



mea

Flexible Retirement – An International Perspective

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Joint work with:

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Coalition Agreement between CDU/CSU and SPD in 2013

- 1. Increase the labor market participation and the hours worked of older workers*
- 2. Allow for a more flexible transition from work to retirement*

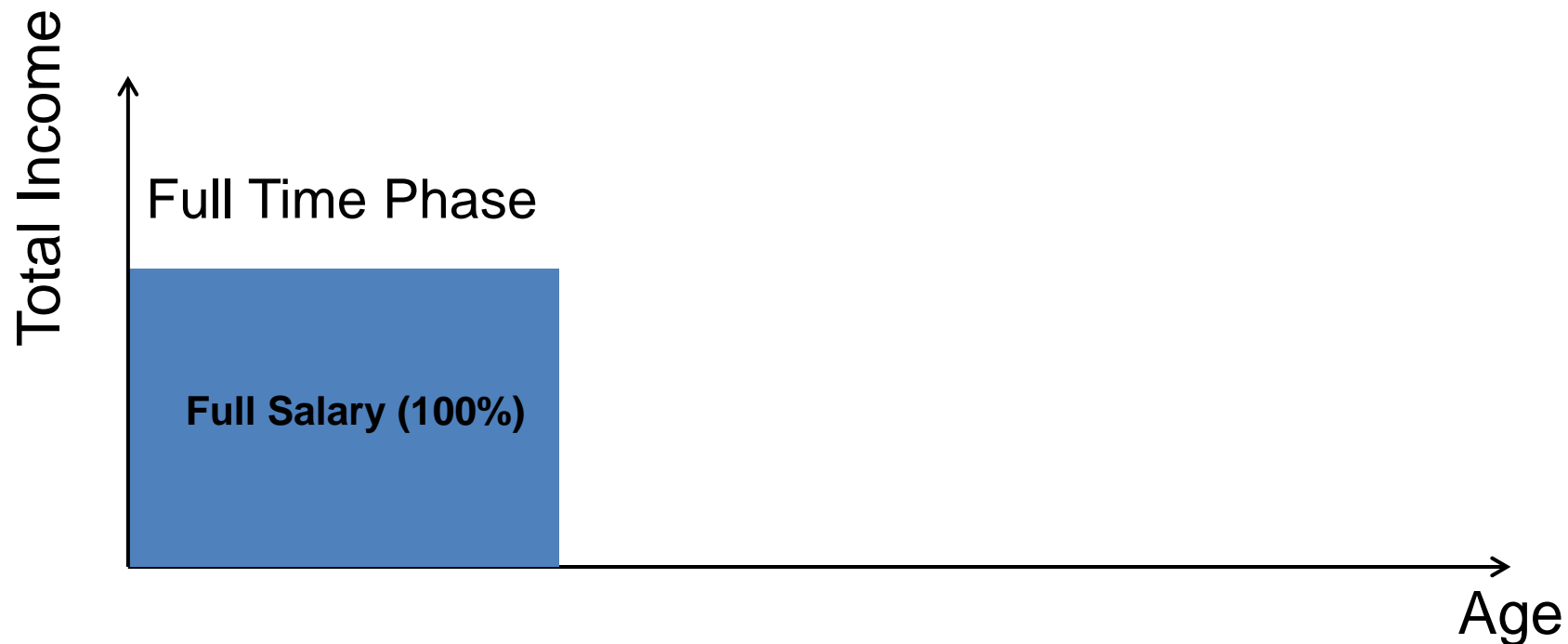
→ **Ex ante unclear whether more flexibility can achieve the first goal**



What is a flexible transition in retirement?

Definition:

- Reduction of working hours/effort of older workers
- Partial compensation of income loss

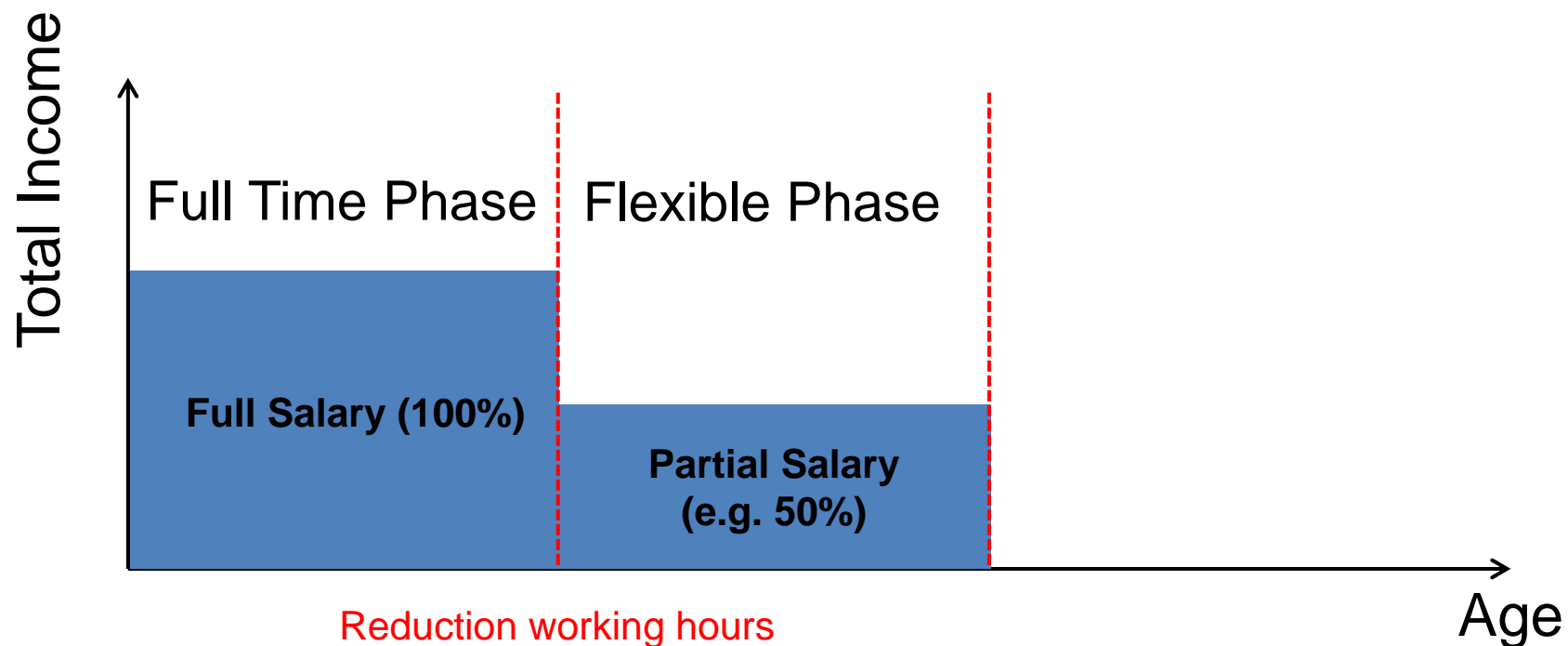




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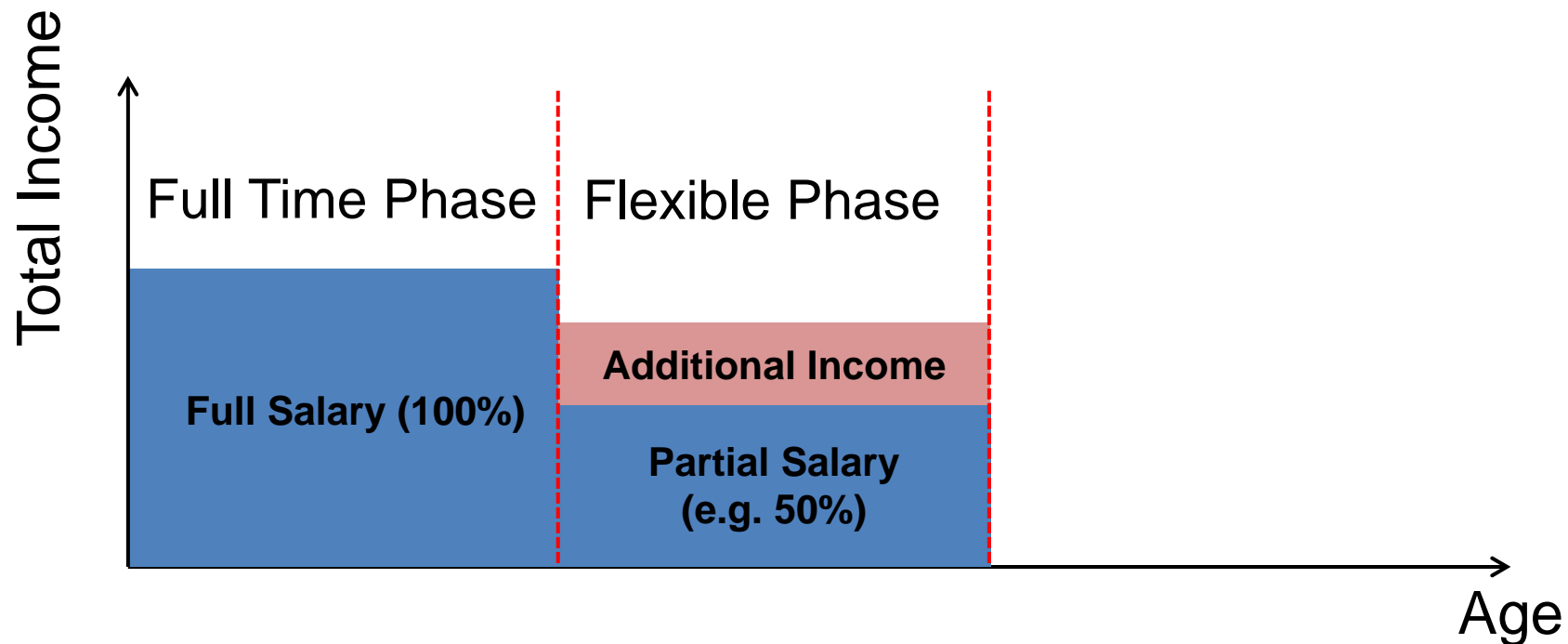




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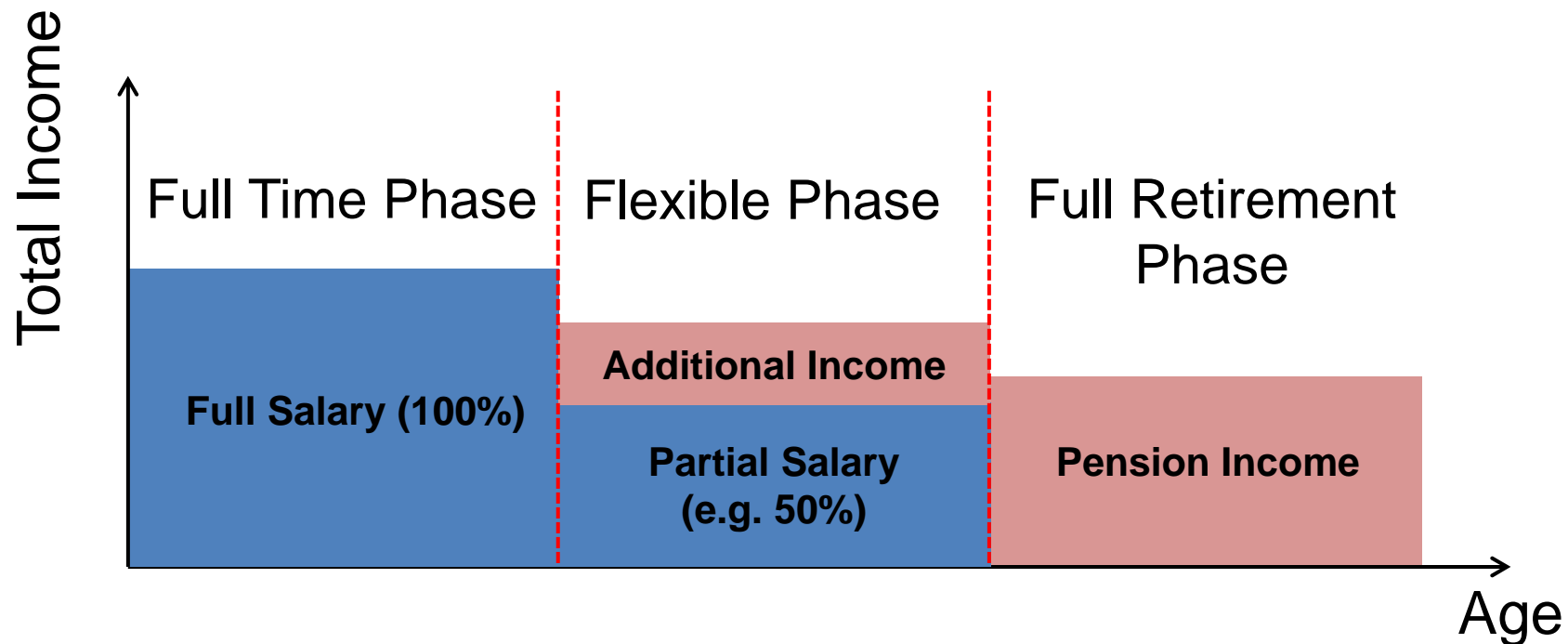




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What is a flexible transition?

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Benefits

- Gradual reduction of stress and responsibility
- Avoids abrupt change in life
- Preserves valuable human capital for employers

Goal

- Extension of working life and increase in total labor supply in hours



Potential effects of flexible transition

In a world where no flexible retirement transition exit, workers may only choose to

Group 1: Work full time

Group 2: Fully retire

Potential effects of the introduction of flexible retirement on

A. Labor market participation rate

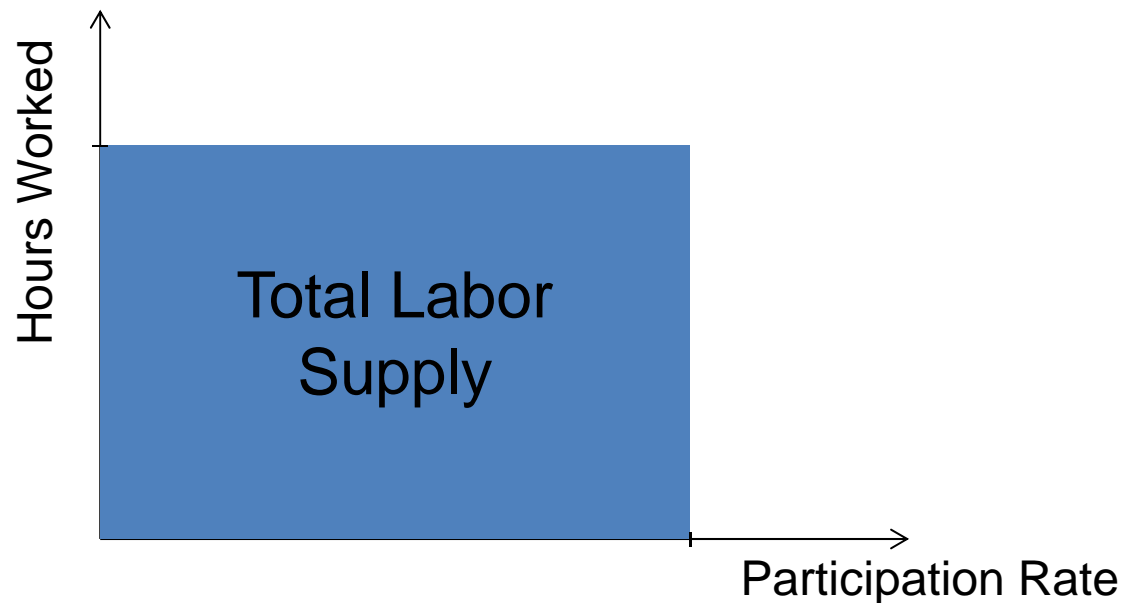
B. Total hours worked



A. Labor market participation rate (PR)

Group 1
Works full time, PR=100%
→ **no change in PR**

Group 2
Fully retires, PR=0%
→ **increase in PR**

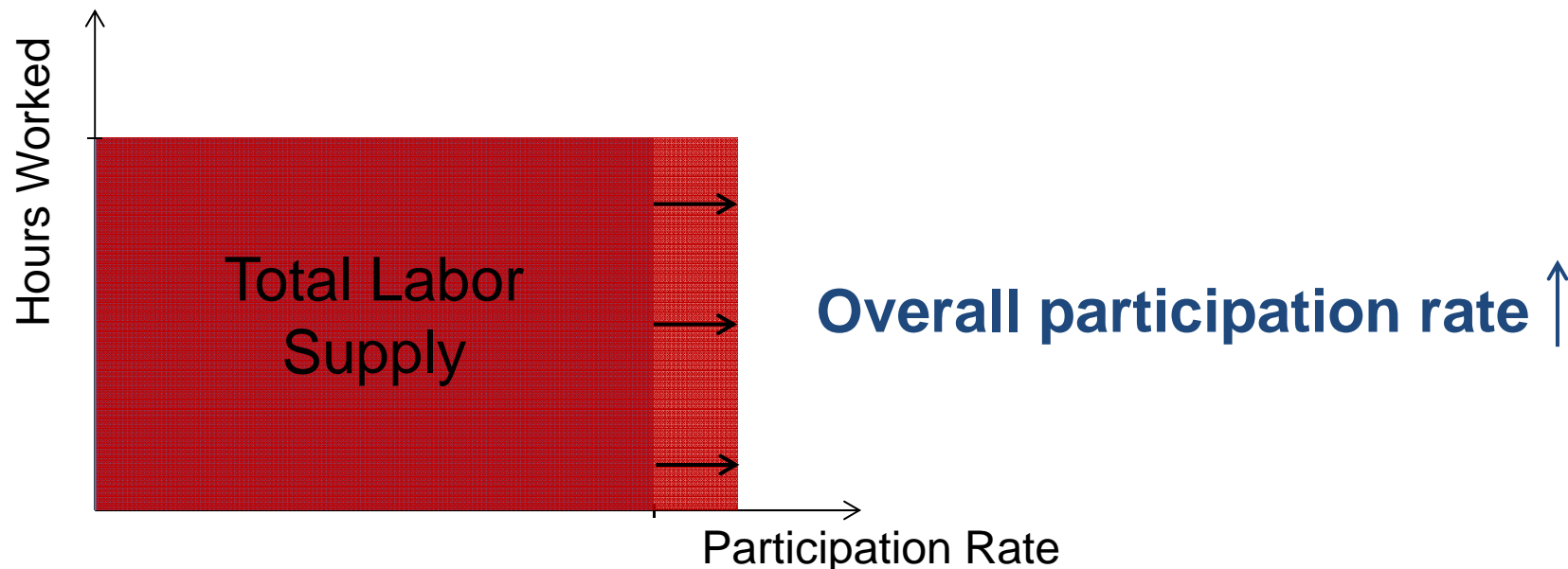




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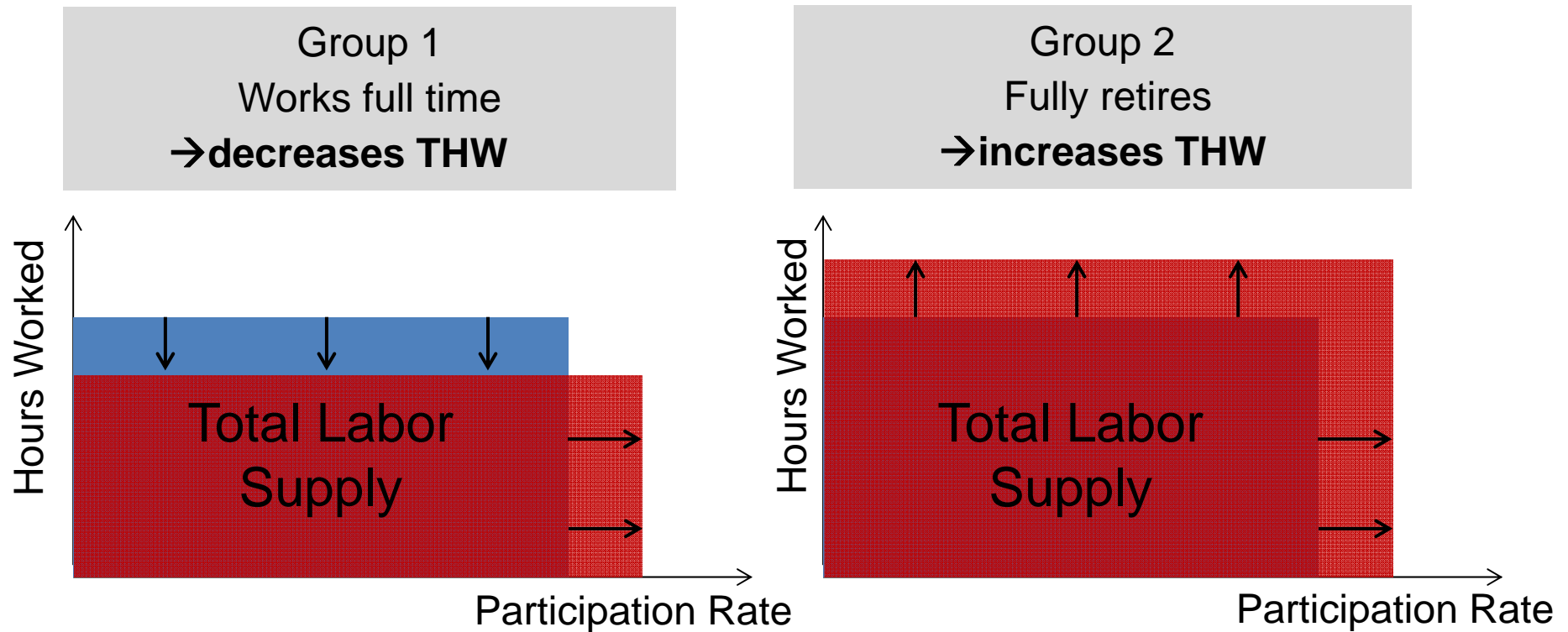
B. Total hours worked (THW)

Group 1
Works full time
→ **decreases THW**

Group 2
Fully retires
→ **increases THW**



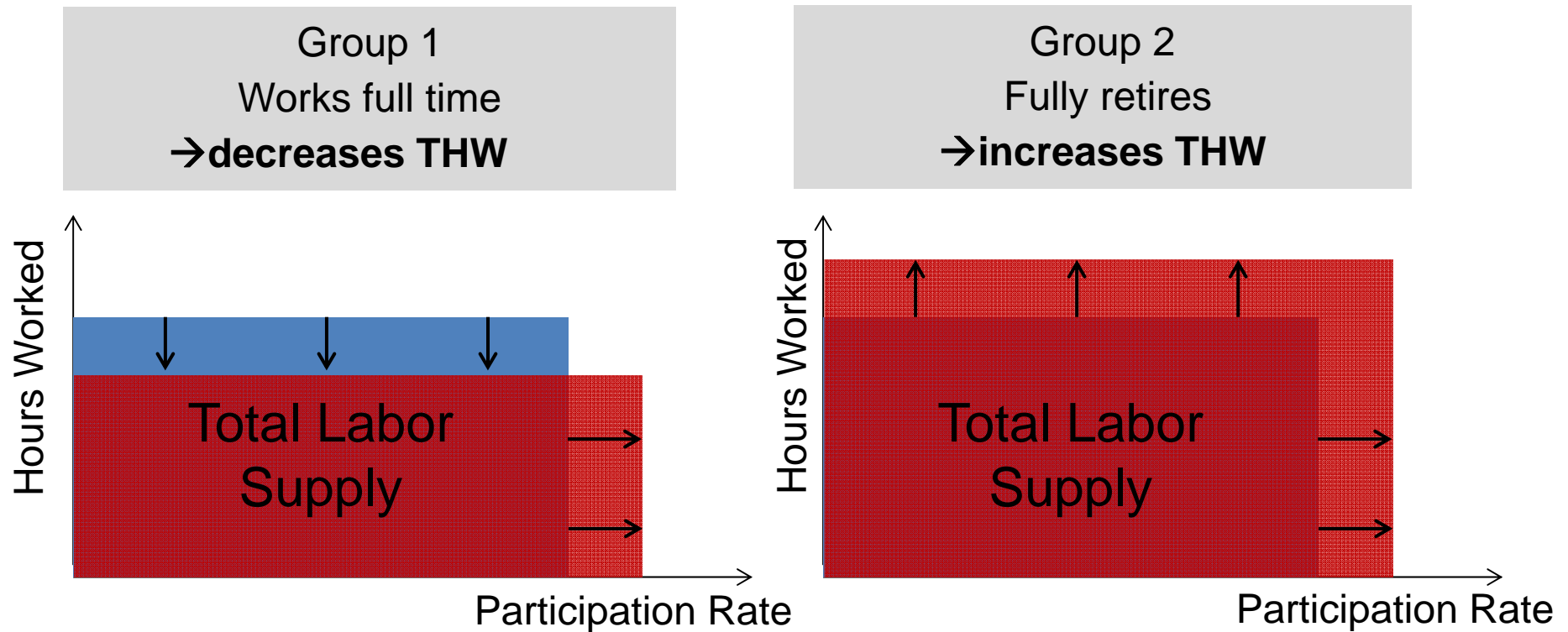
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→ Total hours worked ↓↑



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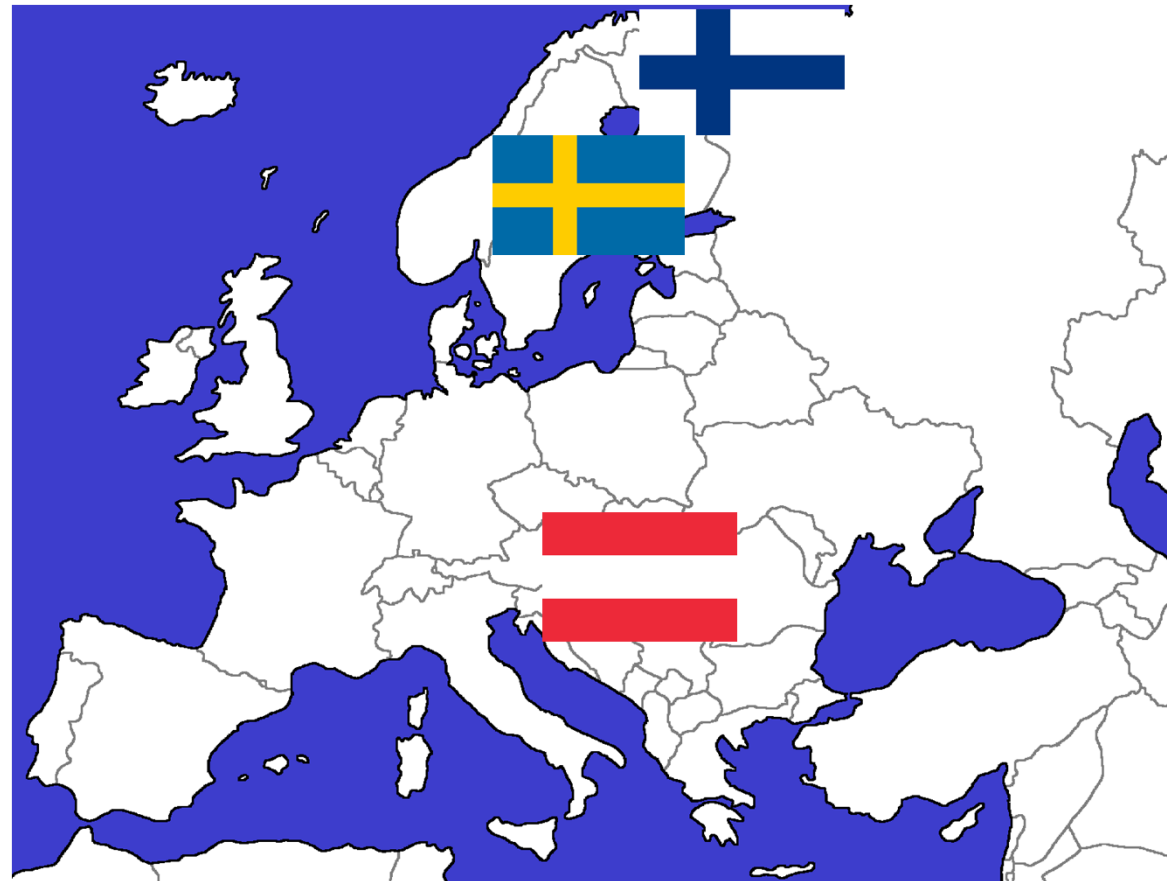


→ Total hours worked ↓↑

→ **Net effect on labor supply is unclear ex ante**



What can we learn about flexible pathways to retirement from other countries?



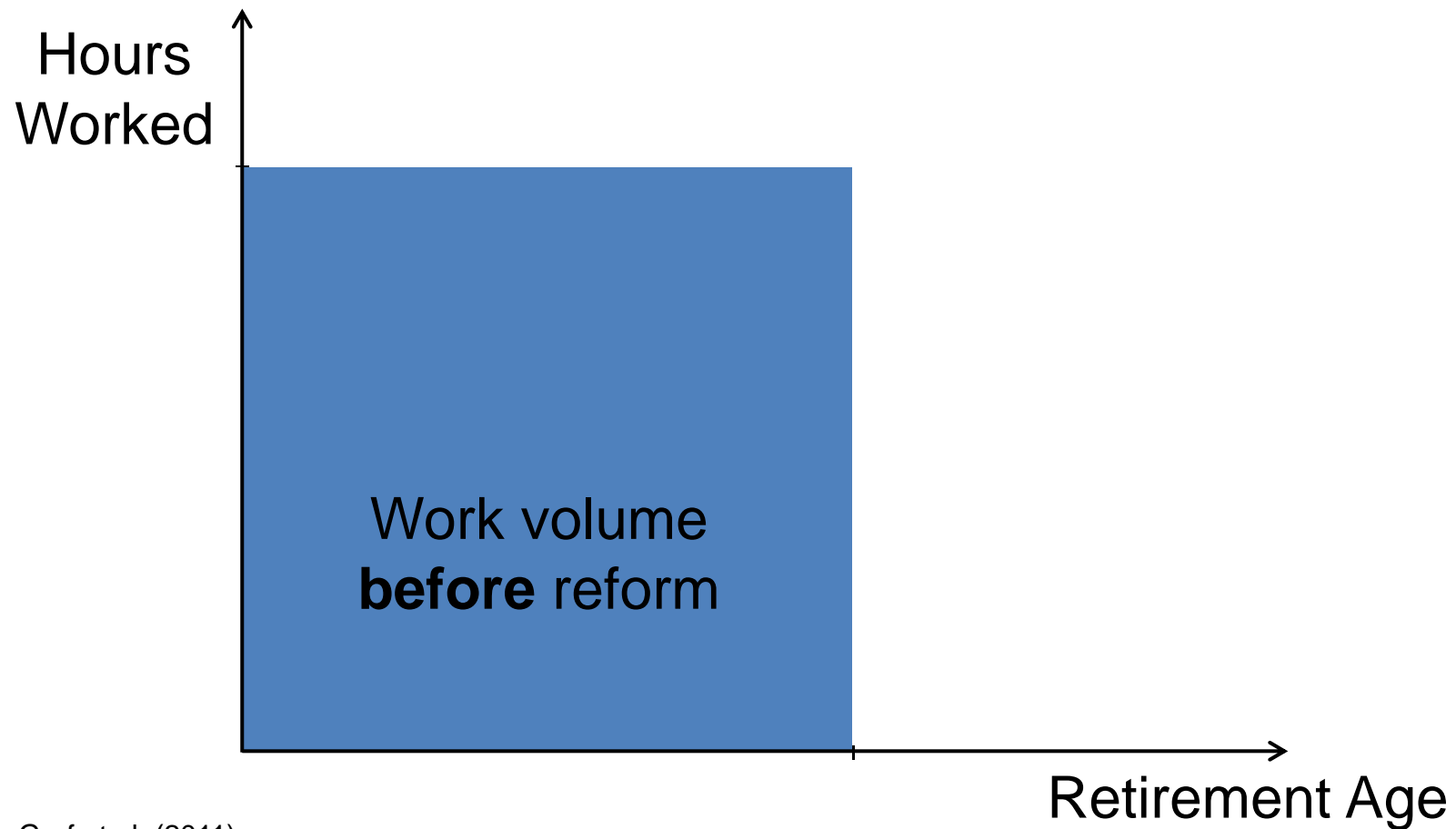


Subsidized Old-Age Part-Time Scheme in Austria

- Reform introduced in 2000
- Objective: Increase labor supply of older workers through flexible retirement
- Characteristics
 - Bilateral agreement between employer and employee
 - Reduce working hours to between 40% and 60% (block model possible)
 - 50% of income loss compensated (up to 75% of the original gross wage)
 - 100% of social security contributions
 - Minimum access age: 50 for women and 55 for men

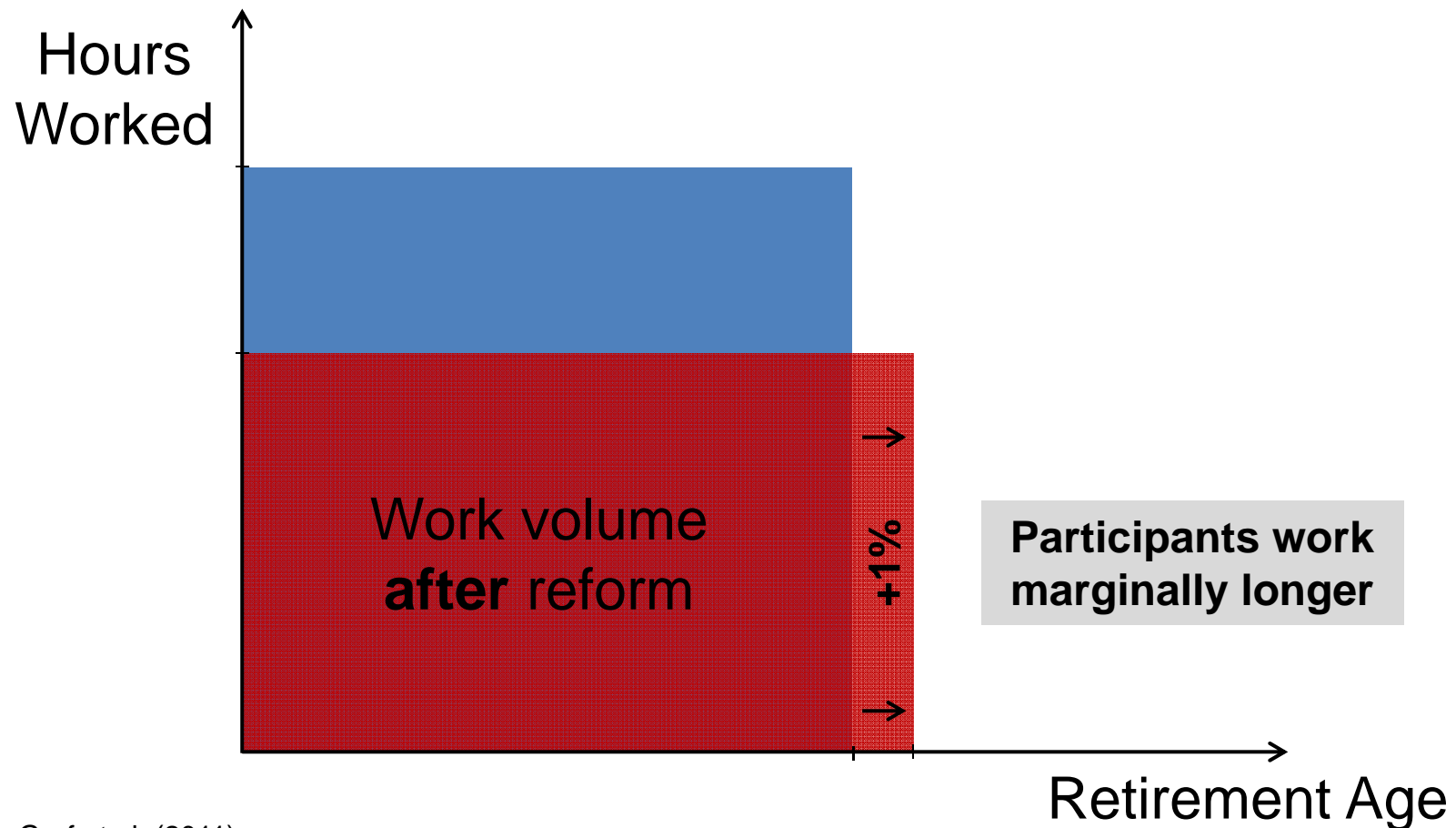


Results for Men



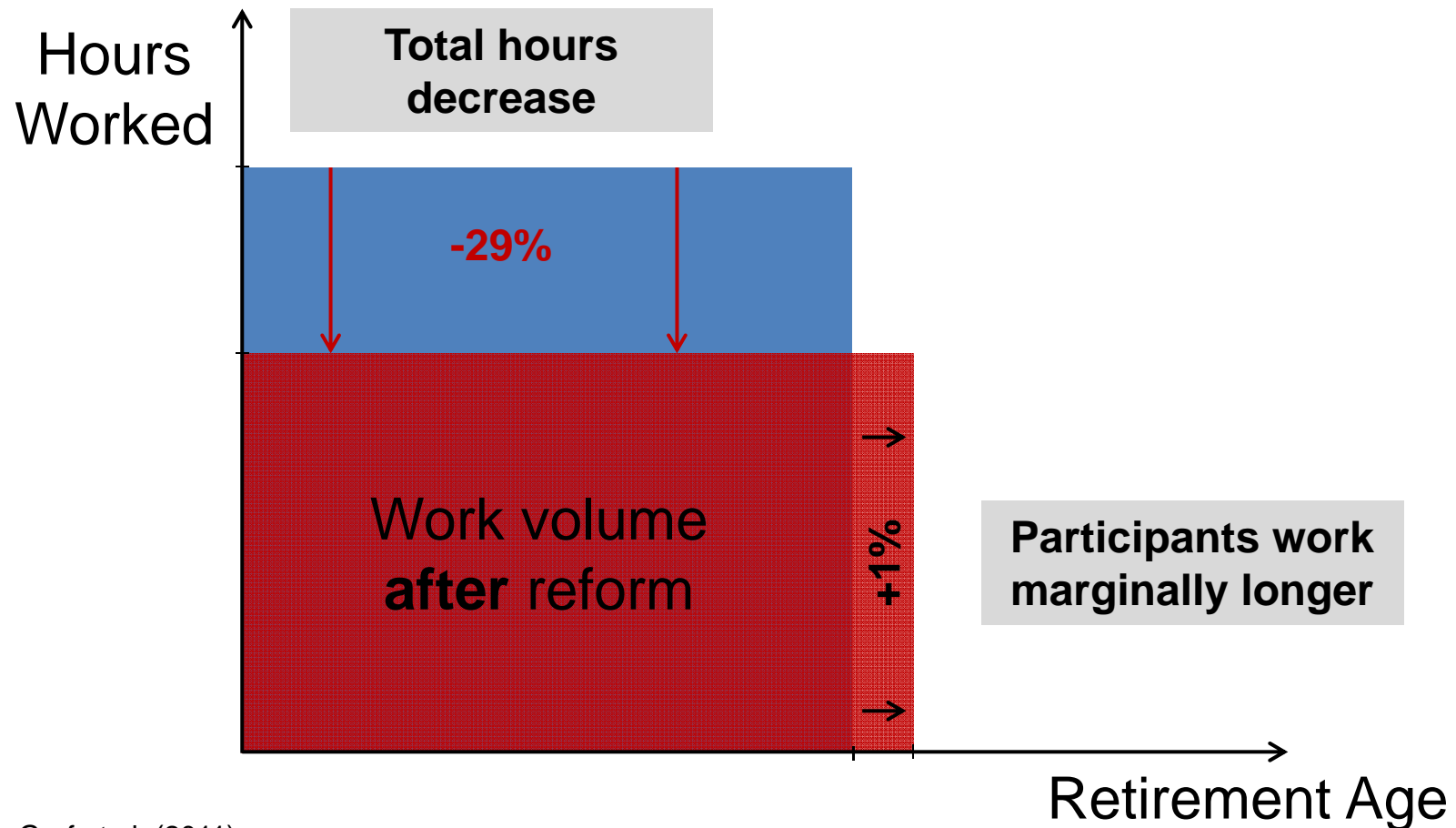


Results for Men



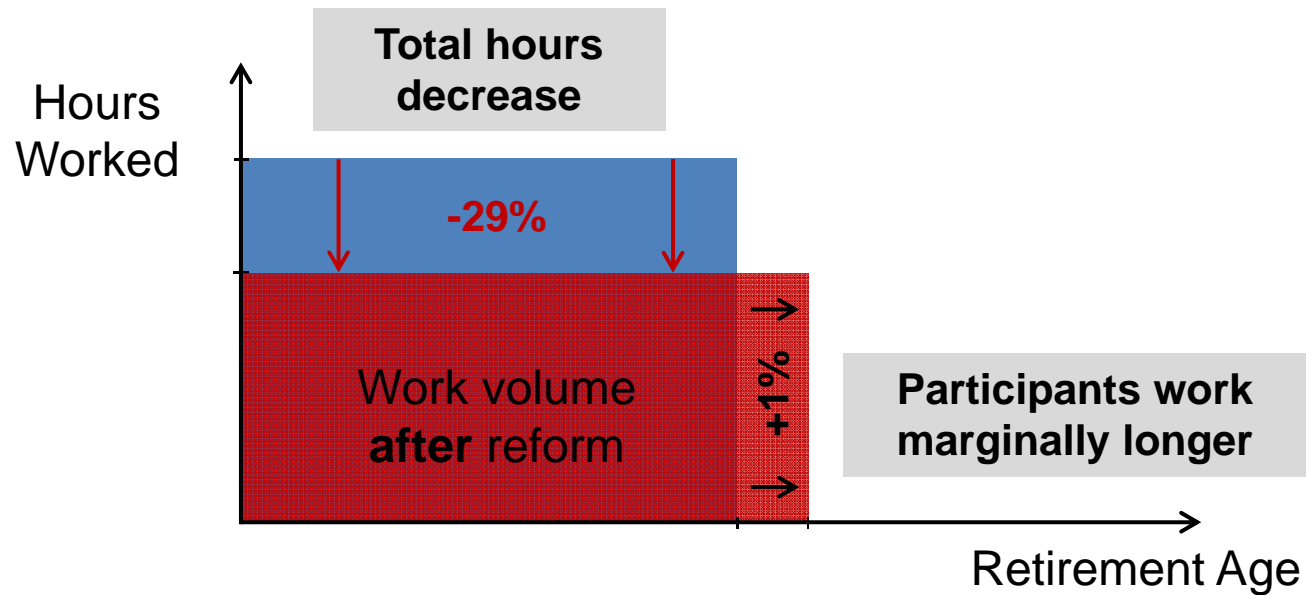


Results for Men





Results for Men



→ Part-time scheme reduces work volume



Part-Time Pension in Finland

- Workers reduce hours worked to 35%-70%
- 50% of income loss compensated by part time pension
- Earliest eligibility age between 56 and 61
- Parallel reforms:
 - Restrictions on other early retirement schemes
 - Window of retirement 63-68 (accrual rate of 4.5%)
 - Additional pensions rights are accrued until age 68



Part-Time Pension in Finland

Results:

- Persons retire on a part-time pension as soon as they have reached the required minimum age
 - Working part-time does not increase the expected length of working life
 - No effect on part-time pension on the expected prob. to continue working in the window 63-68
- **Part time pensions unable to increase work volume**



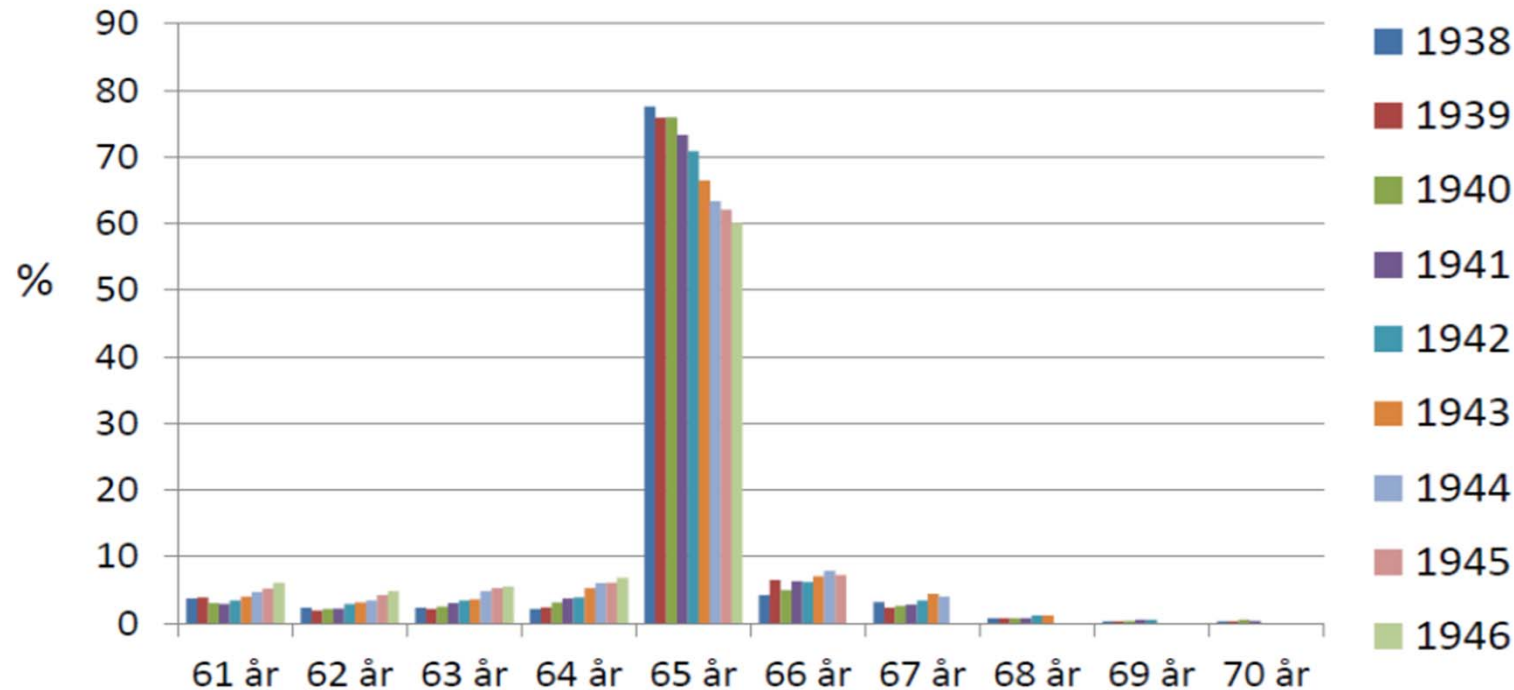
Total Flexibility in Sweden

- Old partial pension system abolished in 2000
- Earliest retirement age 61
- No restriction on combination of work and pension income
- Pension payment depends on age at first payment and cohort life expectancy
- Partial pension possible (25%, 50% or 75%)



Total Flexibility in Sweden

- Empirical evidence I

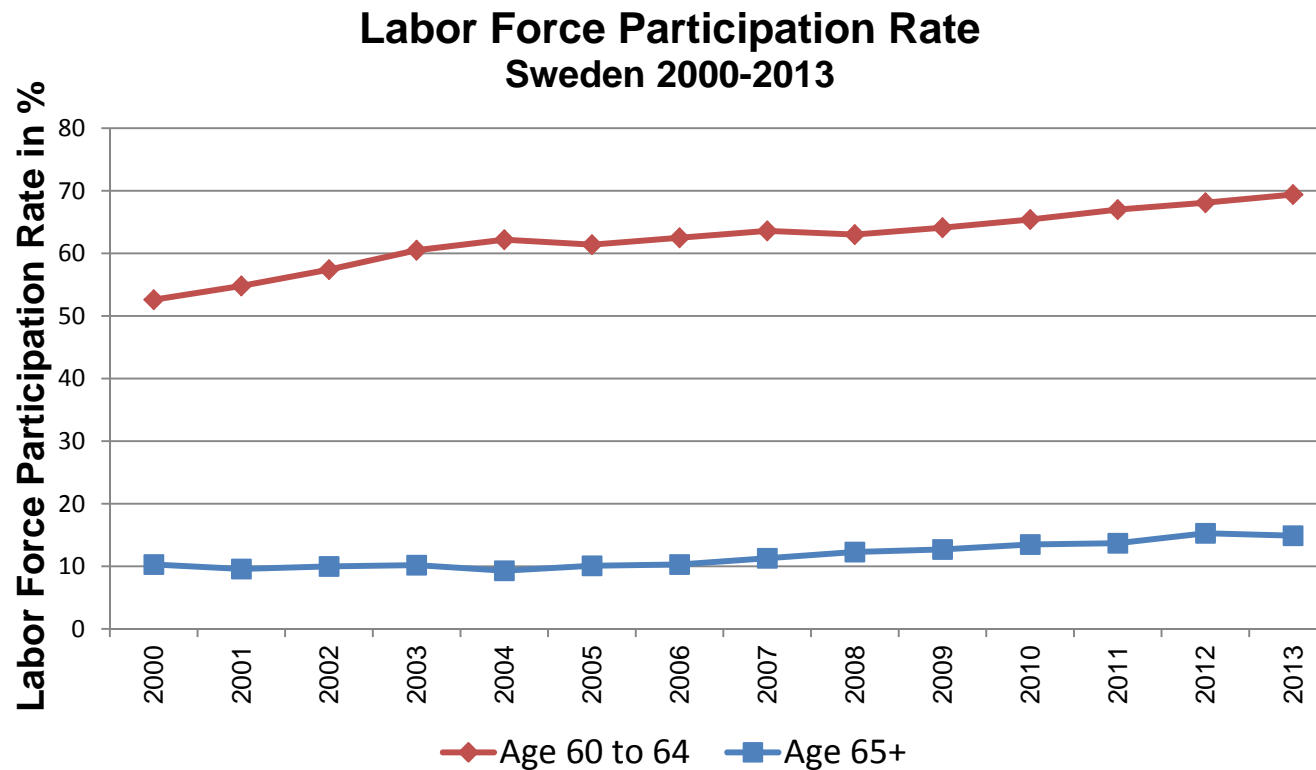


→ Pensions are drawn earlier



Total Flexibility in Sweden

- Empirical evidence II

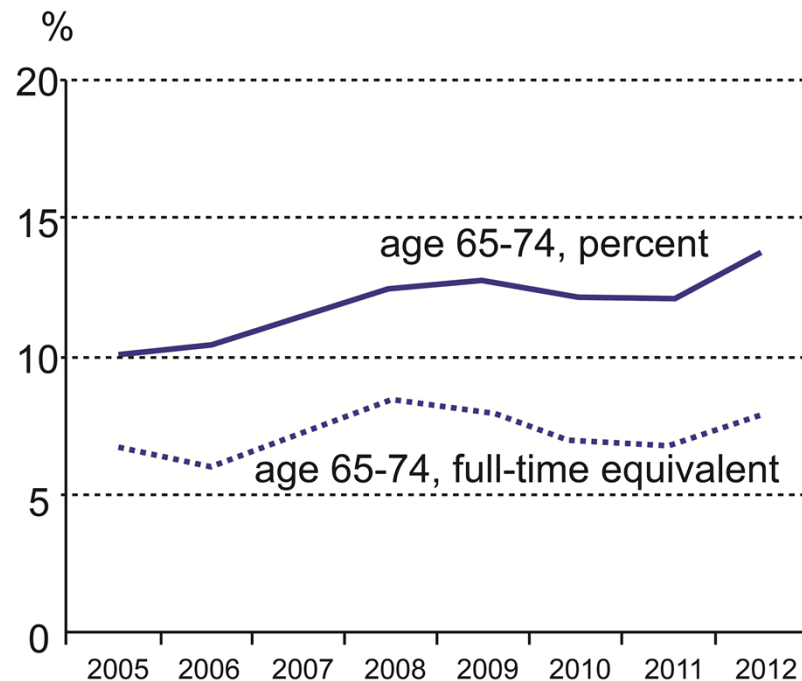


→ No negative effect on labor force participation rate



Total Flexibility in Sweden

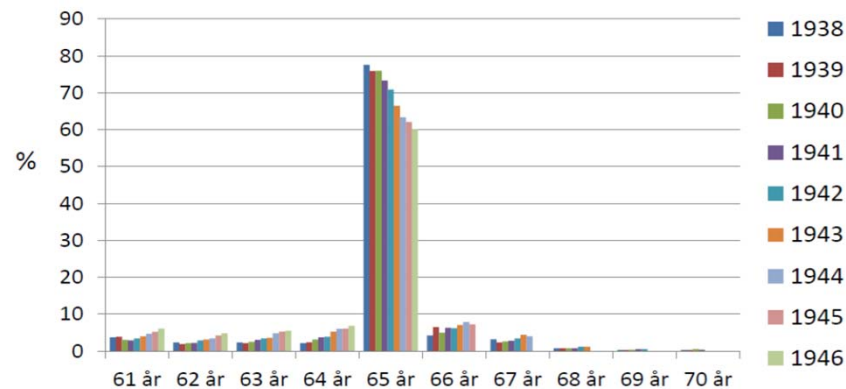
- Empirical evidence III



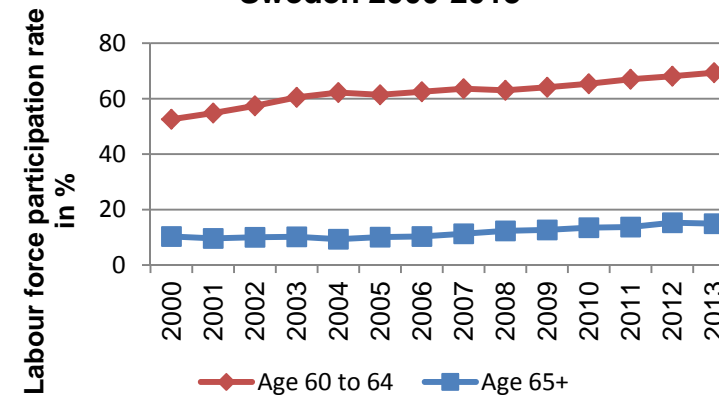
→ **No negative effect on labor force participation rate
and total hours worked**



Total Flexibility in Sweden



Labour force participation rate
Sweden 2000-2013



Current discussion in Sweden

- Commission focusing on early pension draw
- Increase of minimum retirement age from 61 to 63
- Shift age for drawing social security benefit (minimum pension) from 65 to 66 in 2019



Effects of partial retirement options

- Increase in labor force participation (Effect A)
- **However**: Negative effect on hours worked (Effect B)

⇒ The total effect on labor supply of older workers is almost always negative

Lessons for Germany

- Flexible retirement and increase in volume difficult to achieve
- Eligibility age very important due to signaling effect
- Flexible retirement even more problematic when system is not actuarially fair



Thank You!

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