

The Life-Cycle Effects of Pension Reforms: A Structural Approach

Abstract:

To assess the life-cycle welfare effects of pension reforms, we provide a dynamic stochastic model of saving, portfolio choice and retirement featuring a rich characterization of the pension system. Relying on the exogenous variation from a sequence of Italian pension reforms, we identify and estimate the model, which is then used to draw implications of alternative pension policies. The validated model predicts substantial social security wealth effects on retirement, with the offset between public pension wealth and private savings softened when households can adjust their retirement decisions. We further find important distributional effects of pension reforms, with households' welfare decreasing more the later in the working life they face the reform. Our findings have implications for the design of pension policies and the support they might generate.

This paper is joint work with Claudio Damiano (Lund University and ETH Zürich).

Mario Padula

Full Professor of Political Economy, Ca 'Foscari University of Venice