

■ RESEARCH OUTPUT

RETIREMENT CHOICES IN ITALY: WHAT AN OPTION VALUE MODEL TELLS US by Rob Alessie and Michele Belloni; CeRP WP n. 92/10

Using Italian data, this study estimates the option value model in order to quantify the effect of financial incentives on retirement choices. As far as we know, this is the first empirical study estimating the conditional multiple-years (CMY) model put forward by Stock and Wise (1990), which implies accounting for dynamic self-selection bias.

For the subsample of females the CMY model yields plausible estimates of the preference parameters, such as the marginal utility of leisure, a parameter typically underestimated if one does not take into account the self-selection problem. The analysis shows that dynamic self-selection results in a considerable downward-bias in the estimate of the marginal utility of leisure.

A simulation study to gauge the effects of a dramatic pension reform is also performed. It turns out that the underestimation of the marginal utility of leisure translates into a sizable overprediction of the impact of the reform. For males the authors also obtain plausible estimates. The results for males should be interpreted with caution because the authors were not able to fully correct for dynamic self-selection bias.

THE HETEROGENEOUS LABOR MARKET EFFECTS OF IMMIGRATION by Mathis Wagner; CeRP WP n.93/10

This paper provides estimates of the impact of immigration on native wage and employment levels (rather than on wage inequality which has been the focus of the literature). The author uses variation within 2-digit industries across regions 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. Estimated substitution effects, for a given level of output, are large in both industries and in line with US estimates.

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. Hence, the effect

of immigration on worker relocation across industries is far larger than its impact on average native wages.

People's News

ANNAMARIA LUSARDI CITED BY THE NEW YORK TIMES

Annamaria Lusardi is one of the six academics cited in the *New York Times* article "They've Got It: Fixes for the Financial System" (03 May 2010) on creative proposals to change the financial system.



"Financial literacy is an essential piece of knowledge that every student should have", Lusardi wrote....". Just as reading and writing became skills that enabled people to succeed in modern economies, today it is impossible to succeed without being able to 'read and write' financially".

<http://annalusardi.blogspot.com/>

GIOVANNA NICODANO PANELIST AT THE EUROPEAN COLLOQUIA 2010



On January 29, 2010 Giovanna Nicodano participated - with David Laibson (Harvard College) Christian Gollier (Toulouse School of Economics) and Matteo Germano (Pioneer Investments) - in a panel session at the European Colloquia Series 2010, organized by Pioneer Investments in London.

The panelists dealt with the topic "Optimizing Accumulation and Decumulation in Long Term Savings Plans".

http://isd.pioneerinvestments.com/offsite/colloquia_2010/speakers.jhtml

ELSA FORNERO BECOMES EVALUATOR FOR THE ESF

Elsa Fornero has joined, upon invitation, the European Science Foundation pool of reviewers; she will assess scientific proposals in the fields of Health, Education and Welfare Economics.

<http://www.esf.org/>

GIOVANNI MASTROBUONI CO-ORGANIZER OF LAW AND ECONOMICS WORKSHOP

Giovanni Mastrobuoni is one of the organizers of the 2nd Bonn-Paris Workshop on Law and Economics "The Empirics of Law Enforcement and Compliance", which will be held in Bonn on October 8-9, 2010.

<http://www.coll.mpg.de/economix/>

SO YOU WANT TO RUN AN EXPERIMENT, NOW WHAT? SOME SIMPLE RULES OF THUMB FOR OPTIMAL EXPERIMENTAL DESIGN by John A. List, Sally Sadoff, Mathis Wagner; CeRP WP n. 94/10

Experimental economics represents a strong growth industry. In the past several decades the method has expanded beyond intellectual curiosity, now meriting consideration alongside the other more traditional empirical approaches used in economics. Accompanying this growth is an influx of new experimenters who are in need of straightforward direction to make their designs more powerful.

This study provides several simple rules of thumb that researchers can apply to improve the efficiency of their experimental designs. The authors buttress these points by including empirical examples from the literature.

PARENTS/CHILDREN “DEALS”: INTER-VIVOS TRANSFERS AND LIVING PROXIMITY by Flavia Coda Moscarola, Elsa Fornero, Mariacristina Rossi; CeRP WP n. 95/10

The authors use a Cox-type model to investigate the role of the family as an informal market: parents enjoy their children's proximity (a proxy for the informal care they can receive from their kids) and “reward” them with an anticipated wealth transfer. Children appreciate the reward, particularly when they are likely to be subject to liquidity constraints. For unconstrained households, the model predicts that the amount of time devoted to parents - and, correspondingly, the amount of transfers received from them - is related negatively to their own lifetime income and positively to their parents' wealth. Other things being equal, liquidity constraints increase the utility associated to money in youth and correspondingly increase the living proximity of children to their parents' home. The authors test the model's predictions on Italian data, taken from the Bank of Italy SHIW, by distinguishing between liquidity constrained households and unconstrained ones.

The preliminary results of the paper are in line with the theoretical predictions of the model. Proximity to parents is indeed rewarded with higher transfers. As for financial imperfections, liquidity constrained households live closer to their parents than non-liquidity constrained households.

PORTFOLIO CHOICE AND PRECAUTIONARY SAVINGS by Riccardo Calcagno and Mariacristina Rossi; CeRP WP n. 96/10

The paper studies the effect on savings of an increase in the capital risk of the investment opportunities when the representative consumer is allowed to optimally choose her portfolio. Sandmo (1970) and Levhari and Srinivasan (1969) prove that individuals with high risk-aversion and time-separable, power utility increase their optimal savings when capital risk increases, holding constant the expected return of the risky asset. The authors obtain the opposite effect when the consumer chooses her portfolio allocation optimally.

THE ECONOMIC CRISIS AND MEDICAL CARE USAGE by Annamaria Lusardi, Daniel Schneider, Peter Tufano; CeRP WP n. 98/10

The authors use a unique, nationally representative cross-national dataset to document the reduction in individuals' usage of routine non-emergency medical care in the midst of the economic crisis.

A substantially larger fraction of Americans have reduced medical care than have individuals in Great Britain, Canada, France, and Germany, all countries with universal health care systems. At the national level, reductions in medical care are related to the degree to which individuals must pay for it, and within countries are strongly associated with exogenous shocks to wealth and employment.

WOMEN AND PENSIONS: EFFECTS OF PENSION REFORMS ON WOMEN'S RETIREMENT SECURITY by Elsa Fornero and Chiara Monticone; in B. Marin, E. Zolyomi (eds), *Women's Work and Pensions: What is Good, What is Best?*, Ashgate, 2010.

This paper examines how the recent pension reforms in Europe affected the risks falling on women's economic security in retirement. Many reforms implied the passage from a model where survivors' and other derived rights were prominent in guaranteeing women's security to a new approach where actuarial principles are strengthened and benefits are determined according to the capitalized sum of individual contributions.

By tightening the link between working career and retirement outcomes, the process exposes women to new risks, and makes crucial the role of their participation in the labor market, the continuity of their working career and their relative earnings with respect to men.

HOW MUCH DOES WEALTH MATTER IN THE ACQUISITION OF FINANCIAL LITERACY? by Chiara Monticone; forthcoming in the *Journal of Consumer Affairs*, Summer 2010, Vol. 44, 2

The acknowledged widespread lack of financial literacy casts serious doubts on the ability of individuals to make financial decisions. Some studies suggest that financial experience can affect financial knowledge and that household financial wealth can be a factor leading to the acquisition of financial literacy.

This article investigated the determinants of financial literacy using the 2006 wave of the Italian survey on household income and wealth. Empirical results indicated that wealth has a positive but small effect on the degree of financial knowledge.

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

■ WORK IN PROGRESS

DIFFERENTIAL MORTALITY BY INCOME AND OCCUPATION IN ITALY by Rob Alessie, Michele Belloni, Adriaan Kalwij

The work aims at providing a measure of differential mortality risk by economic status and by occupation in Italy. The new NDC system in Italy provides a uniformly priced benefit; therefore, it would redistribute re-

sources in favour of richer individuals if it were proved that the richer are also the long-living.

The analysis will be based on WHIP data and conducted in two phases. In the first phase, the authors will look at differential mortality by socioeconomic conditions, where the latter is measured by lifetime income (approximated by the pension benefit). In the second phase, differential mortality by occupation will be analysed, with the purpose of identifying a list of the so called 'lavori usuranti', defined as those for which the mortality risk is significantly higher than the average.

News in brief

CERP HOSTS VISITING RESEARCHER FROM MEA

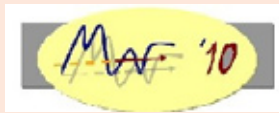


The researcher Tabea Bücher-Koenen from the Mannheim Research Centre on the Economics of Aging (MEA) visited CeRP from 22 to 26 February.

Tabea participates in the study on financial literacy funded by Netspar and delivered a seminar on the topic, focused on Germany.

SESSION ON FINANCIAL LITERACY AT MAF 2010 CONFERENCE

A session on financial literacy, organized by Elsa Fornero, has been included in the conference



"Mathematical and Statistical Methods for Actuarial Sciences and Finance" (MAF) 2010 (Ravello, 7-9 April 2010). Speakers of the session have been some of the researchers involved in the project "Financial Literacy: Evidence and Implications for Retirement Planning, Saving Behavior, and Financial Education Programs" funded by NETSPAR and coordinated by CeRP: E. Fornero, A. Lusardi, C. Monticone, M. Van Rooij, T. Bucher-Koenen.

The conference also represented an occasion for the international research group to meet and discuss work in progress.

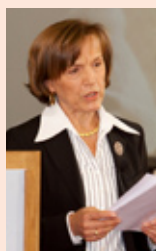
<http://cerp.unito.it/index.php/en/news>

LECTURE BY ELSA FORNERO AT GIOVEDÌ SCIENZA

On February 4 Elsa Fornero delivered a lecture on the economic effects of aging to a wide audience at the Teatro Colosseo, Turin, within the conference series of *Giovedì Scienza*.

The video of her lecture can be downloaded at:

<http://www.giovediscienza.org/>



DO SOCIAL SECURITY RECIPIENTS SMOOTH CONSUMPTION BETWEEN CHECKS? EVIDENCE USING NEW DATA WITH VARIATION IN PAY DATES by Giovanni Mastrobuoni

This paper aims to test whether recent Social Security Benefit recipients smooth their consumption over pay dates, as predicted by the permanent income hypothesis. Previous research has found that household spending is higher after pay is received at the beginning of the month relative to the rest of the month.

This paper confirms that result, but shows that it no longer holds in a sample of households that claimed benefits after May 1, 1997. In the new data, the author finds that household expenditures are not systematically higher after pay is received than beforehand even after restricting the sample to households with at least 70 % of income stemming from Social Security benefits. A benefit of this new data is that beginning in 1997 benefit recipients were not all paid at the beginning of the month. Some evidence is found that consumption spending is positively correlated with the beginning of the month for reasons unrelated to Social Security paycheck receipt.

SAVING BEHAVIOUR OF ITALIAN ELDERLY by Tetyana Dubovyk

This paper looks at the wealth accumulation of the Italian elderly as one of the means to insure against the risks they face, associated with life expectancy, medical and long-term care expenses. Using data from the Survey of Health, Ageing and Retirement in Europe, the author documents the wealth holdings and the dissaving patterns based on age, gender, health status and permanent income groups. The analysis will highlight whether at later stages of life people still hold substantial levels of asset with little or no dissaving.

The analysis will also focus on the composition of asset at old age by studying the incidence of housing and financial assets out of total wealth. This aspect is particularly relevant, as old people often have a substantial amount of wealth tied up to their housing, which is illiquid and thus difficult to convert in cash if a risk materializes. As a consequence, the vulnerability of the elderly can also be dependent on their little balanced portfolio.

1/N AND LONG RUN OPTIMAL PORTFOLIOS by Carolina Fuggazza, Massimo Guidolin, Giovanna Nicodano

Recent research (DeMiguel et al. (2009a)) cast doubts on the out-of-sample performance of optimizing portfolio strategies relative to the equally-weighted one, when the investor has a one-month horizon and mean-variance preferences. This paper examines whether their result hold for longer investor horizons, when the asset menu includes bonds and real estate beyond stocks and cash.

The experiment indicates that power utility investors with horizons of one year and longer would have on

average benefited, ex-post, from an optimizing strategy exploiting return predictability over the years January 95-December 2007. This result holds even if the strategy being followed displays inertia, i.e. it is buy-and-hold, and even if the predictability model is a simple linear vector autoregression. Furthermore, it is insensitive to the degree of risk aversion and to the number of predictors being included.

KNOWING FINANCE OR KNOWING THOSE WHO KNOW IT? THE INTERRELATION BETWEEN FINANCIAL LITERACY AND INVESTMENT CHOICES by Riccardo Calcagno and Chiara Monticone

This paper analyzes a static portfolio choice where the investor can choose to delegate her portfolio management to a professional intermediary, who can give biased advice due to a conflict of interests. The choice of delegation depends both on advisors' and investors' characteristics. The latter include the cost of information search and the level of "sophistication", meaning investor's ability to correctly account for the bias in her decisions.

The model studies which investors are more likely to delegate, and what are the consequences of this choice on the ex-post portfolio performance. The authors find that not only more "naïf" investors are more likely to delegate, but they tend to delegate to "worse" advisors, i.e. with higher bias. This results in a higher probability to suffer ex-post losses.

FINANCIAL LITERACY, TRUST AND INVESTMENT BEHAVIOUR by Chiara Monticone

Using the 2007 Unicredit Customers' Survey, this paper investigates the role of households' heterogeneity in terms of personalized trust and financial literacy on investment behavior. In particular, the paper aims to assess the implications of financial literacy and trust on stock market participation, on the use of financial advice and on delegation of financial decisions, conditional on stock market participation.

Both elements positively affect the probability of holding risky assets, even though the effect of trust on stock market participation disappears when experience is accounted for. Personalized trust has a great role in affecting the propensity to delegate financial decisions, and financial literacy is helpful in turning investors away from nonprofessional sources of advice.

■ EVENTS

RECENT EVENTS AT CERP

Seminar (Workshop in Capital Markets): "Demographic Trends, Low Frequency Fluctuations in the Aggregate Dividend/Price Ratio and the Predictability of Long-Run Stock Market Returns" by **Carlo Favero** (Bocconi university), 19 November 2009.

Seminar (Workshop in Capital Markets): "Why do the elderly save? The role of medical expenses" by **Maria-**

crisrina De Nardi (Federal Reserve Bank, Chicago), 17 December 2009.

Seminar: "Who lost the most? Financial literacy and the financial crisis" by **Tabea Bücher-Koenen** (MEA, Mannheim); 23 February 2010.

Seminar (Workshop in Capital Markets): "Financial and Demographic Risks in NDC Pension Systems" by **Pierre Devolder** (Université Catholique de Louvain); 19 March 2010.

Seminar (Workshop in Capital Markets): "Optimal hedging of demographic risk in life insurance and pensions" by **Ragnar Norberg** (London School of Economics); 15 April 2010

Seminar (Workshop in Capital Markets): "Bank Bailout Menus" by **Sudipto Bhattacharya** (London School of Economics and CEPR); 22 April 2010

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



RECENT AND FORTHCOMING PRESENTATIONS AT INTERNATIONAL CONFERENCES/SEMINARS

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

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

G. Nicodano at the Conference "*Portfolio and Risk Management for Central Banks and Sovereign Wealth Funds*", organized by the World Bank, the ECB and the BIS, Washington DC, 16 Nov. 2009

C. Fugazza, C. Monticone at the *XVIII International Tor Vergata Conference on Money Banking and Finance*, Rome, 2 Dec. 2009

E. Fornero at the World Bank workshop "*Non-Financial Defined Contribution (NDC) Systems: Progress and New Frontiers in a Changing Pension World*", Stockholm, 2-4 Dec. 2009

C. Fugazza at the Conference "*Risk Sharing in Defined Contribution Pension Schemes*", university of Exeter, 6-8 Jan. 2010

C. Fugazza at the workshop "*Dynamic risk sharing*", Université Paris Dauphine, 15 Jan. 2010

G. Nicodano at the *European Colloquia Series 2010*, Pioneer Investments, London, 29 Jan. 2010

C. Fugazza at the 13th *Conference of the Swiss Society for Financial Market Research (SGF)*, Zurich, 18-19 March 2010

M. Giofré at the 69th *International Atlantic Economic Conference*, Prague, 24-27 March 2010

E. Fornero at the *Forum Retraite «Les retraites entre crise financière et réforme»*, Bordeaux, Caisse des Dépôts, 30-31 March 2010

E. Fornero, A. Lusardi, C. Monticone at the *Mathematical and Statistical Methods for Actuarial Sciences and Finance (MAF) 2010 conference*, Ravello, 8 April 2010

M. Giofré at the *XV Spring Meeting of Young Economists (SMYE)*, University of Luxembourg, 15-17 April 2010

G. Mastrobuoni at the *American Law and Economics Association Meeting*, Princeton, 8 May 2010

G. Nicodano at the *Goethe University Frankfurt Kolloquium*, 18 May 2010

G. Mastrobuoni at the *9th IZA/SOLE Transatlantic Meeting of Labor Economists*, Munich, 28 May 2010

R. Calcagno at the *14th Annual International Conference on Macroeconomic Analysis and International Finance*, Crete, 27 - 29 May, 2010

M. Giofré at the CESifo-Delphi Conference *“Financial Markets, Corporate Governance and Macroeconomic Outcomes”*, Munich, 4-5 June 2010

G. Nicodano at the IREBS 2010 *Conference on Real Estate Economics and Finance*, University of Regensburg, 4 June 2010

M. Belloni at the *MEA seminar series*, 10 June 2010

C. Monticone at the MEA conference *“To SAVE or not SAVE: Old-age provision in times of crisis”*, Deidesheim, 16-17 June 2010

G. Mastrobuoni at the *IV Insights on Immigration and Development Workshop*, Institute for Economic Analysis, Barcelona, 23 June 2010

Recent Publications

ARTICLES IN SCIENTIFIC JOURNALS

“Permanent and Transitory Dynamics in House Prices and Consumption: Some Implications for the Real Effects of the Financial Crisis” by F.C. Bagliano and C. Morana, *Applied Financial Economics*, 20(1-2), January 2010, 151-170.

“How much does wealth matter in the acquisition of financial literacy?” by C. Monticone, forthcoming in *The Journal of Consumer Affairs*, 44 (2), 2010

LATEST CERP WORKING PAPERS

N° 92/10 **Retirement choices in Italy: what an option value model tells us** by R. Alessie, M. Belloni

N° 93/10 **The Heterogeneous Labor Market Effects of Immigration** by M. Wagner

N° 94/10 **So you want to run an experiment, now what? Some Simple Rules of Thumb for Optimal Experimental Design** by J. A. List, S. Sadoff, M. Wagner

N° 95/10 **Parents/children “deals”: Inter-Vivos Transfers and Living Proximity** by F. Coda Moscarola, E. Fornero, M.C. Rossi

N. 96/10 **Portfolio Choice and Precautionary Savings** by R. Calcagno, M.C. Rossi

N. 97/10 **E se l’aspettativa di vita continuasse la sua crescita? Alcune ipotesi per le generazioni italiane 1950-2005** by C. Maccheroni, T. Barugola

N. 98/10 **The Economic Crisis and Medical Care Usage** by A. Lusardi, D. Schneider, P. Tufano

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

OTHER PUBLICATIONS

“Adequacy of Saving for Old Age in Europe” by E. Fornero, A. Lusardi, C. Monticone, forthcoming in A. Van Soest and L. Bovenberg (eds) *“Ageing, Health and Pensions in Europe: An Economic Perspective”*.

“Pension funds, life-cycle asset allocation, and performance evaluation” by F. Bagliano, C. Fugazza and G. Nicodano, forthcoming in P. Antolin e H. Rudolph (eds), *Evaluating the Financial Performance of Pension Funds*, OECD-World Bank, 2010.

“Women and pensions: effects of pension reforms on women’s retirement security” by E. Fornero and C. Monticone; in B. Marin, E. Zolyomi (eds), *Women’s Work and Pensions: What is Good, What is Best?*, Ashgate, European Centre Wien, 2010.

Book review of Traute Meyer, Paul Bridgen and Barbara Riedmuller (eds), “Private Pensions versus Social Inclusion?”, by E. Fornero, *Journal of Pension Economics and Finance*, 9(1), January 2010, 143-44.

“Sustaining our European economic and social model in an ageing society” by E. Fornero; in *“Europe 2020: delivering well-being for future Europeans*, Challenge Europe, European Policy Centre, Issue 20, March 2010

“Una questione irrisolta: le Casse previdenziali dei liberi professionisti” by E. Fornero; *AREL Europa Lavoro Economia*, n. 3, March 2010

“Tassa abolita, casa più cara” by G. Bellettini and F. Taddei, www.lavoce.info, 07.04.2010

“La réforme du système des retraites en Italie: un quasi-succès menacé de gâchis”, by F. Coda Moscarola and E. Fornero, in J. Garello, G. Lane (eds), *Future des Retraites et Retraites du Futur*, IREF-Contribuables Accociés, 2009.