Mandatory Social Security Regime, Consumption and Retirement Behavior of Quasi-Hyperbolic Discounters[*]

Lin Zhang[†]

Graduate School of Economics, Osaka University, Japan

January, 2012

Abstract

This paper proposes a mandatory social security contribution regime in order to adjust the consumption and retirement age of quasi-hyperbolic discounters to the optimal level in the long-run perspective which is under exponential discounting. Within this mandatory pension contribution regime, this paper ascertains that the behavior of some generations can be adjusted to the optimal level while other generations cannot have both consumption and retirement age adjusted to the optimal level. With behavior adjusted to the optimal level, the adjusted generations' welfare is improved. However, the un-adjusted generations' welfare is deteriorated.

Keywords: Social security system, Consumption, Retirement, Quasi-hyperbolic discounting