

Inequalities in an OLG economy with heterogeneous cohorts and pension systems

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Summary of the paper

- ✓ The paper conducts **pension policy experiments** for the case of Poland using an overlapping generations model with ex ante heterogeneous agents;
- ✓ The focus lies on changes in **consumption and wealth inequality** driven by:
 - ✓ the demographic transition implied by the Eurostat projection for Poland until 2060;
 - ✓ a change in the pension system from DB to DC;
 - ✓ minimum pensions and contribution caps;
- ✓ The paper analyses four scenarios for the transition from one steady-state to the other.

Novelty of the paper

- ✓ The paper introduces heterogeneity along 3 dimensions: productivity endowment, preference for leisure, time preference;
- ✓ Highly relevant analysis for Poland;
- ✓ It considers many policy options in a realistic framework.

Comment 1 - Policy implications

Policy recommendations are not clear cut:

- ✓ Paper focuses on consumption inequality, but also **the mean of consumption** matters for policy makers.
- ✓ Are **contribution caps or minimum pensions useful** in the Polish pension system? Welfare analysis suggests no.
- ✓ What does it imply for macroeconomic policy that minimum pensions address only inequalities coming from endowments and not from preferences?
- ✓ Is Poland's **transition to the DC pension system desirable**? Maybe a welfare analysis comparing DB and DC system could settle this.

Comment 2 - Role of demographic transition

- ✓ There are **many factors** contributing to the results - demographics, pension system and instruments. This makes the paper difficult to follow sometimes;
- ✓ The demographic transition is the most important factor for the results obtained: it should be **analysed in a separate subsection** of the paper as a benchmark for the other policy experiments;
- ✓ The intuition of the results would be more clear if we could see the final steady state **prices** corresponding to the various policy experiments;
- ✓ Presenting **figures or a graph** describing the demographic transition would be useful for the overall understanding of the paper.

Comment 3 - The pension systems

- ✓ Is the DC system less advantageous to the agents than the DB system?
 - ✓ The rate of return of the DC system depends on the demographics. We don't see the data, but working cohorts are probably decreasing, so return will be small;
 - ✓ The DB system in turn offers a very generous benefit by **running a deficit in the steady state**;
 - ✓ **the higher efficiency promoted by the DC system** is not incorporated in the analysis because agents do not internalize the functioning rules of the pension system.
- ✓ In the DC system, 80% of agents will live off the minimum pension. Maybe this should be discussed more?
- ✓ Any **policy implications** regarding the transition to the DC system?

Comment 4 - Ex ante heterogeneity

- ✓ Some models with ex ante heterogeneity cannot explain the increase in income, consumption and wealth inequality across the life cycle together with a relatively flat labor supply inequality across the life cycle (Storesletten, Telmer, Yaron (2001, 2004)).
- ✓ What about this model?
- ✓ What does Polish data tell us regarding income, consumption, wealth and labor inequality across the life cycle?