

Tax Literacy and Retirement Planning in Japan

(税制優遇リテラシーと老後準備行動)

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Abstract

Facing the decreasing benefit of the public pension system in aging society, Japanese government offers various preferential tax breaks for encouraging individuals to have personal pension investments. However, effects of those tax breaks on individual decisions can depend on the level of tax literacy of people. While previous studies show that financial literacy can play a key role in increasing probability of having retirement saving plans, tax literacy have not been included among measurements of financial literacy and the role of tax literacy have not been well investigated. Using our unique dataset of middle aged Japanese, we measure tax literacy separately from financial literacy and investigate their role in decision of having different types of personal pension investments. We find that tax literacy plays a significant role on increasing probability of having personal pension investments with tax benefits while we find no significant effect of tax literacy on increasing the probability of having individual brokerage account without any tax benefits. On the other hand, we find no significant impact of financial literacy on increasing the probability of having personal pension investments after controlling for its endogeneity.

Keywords: Tax literacy, Retirement Planning, Time preference, Risk preference

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