Social Security and the Retirement Decision: Revisited[*]

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April 10, 2011

Abstract

This paper focuses on the political interactions between retirement decision and tax burden caused by social security (specifically, pension). The present paper extends the analysis of Matsuyama (2008), who focuses on feedback mechanism and investigates the effect of social security policy on retirement decision in the context of political economy by introducing PAYG-type pension into his model. In a Markovian political economic theoretical framework, in which incentives to retire early are embedded, we derive a political equilibrium with positive social security contribution rates and early retirement. The analysis shows that there is a possibility that the dynamics of wage is more complex when policy determination is endogenous by introducing voting behavior than exogenous case.

Keywords: Endogenous Retirement; Majority Voting; Markov Perfect Equilibrium; PAYG-type Pension.

JEL Classification: E61; H55; D72.