

■ HIGHLIGHTS

Events

CERP CONFERENCES AND FIRST ONORATO CASTELLINO LECTURE



The CeRP annual conference “Financial Security in Retirement”, held on September 18 and 19, 2008, has been included this year in a series of meetings organized within the Forward Look programme “Ageing, Health and Pensions

in Europe”, funded by the European Science Foundation and carried out by a network of European institutions, led by Netspar, including CeRP. The conference addressed the topic of financial security in old age, focusing on different aspects, such as the adequacy of saving, the importance of well designed pension products, the role of annuities. A whole session was dedicated to the Forward Look papers. The papers and presentations of the conference can be downloaded at:

http://cerp.unito.it/agenda/cerp_annual_conferen

This event was followed by another conference on the same topic, “Financial security for the elderly: instruments, players, risks and possible guarantees” held on September 20 in Courmayeur, organized by CeRP and The Courmayeur Foundation.

On the occasion of the annual conference, CeRP also remembered Onorato Castellino, who passed away last December, through a lecture. The “Onorato Castellino” lecture, which will become a yearly event, was held by Mario Monti (Bocconi University) on September 18. The video of the lecture can be found on the CeRP site, at the following link:

http://cerp.unito.it/agenda/onorato_castellino_1

■ RESEARCH OUTPUT

SAVING RATES AND HOUSE PRICE DYNAMICS IN EUROPE: STRUCTURAL MODELING AND IMPLICATIONS FOR THE FUTURE by F. Bagliano, R. Calcagno, E. Fornero, C. Morana and M.C. Rossi

The typical policy answer to the challenges posed by population ageing has usually been to increase labour market participation of both women and the elderly. Less emphasis has been put on creating the conditions for a more direct participation of the elderly in financing their needs. Yet, a substantial contribution could come from their more substantial asset, i.e. housing wealth.

In this study, realized for and funded by the Observatoire de l'Épargne Européenne (Paris), the authors use both a macro and a micro perspective to analyze the

effects of house price variations on consumption and savings for a set of key European countries: France, Germany, Italy, Spain and the UK. They also sketch a simple life-cycle model with households living for two periods. The estimation analysis confirms that the impact of real estate appreciation on dissaving is very weak. The study concludes that further research is needed to understand why elderly people do not tap their housing wealth to finance their needs in old age.

PERMANENT AND TRANSITORY DYNAMICS IN HOUSE PRICES AND CONSUMPTION: CROSS-COUNTRY EVIDENCE by Fabio Bagliano and Claudio Morana; forthcoming as CeRP WP N. 81/09

In this paper a small-scale macroeconomic system is estimated in the framework of a common trends model, in order to explore the dynamic interactions between real house prices, consumption expenditure and output in the US and major European economies.

The results point to important differences across countries, with long-run house price effects on consumption only for France, Germany and the US. However, some interactions between house prices and consumption are detected in all countries at shorter horizons. Evidence of international comovements in the common trend component of house price dynamics is also found.

Both studies have been presented at the OEE in Paris by Elsa Fornero, Claudio Morana and Mariacristina Rossi on November 5, 2008.

OPTIMAL ASSET ALLOCATION OVER THE LIFE CYCLE: A SIMPLE FRAMEWORK by Fabio Bagliano, Carolina Fugazza and Giovanna Nicodano

The recent expansion of DC pension schemes, especially in the US and the UK, and the ensuing focus on optimal investment policies, is one of the motivations behind the growing literature on strategic asset allocation for long-run investors. Modern finance theory has made substantial progress over the traditional (mean-variance, one-period) approach that still forms the basis for much practical financial advice.

Long investment horizons, the presence of risky labor income and of illiquid assets such as real estate, have been gradually incorporated into the analysis of optimal portfolio choice, and the conditions under which conventional financial advice is broadly consistent with optimal asset allocation policies have been clarified. The key intuition is that optimal portfolios for long-term investors may not be the same as for short-term investors, because of a different judgement of assets' riskiness, and because of the crucial role played by (nontradable) human wealth in the investors' overall asset portfolio.

This paper addresses the main theoretical principles that may be relevant for pension funds strategic asset allocation, and adopts a life-cycle perspective to build a simple operative model that can be calibrated to deliver quantitative predictions on optimal portfolio allocation. The study is part of a research funded by the World Bank; it will be presented by Fabio Bagliano and Carolina Fugazza at the OECD-World Bank Research Workshop in Mexico City, on January 9, 2009.

LE PENSIONI DEI LAVORATORI PARASUBORDINATI: PROSPETTIVE DOPO UN DECENNIO DI GESTIONE SEPARATA by Margherita Borella and Giovanna Segre; CeRP WP 78/08

The Italian pension system, based on an NDC formula, implies that the future pensions will be strictly linked to the workers' careers, since the pension benefits is calculated as a result of the contributions paid over the whole working life. This means that workers with poorer or discontinuous careers will be at risk not to have an adequate pension. This is the case of non-typical workers, who usually get lower salaries, and whose payroll tax rate is lower than the employees'.

This paper analyses the pension prospects of Italian non-typical workers, highlighting the separate role of low salaries and low payroll tax rates.

INCREASING THE EFFECTIVENESS OF FINANCIAL EDUCATION IN THE WORKPLACE by Annamaria Lusardi; CeRP WP 79/08

More than ever before, individuals are in charge of their own financial security after retirement. Saving decisions, however, now require not only that individuals be informed about their pensions, but also that they be knowledgeable about finance and economics. Yet, there is mounting evidence that people are unfamiliar with even the most basic economic concepts.

This papers analyses some financial or investment education programs offered by US firms, and their effectiveness in improving workers' financial literacy. The evidence gathered in this article shows that, although exposing workers to information or education sessions is not sufficient to stimulate behavior, it is possible to increase the effectiveness of financial education programs so as to change saving behavior.

LEARNING, AMBIGUITY AND LIFE-CYCLE PORTFOLIO ALLOCATION by Claudio Campanale; CeRP WP 80/08

In this paper a life-cycle portfolio choice model is developed, where agents perceive stock returns to be ambiguous and are ambiguity averse. As in Epstein and Schneider (2005), part of the ambiguity vanishes over time as a consequence of learning over observed returns.

The model shows that ambiguity alone can rationalize moderate stock market participation rates and conditional shares with reasonable participation costs but has strongly counterfactual implications for conditional allocations to stocks by age and wealth. When learning is allowed, conditional shares over the life-cycle are

instead aligned with the empirical evidence and patterns of stock holdings over the wealth distribution get closer to the data.

[HTTP://CERP.UNITO.IT/PUBLICATIONS](http://cerp.unito.it/publications)

News in brief

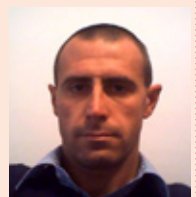
ELSA FORNERO LEAVES DIRECTION OF CERP

Following her appointment as Vice President of the Compagnia di San Paolo last June, Elsa Fornero formally resigned as Director of CeRP, while maintaining the scientific coordination of the center.

The administrative direction is now entrusted to the Director of Collegio Carlo Alberto, Pietro Garibaldi.

NEW CERP ASSOCIATED FELLOW: CLAUDIO MORANA

Claudio Morana, Associate Professor of Economics at the Università del Piemonte Orientale, has joined the CeRP research group as an associate fellow. Claudio's main research topic is international macro and finance. He recently collaborated with CeRP in the study "Saving Rates and House Price Dynamics in Europe".



MAELA GIOFRÉ WINS AWARD AT THE FIW RESEARCH CONFERENCE

On December 12, 2008 Maela Giofrè won the "Best young economist award" at the 2008 Research Conference of the Forschungsschwerpunkt Internationale Wirtschaft (Research Centre International Economics, Wien), for her paper "Convergence of EMU Equity Portfolios".

<http://cerp.unito.it/people/>

ONORATO CASTELLINO FELLOWSHIP

Last September CeRP issued a call for candidates for an assistant professorship dedicated to Onorato Castellino, open to young researchers who have completed or are about to complete a Ph.D. in economics or finance. The assistant professor will carry out his/her research at CeRP, in one of the core the fields of the centre.

The call is now closed and the selection procedure - following the standard of the international academic job market - is in progress.

<http://cerp.unito.it/jobandfellowship-en/>

CERP RESEARCHERS TEACH COURSE FOR PENSION FUND MANAGERS

In this academic year CeRP joined the University of Turin and Skillab in organizing and teaching an interdisciplinary course addressed to managers of pension funds. In their lessons, held in November and December 2008, the CeRP researchers dealt with the economic aspects of supplementary pensions.

<http://www.cisa.unifi.it/torino/Presentazione corso Facolta.pdf>

■ WORK IN PROGRESS

RETIREMENT CHOICES IN ITALY: WHAT AN OPTION VALUE MODEL CAN TELL US by Michele Belloni and Rob Alessie

Recent empirical analyses (e.g. Belloni and Alessie, 2008) have underlined the importance of financial incentives on retirement choices of Italian workers. Various studies agree that incentives to early retirement will be widely reduced by the future NDC system introduced in 1995. According to Castellino and Fornero (2001), for example, the new pension formula is almost actuarially neutral. They claim that retirement choices in the future will be mostly based on non-monetary considerations, such as individual's and household's preferences for leisure.

In this project an option value model (Stock and Wise, 1990) is estimated for Italian workers, based on WHIP data. The model parameters describe workers preferences in terms e.g. of leisure versus work and risk-aversion to uncertain future income. Identification exploits a series of reforms which heavily affected financial incentives of Italian workers in the period 1985-2001. The authors then rely on the model estimates to simulate the effect on retirement choices of the new NDC pension formula.

CONVERGENCE OF EMU EQUITY PORTFOLIOS by Maela Giofré

This paper analyses the equity portfolios of a selection of countries which joined the European Monetary Union, finding that they have significantly converged after the integration. This evidence can be explained as the result of the convergence of both inflation rates and investment barriers. On the one hand, the common monetary policy might have driven a stronger comovement in inflation rates, determining more similar hedging strategies for member countries. On the other, the common currency exposure might have homogenized bilateral investment barriers, thus inducing more similar portfolio allocations.

The author finds that the comovement of inflation rates did not significantly increase after the EMU inception; this result points to an exclusive role of the convergence in investment barriers.

■ EVENTS

RECENT SEMINARS AT CERP

Seminar "Saving Rates and House Price Dynamics in Europe: Structural Modeling and Implications for the Future", by Elsa Fornero, Claudio Morana, Mariacristina Rossi, 03 November 2008

Seminar: "Collateral, Real Estate and Debt Overhang" Seminar: by Erasmo Giambona (University of Amsterdam), 11 November 2008

Lunch seminar "The Missing Swedish Skill Premium: Sweden versus the United States 1970-2002" by David Domeij (Stockholm School of Economics); 12 December 2008

[HTTP://CERP.UNITO.IT/AGENDA](http://CERP.UNITO.IT/AGENDA)

RECENT AND FORTHCOMING PRESENTATIONS AT INTERNATIONAL CONFERENCES

Presentation by Elsa Fornero and Margherita Borella at the final meeting of the AIM project, Brussels, 20 October 2008

Presentation of the study "Saving Rates and House Price Dynamics in Europe: Structural Modeling and Implications for the Future" by E. Fornero, C. Morana and M.C. Rossi at the Observatoire de l'Épargne Européenne, Paris, 5 November 2008

Presentation by Elsa Fornero at the European Science Foundation Forward Look Workshop, Dublin, 14 November 2008

Presentation by Elsa Fornero at the conference "A New Social Policy for the European Citizens", organized by FEPS, Rome, 20 November 2008

Presentation by Maela Giofré at 2nd FIW-Research Conference, Vienna University of Economics and Business Administration, 12 December 2008

Presentation by Maela Giofré at the 11th Symposium on Finance, Banking, and Insurance, University of Karlsruhe, 18 December, 2008

Presentation by Fabio Bagliano and Carolina Fugazza at the OECD-World Bank Research Workshop on Performance of Private Managed Pension Funds, Mexico City, 9 January 2009

Recent Publications

LATEST CERP WORKING PAPERS

N° 77/08 **The Annuity Market in an Evolving Pension System: Lessons from Italy** by G. Guazzarotti, P. Tommasino

N° 78/08 **Le pensioni dei lavoratori parasubordinati: prospettive dopo un decennio di gestione separata** by M. Borella, G. Segre

N° 79/08 **Increasing the Effectiveness of Financial Education in the Workplace** by A. Lusardi

N° 80/08 **Learning, Ambiguity and Life-Cycle Portfolio Allocation** by C. Campanale

The papers are available at:

[HTTP://CERP.UNITO.IT/PUBLICATIONS](http://CERP.UNITO.IT/PUBLICATIONS)

OTHER PUBLICATIONS

"EMU Effects on Stock Markets: from Home Bias to Euro Bias", by M. Giofré, *International Research Journal of Finance and Economics*, (May 2008), 15, 136-158.

An Analysis of the Effects of the Severance Payment Reform on Credit to Italian SMEs by R. Caccagno, R. Kraeusel, C. Monticone, Tinbergen Discussion Paper 08-107/2

Heterogeneity in Intra-monthly Consumption Patterns, Self-Control, and Savings at Retirement, by G. Mastrobuoni, M. Weinberg, forthcoming in the *American Economic Journal: Economic Policy*