ARC CENTRE OF EXCELLENCE IN POPULATION AGEING RESEARCH

MEDIA RELEASE

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CEPAR RESEARCH TO BE SHOWCASED AT NATIONAL EVENT

CEPAR research on topics as varied as rural migration in China, the impact of the government's superannuation rate increase, and the optimal home equity release product will be showcased this week at the 20th Annual Colloquium of Superannuation Researchers.

Nine CEPAR research staff will present at the conference, including CEPAR Partner Investigator Olivia S. Mitchell, from the Wharton School at the University of Pennsylvania.

About 100 delegates are expected to attend the Colloquium, which is being hosted by the CPS Research Group at the University of New South Wales on Thursday 12th and Friday 13th July.

Former Senator and Minister for Superannuation and Corporate Law, Nick Sherry, will open the Colloquium, and will be followed by Jeremy Cooper from Challenger.

The annual Colloquium is an opportunity for superannuation and pension experts from around the world to share their research. This year the conference is hosting presenters from the United Kingdom, Italy, the United States, Japan, China, and New Zealand.

"The Colloquium has a strong tradition of attracting leading international experts and we are delighted to be part of the program," Professor Piggott said.

More detailed information on CEPAR presentations is attached.

For more information contact Kate Miranda on 0478 474 074.

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CEPAR CONFERENCE PRESENTATION ABSTRACTS

Meeting the migrant pension challenge in China

Professor John Piggott (CEPAR, UNSW) and Lu Bei (CEPAR, UNSW)
Thursday 12 July, Session 2A, 11.00-1.00pm

China is currently undergoing the largest regional migration in the world's history. Young rural workers are moving to urban areas, often in a different province, for substantial periods of their working lives. Social security policy in China, while framed by national protocols and policy guidelines, is administered at more than 2000 lower-level jurisdictions, typically cities and counties, and at present this compromises pension entitlements of China's 150 million rural migrant workers.

This paper proposes a Notional Defined Contribution (NDC) mechanism to ensure pension mobility for migrating workers, in both the accumulation and drawdown phases. Plan governance would ensure independence from the three existing pension systems. Although the plan's design would be of the NDC type, requiring no pre-funding, in practice the relatively young migrant demographic has the potential to generate considerable reserves. An appropriately structured NDC plan of this type is shown to be viable by reference to a previously developed model of Zhejiang Province's social security systems. Such a plan would remove mobility barriers to migrating workers, increase the retirement benefit for mobile workers, and reduce the future government liability for payouts in other pension systems in which migrants currently hold membership.

Macroeconomic and welfare effects of the 2010 changes to mandatory superannuation

Professor Alan Woodland (CEPAR, UNSW) and George Kudrna (CEPAR, UNSW)
Thursday 12 July, Session 2A, 11.00-1.00pm

In the 2010-11 Federal Budget, the Australian Government announced major changes to mandatory superannuation, including gradual increases in the mandatory contributions to 12% of earnings and a policy that effectively removes the 15% contribution tax rate for lower income workers. In this paper we apply a computable OLG model to examine these changes. Our simulation results of the reform package show significantly larger superannuation asset accumulations, leading to increases in lifecycle assets and especially in retirement assets. These greater assets and asset incomes are then assessed under the pension means test, causing the age pension expenditures to fall by about 4.6% in the long run. In terms of welfare, the reform improves long run welfare for all household types, with higher income households benefitting solely from the increased SG rate, while lower income households only benefit from the contribution tax removal. The reform is also Pareto improving, generating an efficiency gain of almost 0.8% in initial resources for each future born generation.

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Long term fiscal projections and the Australian retirement income system

Professor John Piggott (CEPAR, UNSW) and Rafal Chomik (CEPAR, UNSW)
Thursday 12th July 2012, Session 2B, 11.00-1.00pm

While the Intergenerational Report, an account of long term fiscal sustainability, is celebrating its tenth birthday since the first edition was published, the Superannuation Guarantee (SG), first implemented in 1992, is about to turn a sprightly twenty. Rafal will be using the intergenerational reports as a prism for studying fiscal, demographic, and policy developments in the Australian retirement income system over the last decade and into the future. He will demonstrate how our expectations about ageing have become less severe over the decade, take stock of a decade of government responses to population ageing, and highlight issues that need to be tackled to ensure Australia's retirement income system remains robust.

Do consumers know how to value annuities? Complexity as a barrier to annuitization.

Jeffrey Brown (University of Illinois), Arie Kapteyn (RAND), Erzo Luttmer (Dartmouth College) and Olivia S. Mitchell (Wharton)
Thursday 12th July 2012, Session 3, 2.00-3.00pm

This paper provides evidence consistent with the hypothesis that individuals have poorly defined preferences when it comes to the complex decision of whether to annuitize, and that this – rather than a taste for lump sums - may help explain observed low levels of annuity purchases. We test this using Social Security benefits as our choice setting, in an experimental module of the RAND American Life Panel. Although average annuity valuations under some elicitation methods are quite close to actuarial values, these averages mask notable heterogeneity in responses, including substantial numbers of respondents who provide responses that are objectively irrational under reasonable parameter assumptions. Moreover, consumers tend to value annuities less when given the opportunity to buy more, but they value them more highly when given the opportunity to sell these income streams in exchange for a lump sum. Financially literate consumers are better able to offer responses that are consistent across alternative ways of eliciting preferences for annuitization, though even for them it is difficult to explain much of the observed cross-sectional variation in annuity demand. These and other results raise doubts about whether consumers can make optimal choices when confronted with the decision about whether to buy annuities in a real-world context. Accordingly, my coauthors and I (Jeffrey R. Brown, Arie Kapteyn, and Erzo F.P. Luttmer) suggest that observers should be cautious using observed demand for annuities to draw conclusions about the welfare consequences of annuitization.

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Public sector pension funds in Australia: Longevity selection and liabilities.

Joelle Fong (CEPAR, UNSW), John Piggott (CEPAR, UNSW) and Michael Sherris (CEPAR, UNSW)

Thursday 12th July, Session 4B, 4.00-6.00pm

This paper assesses the cost and risk faced by public sector, defined benefit plan providers arising from uncertain mortality, including longevity selection, mortality improvements, and unexpected systematic shocks. Using longitudinal micro data on Australian pensioners, we quantify the extent of longevity selection at both aggregate and scheme level. We also show that as the age-membership structure in a pension scheme matures, scheme-specific longevity selection risk and systematic shocks become quantitatively more important and have larger consequences for plan liabilities than aggregate selection risk or the impact of mortality improvements.

Risk management in retirement – What is the optimal home equity release product?

Katja Hanewald (CEPAR, UNSW), Thomas Post (Maastricht) and Michael Sherris (CEPAR, UNSW)

Friday 13th July, Session 5, 9.00-11.00am

This project studies the optimal choice of home equity release products. The decision problem of a retiring couple is modeled that holds the major fraction of their wealth as home equity and faces longevity, long-term care, house price, and interest rate risk. The couple can choose to buy annuities, long-term care insurance, and to borrow against the home using different equity release products. These decisions involve the timing problem of when to optimally borrow against the home. The framework is used to compare the welfare effects of different home equity release products and to study the role of government-provided long-term care insurance.