

Institution: BRUNEL UNIVERSITY (H0113)
Unit of Assessment: 18 – Economics and Econometrics
Title of case study: Pensions and retirement
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>It is widely agreed that savings for funded pensions are inadequate, while pay-as-you-go schemes are unsustainable. Our research addressed determinants and adequacy of saving, and policies to alleviate the problem. This led to the team investigating the economic and fiscal impacts of extending working lives. Presentations were made at the EC, at Finance Ministries and at public fora. The Daily Telegraph front page (Your Country Needs You to Work Longer) on 5th of May 2009, discussing the work, had an impact. There was a noticeable impact on UK, Italian, and other retirement policies, and is acknowledged to have been an influence on the decision to raise UK retirement ages in 2010.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>The joint work started in 2002, on a competitively funded project for the European Commission (EC grant number ECFIN/C/2004/02). Barrell, whilst at NIESR until 2011, and Davis, whilst full time at Brunel until 2009 and part time thereafter, worked on the determinants of consumption and on financial market and pension regulation (such as Davis 2002), including regulation of annuities markets. Davis's work appeared as a series of six Brunel working papers (2004-9). Along with others, he identified a savings shortfall in the UK (Davis 2004), itself aggravated by various errors in pension structure and regulation.</p> <p>The EC funded further work in 2004-5 undertaken by Barrell and Davis on the determinants of consumption in Europe using a panel error correction approach, results of which included important wealth effects and also the detection of scope for demographic impacts on saving, whereby ageing reduces saving (Davis 2006 showed this demographic impact across a wider range of countries). This led to the publication of Barrell and Davis (2007). The level and changes in housing and financial wealth were shown to be important determinants of (lack of) savings for retirement in seven OECD countries. Increases in either equity market or house price values would depress saving, including in the form of pensions provision (most previous studies had omitted real wealth in consumption functions). This is a problem not only because of its impact on pensions but because increased pension saving could have particularly positive effects on growth (Davis and Hu 2008) and as noted ageing itself reduces saving. Increases in house prices in particular are a problem when they induce lower saving because they represent an increase in individual wealth for home owners, but not in national wealth, and therefore in the ability to finance pensions.</p> <p>The team started to investigate the impacts of extending working lives, first on productivity. The work suggested that increased participation of older people did not significantly reduce productivity, although older people may not be as productive as those in middle age. These results on ageing and retirement presented Davis presented them in Vienna (Davis 2005) and at the Bundesbank in 2006. These results, along with those in Barrell and Davis were used as the core of work for a report to the Department of Work and Pensions in 2011 of the impacts of extending working lives on the economy. A preliminary version of this work, based on directly allocated funds, was circulated in 2009. Analyses were undertaken of the impacts of one, two, and three years extra working lives on consumption and output in the UK. Although the savings rate would be reduced, savings adequacy for retirement would be increased. The analysis of the effects of extending working lives work was expanded to other countries in the BIS working paper published in late 2011, with the work being largely undertaken after Barrell arrived at Brunel.</p>
<p>3. References to the research (indicative maximum of six references)</p> <p>Barrell R., (November 2011) 'Long-Term Fiscal Prospects and Aging in the OECD' In Bank for International Settlements Working Paper 3672 'Long-term fiscal sustainability in major economies'</p> <p>Davis E P (2002), "Prudent person rules or quantitative restrictions? The regulation of long term</p>

institutional investors' portfolios", Journal of Pension Economics and Finance, 1, 157-191

Davis E P (2004), "Is there a pensions crisis in the UK?", Geneva Papers on Risk and Insurance, 2004/3, 343-370 <http://www.pensions-institute.org/workingpapers/wp0401.pdf>

Davis E P (2005), "Demographic and pension-system challenges to monetary and financial stability", Geneva Papers on Risk and Insurance, 30, 542-564

Davis, E. P and Hu, Y (2008), "Does funding of pensions stimulate economic growth?" Journal of Pension Economics and Finance, 7: 221-249
<http://dx.doi.org/10.1017/S1474747208003545>

Barrell R and Davis E P (2007), "Financial liberalisation, consumption and wealth effects in 7 OECD countries", Scottish Journal of Political Economy, 54, 254-267
<http://dx.doi.org/10.1111/j.1467-9485.2007.00413.x>

4. Details of the impact (indicative maximum 750 words)

The initial impact of the programme of research was general, and added to the discussion of the adequacy of saving and regulation of pensions. Our empirical work for the Commission and for the Department of Work and Pensions showed clearly that at an aggregate level savings were driven by asset prices (both financial and real assets), and not by rational calculation of needs for retirement income. The proposal to raise retirement ages more quickly subsequently entered the Conservative Party Manifesto and became policy. Our work was quoted in the Conservative Party background document

Appropriate regulation of pension funds were explored further by Davis in a Visiting Scholarship at the Dutch Central Bank which focused on the impact of a firm's financial structure on its funding of the pension scheme (Davis and De Haan 2012). This was cited in a key 2011 report on pension accounting for the UK National Association of Pension Funds (Clacher and Moizer 2011). Davis undertook further work for the largest Canadian pension fund, OMERS in 2008, looking at the appropriateness of Canadian pension regulation (Davis and Hu 2008, cited in OMERS submission to Ontario Ministry of Finance 2008), while he extensively reviewed work on savings determinants in work for the OECD's WP2 committee in 2009 (Davis 2010). In 2008 he was asked by the World Bank to review the adequacy of its policy work on pensions.

The sequence of work that ended in the 2011 report for the DWP attracted a great deal of interest, and was the front page lead in the Daily Telegraph on 5th May 2009, and was presented at a number of conferences in 2009, 2010 and 2011. The report was built around the Barrell and Davis research on inadequacy of saving, the impact of house prices and on the need for longer working lives. The core of this analysis was the inclusion of the Barrell and Davis (2007) and its use to analyse changes in policy. The suggestions were directly cited by a Conservative Party background document for the 2009 Party Conference where the manifesto was presented. The proposal to raise working lives by one year before the end of the Parliament was included in the Manifesto and entered legislation. Barrell presented the policy work at a seminar for the pensions ministers, Hoban and Webb, in late 2010 and presented it again to Labour shadow cabinet members at a PPI meeting at the Labour Party Fringe in September 2011 after joining Brunel.

Further work was undertaken for policy makers at the Bank for International Settlements in Basel, and a report was published in November 2011 on Longer Term Fiscal issues. The research in the paper was based on the joint work by Barrell and Davis over the previous decade, and used Barrell and Davis (2007). The paper was a companion to one by Alan Auerbach on longer term fiscal gaps and fiscal problems in Europe. He argued that with current pension arrangements and tax rates the public finances were unsustainable in many Europe countries. The group's research showed that in most countries these problems could be solved by raising working ages by three years, with only Greece and Spain, and perhaps Portugal, facing serious problems because of their generous replacement rates and low retirement ages

5. Sources to corroborate the impact (indicative maximum of 10 references)

- A. Letter received from the Deputy Director, HM Treasury Pensions and Savings, confirming the research impact on government policy: the contact stated that the research added 'real value' and they had used their publications to help inform policy and debate. They have continued to use the research to consider how to keep the fiscal impact of pensions affordable.
- B. Barrell, R., (2011) 'The Debt Crisis in Europe: what has it got to do with aging?' IPPR Seminar at the Labour Party Conference with Shadow Pension Minister Rachel Reeves, 26th September 2011 – available on line as a video report
- C. Report to the Department of Work and Pensions on the impacts of extending working lives, weblink <https://www.gov.uk/government/uploads/system/uploads/.../WP95.pdf>
- D. A preliminary version, 'How to pay for the crisis' paper was presented to Department of Work and Pensions workshop, 5th May 2009, and discussed in the Daily Telegraph (front page lead story).
- E. OMERS (2008), "Turning recommendations into action", Submission to Ontario Ministry of Finance, Weblink: <http://www.fin.gov.on.ca/en/consultations/pension/submissions/OMERS.pdf>
- F. Clacher I and Moizer P (2011), "Accounting for pensions", Report for NAPF Weblink: http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0190_%20Accounting_for_Pensions.aspx
- G. Philip Davis, 2010. "[Asset Prices and Real Economic Activity](#)," [OECD Economics Department Working Papers](#) 764, OECD Publishing. Weblink: <http://dx.doi.org/10.1787/5kmtf7p4dv34-en>
- H. Davis E P (2011), "New International Evidence on Asset-Price Effects on Investment, and a Survey for Consumption", [OECD Economic Studies](#), 8, 1-50
- I. Davis E P, De Haan L (2012), "Pension fund finance and sponsoring companies" [Journal of Pension Economics and Finance](#), 11, 439-463
- J. Davis, E. P and Hu, Y, (2009) "Should Pension Investing be Regulated?", [Rotman International Journal of Pension Management](#), Vol. 2, No. 1