



WP/18/155

IMF Working Paper

Self-insurance Against Natural Disasters: The Use of Pension Funds in Pacific Island Countries

by Si Guo and Futoshi Narita

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I N T E R N A T I O N A L M O N E T A R Y F U N D

IMF Working Paper

Asia and the Pacific Department

Self-insurance Against Natural Disasters:

The Use of Pension Funds in Pacific Island Countries

Prepared by Si Guo (APD) and Futoshi Narita (SPR)¹

Authorized for distribution by Alison Stuart

April 2018

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Abstract

Pacific island countries are exposed to significant risks from natural disasters. As a disaster relief measure, Fiji allowed pre-retirement pension withdrawals in the wake of Cyclone Winston in 2016. Motivated by this policy action, we provide a normative analysis of the use of early pension withdrawals after disasters, by setting up a life-cycle saving model with myopic households facing large natural disaster shocks. The model demonstrates the key trade-off between building up sufficient retirement savings and ensuring the access to savings against natural disaster shocks, and sheds light on welfare implications of early pension withdrawals.

JEL Classification Numbers: E21, H55

Keywords: Fiji, Insurance, Life-cycle model, Natural disasters, Pension, Small states

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¹ We thank Csaba Feher, Scott Roger, Alison Stuart and staff at the Reserve Bank of Fiji for helpful comments. Irene Zhang and Fatma Ibrahim provided excellent research and editorial assistance.

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