

Discussion of
Pension Fund Restoration Policy in GE
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Introduction

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- 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*

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- 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...

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

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- “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)
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- 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?

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- Where are the business cycle effects in the paper?

Thank you!