Pension Benefit Insurance and Pension Plan Portfolio Choice

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Abstract

Pension benefit guarantee policies have been introduced in several countries to protect private pension plan members from the event that a plan is underfunded when the sponsoring firm enters bankruptcy. Most of these public insurance schemes face financial difficulty and consequently policy reforms are being discussed or implemented. Economic theory suggests that such schemes will face moral hazard and adverse selection problems. In this paper we test a specific theoretical prediction: insured plans will invest more heavily in risky assets. Our test exploits differences in insurance arrangements across Canadian jurisdictions. We find that insured plans invest about 5 percent more in equities than do plans without benefit guarantees.

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