

The role of wealth in the start-up decision of new self-employed: evidence from a pension policy reform

Discussion by Jochem de Bresser

University of Groningen

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Summary

Research question: **is there a causal effect of (pension) wealth on likelihood of transition from wage employment to self-employment?**

- Previous studies find that self-employed are relatively wealthy
- Interpretation is unclear:
 - Does it take wealth to become self-employed?
 - Or do self-employed save more?
- Key contribution: quasi-natural experiment
 - Pension reform 2006
 - Treated: cohort 1950 and younger
 - Control: cohort 1949 and older
- Finding: negative shock to pension wealth *reduced* transition rate from wage employment to self-employment

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Quasi-natural experiment

Pension reforms

- July 5 2005:
 - Abolishment preferential tax treatment of early retirement (occupational schemes)
 - Announcement of further reforms on January 1 2006
 - Treated: wage employees born January 1 1950 or later
- July 2005 - January 2006:
 - Information campaign
- January 1 2006:
 - Reduction pension benefits and increase contribution payments (occupational schemes)
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Strong points

- Important research question
 - Ties in with literature on retirement preparedness of self-employed
- Clear motivation for analysis of natural experiment
- High quality data
 - Administrative data on large, longitudinal sample
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Questions after reading the paper – pension reform

- How substantial was the reform? (sec. 3.2 and 3.3)
 - Discussion of the reform does not include descriptive evidence of changes in entitlements (present values or replacement rates)
 - Descriptives table 2 does summarize change in present value and in replacement rate, but unclear how large the changes are relative to pre-reform entitlement
- Are reductions in pension wealth robust w.r.t. assumption of full-time employment? (sec. 3.3)
 - Does severity of reform depend strongly on hours worked?
 - If so: mention estimates of incidence of part-time work during sample period
- When calculating present values: do you also assume that wages remain flat until retirement?
 - If so: can you defend that assumption?

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- How is sample constructed?
 - Dependent variable: indicator for self-employed in year t for all wage workers in year $t - 1$
 - What happens to individuals who transfer from work to other status? Are they included again if they enter wage work at later age? Does this happen often?
 - What about multiple spells?
- Do different definitions of self-employed lead to very different prevalences of self-employment?
- How many observations are lost by dropping those with income below 27,000 (2011) euro?

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- Do you know fraction of treated who did not work full-time during previous decade?
 - Do you take this into account in the paper, or identify treatment and control groups based on birth cohort alone?
- Is the assumption of parallel trends between different age groups reasonable in times of crisis?
 - Large age difference between control and treatment groups (average ages 59 and 44)
 - Sample period: 2002-2011
 - Effects observed during crisis years: did crisis affect labor market position of workers in different age groups similarly?
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 - Difficult to compare level of transition rates between years
- Figure 2: seems that trends are parallel until 2008
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 - Any reason to expect such delayed effect?
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Other remarks

- Page 9: illustrate effect size by comparing with pre-treatment transition rate of treated
- Empirical specification: little weird to include dummy for *control* group and an interaction of *treatment* group and treatment period