

# **Optimal Decisions on Pension Plans in the Presence of Financial Literacy Costs**

Lorenzo Corsini and Luca Spataro

Pension reforms are on the political agenda of many countries. Such reforms imply an increasing responsibility on individuals' side in building an efficient portfolio for retirement. In this paper we provide a model describing workers' choices on the allocation of retirement savings in presence of a) mandatory contribution; b) portfolio decision; c) financial literacy costs. In particular, we characterise the results both from a positive and normative standpoint, by highlighting the determinants of the individual's choice, with special focus on financial literacy costs and wage level inequalities and by characterizing the optimal contribution rate to mandatory complementary pension schemes that public authorities should set. Our findings show the existence of a partition in the individuals, with individuals choosing pension plans on the base of their income class and with low income individuals always opting for the safer plans. Finally, we show that the exact partition on the base of income that we observe is actually influenced by financial literacy costs and thus does not only reflect the exact preferences of individuals in terms of returns and volatility but also the difficulties to access more complex plans.