Discussion of

Pension Fund Restoration Policy in GE

by P. Kastelein

N. Schweizer, Dept. EOR, Tilburg University

Netspar Pension Day 2016

Introduction

- Q: How do pension funds' restoration activities after a financial crisis affect macroeconomic variables like labor supply?

Introduction

- Q: How do pension funds' restoration activities after a financial crisis affect macroeconomic variables like labor supply?
- This is basically a Macroeconomics paper

Introduction

- Q: How do pension funds' restoration activities after a financial crisis affect macroeconomic variables like labor supply?
- This is basically a Macroeconomics paper
- As so often in Macro: the model is complex with a long list of assumptions each of which looks a bit restrictive...
- For instance: Perfect foresight even though there just was a shock... Agents now wait for 20 years as the economy returns to its steady state along a predictable path

Introduction

- Q: How do pension funds' restoration activities after a financial crisis affect macroeconomic variables like labor supply?
- This is basically a Macroeconomics paper
- As so often in Macro: the model is complex with a long list of assumptions each of which looks a bit restrictive...
- For instance: Perfect foresight even though there just was a shock... Agents now wait for 20 years as the economy returns to its steady state along a predictable path
- Always a bit of a tension: As long as the model is not realistic enough to provide convincing quantitative results, a simpler model (say: without firms and a central bank) might do as well...

Basic Strategy

- Take a standard macroeconomic model which includes both workers and retirees (and firms, and a central bank, and a government)
- Here: Kara and von Thadden, Macroeconomic Dynamics, 2016 on *Interest Rate Effects of Demographic Changes in a New Keynesian Life-Cycle Framework*

Basic Strategy

- Take a standard macroeconomic model which includes both workers and retirees (and firms, and a central bank, and a government)
- Here: Kara and von Thadden, Macroeconomic Dynamics, 2016 on *Interest Rate Effects of Demographic Changes in a New Keynesian Life-Cycle Framework*
- Rename the Government into Pension Fund and adjust its action space accordingly
- Analyze the pension fund's activities with the same methods usually applied for analyzing government interventions

Basic Strategy

At first sight, calling the government a pension fund seems like a bold move...

Three possible cases:

(i) A pension fund is pretty much the same as a government, at least for the present purpose

(ii) They do differ, but the setting actually fits the pension fund even better than the government

(iii) The model is not suitable for describing pension funds...

Basic Strategy

At first sight, calling the government a pension fund seems like a bold move...

Three possible cases:

(i) A pension fund is pretty much the same as a government, at least for the present purpose

(ii) They do differ, but the setting actually fits the pension fund even better than the government

(iii) The model is not suitable for describing pension funds...

One can come up with arguments for (ii), e.g., pension funds do not have get reelected...

Yet at present, the paper does little to defend its main modeling innovation

Governments vs Pension Funds

At present, the paper does relatively little to defend its main modeling innovation:

- There can be many pension funds, but can there be multiple governments?

Governments vs Pension Funds

At present, the paper does relatively little to defend its main modeling innovation:

- There can be many pension funds, but can there be multiple governments?
- An assumption like the following may need further justification when moving from governments to pension funds:

  "the pension fund announces its policy after the shock materialises. The other agents in the model (workers, retirees, producers and the government) then make their decisions"

Governments vs Pension Funds

At present, the paper does relatively little to defend its main modeling innovation:

- There can be many pension funds, but can there be multiple governments?
- An assumption like the following may need further justification when moving from governments to pension funds:

  "the pension fund announces its policy after the shock materialises. The other agents in the model (workers, retirees, producers and the government) then make their decisions"
- "As is typically the case in reality, the [fund's] policy [is] determined on the basis of the fund's financial position rather than [participants'] utility"

Governments vs Pension Funds

At present, the paper does relatively little to defend its main modeling innovation:

- There can be many pension funds, but can there be multiple governments?
- An assumption like the following may need further justification when moving from governments to pension funds:

  "the pension fund announces its policy after the shock materialises. The other agents in the model (workers, retirees, producers and the government) then make their decisions"
- "As is typically the case in reality, the [fund's] policy [is] determined on the basis of the fund's financial position rather than [participants'] utility"
- "the non-Ricardian nature of the pension fund"

Workers and retirees

Model of life-cycle seems to be a bit stylized for present purposes:

- stationary demographic structure
- Each period, agents move to retirement with some prob., and from retirement to death with some prob.
- Working life and retirement calibrated to have mean (and standard deviation) of about 45 and 15 years (also conditionally)
- Retirees work, save and consume like workers, they are just a bit less efficient and might be dead in the next period

Workers and retirees

Model of life-cycle seems to be a bit stylized for present purposes:

- stationary demographic structure
- Each period, agents move to retirement with some prob., and from retirement to death with some prob.
- Working life and retirement calibrated to have mean (and standard deviation) of about 45 and 15 years (also conditionally)
- Retirees work, save and consume like workers, they are just a bit less efficient and might be dead in the next period

- What about a nice model where agents just work for 45 years and then spend another 15 in retirement?

Final comments

- Presentation at present is too close to Kara & von Thadden – the paper clearly makes an original contribution but this needs to become more evident from the text

Final comments

- Presentation at present is too close to Kara & von Thadden – the paper clearly makes an original contribution but this needs to become more evident from the text
- Decide whether you want the text to be accessible to non-macroeconomists...

Final comments

- Presentation at present is too close to Kara & von Thadden – the paper clearly makes an original contribution but this needs to become more evident from the text
- Decide whether you want the text to be accessible to non-macroeconomists...
- Where are the business cycle effects in the paper?

Thank you!