligibility and wealth accumulation induce earlier retirement, there was limited evidence of a difference by job demand.

[\(http://crr.bc.edu/working-papers/job-demand-and-early-retirement-2/\)](http://crr.bc.edu/working-papers/job-demand-and-early-retirement-2/)

The End of Informality in Mexico?

Arturo Antón, Fausto Hernández and Santiago Levy

Mexico is characterized by a dual social insurance architecture. Firms and workers in salaried contractual relations are obligated to pay for a bundled set of health, pension and related programs. Non-salaried workers benefit from an unbundled set of parallel programs paid by the government. We develop a model to study the implications of this architecture in a context of informality and imperfect tax enforcement. We argue that this architecture: (i) provides workers with erratic and incomplete coverage against risks, (ii) fosters evasion and narrows the tax base, (iii) delinks contributions from benefits undermining fiscal sustainability, and (iv) distorts the labor market lowering real wages and total factor productivity. We propose a reform to shift taxation for social insurance from labor to consumption. We show that by setting a uniform value added tax rate of 16 percent it is possible to provide all workers with the same health and pension benefits and Hicks-compensate poor households for the VAT increase at a net fiscal cost of 0.3 percent of GDP. We argue that our proposal: (i) effectively protects all workers against risks, (ii) reduces distortions in the labor market stemming from social insurance tax-cum-subsidies allowing for an increase in the real wage despite the higher VAT, (iii) raises total factor productivity, (iii) contributes to reduce poverty and income inequality, (iv) links contributions with benefits ensuring fiscal sustainability, (v) increases aggregate savings for retirement, and (vi) reduces evasion and widens the tax base.

<http://es.scribd.com/doc/104298281/The-End-of-Informality-in-Mexico-Fiscal-Reform-for-Universal-Social-Insurance>

Pension Markets in Focus

September 2012 - Organisation for Economic Co-operation and Development

Pension fund assets in OECD countries hit a record USD 20.1 trillion in 2011 but return on investment fell below zero, with an average negative return of -1.7%, according to the OECD's latest Pension Markets in Focus. The report says that weak equity markets and low interest rates drove the poor performance.

<http://www.oecd.org/daf/financialmarketsinsuranceandpensions/privatepensions/PensionMarketsInFocus2012.pdf>