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

Alexander Michaelides
Imperial College London, CEPR and NETSPAR

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Goal

- Defaults seem pervasive, particularly in decisions on retirement accounts
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If defaults taken for granted, then natural question: “what should the optimal default” be?
• 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?
This is an important policy question: recent (unexpected) legislation changes in the UK with effect April 2015 that households do not have to purchase an annuity by age 75 with their retirement wealth.
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Importance

- This is an important policy question: recent (unexpected) legislation changes in the UK with effect April 2015 that households do not have to purchase an annuity by age 75 with their retirement wealth
- 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
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?
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• 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?