Cintia

Centro Interuniversitario Netspar Italy

Cintia Kick-off Conference

Living with risks during the Great Recession

Longevity and Generations

What is CINTIA ?

- Demographic and societal changes, taking place in Italy and in Europe, have relevant economic implications for current and future generations

- Welfare systems and markets have to be redesigned to provide a new architecture of insurance and protection for individuals and households

- CINTIA aims to bridge the gap between scientific research and policy-making in the area of public pensions, private insurance provisions, household finance and population ageing.

Benefits from CINTIA

CINTIA will:

- develop an independent scientific research program grounded on rigorous principles and state-of-the-art methodologies;
- provide answers and independent opinions on the most debated issues in the area of pensions , insurance and household finance;
- create a network of academics, scientists and professionals in economics, finance, but also sociology, demography and epidemiology;
- represent a platform for scientists, market-makers, policy-makers and stakeholders to gain insight into the economic implications of ageing;
- encourage research fellows and young researchers to contribute to the understanding of welfare and insurance themes.

Founding Partners

- Ca' Foscari University of Venice
- Bocconi University
- University of Bologna
- University of Padova
- University of Turin
- Assicurazioni Generali S.p.A

CINTIA Research Agenda

1. Demographic trends: predictions and epidemiological implications of ageing
2. **Long Term Care**
3. **Risk management during retirement years**
4. **Financial (and pension) literacy**
5. **The art of choosing in financial markets (annuities, pensions, saving, housing)**
6. Supervision of funded pensions: solvency and transparency
7. Risk sharing and distribution among generations: full funding, pay-as-you-go, taxation
8. The labor market for the elderly (employability)
9. Formal and informal (family) insurance
10. Risk management during working life (earnings profiles and earnings risks)
11. Health risks and insurance events over the life cycle
12. Index numbers
13. **Mortgages and Reverse Mortgages**
14. Managing exceptional risks

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Long Term Care in Italy

- **Is the Italian Long Term Care system financially and socially sustainable?**
  - Management of care for frail older people mainly delegated to the family
  - Shortage of in-kind services and a cash allowance, financed via general taxation, from the public sector

- **On the whole**
  - Public expenditure on LTC is low and cannot be increased
  - High territorial fragmentation of public intervention
  - Increasing dependence on low paid immigrants

Perspectives

- **Medium and long term perspectives**
  - LTC expenditure expected to increase: ageing of the population, growing demand of the future elderly, decreasing disposability of informal care

- **Gap between an increasing level of care and available resources**
  - (Re)define the role and financing mechanism of the public sector
  - Design private insurance products to bridge the gap between demand and public supply taking into account market failures and consumers' short-sightedness

Housing wealth in Italy

- **Housing wealth plays a key role in household wealth in Italy**
  - Main residence may reduce geographical and social mobility while limited housing rental market may induce the young to leave the parental home relatively late
  - Secondary housing wealth is a poorly diversified form of investment
  - Housing wealth may be seen as a commitment device by tempted consumers

- **Housing wealth over the life-cycle**
  - “Nest leaving” affected by reduced supply of mortgages and by difficulties in insuring unemployment risk (Consumer Protection Insurance policies not in good shape)
  - Housing equity release is back to home reversion (AKA: “sale of naked property”)
  - Intergenerational fairness?

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Perspectives

- **Housing wealth and the great recession**
  - The current crisis highlights the risks of holding so much wealth in one illiquid asset
  - Housing markets have become *thin* during the recession (loss aversion?)
  - Those who need to liquidate their housing wealth (elderly in need, movers) are hard hit

- **What role for the insurance industry?**
  - Can CPI policies be designed to cover unemployment risk for young home-owners? And for renters?
  - Is there a market for housing equity withdrawal contracts that do not burden the industry with housing risk?

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Managing Defined Contribution Pension Funds

- **Definition of optimal financial strategic benchmarks for pension funds**
  - Optimality criteria: Traditional risk-return trade off versus long-term risk reduction
  - Is Risk-budgeting a possible criterion? Can we integrate risk-budgeting and life-cycle investing?
  - Management strategies: Portfolio insurance and active management - how much in equities? What about alternative asset classes? (real estate, private equity, commodities, Hedge Funds)

- **Monitoring the performance**
  - How to monitor performances? What is the real target, the performance, the risk reduction, or the absence of shortfalls?
  - Communicating pension fund returns to investors: money-weighted vs time-weighted returns; projected annuities at retirement etc…

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Financial (and pension) literacy

- **Gender gap in risk attitudes and financial choices:**
  - Financial risk is shifted toward individuals, women control more than 25% of wealth (in Europe)
  - Gender gap in financial literacy, risk attitudes and financial decision making (e.g. choice between DB and DC pension schemes, allocation of assets in retirement plans)
  - Gender gap in investment choices: financial literacy and different risk tolerance of men and women versus alternative psychological and behavioral explanations
  - Link between these gender gaps and the familiarity with the language and product supply in the life cycle saving and investing industry

Well-being at retirement

- **Retirement decisions and uncertainty**
  - Given the expected replacement rate, individuals decide on the accumulation path and timing of their retirement
  - How people react to receiving information on their accumulated pension wealth and on their estimated future pension benefits?

- **Modeling the adequacy of savings for retirement**
  - Simulation model of adequacy of retirement savings: includes (reformed) public pensions, private pensions and the real and financial household wealth
  - Adequacy depends both on expected longevity and the expected long term care needs
  - Reverse mortgages: induce individuals to smooth consumption in a period of increasing tightening of public budgets.

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Longevity and Retirement

- **Postponing Retirement as a Policy Response to Population Ageing**
  - Increasing Longevity: financial sustainability of PAYG pension system under stress
  - Long term trend in reducing retirement age in most OECD countries
  - Many early retirement provisions have been introduced since the late 60s
  - To rebalance the ratio between working and retirement period, retirement age has been increasing in many OECD countries since the mid-90s

- **Retirement and Pension Adequacy**
  - Later retirement may improve pension adequacy for future retirees who will face less generous pension benefits.
  - Postponing retirement may also represent a response to the later entrance in the labor market and to the more discontinuous working career experienced by the current young generations

Longevity and Retirement

- **Postponing Retirement and Labor Productivity**
  - Demographic trends and later retirement will modify the age distribution of the workforce
  - Migration and increase in female labor force participation may mitigate this tendency

- **How to Organize Retirement in the Future**
  - Will elderly workers keep their productivity or face lower wages? A role for flexible retirement
  - Will firms be willing/able to adjust their organization to cope with this new age structure?
  - How to share longevity and productivity risks
  - The role of politics in mediating the (opposing) interests of different generations and (possible) conflicts between workers and firms.

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