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Innovations in Retirement Risk Financing

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Addendum

- ◆ The views expressed within this presentation are personal and not necessarily the views expressed by UBS Global Asset Management (Americas) Inc.

Three very different papers...several related themes

- ◆ The three obviously-different topics embedded in these papers bring light to three basic questions of risk:
 - **Risk Transfer:** How do we assess, measure and evaluate it?
 - **Libertarian Paternalism:** What is the default position? How much and what type of risk do we let an employee/participant/individual take, and at what point is it our obligation to help?
 - **Risk Transparency:** What is the true risk? What does it cost? Who is really bearing it? How do we make all options clear, while dealing with multiple variables, such as pricing and active management?
- ◆ And, most importantly,

**How can each of these risks be
*evaluated for efficiency?***

Can VEBA's Alleviate Retiree Healthcare Problems?

Aaron Bernstein

- ◆ Timely headline—Has the appropriate risk all been transferred?
- ◆ Intergenerational equity and trade-offs that occur
 - Promises being made are opaque (can't see risk, can't see full economic scale)
- ◆ Risk explicit, not implied should allow them to plan accordingly

**Is it better to take "some" amount
and set up a fund...**

...or risk having nothing?

Mandated Annuitization: Developments in Singapore's CPF

Olivia Mitchell, Joelle Fong, Benedict Koh

- ◆ Highlights adverse selection of annuities
- ◆ Power of the default option
- ◆ Proof of the “phased withdrawal”
- ◆ Governmental involvement in opting for mandatory annuity schemes
 - Reduce risk adverse selection
 - Reduce mortality risk

**How is the mandatory requirement compromising
libertarian paternalism...**

...and the individual participant's degree of choice...?

Risk Budgeting: A new approach at the CPP Investment Board

Tracy Livingstone, Sterling Gunn

- ◆ Good concept: make all choices transparent
- ◆ Are all risk issues being considered
 - Liabilities
 - Short-term volatility
 - Under-pressured risk approaches

**Is defining a set process for budgeting risk discounting
some factors that should be included...**

...and can we really be transparent with the unknown risks?

Summary

- ◆ Has risk truly been transferred in the case of VEBA? Time will tell.
- ◆ Does eliminating libertarian paternalism eliminate enough risk to compensate for the lack of choice?
- ◆ Can risk budgeting truly be transparent, when there are many unknown risks?



Questions