

# Optimal Retirement\*

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## Abstract

This paper examines the optimal retirement date over an individual's life cycle. By treating retirement decision as an optimal stopping time problem, we find that one would retire earlier if she has more initial wealth and retire later if she earns more wage income. Retirement becomes an issue only when one's wage plays a substantial role in one's wealth. We also find that the more the complementarity of consumption and leisure, the earlier one would retire. But the effect of elasticity of intertemporal substitution on retirement depends on the length of retired period. Conditioning on the choice of optimal retirement date, we reaffirm the result in literatures that consumption profile shows a smoother path than the profile of wealth.

**Keywords and Phrases:** Retirement; optimal stopping time.

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