

(Un)expected retirement and the consumption puzzle

Margherita Borella (University of Turin and CeRP- Collegio Carlo Alberto)

Flavia Coda Moscarola (CeRP- Collegio Carlo Alberto)

Mariacristina Rossi (University of Turin and CeRP- Collegio Carlo Alberto)

Abstract

In this work we revisit the retirement consumption puzzle using Italian panel data. As emphasized in the literature, the observed consumption drop might be due to unexpected wealth shocks at retirement, which modify optimal consumption plans. Using an Euler equation approach, we test the impact of unexpected retirement on the consumption patterns of individuals around the age of retirement by using the panel component of the Survey of Household Income and Wealth (SHIW). This data set contains information on expected age of retirement, which can be used to distinguish between expected and unexpected retirement. We furthermore investigate the heterogeneous behavior of individuals with different educational levels, pension coverage and wealth. We do find evidence of a consumption drop at retirement especially for low educated people, individuals without a second pillar coverage and individuals with low wealth. Consumption drop at retirement seems to be rationally planned by individuals, rather than being a response to unexpected retirement.

Keywords: consumption, life-cycle, retirement puzzle

JEL classification: D91, J26