

## **Key insights from the July 2017 [Special Issue on Pension Financing and Insurance of \*The Geneva Papers on Risk and Insurance\*](#)**

Below is a short overview of the six contributions on pension financing and insurance published in this issue. Four of the papers focus on how to improve the second pillar of occupational pensions. The fifth paper investigates how increases in labour supply affect wages, and contributes understanding of how the fourth pillar—working beyond retirement age—can enhance retirement income security. The last paper examines trends in socio-economic mortality differentials and assesses the distributive effects of proposed reforms to social insurance programmes.

### **Default Contribution Rates and Participation in Automatic IRAs by Uncovered Workers**

About half of workers are not covered by a retirement plan at work in the U.S. and these workers are unlikely to save for retirement. For this reason, a number of states have passed legislation that will require employers to automatically enroll their employees into an individual retirement account (IRA) sponsored by the state (an 'auto-IRA') and administered by a third party. This paper conducts a national survey of uncovered workers to determine how likely they are to participate in a state-sponsored IRA. The results are encouraging and suggest that uncovered workers are likely to participate at rates similar to those in 401(k) plans at default contribution rates of up to 6 per cent.

### **The Chilean Electronic Market for Annuities (SCOMP): Reducing Information Asymmetries and Improving Competition**

The Chilean electronic market for annuities was created in 2004 in order to correct several malfunctions of the market for annuities. In the Chilean pension system, the payout phase consists of pension payments mainly in the form of annuities and programmed withdrawals (offered by life insurance companies and pension fund administrators, respectively). The SCOMP or Electronic Consultations and Offers System for Annuities and Phased Withdrawals replaced the traditional way pensioners looked for and bought retirement products in the Chilean market. This electronic quotation system was created to help reduce search costs, as well as to allow pensioners to choose the best available deals offered by providers. Overall, this paper finds that, after controlling for other regulatory changes and the main determinants of annuity rates, the new quotation system raised annuity payments by 15 per cent.

### **Facing Up to Longevity with Old Actuarial Methods: A Comparison of Pooled Funds and Income Tontines**

This paper compares the concepts underlying modern actuarial solutions to pension insurance, and presents two recently developed pension products—pooled annuity overlay funds (based on actuarial fairness) and equitable income tontines (based on equitability). These two products adopt specific approaches to the management of longevity risk by mutualising it among participants rather than transferring it completely to the insurer. The paper stresses that the notion of actuarial fairness, which characterises pooled annuity overlay funds, enables participants to join and exit the fund at any time, a feature that cannot be matched by lifelong contracts.

### **The Impact of Pension Funding Mechanisms on the Stability and Payoff from Swiss DC Pension Schemes: A Sensitivity Analysis**

This paper focuses on the accumulation phase of a defined contribution plan in Switzerland with minimum returns and annual solvency targets in terms of an assets-to-liabilities funding ratio. From the viewpoint of the pension fund, it evaluates the outcome of selected funding mechanisms on the solvency situation. It finds that remediation measures, while stabilising the fund, yield a higher volatility in the insureds contributions. Overall, it shows that insureds and pension funds will profit from a cautious surplus distribution policy that focuses on keeping the stability high and lowers the volatility of the result.

### **Population Aging, Labor Demand, and the Structure of Wages**

One consequence of demographic change is substantial shifts in the age distribution of the working-age population. As the baby boom generation ages, the usual historical pattern of there being a high ratio of younger workers relative to older workers has been replaced by a pattern of there being roughly equal percentages of workers of different ages. One might expect that the increasing relative supply of older workers would lower the wage premium paid for older, more experienced workers. This paper provides strong empirical support for this hypothesis in the U.S. These results suggest that cohort size effects are quantitatively important and should be incorporated into public policy analyses. This finding has important implications for policy assessments of the consequences of delayed retirement as a solution to the pressure to finance retirement benefits.

### **How the Growing Gap in Life Expectancy May Affect Retirement Benefits and Reforms**

Older Americans have experienced dramatic gains in life expectancy in recent decades, but an emerging literature reveals that these gains are accumulating mostly to those at the top of the income distribution. This paper explores how growing inequality in life expectancy affects lifetime benefits from Social Security, Medicare and other programmes and how this phenomenon interacts with possible programme reforms. The paper finds that while there are policy reforms that tend to raise the progressivity of government programmes, the effect of these reforms is fairly small when viewed next to the reduction in progressivity that is occurring due to the growing gap in life expectancy. This suggests that policy changes that (alone or in combination) are more progressive than those simulated here would be needed to undo the effect of the widening longevity gap on the progressivity of government programmes.