

Government Subsidized Individual Retirement System

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Discussant

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- Turkey runs a high CA deficit i.e. savings is lower than investment
- Government encourages to increase savings by introducing individual retirement system in which it makes direct contributions to the individual retirement accounts (rather unusual)
- The paper aims to quantify macroeconomic impact of this policy
- It builds a multiperiod OLG model with
 - Households – maximize life-time utility as a function of consumption (labor supply is inelastic), have portfolio of ordinary assets, individual retirement assets and government contribution account, it can switch on and off the private scheme while following certain rules
 - Production – Cobb-Douglas technology, real rate of capital return and real wage determined in a perfectly competitive environment
 - Financial firms – operate individual retirement accounts, collect management and operation fees

- Government – runs balanced budget, on the expenditure side it consumes and contributes to individual retirement accounts and on the revenue side it collects income tax, capital income tax and consumption tax. Budget is balanced either by consumption or by income tax.
- Model is calibrated to match Turkish data
- It compares benchmark economy without IRA with three types of economy with IRA where
 - Budget is balanced by consumption tax
 - Budget is balanced by income tax
 - Financial institutions collect no fees

Comments and questions

- Is the steady state of the economy with IRA a long-run s.s. achieved in case all households behave optimally (given the calibration)?
- If so, how long would it take to reach this steady state?
- How far is the current Turkish situation from this steady state?
- Transition period is the most critical aspect in transforming pay-as-you-go retirement scheme into private scheme of IRA as it blows up public deficit for an extended period of time. Is this problem dealt with in the paper?
- Do you observe values predicted by the model simulations in real data (wage rise, capital stock increase, participation rate of households having IRA ...)?
- What is the wedge between ordinary account and IRA that would determine the investment decision?