



OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

Call for proposals:
Contracts for conducting research in the field of savings in Europe

The Observatoire de l'Épargne Européenne is currently seeking out contracts for the realisation of European research projects on the following themes, selected by its Advisory Committee:

- Theme 1: Financial decumulation at old age**
- Theme 2: Impact of better information on pension wealth**
- Theme 3: Projection of savings product offers, asset allocation and industry structure of European insurance companies**

Please find tendering specifications below.

Submissions of proposals by a team combining academic researchers and professional specialists are particularly welcomed.

Tenders and requests for additional information may be submitted by e-mail, post or fax to the following addresses:

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Please note that the submission deadline is May 31st, 2011.

Project 1: Financial decumulation at old age

The classical lifecycle consumption-saving model predicts that households accumulate wealth during their period of activity, and decumulate it after retirement. In theory, this is done to smooth consumption over a lifetime. Thus, depletion of assets should be observed, at least partially, at older age. However, the elderly do not seem to be interested in making their assets liquid so as to manage the classical risks associated to old age: health problems, dependency and longevity. The consequences of this reluctance to rely on accumulated wealth – mostly housing wealth -- to finance expenses associated to old age is an excessive reduction in consumption, and the need to rely on public sources of funding to cover these expenses.

This suggests the existence of economic inefficiencies. For example, consumption could decrease too much at old age compared to the optimal consumption plan. Moreover, the public funding of social insurance at old age may have the primary effect of protecting the assets of the wealthy rather than benefitting the poor.

This program of research has several potential aspects. Firstly, it would be interesting to document and to evaluate the extent of the problem across different European countries as well as whether a reversal is currently observed with more elderly people actually decumulating to offset the decrease of pensions or the cost of dependency. Secondly, it would be useful to link the potential differences in the wealth depletion rate after retirement to various characteristics, such as culture, fiscal treatment of bequest, structure of financial products and implicit and explicit solidarity schemes towards the elderly. Thirdly, besides the bequest motive, what are the determinants of this resistance to decumulate wealth at old age? All things considered, is there room for policy intervention (for example, reverse mortgage, compulsory partial annuitization of pension wealth public insurance)? Can microdata show evidence of whether and to what extent individuals would be interested in such reforms? Finally, can we estimate the effect of this resistance to the depletion of wealth at old age on the intergenerational distribution of wealth in different European countries?

Project 2: Impact of better information on pension wealth

Several recent pension reforms had the common feature of giving greater responsibility to individuals in the accumulation of their retirement wealth. To facilitate decision-making, public pension authorities in several countries - such as Sweden and the US - started sending annual statements with individual pension positions and estimated benefits at standard retirement ages. A strand of research that deserves more attention deals with the effect of receiving such statements (the so-called “orange envelope”) on individual behaviour and would investigate the extent to which individuals react to additional information.

OEE is mostly interested in studies that would use European microdata to evaluate the impact of better information on expected future pension wealth at retirement on savings rates and on the portfolio allocation of active households. It would be useful to test whether household beliefs concerning pension wealth are systematically biased. Do households tend to over-react or to under-react to information? At which age does such information have the largest impact on the decision to save and on the endogenous risk level of individual portfolios? What kind of information is most efficient to induce households to save and invest optimally? What is the role of the uncertain level of accumulated pension wealth on the individual level of saving and portfolio risk-taking? How does this interact with varying degrees of financial literacy?

Project 3: Projection of savings product offers, asset allocation and industry structure of European insurance companies.

The asset allocation of insurance companies and their life insurance offers are influenced by three types of constraints:

- From an economic viewpoint, companies proposing life insurance contracts must offer a minimum return that is sufficiently high enough to compete with other types of savings products and offers of competing insurance companies. They should also take into account liquidity constraints, which are stronger than those of defined benefit pension funds.
- From an accounting viewpoint, IFRS standards have increased the volatility of balance sheets while listed insurance companies without high reserves have had to reduce their exposure to only the most volatile asset classes.
- Finally, from a regulatory viewpoint, the “Solvency I” directive does not impose any capital requirements in proportion to the specific risks of each type of asset. “Solvency 2” will introduce a concept of “value at risk”, similar to the one that is applied to banks. In several countries, regulators also strengthened the rules applying to insurance companies who promise minimum returns to their clients.

The OEE would be interested in a forecast of the impact of these three categories of constraints on:

- The asset allocation of European insurance companies in the next few years, including financial assets (equity, corporate bonds, government bonds) and real estate assets.
- Offers of savings products to individuals and possible changes to minimum returns of life insurance contracts.
- The welfare of customers, taking into account the change in expected return and risk of life insurance products.
- The structure of the industry, especially in countries where “bancassurance” might induce a conflict of objectives in groups subject to both Basel 3 requirements and Solvency 2 requirements.

The study should cover at least three European countries.