# Discussion of Platanakis & Sutcliffe

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# Summary

Paper uses a value-based approach to asses the redistributive impact of the reform of the second largest pension scheme in the UK in 2011.

- Comparison to "no reform" scenario in which rules remained unchanged.
- Zero-sum game between sponsor and (current & future) participants.

Pension rights accumulated before 2011 unaffected. Reform reduces the value of new accruals. No compensating wage differentials.

- Current retirees unaffected. Current workers and future participants lose (up to 60% of retirement income for future participants).
- Sponsor gains (£32,6 bln) due to lower total wage costs.

Important objective of paper is to stimulate awareness of redistributional  effects

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# Main comments: interpretation benchmark

"*We find that the pre-2011 scheme was not viable in the long run*" (abstract)

-- versus --

"*In October 2011, USS had a well-defined set of rules, the main features of which had remained unchanged since 1975 when the USS began. Therefore, a reasonable expectation for members in October 2011 was that the pension promises enshrined in the USS rules would be honored*" (introduction, p3)

- Second statement suggests that members expected the pre-2011 rules to remain in place for many decades and would apply also to future accruals
- Second statement consistent with e.g. survey evidence of expectations?
- Second statement fallacy? ("*I did not die since I was born in 1975. Therefore, a reasonable expectation for me is that I will live forever.*")

# Main comments: role of the "horizon year"

- Paper reports that sponsor gains by about £32,6 bln.

- My impression is that this key figure is also determined by the variable "horizon year" that appears to be arbitrarily chosen.
  - Gain sponsor = losses currently participants + losses future participants

- Increasing the "horizon year" would increase the number of future participants involved, and hence increases the sponsor gain.

# Main comments: paygo element

- *"To avoid the problem of back-loading, we only compute NPVs for cohorts whose members are pensioners or deceased at the horizon date, and not for cohorts with active or deferred members"*

- It appears to me that the analysis overlooks the impact of the rule change on the size of implicit debt in the pension system
  - Pension systems with back-loading includes a pay-as-you-go element.
  - In Dutch schemes: implicit debt is about 10% of current assets.

  - Plan sponsor is the "owner" of this implicit debt.
  - The reform may increase or reduce the size of the implicit debt in pension system.

# Minor comments

1. Modeling wage-income risk would be a valuable extension
   - pension benefits linked to wages, long-term relation between wages and stocks

2. Is a scenario set of N=5,000 sufficient for accurate results?
   - Large uncertainty at long simulation horizon

3. Focus is on quantitative point-estimate. Add qualitative analysis to indicate bandwith:
   - Loss for future participants is overestimated if benchmark was not considered viable
   - Gain for sponsor is underestimated if sponsor considers a longer horizon
   - Loss for future participants is overestimated if wage-linked benefits are worth less in presence of correlation between wages and stocks
   - Etc.