

On a national retirement savings scheme with annuitisation and cross-subsidies: a two-tiered economic model

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ABSTRACT

We adopt a two-tiered economic approach to examine a national retirement savings scheme involving annuitisation and cross-subsidies. The first tier of our model is controlled by government, which mandates contribution rates, interest rates, and conversion into benefits. In contrast, agents decide on the level of contributions in the second tier, which earns interest at the market rate, reduced by an element reflecting the gap between actuarial market values and regulated values.

In our model, the level of non-mandatory savings (the second tier component) is a function of the variables controlled by the government. We analyse their effect on the level of non-mandatory savings and provide substantial insight on how the system functions.

This two-tiered model is implemented in Switzerland. We conclude with a discussion of the Swiss and Australian systems of retirement savings as seen through the lens of our model.

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