

Dynamic inconsistency in pension fund management

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We formulate the pension fund's problem of choosing an optimal pension scheme in an infinite, discrete-time setting as a sequence of Nash bargaining problems in which the members (contributors) of the fund are the bargainers and the disagreement points are determined by the utility levels they can attain by terminating contributions to the fund. We show that if the members are heterogeneous in their subjective time discount rates, then the sequence of the Nash bargaining solutions, obtained at each point in time, leads to an inefficient allocation of consumption processes for the members, thereby indicating a source of dynamic inconsistency in pension fund management.