



Network for Studies on Pensions, Aging and Retirement

Ageing-driven pension reforms

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Summary

- A. Do reforms of collective pension plans across the world have something in common?
 - Answer: yes, less risk sharing via either a parametric reform, or a system reform.
- B. Is pension reform induced by population ageing?
 - Answer: yes, is consistent with a first best response to an ageing (actually longevity) shock in a normative model

1) “...pension reforms [...] imply a shift of risks [...] from workers towards retirees”

- How do you identify “less risk sharing” in the data?

	1970-2013	1970-1991	1992-2013
Coverage	111	54	57
Generosity and adequacy	152	68	84
Financial Sustainability	130	31	99
Work incentives	62	6	56

- How does “less risk sharing” help to improve sustainability of a (PAYG) pension system?

2) Normative vs. positive analysis

- Reality
 - Politicians implement pension reforms
 - Transfers during the transition prevent reforms.
- Your model
 - Pension schemes are used to optimize social welfare
 - Only analyse time-invariant pension arrangements in a stationary economy
- Please explain “Yet, we argue that our model describes the trend in actual decision making on pension arrangements fairly well.”

3) Causality

- “Ageing-driven pension reforms” suggest a causal relation between ageing and pension reforms
- Van Maurik et al. show that pension reforms coincide with business cycle shocks, not news about old age dependency ratio forecasts
 - (Side note: it turns out to be really difficult to explain immediate action after news about future old age dependency ratios)

4) Risk sharing

- Pros (from the intro)
 - Risk sharing in itself is beneficial as long as people are risk averse
- Cons (from the intro)
 - Risk sharing can deteriorate the functioning of labour markets when contribution rates in a collective plan are perceived as taxation.
 - A risksharing collective of generations always has to deal with discontinuity risk
- This model
 - Trades of volatility of consumption of the young with volatility of consumption of the old in a model without feedback effects.

5) Intergenerational transfer (PAYG)

- You propose

$$t_p = \left(\frac{\phi_p \mu + (1 - \phi_p) E(\mu)}{\mu} \right) (1 - \beta) \omega w$$

- This imposes that transfer in PAYG transfer is unrelated to realisation of financial shock.
- Evidence shows that PAYG systems were created and redesigned to protect elderly after a financial shock (see e.g. Perotti & Schwienbacher, 2009 and Ciurila & Romp, 2016)
- The model focuses on “risk sharing” (captured by ϕ_b).
 - The “average” payout is determined by the replacement rate (ω) and the share of pensions (β).
 - Are the results robust if you endogenise these parameters?