

WORTH A LOOK

The following articles may be of interest to Section members. They are summarized here along with a link to the articles themselves.

LESSONS OF THE FINANCIAL CRISIS FOR THE DESIGN OF NATIONAL PENSION SYSTEMS

Gary Burtless, Brookings Institution

The recent financial crisis and historical record suggest important lessons about the design of national pension systems. First, wide fluctuations in asset returns make it difficult for well-informed savers to select a savings rate or a sensible investment strategy for DC pensions. Workers who follow identical investment strategies, but who retire a few years apart, can receive DC pensions that are startlingly unequal. Second, it is difficult for ordinary workers, as opposed to optimal planners, to make sensible choices about portfolio allocation. Their investment errors mean that actual returns fall short of the theoretical returns that could be earned by a well-informed, disciplined investor.

Full article at: <http://www.watrisq.uwaterloo.ca/Research/2009Reports/2009-7.pdf>

MARKET VALUATION OF ACCRUED SOCIAL SECURITY BENEFITS

John Geanakoplos and Stephen P. Zeldes

One measure of the health of the Social Security system is the difference between the market value of the trust fund and the present value of benefits accrued to date. ... In valuing such claims, the key issue is properly adjusting for risk. The traditional actuarial approach ... ignores risk and instead simply discounts expected future flows back to the present using a risk-free rate. If benefits are risky and this risk is priced by the market, then actuarial estimates will differ from the market value. ... We find that the difference between market valuation and actuarial valuation is large, especially when valuing the benefits of younger cohorts. Overall, the market value of accrued benefits is only four-fifths of that implied by the actuarial approach. Ignoring cohorts over 60 (for whom valuations are the same), market value is only 70 percent as large as that implied by the actuarial approach.

Full article at: <http://papers.nber.org/papers/w15170>

SAFEGUARDING MEDICARE

Patricia Barry

An article in the October AARP Bulletin with the above title discusses various aspects of health reform then under consideration. The article concludes with an interesting bit of history, relevant to the fear that hospital and other facilities will be overwhelmed by a surge of formerly uninsureds seeking treatment.

“... history shows that worst-case fears that accompany any big change often evaporate. More than 19 million seniors were poised to start using Medicare on July 1, 1966. Amid fears that they’d all show up at hospitals that day, Army and veterans hospitals were put on alert, with helicopters on standby, to take the overflow. But there weren’t any lines anywhere, according to Robert Ball, the Social Security commissioner who implemented Medicare. ‘We didn’t need a single Army bed ... or a single helicopter. ...’”

Full article at: <http://bulletin.aarp.org>