

Flexible pensions and labour force withdrawal

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Flexible pension claiming

- Claiming can start in age range and the annual amount is actuarially adjusted
- Allows those financially restricted to reduce work earlier which may reduce work among elderly
- Allows a more gradual exit which may increase work
- May reduce inflow to disability
- The Norwegian pension reform in 2011 provides a good setting for analyses of flexibility
- We analyse the impact of a flexible pension option on the earnings distribution in the age range 62-65

Two key short term elements of the Norwegian pension reform 2011

- Access age to the public pension down 67 to 62
 - with actuarial adjustment and
 - contingent on minimum entitlements
- A proportionally earnings tested early retirement pensions (62-66) in the private sector, was replaced with a life-long non-tested social security supplement

Group subject only to flexible claiming

Identification:

- In a private sector firm without early retirement
- Meeting the post-reform requirements for pension claiming at 62
- At age 58: Earnings above 10 000 Euro and not receiving disability payment

Observed at age 59-65 over 2009-2014

- Control group: 59-61
- Treatment group: 62-65
- Treated: becomes 62 in 2011 or later

Outcome measure

Main measure is earnings rather than hours:

- Earnings may reflect also changes in type of job:
Responsibility, work load
- Earnings will capture multiple jobs or types of earnings in a convenient way
- Earnings is the relevant measure in a fiscal setting
- Hours must be aggregated over jobs

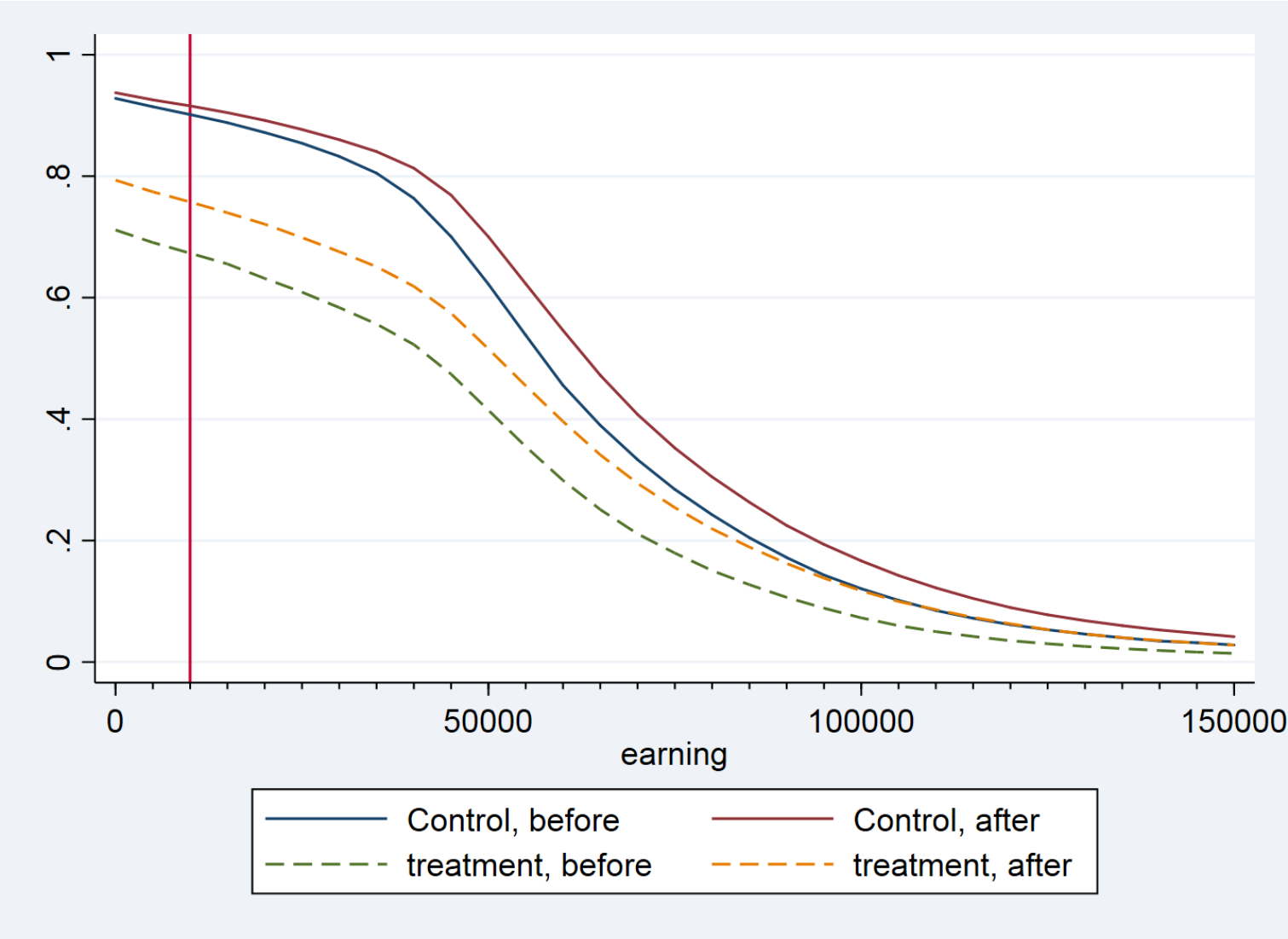
Average earnings

Age	2009	2010	2011	2012	2013	2014
59	66185	65847	70281	73688	75043	75087
60	62149	62774	65881	69046	71365	73254
61	58070	58075	61242	64720	65656	69040
62	53576	53651	55614	58848	60444	62269
63	46611	46734	.	50966	52706	54627
64	37213	41140	.	.	46841	48054
65	32551	31407	.	.	.	41150

Descriptive statistics

	Control		Treatment	
	Before	After	Before	After
Labour force participation	0.91	0.93	0.69	0.77
<i>Annual earnings</i>				
Average	62167	69551	42606	53073
75 percentile	79092	86604	65152	75521
Median	57196	63091	42585	51369
25 percentile	41242	46572	0	12069
<i>Covariates, average values</i>				
Years of education	12.8	12.9	12.6	12.8
Annual wage age 30-60	57109	60835	53730	57514
Liquid wealth age 58	147895	166108	134800	167171

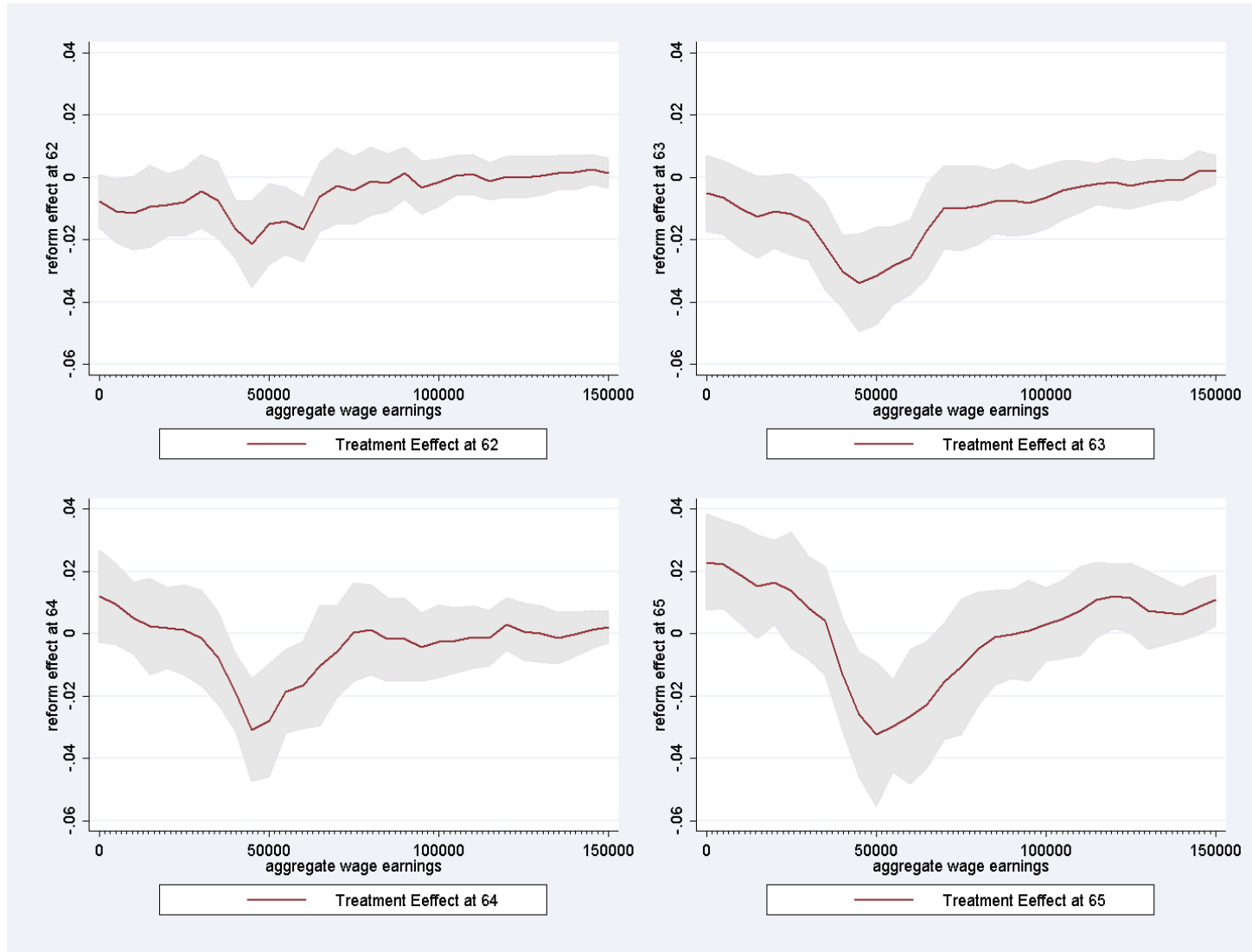
Earnings distributions



Estimation model

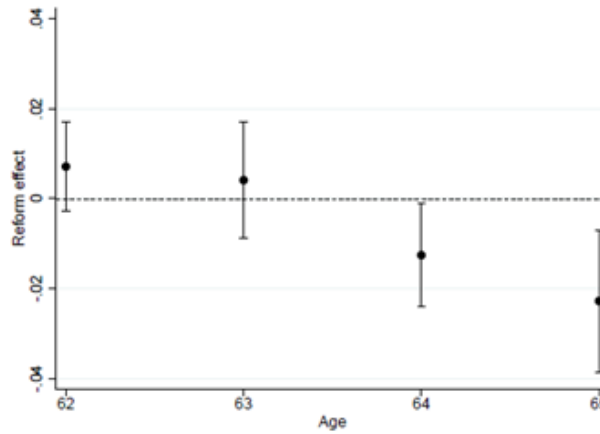
$$P(y_{ia} > y) = F\left(\alpha + X_{ia}\beta + \sum_a \gamma_a D_a + \sum_a \lambda_a D_a \Delta_{ia}\right)$$

Impact on the complementary earnings distribution

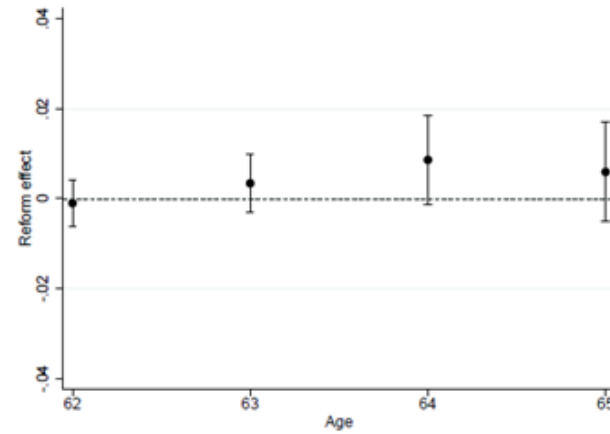


Impact on the weekly hours

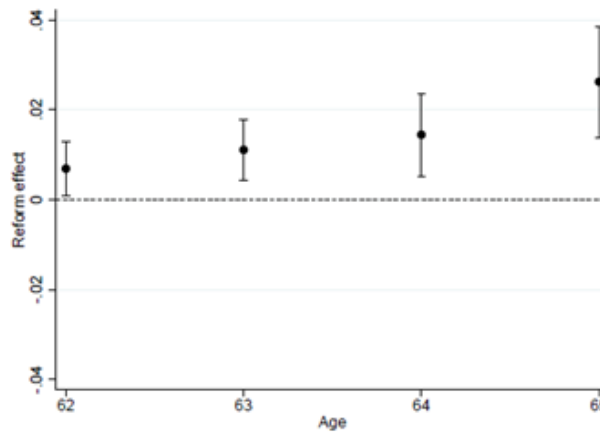
(a) Reform effect, non-working



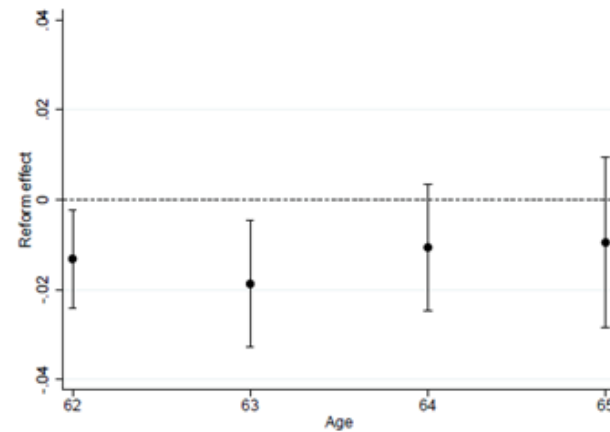
(b) Reform effect, short part-time



(c) Reform effect, long part-time



(d) Reform effect, full-time/over-time



Hours transitions

- Transitions from age 58 to 64, between hours group before and after the reform:
 - All stayed on more often, mostly in the same hours group
 - The largest shift among those with short part-time
 - Not much inter-hours-group change

Conclusion

- Significant increases at 65 in LFP: 2 percentage points
- Significant downward earnings shifts at 63-65 distribution: more with below average full time earnings
- More low earners/part time workers continued to work
- A reduction in inflow to disability