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**“Retirement choices in Italy: what an option value model can tell us”**

**(joint work with Rob Alessie, University of Utrecht and CentER)**

ABSTRACT: In this paper we study the retirement behavior of Italian workers using an option value model (Stock and Wise 1990). In order to capture preferences 'undisturbed' by reforms, we focus on the pre-reforms period. A new longitudinal archive allows us to overcome the common difficulty in estimation exercises represented by lack of information on seniority (i.e. years of service). The econometric analysis shows that individuals, in deciding whether to retire or continue to work, value more than twice a euro received as a retiree with respect to a euro earned as a worker. We then use the estimated parameters to simulate the effects on retirement of the switch to an actuarially neutral pension system, similar to the one introduced by the reform of 1995, and find that they are very small. As a policy implication, raising the minimum requirements seems more effective to increase the average retirement age than merely to rely on worker's choice with a 'neutral' pension formula.