Discussion of "On the Design of a Default Pension Fund" by Magnus Dahlquist, Offer Setty and Roine Vestman

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- If defaults taken for granted, then natural question: "what should the optimal default" be?

Outline

- Document strong relation between default pension investing in Swedish data with limited stock market participation outside the pension system

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- Natural question: how do different default pension fund designs affect welfare?

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- Also an under-researched question
- Requires sometimes some institutional knowledge, therefore one size might not fit all

Positive Contributions

- Rich individual-level data on financial holdings inside and outside of pension system
- Find: default investors are less educated, have lower labor income and less wealth and rely proportionately more on their DC account
- Strong negative relation between default investing and equity exposure outside pension system

Normative Contributions

- Build life cycle portfolio choice model to analyze welfare implications of different default allocations
- Find that leverage is warranted at individual level
- Welfare and inequality implications from universal DC pension fund

Comments on Regressions

- Perhaps worry about time trends
- Taxation effects?
- Any other institutional factors?
- But overall convincing correlations

Comments on Model

- Worry about taxation effects?
- How important is model here?
- Is it necessary to match the data to be able to design default options?

Welfare Results

- Can use value function to compute certainty equivalent
- Leverage effect: how does it come about?

Comments

- Can use value function to compute certainty equivalent
- Leverage effect: how does it come about?
- Is it clear you can borrow on the same rate as you can save?
- Worry about risk implications from higher leverage

Free Choice and Inequality

- Institutional setting important
- Is this a normative question from society's point of view?

Suggestions about paper

- Paper as it stands tries to achieve too many things: the messages then get lost in the details
- Inequality is interesting but different (social) welfare function needed: does this part belong to this paper?
- Would therefore focus on (i) empirical analysis (ii) design of optimal pension rules
- What are the characteristics of optimal pension rules? Should depend on different household characteristics, should it not?
- Not clear how and why leveraged positions arise: are leveraged positions optimal for everyone throughout the life cycle?
- Focus more on teasing out optimal rules?