



EDUCATING **ENTREPRENEURS** FOR THE WORLD

**To defer or not defer? UK state pension and  
work decisions in a lifecycle model**  
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Discussion by Riccardo Calcagno  
MOPACT International Workshop, September 2016

# Research question and main results

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- The implications on intertemporal labour supply of the possibility to defer State Pension in the UK
  - For every five weeks of deferral the weekly State Pension increases by 1%
  - Weekly state pension income calibrated at 125£
- With perfect capital markets deferral is always beneficial
- Deferral raises the full time reservation wage by around 2% (base calibration)
- Workers earning more than 9£ (approx.) will reduce their labour supply in their last employment periods

# My Main Comments

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1. The choice to defer (or not) is easy in perfect capital markets: the implicit interest rate from deferral is much higher than the rate earned on the financial market. But «...*roughly 1 in 10 chose to defer*»
  - What is the reason?
    - a) Lack of information / financial literacy
    - b) Lot of individuals are credit constrained / imperfection of the capital markets (then more appropriate to study a model with frictions)
    - c) Others?

# My Main Comments

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2. Why do you consider a model with discrete choice of labour supply?
- Some situations are difficult to make sense of in reality: e.g.  $L_{T-1} =$  zero work and  $L_T =$  work
  - Part-time work is an option for most senior employees in the UK (?)
  - The effect you are investigating may also be illustrated by a standard model with continuous consumption-labour intertemporal decision
- Example: time-additive, logarithmic preferences separable in consumption and leisure

$$U(.) = \ln c_{T-1} + \beta \ln(1 - L_{T-1}) + \delta [\ln c_T + \beta \ln(1 - L_T)]$$

# My Main Comments

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- Intra-temporal f.o.c. MRS consumption/leisure: for each  $t = T-1, T$

$$\frac{\frac{1}{c_t}}{\beta} = w_t \frac{1}{(1-L_t)}$$

- Euler's equation for consumption

$$\frac{1}{c_{T-1}} = \delta r \frac{1}{c_T}$$

- Euler's equation for leisure

$$\delta \frac{\beta}{1-L_T} \frac{w_{T-1} r}{w_T} = \frac{\beta}{1-L_{T-1}}$$

- Closed-form solution and explicit expression for the wealth effect due to deferral

# My Main Comments

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- An increase in wealth changes the lifecycle participation choices for most individuals (*substitution effect*), and not only for those earning a wage close to the reservation one
3. The second part of the paper, i.e. Section 4, comparing deferral options, seems quite unrelated to the previous analysis
- Reduce it?

# Some other (smaller) remarks and suggestions

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1. You estimate median per capita (non-housing) wealth of £1500 per household, and state that three quarters of the sample of older households have level of wealth in excess of what is optimal...
2. Is it plausible to assume that the value of leisure is higher in  $T-1$  than in  $T$  if  $T-1$  and  $T$  are the «last» periods of active life?
3. Deferrals tend to be better educated, non-manual workers, non credit constrained (Coleman et al. 2008): different preferences for leisure w.r. to non-deferrals?



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