

Accepted Manuscript

The Effects of Pre-/Post-Retirement Downside Consumption Constraints on Optimal Consumption, Portfolio, and Retirement

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PII: S1544-6123(17)30416-6
DOI: [10.1016/j.frl.2017.10.029](https://doi.org/10.1016/j.frl.2017.10.029)
Reference: FRL 813

To appear in: *Finance Research Letters*

Received date: 12 July 2017
Revised date: 6 October 2017
Accepted date: 27 October 2017

Please cite this article as: Byung Hwa Lim, Ho-Seok Lee, Yong Hyun Shin, The Effects of Pre-/Post-Retirement Downside Consumption Constraints on Optimal Consumption, Portfolio, and Retirement, *Finance Research Letters* (2017), doi: [10.1016/j.frl.2017.10.029](https://doi.org/10.1016/j.frl.2017.10.029)

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Highlights

- We investigate the optimal consumption, portfolio, and voluntary retirement choice problem in which an agent faces both pre-/post-retirement downside consumption constraints.
- We obtain the closed-form solutions using the martingale methods and analyze the effect of the constraints on the optimal policies.
- We observe that the retirement wealth level is monotonically decreasing with pre-retirement constraints, while it is monotonically increasing with post-retirement constraints.
- We find that the post-retirement downside consumption constraint has a significant impact on pre-retirement optimal policies. However, the pre-retirement downside consumption constraint does not act on post-retirement optimal policies.

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