

Public Pension Guarantees and Moral Hazard

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Scope

Governments or public insurance schemes sometimes provide guarantees to investors (participants) in private pension schemes. There are parallel problems between these guarantees and other guarantees such as deposit insurance in that official guarantees can lead to moral hazard.

To illustrate, in the case of pension funds, this could take the form of an overly risky investment strategy.

Research Goals

The moral hazard phenomenon will be explored both theoretically and empirically. In order to explore whether pension guarantees indeed lead to moral hazard, investment strategies of pension funds that are under different official guarantee regimes in the same country or across countries will be compared. The possibility of moral hazard implies that pension guarantees may have to be accompanied by strict investment regulation of pension funds.