

# Discussion paper “Cutting One’s Coat According to One’s Cloth”

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# Relevance

1. Pension funds' recovery measures have led to lower pension annuities and the recession affected workers' wealth between 2008 – 2014.
2. Paper shows how changes in (pension) annuities influence workers' planning for retirement, i.e. their anticipated (minimal) level of expenses during retirement.

# Main points

1. Pension annuities dropped by 20% between 2008 – 2014 and workers' consumption floors during retirement decreased by 10%.
2. Fraction of people whose pension annuities is not sufficient to meet their consumption floor increased from 25% to 32%.
3. Without adjustments of consumption floor, this fraction would have increased from 25% to 50%.
4. If both pension annuities as well as the liquidation of all assets are taken into account the fraction would have increased from 10% to 16%.

# Main points

Novelties of this paper:

- Combination use survey data from respondents (consumption floor when retired) with administrative data from tax office (assets) and pension funds (projected pension annuities) for 2008 and 2014.
- The authors show how wealth shocks might influence **future** expenses during retirement.

# Comment 1: Pension annuities and crisis

- In the paper the reduction in pension annuities by 20% is related to the financial crisis and the subsequent recession.
- However, also the increase in life expectancy and the ageing of the population as a whole have affected pension funds' financial positions.

**To what extent is the reduction in pension annuities attributable to the crisis/recession and to other factors?**

- Can you disentangle the impact of the crisis, increase in life expectancy and the ageing population on the development of the pension annuities?

# Comment 2: LISS sample

- In 2008 the sample size was  $N=1,396$  and in 2014  $N=2,755$ .
- Between 2008 and 2014 the consumption floor, i.e. the minimum amount of money that people want to spend during their retirement, went down by 10% (keeping prices equal).

## **To what extent are the samples in 2008 and 2014 comparable?**

- Why was the sample size in 2014 twice as high as in 2008?
- How do you take into account any differences in sample composition when calculating average/median consumption floors?

## Comment 3: Knowledge about pension income

- In the paper drop in consumption floor is related to external shocks in pension income.
- However, people know very little about their pension.

# Comment 3: Knowledge about pension income

## Sources with information on respondent's own pension (DNB/DHS nov. 2015)

Age	25-34	35-44	45-54	55-64	65-74	>=75	all
None	48%	43%	38%	20%	35%	42%	35%
Yes, by myself, via <a href="http://www.mijnpensioenoverzicht.nl">www.mijnpensioenoverzicht.nl</a>	14%	15%	19%	35%	16%	7%	19%
Yes, by myself: via my 'uniform pensioenoverzicht' of my pension fund	9%	7%	10%	23%	9%	1%	11%
Yes, via my own 'uniform pensioenoverzicht' sent to me by my pension fund	13%	14%	15%	26%	17%	9%	17%
Yes, I contacted my pension fund myself	2%	1%	3%	8%	6%	1%	4%
Yes, my pension funds contacted me in an alternative way	28%	28%	28%	31%	37%	37%	32%
Yes, via my employer	4%	6%	5%	5%	5%	3%	5%
Yes, otherwise	1%	1%	1%	2%	5%	9%	3%

- 35% participants are not informed on their pension (November 2015)
- This holds especially for people below 45.

**Possible to control for differences in respondents' knowledge about their pension when analysing consumption floors?**

## Comment 4: Pension annuities

- Real value of pension annuities went down by 20% between 2008 and 2014.
- Inflation in that period was about 11%. No indexation explains about half of the 20% reduction. What about the other half?

**Could you provide a decomposition of the change in the real value of the pension annuities by its main drivers?**

# Comment 5: Value real estate

- 2008-2014: value of owner occupied real estate in the sample went down by 31.6% from EUR 247K to EUR 169K.
- The avg. value of house prices in NL went down by 20%.
- Large difference between development property in the sample and in NL.

## **Why is that?**

- How is the value of owner occupied real estate calculated?
- Why does the avg. value of owner occupied real estate for p25 went down from EUR 104.7K to EUR 0? Are p25 people in 2014 all renters?

I enjoyed reading your paper!