

DIW Applied Micro Seminar

Private Pensions and Public Pension Design

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Abstract:

In most developed countries government spending on means-tested transfers to retirees is small relative to that on (non-means-tested) public pensions and subsidies of private pension saving. This paper investigates whether governments are getting this balance right. The framework used is a very rich lifecycle model which includes each of public pensions, private pensions and means-tested support for retirees. Once features are estimated using a combination of survey data and linked administrative data, the model is used to assess the optimal (from an ex-ante perspective) split between public pensions and means-tested transfers to the elderly under different systems of tax support for private pension saving. The optimal mix between means-tested transfers and public pensions is shown to depend on the tax treatment of private pensions. Revenue-neutral welfare-improvements can be obtained by reducing the generosity of each of private pension subsidies and means-tested transfers, balancing the budget through increases in the generosity of the progressive public pension.