

Pension reform with entrepreneurial choice

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Discussion by:

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SUMMARY OF THE PAPER

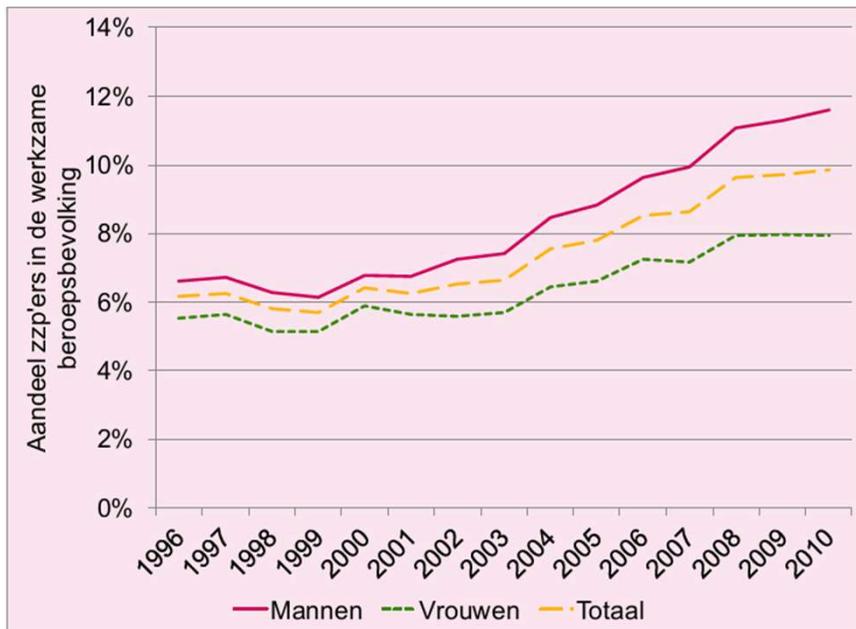
- Paper analyzes the impact of pension reforms in Germany on occupational choice
- Analysis is based on a numerical general equilibrium model with intra- and intergenerational heterogeneity
 - Agents differ in terms of age, skill level (low/medium/high) and occupational status (worker/entrepreneur)
- Income is subject to idiosyncratic productivity shocks
- Three reforms are considered
 - Forced participation for entrepreneurs into pension system
 - Transition to flat benefits (Beveridgean PAYG)
 - Transition to funded DC

MAIN RESULTS

- Including entrepreneurial choice allows for more realistic wealth distribution in the top tail
- Pension systems affect entrepreneurial choice directly through redistribution and indirectly through changes in factor prices or borrowing constraints
- Pension reforms might affect different types of entrepreneurs in different directions
- Allowing for entrepreneurial choice might increase labour-supply distortions induced by reforms compared to studies that do not consider this extensive margin

POLICY-RELEVANT TOPIC

- Position of self-employed one of the (key) drivers for pension redesign, also in the Dutch case
- Dutch occupational pensions exclude entrepreneurs and contain disincentives to become self-employed



Bron: EBB.

	Net benefit
Men	<i>% pension income</i>
Participation from age 25-66	-8.4
Participation until age 45	-37.5
Participation from age 45	15.4
Women	
Participation from age 25-66	-2.2
Participation until age 45	-29.9
Participation from age 45	22.6

WHAT DRIVES SELF-EMPLOYMENT?

- The literature points to multiple factors that determine entrepreneurial choice, but policy reforms seem to be important (van Es, van Vuuren, 2010)
- The paper could gain on (empirical) relevance by embedding it more in the (German) institutional context
 - To what extent has the number of entrepreneurs increased?
 - At what age do people enter (or exit) self-employment?
 - What drives this development?
- The model matches total fraction of entrepreneurs but what about other stylized facts (like age distribution, life-cycle patterns, etc.)?

COMPREHENSIVE PAYG SYSTEM

- Model predicts that a comprehensive PAYG scheme increases the number of lower-skilled entrepreneurs
- The argument for this is that there is no need anymore to become worker for accumulating pension wealth
- However, what drives this outcome given that ...
 - Agents are rational and voluntarily save for old age
 - Private savings typically have a higher rate of return
 - Pension scheme does not insure idiosyncratic income risks
- One of the intuitive reasons to implement this reform, i.e. myopia, is not taken into account

FUNDED PENSION SYSTEM

- Reform replaces PAYG scheme by private savings
 - Existing pension claims financed by payroll tax
- Why does this depress labour supply in the model?
 - Reform transforms implicit debt into explicit debt
 - In both cases interest payments on debt are distortionary
 - Change in tax regime, from EET to TEE (?)
- How does this relate to overall efficiency loss due to the fact that *“the loss of longevity insurance by far outweighs lower distortions of labor supply (p.19)”*
- How does this result change if funded scheme provides longevity insurance, like in the Dutch case?

EXTENDING REFORM ALTERNATIVES?

- Reform scenarios focus on two dimensions:
 - No participation for entrepreneurs in pension scheme or mandatory participation
 - Type of pension scheme (Bismarck PAYG / Beveridge PAYG / Funded DC)
- The paper only analyses a subset of possible options

	Bismarck PAYG	Beveridge PAYG	Funded DC
No participation	✓	✓	✓
Mandatory participation	✓	✗	✗