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Lifecycle Impacts of the Financial and Economic Crisis on Household Optimal Consumption, Portfolio Choice, and Labor Supply

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WORKING PAPER 17134

DOI 10.3386/w17134

ISSUE DATE June 2011

The direct financial impact of the financial crisis has been to deal a heavy blow to investment-based pensions; many workers lost a substantial portion of their retirement saving. The financial sector implosion produced an economic crisis for the rest of the economy via high unemployment and reduced labor earnings, which reduced household contributions to Social Security and some private pensions. Our research asks which types of individuals were most affected by these dual financial and economic shocks, and it also explores how people may react by changing their consumption, saving and investment, work and retirement, and annuitization decisions. We do so with a realistically calibrated

lifecycle framework allowing for time-varying investment opportunities and countercyclical risky labor income dynamics. We show that households near retirement will reduce both short- and long-term consumption, boost work effort, and defer retirement. Younger cohorts will initially reduce their work hours, consumption, saving, and equity exposure; later in life, they will work more, retire later, consume less, invest

more in stocks, save more, and reduce their demand for private annuities.

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Acknowledgements and Disclosures



Citation and Citation Data



Published Versions

Chai, Jingjing, Raimond Maurer, Olivia S. Mitchell, & Ralph Rogalla. (2012). “[Lifecycle Impacts of the Financial and Economic Crisis on Household Optimal Consumption, Portfolio Choice, and Labor Supply](#).” In Reshaping Retirement Security: Lessons from the Global Financial Crisis. Eds. R. Maurer, O.S. Mitchell, and M. Warshawsky. Oxford: Oxford University Press. 120-151.

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Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

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