Longevity, life-cycle employment and fiscal policy*

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Abstract

This paper contributes to the existing empirical literature regarding the employment and retirement behavior of individuals over the life-cycle based on dynamic structural models. In particular, we extend the previous literature by accounting for cohort-specific and cross-sectional heterogeneity in life-expectancy and by modeling in detail the effects of the tax and transfers system, including the pension system, on individual behavior. This study addresses the following two research questions. First, we analyze how longevity affects the optimal working behavior of individuals over the life-cycle, and second we evaluate the effects of various policy changes to the tax and transfer system designed to cope with the challenges posed by demographic change.

Keywords: Tax and transfer system, Pensions, Life-cycle labor supply, Retirement, Demographic change.

JEL Classification: C23, C25, J22, J64.

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