

Discussion of 'Designing Pension Plans According to Consumption Savings Theory'

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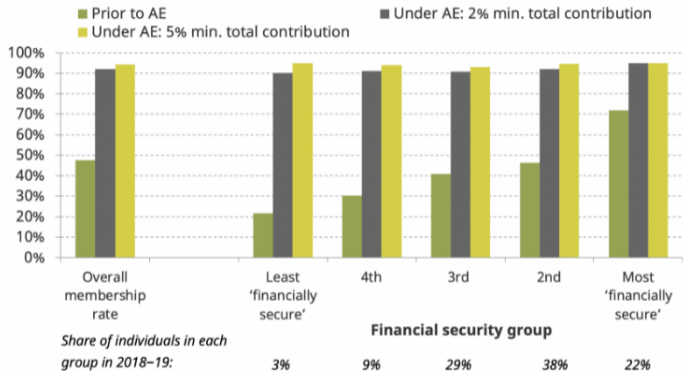
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- Increasing use of DC pension plans with mandatory contributions (compulsory savings schemes). Why?
 - Agents may be **time inconsistent** \implies undersave
 - Rational individuals may undersave in presence of **state insurance** ('Samaritan dilemma')
- Such plans boost savings but impose costs on agents
 - Pension pots are **illiquid wealth** \implies less scope for consumption smoothing following transitory shocks
 - Risk of **oversaving** for some individuals

- Schlafmann et al. propose savings rule that adjusts according to age and assets
- Evaluate using life-cycle model and show that simple rules
 - Increase consumer welfare (for both rational model and time inconsistent model)
 - Maintain average replacement rate
 - Reduce inequality in ex-post replacement rates
 - Reduce stock market participation (greater correlation between disposable income and stock returns)

- Simple adjustments that policymakers can implement in real world
 - Linear rule in savings and balances relative to income
- Leads to welfare improvements in models with both rational and time-inconsistent agents
- Relevant to other debates without compulsory savings policies - e.g. auto-enrolment into DC schemes in UK

Workplace pension participation of eligible employees



Source: Bourquin, Cribb and Emerson (2020)

- Two factors that increase distortions of baseline (inflexible) savings system
- **Housing**
 - Young need liquid wealth to save for a deposit
- **Early/endogenous retirement**
 - Baseline system encourages oversaving by some - induces early retirement?

- Role of aggregate shocks
 - Imply that replacement rates change (e.g. if individuals retire in recession) (?)
 - Not sure of the role of these in theory or estimation
- High rates of risk aversion ($\gamma = 14!$)
 - Selected to fit (low) equity share conditional on participating
 - Exaggerates benefits of flexible savings rule?

- Really interesting paper - a case of 'smart paternalism'!
- Related to ongoing debates about paternalism in pension savings
 - Auto-enrolment into DC schemes
 - 'pension freedoms' (compulsory annuity purchase at retirement)
 - Withdrawal (at penalty rate) from retirement accounts
 - Authors propose a middle way avoiding some of the pitfalls
 - General adequacy of retirement saving as assessed through LC models (Crawford and O'Dea, 2020)