Optimal Design of Funded Pension Schemes

Authors: Lans Bovenberg and Roel Mehlkopf

Comments by Eduard Ponds
What type of paper?

- Paper develops own framework to discuss literature on:
  1. Optimal risk taking over individual’s life cycle
  2. Assisting role by institutions to organize intergenerational risk-trading and risk-sharing
 => Two papers

- Paper is demonstration of large knowledge and creativity

- Paper shows pension economics is compilation of many disciplines and models in economics

- Paper is well-written and well-structured; a pleasure to read it
Stylized framework with strong conclusions, but useful for real life problems?
One economic regime

• Paper exploits only one economic regime with given Return and Risk

• .. but history and future both are sequence of economic regimes with variety Return and Risk

• Notions on Pareto-efficiency and Financial Fairness may be lost when Return and Risk fluctuates over time
Future is Uncertain

How to account for future when future is inherently uncertain?

• “Unknowns” in development of inflation, productivity, demographics

• Can we set beforehand a fair contract? Which is the right discount rate for a financial fair contract?
  
  • Which BNW curve? Lack of consensus explainable
Fairness as Check or as Aim?

- Is an IRS contract a **Social Contract** or as **Financial Contract**?

- Social contract:
  - Quality of Insurance as building principle contact
  - Fairness as check to avoid too large or not to motivate transfers

- Financial Contract:
  - Fairness as building principle contract
  - Insurance as byproduct
Title: “Optimal Design of Funded Pension Schemes”

• Worldwide pension institutions adapt to reality of ageing and maturity
  – Trend to Individual DC
  – PAYGO: From TDB to Notional DC (NDC)
  – Funded plans: From TDB to Collective DC (CDC)

• NDC and CDC can be seen as Innovations in IRS

• Does the paper address these trends in institutional design of IRS arrangements?
Final (1)

- Very rich and mature paper on lifecycle planning and IRS

- Creative framework for evaluation multitude of contributions in broad field

- Potential to become a classic paper (in NLD)
Final (2)

- Is the paper useful for debate on pension redesign?
  - Yes, paper is enrichment in clear presentation and analysis of arguments and principles; Paper provides direction
  - Be reluctant for use in debate as real life is much more complex than setting paper
  - Academics have lost reputation and prestige among pension practicionars because of too high claims from analysis in academic setting