



Comments on Peter Broer's Social Security Risk in General Equilibrium

Ward Romp
Netspar Workshop
June 8, Groningen





Some confusion

- “Current pension arrangements are projected to be unsustainable due to aging. This implies that the value of both current and future pensions is at risk”
 - But this paper assumes a stable population
- “... The postponement of these policy adjustments creates substantial uncertainty among participants in the schemes...”
 - But this paper looks at risk associated with depreciation uncertainty and labour productivity uncertainty



This paper

- This Paper ‘improves/generalises’ the Krueger & Kubler (AER, 2006) framework.
- A PAYG pension system provides insurance, but it crowds out savings and changes factor prices. Various studies show that the benefits are smaller than the costs.
- Main question: Which one dominates under which conditions and what happens in the transition period?
- Addition of this paper:
 - Smaller cohort sizes allow for more frequent portfolio adjustments.
 - More and other experiments.



Some problems

- Model is (very) complex.
 - Why five taxes (corporate tax, financial wealth, labour income, consumption, lumpsum tax)?
 - Why two sources of uncertainty?
- There is no 'gradual phasing out'. This might be solved with shape/taste shifters.



The pension system

- The labour supply/pension system has some flaws:
 - Figure 2: It seems that people consume more leisure than available.
 - Strange results at the eligible retirement age. People suddenly work more (because of preferential tax treatment).
 - The pension system gives rather strange incentives (more attractive to work). Possible solutions:
 - Only pension if not working
 - Only pension if worked at least N-years and higher disutility of working



Open question/suggestions for future work

- What is the added value of your additions?
- Pareto improvements possible?
- Open economy: uncertainty about world factor prices
- Policy risk: uncertainty about when and how the government will change the pension system
- Demographic risk: uncertainty about the birth rate and future demographic composition