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14. WHARTON SCHOOL [UNIVERSITY OF PENNSYLVANIA] PENSION RESEARCH COUNCIL: "The Inattentive Participant: Portfolio Trading Behavior in 401(k) Plans," by Olivia S. Mitchell, Gary R. Mottola, Stephen P. Utkus, and Takeshi Yamaguchi (WP 2006-05, 2006, .pdf format, 38p.).

Abstract Most workers in defined contribution retirement plans are inattentive portfolio managers: only a few engage in any trading at all, and only a tiny minority trades actively. Using a rich new dataset on 1.2 million workers in over 1,500 plans, we find that most 401(k) plan participants are characterized by profound inertia. Almost all participants (80%) initiate no trades, and an additional 11% makes only a single trade, in a two-year period. Even among traders, portfolio turnover rates are one-third the rate of professional money managers. Those who trade in their 401(k) plans are more affluent older men, with higher incomes and longer job tenure. They tend to use the internet for 401(k) account access, hold a larger number of investment options, and are more likely to hold active equity funds rather than index or lifecycle funds. Some plan features, including offering own-employer stock, also raise trading levels.

<http://rider.wharton.upenn.edu/~prc/PRC/WP/PRC%20WP%202006-5%20.pdf>

15. "The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States," by John Beshears, James J. Choi, David Laibson, and Brigitte C. Madrian (Working Paper No. w12009, February 2006, .pdf format, 38p.).

Abstract: This paper summarizes the empirical evidence on how defaults impact retirement savings outcomes. After outlining the salient features of the various sources of retirement income in the U.S., the paper presents the empirical evidence on how defaults impact retirement savings outcomes at all stages of the savings lifecycle, including savings plan participation, savings rates, asset allocation, and post-retirement savings distributions. The paper then discusses why defaults have such a tremendous impact on savings outcomes. The paper concludes with a discussion of the role of public policy towards retirement saving when defaults matter.

<http://papers.nber.org/papers/W12009>

16. "Perverse Incentives in the Medicare Prescription Drug Benefit," by David McAdams and Michael Schwarz (Working Paper No. w12008, February 2006, .pdf format, 19p.)

Abstract: We analyze some of the perverse incentives that may arise under the current Medicare prescription drug benefit design. In particular, risk adjustment for a stand-alone prescription drug benefit creates perverse incentives for prescription drug plans' coverage decisions and/or pharmaceutical companies' pricing decisions. This problem is new in that it does not arise with risk adjustment for other types of health care coverage. For this and other reasons, Medicare's drug benefit requires especially close regulatory oversight, now and in the future. We also consider a relatively minor change in how the benefit is financed that could lead to significant changes in how it functions. In particular, if all plans were required to charge the same premium, there would be less diversity in quality but also less budgetary uncertainty and less upward pressure on drug prices.

<http://papers.nber.org/papers/W12008>

17. "Life is Cheap: Using Mortality Bonds to Hedge Aggregate Mortality Risk," by Leora Friedberg and Anthony Webb (Working Paper No. w11984, February 2006, .pdf format, 35p.).

Abstract: Using the widely-cited Lee-Carter mortality model, we quantify aggregate mortality risk as the risk that the average annuitant lives longer than is predicted by the model, and we conclude that annuity business exposes insurance companies to substantial mortality risk. We calculate that a markup of 3.7% on an annuity premium (or else shareholders' capital equal to 3.7% of the expected present value of annuity payments) would reduce the probability of insolvency resulting from uncertain aggregate mortality trends to 5% and a markup of 5.4% would reduce the probability of insolvency to 1%. Using the same model, we find that a projection scale commonly referred to by the insurance industry underestimates aggregate mortality improvements. Annuities that are priced on that projection scale without any conservative margin appear to be substantially underpriced. Insurance companies could deal with aggregate mortality risk by transferring it to financial markets

through mortality-contingent bonds, one of which has recently been offered. We calculate the returns that investors would have obtained on such bonds had they been available over a long period. Using both the Capital and the Consumption Capital Asset Pricing Models, we determine the risk premium that investors would have required on such bonds. At plausible coefficients of risk aversion, annuity providers should be able to hedge aggregate mortality risk via such bonds at a very low cost.

<http://papers.nber.org/papers/W11984>

18. ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT: "Projecting OECD health and long-term care expenditures: what are the main drivers?" (Economic Department Working Paper No. 477, February 2006, .pdf format, 81p.).

Abstract: This paper proposes a comprehensive framework for projecting public health and long-term care expenditures. Notably, it considers the impact of demographic and non-demographic effects for both health and long-term care. Compared with other studies, the paper extends the demographic drivers by incorporating death-related costs and the health status of the population. Concerning non-demographic drivers of health care, the projection method accounts for income elasticity and a residual effect of technology and relative prices. For long-term care, the effects of increased labour participation, reducing informal care, and wage inflation are taken into account. Using this integrated approach, public health and long-term care expenditure are projected for all OECD countries for the years 2025 and 2050. Alternative scenarios are simulated, in particular a 'cost-pressure' and 'cost-containment' scenario, together with sensitivity analysis. Depending on the scenarios, the total health and long-term care spending is projected to increase on average across OECD countries in the range of 3.5 to 6 percentage points of GDP for the period 2005-2050.

<http://www.oecd.org/dataoecd/57/7/36085940.pdf>

19. NETHERLANDS CENTRAL BANK [AMSTERDAM]: "Pension Insurance," by Zvi Bodie (DNB Working Paper No. 66, December 2005, .pdf format, 18p.).

Abstract: Around the world today there are striking differences in pension systems. The roles played by families, employers, trade unions, financial intermediaries, community organizations, affiliation groups, and governmental agencies vary tremendously. Yet despite these differences, in almost every country the government is ultimately the pension insurer of last resort, either explicitly or implicitly. If designed well and managed well, a system of government pension insurance can enhance the wellbeing of the individuals served by it and even contribute towards the resilience of the financial system at large. But if designed or managed poorly, it can undermine economic security at both the micro and macro level. This paper explores the principles for the successful management of pension insurance and draws some lessons from the mistakes made by the U.S. government in managing its Pension Benefit Guarantee Corporation.

http://www.dnb.nl/dnb/bin/doc/Working%20Paper%20No.%2066-2005_tcm13-67352.pdf