APCTP SEMINAR

Optimal Retirement with Long-Run Income Risk

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포항 APCTP 회의실

We develop a retirement model with long-run income risk in which the wealth threshold for retirement is shown to be a function of the extent of the long-run income risk. By devising a new numerical algorithm, we solve the two-dimensional retirement problem. The two-dimensional retirement framework has changed quantitative and qualitative features of retirement strategies as suggested by the literature. Having derived the optimal life-cycle consumption/savings, investment, and retirement strategies, we then investigate the ability of the retirement model to explain two empirical results observed from the data. Consistent with the empirical evidence, we find that retirement flexibility makes the optimal portfolio invest less in the stock market. We also find that our model-generated portfolio share rises in wealth.

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