

## ■ HIGHLIGHTS

*The Governor at the Collegio to remember O. Castellino*

**MARIO DRAGHI LECTURER AT CERP**

The second Onorato Castellino Lecture has been delivered this year by the Governor of the Bank of Italy Mario Draghi. The event, held on October 13, took place within the Collegio Carlo Alberto initiative "Collegio Aperto".



After an introduction by Elsa Fornero, who remembered Onorato Castellino's legacy, the Governor delivered a lesson focused on the importance of social insurance, making some recommendations

for a strengthening of social safety nets as well as an increase in retirement age, with the aim of guaranteeing adequate pension benefits to future retirees.

The event had a wide media coverage and gathered at the Collegio almost 600 people. The text of both the introduction and the lesson can be downloaded at:

<http://cerp.unito.it/index.php/en/events/conferences/635-lezione-onorato-castellino-mario-draghi>

**CeRP 10th Anniversary Conference**

**A TWO-DAY EVENT TO CELEBRATE THE 10 YEARS OF CERP**

The CeRP annual conference this year fell on the 10th year from the creation of the centre, and was therefore an important occasion to celebrate the CeRP anniversary as well as to reflect on the activities of the centre.



The two-day conference was devoted to the effects of the financial crisis on retirement saving and pension reforms. The programme was divided

into three sessions: retirement income risks and possible guarantees; pension funds performance and mortality-driven redistribution; financial education, households' wealth accumulation and retirement planning.

Besides selected papers, the conference featured two invited lectures, by Guglielmo Weber (University of Padova) and Luigi Zingales (Chicago Business School).

The event was very successful in addressing the different aspects of the topic, on both a theoretical and a policy level. The paper and presentations are available for download on the CeRP website:

<http://cerp.unito.it/index.php/en/events/conferences/629-conferenza-annuale-cerp>

## ■ RESEARCH OUTPUT

**HOW TO STRENGTHEN THE CREDIBILITY OF THE ITALIAN PENSION REFORM** by Elsa Fornero and Flavia Coda Moscarola; *The Geneva Papers on Risk and Insurance - Issues and Practice*, 2009, 34, (591-601)

As a result of the reform process undertaken in the 1990s, the Italian pension system has replaced a generous but unsustainable Defined Benefit formula with a Notional Defined Contribution (NDC) formula and opened the path for voluntary-based second and third pillars. While the reform has put the system on a sustainable path, its most relevant side-effects consist in the transfer of the pension risk to the individuals, who are then more exposed to the consequences of unfavourable economic cycles and to financial crises. The extremely slow phasing in of the reform, however, undermines its credibility and raises risks of backfiring.

The authors propose three measures to avoid this: 1) acceleration of the full adoption of the NDC formula, to achieve uniformity of treatment of genders, cohorts, and working categories, 2) elimination of incentives to early retirement and introduction of flexible retirement, and 3) promotion of financial literacy.

### **News in brief**

**CERP WINNER OF TWO IMPORTANT RESEARCH GRANTS**

The research project "Financial Literacy: Evidence and Implications for Retirement Planning, Saving Behavior, and Financial Education Programs", prepared by CeRP in collaboration with Annamaria Lusardi (Dartmouth College) and Olivia Mitchell (Wharton School, Pennsylvania) will be funded by Netspar. The project, which will last 3 years, is one of the recipients of the "Netspar International Grant 2009".

<http://www.netspar.nl/themes/>

Also, CeRP will receive funding by the Regione Piemonte ("Bando regionale Scienze Umane e Sociali 2008") for the study "Aging, Labor Productivity and Sustainability of Public Pension Systems: An Investigation through Macro and Micro Modelling", carried out in collaboration with the Departments of Economics and Sociology and the Medical School of the University of Turin.

**CONVERGENCE OF EMU EQUITY PORTFOLIOS** by Maela Giorfé; CeRP WP 88/09

This paper demonstrates that, after integration, equity portfolios of countries that joined the European Monetary Union have converged at faster rate than those of non-EMU countries. This outcome can be in-

terpreted as a combination of the convergence of inflation rates and the convergence of investment barriers. On the one hand, the common monetary policy might have driven a stronger comovement in inflation rates, leading to increasingly similar hedging strategies among member countries. On the other hand, exposure to the common currency might have homogenized bilateral investment barriers, thus inducing increasingly similar portfolio allocations among member countries. The author finds that the comovement of inflation rates has not significantly increased after EMU inception, pointing toward an exclusive role for convergence in investment barriers.

**PENSION FUNDS, LIFE-CYCLE ASSET ALLOCATION AND PERFORMANCE EVALUATION** by Fabio Bagliano, Carolina Fugazza, Giovanna Nicodano, forthcoming in an OECD-World Bank volume

The study, realized for the World Bank, presents a life-cycle model for pension funds' optimal asset allocation, where the agents' labor income process is calibrated to capture a realistic hump-shaped pattern and the available financial assets include one riskless and two risky assets, with returns potentially correlated with labor income shocks.

The sensitivity of the optimal allocation to the degree of investors' risk aversion and the level of the replacement ratio is explored. Also, the welfare costs associated with the adoption of simple sub-optimal strategies ("age rule" and "1/N rule") are computed, and new welfare-based metrics for pension fund evaluation are discussed.

## ■ WORK IN PROGRESS

**FINANCIAL LITERACY: EVIDENCE AND IMPLICATIONS FOR RETIREMENT PLANNING, SAVING BEHAVIOR, AND FINANCIAL EDUCATION PROGRAMS** by Riccardo Calcagno, Elsa Fornero, Annamaria Lusardi and Chiara Monticone

The study aims at a cross-country comparison of the state of financial literacy and the consequences that financial literacy has upon financial decisions such as retirement planning, retirement saving, and portfolio choice. The comparison will allow to identify those groups in the population that are less financially knowledgeable. Moreover, data across countries enable to assess whether there is a consistent link between financial knowledge and financial behaviour.

The research has been funded by a Netspar grant and involves a group of scholars from several institutions in Europe and the US, with CeRP as the leading centre.

**LIFE-CYCLE RATIONALES OF RETIREMENT CHOICES** by Margherita Borella, Flavia Coda Moscarola and Carolina Fugazza

The aim of the study is the building of a discrete time life-cycle model with a finite horizon, able to optimize individuals' consumption and saving choices as well

as participation patterns and the age of retirement. The analysis will account for the uncertainty related to income and possibly to macroeconomic risks, e.g. the GDP growth rate which influences the internal rate of return granted by the NDC system. Given the impossibility of finding a closed form solution for this kind of model, the optima will be sought through numerical methods.

## People's news

### NEW CERP RESEARCH FELLOWS

**Filippo Taddei** (assistant professor, Collegio Carlo Alberto) and **Elena Vigna** (assistant professor, University of Turin) have joined the CeRP group as research fellows.

Filippo's research fields are macroeconomics, financial economics, international finance. Elena deals with pension schemes, asset allocation, investment risk, stochastic mortality.

<http://cerp.unito.it/index.php/en/people>

### ELSA FORNERO IN THE SCIENTIFIC COMMITTEE OF MAF 2010



**Elsa Fornero** has been invited to be a member of the Scientific Committee of the 4th International Conference "Mathematical and Statistical Methods for Actuarial Sciences and Finance", organized by the University of Salerno, to be held in April 2010 in

Ravello. She will also be responsible of organizing one session of the event.

<http://maf2010.unisa.it/>

### ELSA FORNERO SPEAKER IN UNITED NATIONS EXPERT MEETING

**Elsa Fornero** will represent Italy in the International Conference "The Global Financial Crisis - Implications for Women", organized by the Gender Issues office of the UN and the Golda Meir Mount Carmel International Training Center, and taking place in Haifa, Israel, on November 8-12. She will deliver a presentation on women's financial security in old age.

### GIOVANNA NICODANO APPOINTED RESEARCH ASSOCIATE OF ECGI

**Giovanna Nicodano**, member of the CeRP Scientific Committee and CeRP research fellow, has been appointed Research Associate of the European Corporate Governance Institute ([www.ecgi.org](http://www.ecgi.org)), an international scientific non-profit association, aimed at undertaking, commissioning and disseminating research on corporate governance.

#### EFFECTS OF LABOR MARKET AND PENSION SYSTEM REFORMS ON RETIREMENT PROPENSITY AND LONG-TERM PENSION BENEFITS INEQUALITY IN ITALY by M. Borella, F. Coda Moscarola, D. Di Pierro, R. Leombruni, M. Richiardi, L. Sella

The paper aims at investigating the joint effect of labor market and pension system legislations on short- and long-term income inequality and poverty rates in Italy. By means of a dynamic stochastic microsimulation model of labor supply and retirement decisions, the authors show that, in a few decades, the joint effect of the recent reforms in the pension system and the increased flexibility of the labor market is likely to generate relevant income inequality for the elderly population.

The model used is a first step towards the unification the CeRP microsimulation model (CeRPSIM) and the model realized by the LABORatorio Revelli (LaborSIM), two instruments developed for studying respectively the Italian pension system and the and the Italian labor market.

#### THE HETEROGENEOUS LABOR MARKET EFFECTS OF IMMIGRATION by Mathis Wagner

This paper estimates the impact of immigration on native wage and employment levels using Austrian panel data from 1986 to 2004 for identification. Using an instrumental variable strategy, the author finds large displacement effects in the service sector and large native employment increases in manufacturing due to immigration. This heterogeneous response is explained by large increases in output in manufacturing, due to a high elasticity of product demand, as immigration reduces the cost of production, while on average demand is far less elastic in service industries.

The structural estimates imply that a 10% increase in the number of immigrants in all industries reduces average native wages by around 0.25% and results in 4% of the native labor force changing industry, primarily from services to manufacturing.

#### HOUSEHOLD WEALTH ACCUMULATION AND LONG-TERM CARE RISKS: AN ANALYSIS BASED ON DIVERSE EUROPEAN PROVISIONS by Flavia Coda Moscarola, Tetyana Dubovyk, Elsa Fornero, Maria Cristina Rossi

This project focuses on how institutional settings, specifically with regard to LTC provisions, affect wealth accumulation in different European countries. Given the diversity in Europe, the authors focus on five countries (France, Germany, Italy, the Netherlands and the United Kingdom).

The analysis starts with the description of the institutional and economic characteristics of the different countries of interest. The authors will analyze the public provision of long-term care services and will document the characteristics of wealth dispersion. They will then look at the development of the market for private insurance and at the diffusion of the

intra-household informal mechanisms. In this way, it will be possible to explore the adequacy and/or (in) efficiency of household wealth at older age to face longevity and long-term care expenditure risks.

#### INVESTOR PROTECTION RIGHTS AND FOREIGN PORTFOLIO INVESTMENTS by Maela Giofré

This paper investigates the impact of investor protection legislation on foreign shareholders and bondholders. The author finds a positive “direct” effect of investor protection laws: foreign stock investments and foreign bond investments are fostered by a legislation better protecting, respectively, shareholder and creditor rights. More interestingly, an asymmetric “indirect” impact of investor protection laws is found: strong protection of creditor rights - limiting excessive risk taking - positively affects foreign shareholders whereas strong protection of shareholder rights - potentially shifting the firm toward more risky projects - has a negative impact on foreign bondholders.

The main implications of the paper’s results are twofold: first, strengthening investor protection rights is not a universally desirable policy; second, accounting for the interaction of different governance mechanisms is crucial when designing policies and strategies aimed to enhance cross-border investments.

## ■ EVENTS

### RECENT EVENTS AT CERP

Seminar (Workshop in Capital Markets): “Social Security Reform in a Dynastic Life-Cycle Model with Endogenous Fertility” by Radim Bohacek (Czech Academy of Sciences); 22 October 2009

Onorato Castellino Lecure: Mario Draghi, 13 October 2009

Seminar “The Effects of Health Insurance and Self-Insurance on Retirement Behavior” by Eric French (Chicago Fed); 7 October 2009

10th Anniversary Conference “Saving for Old Age in a Financial Turmoil: New Challenges for Households, Providers and Policy-makers”, 24-25 September 2009

Seminar (Workshop in Capital Markets): “Manager Characteristics and Capital Structure: Theory and Evidence” by Sanjai Bhagat (University of Colorado); 5 June 2009

Seminar: “Intergenerational social mobility in Spain since the late 19th Century” by Lola Collado (Universidad de Alicante); 29 May 2009

<http://cerp.unito.it/index.php/en/events>

### RECENT AND FORTHCOMING PRESENTATIONS AT INTERNATIONAL CONFERENCES

C. Monticone at the conference “Improving Financial Literacy and Reshaping Financial Behavior”, Indiana State University, Indianapolis,



US, 14-15 May 2009

E. Fornero at the *Bocconi University Workshop "Institutions and the Gender Dimension"*, Milan, 20 May 2009

S. Trucchi at the *7th International Workshop on Pension, Insurance and Saving*, University of Paris-Dauphine, 28-29 May 2009

M. Giofré at the *13th International Conference on Macroeconomic Analysis and International Finance*, Crete, 29-30 May 2009

M. Giofré at the *2009 CEUS Workshop on Ten Years of EMU*, Vallendar, 4-5 June 2009

F. Coda Moscarola at the *2nd General Conference of the International Microsimulation Association*, Ottawa, 8-10 June 2009

M. Giofré at the *Infiniti Conference on International Finance*, Dublin, 8-9 June 2009

S. Trucchi at the *European Society for Population Economics (ESPE) 23rd Annual Conference*, Seville, 10-13 June 2009

M. Giofré at the *26th Symposium on Money, Banking and Finance in France*, Orléans, 25-26 June 2009

E. Fornero, C. Monticone, M.C. Rossi, S. Trucchi at the *MEA conference "Economic and Psychological Aspects of Households' Saving Behaviour: Old-age Provision, Financial Literacy and the Financial Crisis"*, Deidesheim, 29-30 June 2009

G. Mastrobuoni at the *11th Annual Joint Conference of the Retirement Research Consortium*, Washington DC, 10-11 August 2009

G. Mastrobuoni at the *25th Young Leaders Conference of the Council for the US and Italy "Coping with the Big City Boom: Problems and Opportunities"*, 17-19 September 2009

G. Mastrobuoni at the *1st Bonn & Paris Workshop on Law and Economics "The Empirics of Crime and Deterrence"*, Paris, 25-26 September 2009

G. Mastrobuoni at the *2009 Comparative Analysis of Enterprise (Micro) Data Conference*, Tokio, 2-4 October 2009

T. Dubovyk at the *conference "Population ageing and financial market"* organized by Fondation du Risque, Paris, 2 October 2009

G. Nicodano at *OECD/IOPS Global Forum on Private Pensions*, Rio de Janeiro, 14-15 October 2009

E. Fornero at the *conference "Economia e Incertezza"*, University of Trieste, 23 October 2009

E. Fornero at the *International UN Conference "The Global Financial Crisis - Implications for Women"*, Haifa, 8-12 November 2009

C. Fugazza at the *Workshop on Applied Economics and Financial Econometrics*, Humboldt-Universität, Berlin, 12 November 2009

## Recent Publications

### ARTICLES IN SCIENTIFIC JOURNALS

"Microsimulation of Pension Reforms: Behavioural versus Nonbehavioural Approach" by M. Borella and F. Coda Moscarola, forthcoming in the *Journal of Pension Economics and Finance*.

"Permanent and Transitory Dynamics in House Prices and Consumption: Some Implications for the Real Effects of the Financial Crisis" by F. Bagliano and C. Morana, forthcoming in *Applied Financial Economics*.

"Labor Supply Effects of the Recent Social Security Benefit Cuts: Empirical Estimates Using Cohort Discontinuities" by G. Mastrobuoni, *Journal of Public Economics*, doi:10.1016/j.jpubeco.2009.07.009.

"How to Strengthen the Credibility of the Italian Pension Reform" by F. Coda Moscarola and E. Fornero, *The Geneva Papers on Risk and Insurance-Issues and Practice*, 2009, 34, (591-601).

"Does consumption respond to predicted increases in cash-on-hand availability? Evidence from the Italian 'severance pay'" by M. Borella, E. Fornero, M.C. Rossi, *Economic Letters*, 105, 127-9.

"Heterogeneity in Intra-Monthly Consumption Patterns, Self-Control, and Savings at Retirement", by G. Mastrobuoni and M. Weinberg, *American Economic Journal: Economic Policy*, 1(2): 163-89.

### LATEST CERP WORKING PAPERS

N° 87/09 "Adequacy of Saving for Old Age in Europe" by E. Fornero, A. Lusardi, C. Monticone.

N° 88/09 "Convergence of EMU Equity Portfolios" by M. Giofré.

N° 89/09 "Mean-variance inefficiency of CRRA and CARA utility functions for portfolio selection in defined contribution pension schemes" by E. Vigna.

N° 90/09 "How ordinary consumers make complex economic decisions: financial literacy and retirement readiness" by A. Lusardi and O. Mitchell.

N° 91/09 "Financial literacy among the young: evidence and implications for consumer policy" by A. Lusardi, O. Mitchell and V. Curto.

<http://cerp.unito.it/index.php/en/publications>

### OTHER PUBLICATIONS

"Le pensioni dopo la crisi finanziaria" by E. Fornero, *Consumatori, Diritti e Mercato*, n. 2, 2009.

"Quanto è adeguata la "copertura" italiana nei confronti del rischio di long term care?", by F. Coda Moscarola, E. Fornero, *Assicurazioni*, LXXVI, n. 2, 2009.

Comment of the article "L'economia al femminile" by M.J. Silverstein and K. Sayre, by E. Fornero, *Harvard Business Review Italia*, n. 10, 2009.