
Retirement Session: Discussion

Justin Wolfers
Wharton – U.Penn
CEPR, IZA & NBER

SOLE/EALE Conference

June 4, 2005

Research Questions

1. What are the implications of early retirement packages on the retirement decision?
 - Matias Eklöf and Daniel Hallberg
2. What are the welfare effects of social security reforms in France and Italy?
 - Raquel Fonseca and Thepthida Sopraseuth
3. Are the work incentives in the French retirement system on the wrong side of the Laffer Curve?
 - Francois Langot, Jean-Olivier Hairault and Thepthida Sopraseuth
4. What is the relationship between labor force participation and security claiming decisions?
 - Pierre-Carl Michaud
5. How common is “unretirement”, and what are its causes?
 - Nicole Maestas

Substantive Insights

1. Estimation of retirement equations may be biased if we don't take account of early retirement offers
 - Fully-articulated selection model
2. Welfare effects of social security reform are large, and vary by social class
 - Calibrated life-cycle simulation model
3. It is possible that there is a free lunch in social security reform, but it won't solve the funding problems
 - Same calibrated life-cycle simulation model
4. Retirement and social security participation differ, and are correlated within the household
 - Dynamic choice model allowing for within-household correlation
5. Unretirement is extremely common, and is anticipated by many
 - Thorough and imaginative descriptive econometrics

State of Retirement Modelling

Workhorse life-cycle model, represented by two papers in this session (FS and LHS)

- ◆ Forward-looking households maximize utility (inc. bequest motive) and choose:
 - Savings/Consumption
 - Labor/Leisure
 - Retirement and claiming
- ◆ State variables include:
 - Age
 - » Productivity
 - » Mortality risk
 - Employment status
 - » Unemployment or pre-retirement are absorbing states
 - Social status of dynasty
 - » Important because of bequest motive
 - Wealth
- ◆ Constraints include:
 - Reasons for social insurance
 - » Market incompleteness (idiosyncratic risk)
 - » Liquidity constraints
 - Social insurance system
 - » Rules and regulations
 - General equilibrium
 - » Wages
 - » Interest rates
 - » Social security budget balance

Implications of Today's Papers

- ◆ We need to expand this model to incorporate:
 - Stochastic early retirement offers
 - » Affects precautionary savings
 - » Will further deepen consumption-retirement puzzle (Consumption will drop as retirement approaches)
 - Decision to claim benefits separately from retirement decision
 - » Requires richer modeling of institutional structure
 - » And one more state variable (claiming)
 - Joint decision-making within households
 - » Dynamic household bargaining models are very complex (especially with differential mortality)
 - Unretirement

Retirement Transitions

Transitions within 5 years of Retirement			Proportion	In Workhorse Model?	Consistent with approach?
Work	Retirement	Retirement	52.5%	Yes	Yes
Work	Retirement	Work	15.1%	No	No
Work	Partial retirement	Partial retirement	10.5%	No	Yes
Work	Partial retirement	Retirement	12.7%	No	Yes
Work	Partial retirement	Work	9.1%	No	No

Potential explanations:

- Positive marginal utility of work at low hours
- Fixed costs of work create concavity (work every second year instead of part-time)

→ Implications for welfare analysis