

Early retirement disincentives: Effectiveness and implications for distribution and welfare

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Summary

- This is a nice paper utilizing quality data and a dynamic retirement model entertaining forward looking agents.
- The paper shall find its place in the OP literature.
- The following are some comments on each section of the paper.

§1 Introduction

- A short discussion on why early retirement disincentives are introduced in Germany might be useful.
- You study early retirement disincentives. You claim that other countries can learn from the experience of Germany. You might be more convincing if you elaborate on why early retirement is still relevant, which countries still have early retirement schemes, or if and in which respects countries where policy reforms target workers past the early retirement age can learn from the German experience.

§1 Introduction

- Identification. You mention “The evaluation of this reform is non-trivial because of a lack of intra-cohort variation such that no good control group can be constructed. We cope with this issue by investigating the comprehensive dynamic incentives regarding labor market participation and retirement behaviour created by the German pension system.” But do we know that the predictions of the model owe to cohort specific disincentives and not to the other comprehensive dynamic incentives? Because the aim of the paper is to analyse the impact of the early retirement disincentives alone. You could be more explicit about if and how you disentangle the effects of the two types of incentives.

§2 Institutional setting

- Identification. In Section 2.1 you mention “the pension level mirrors the length of the working life and the average position in the earnings distribution” and in Section 3.1.4 you mention “...working individuals accumulate pension claims that are proportional to real wages. This creates dynamic incentives for the individuals that are taken into account by the DPDC framework.” These mean that wage income and pension rights, which both factor in the OP, are correlated. Do we know how much of the variation in the OP owes to the variation in wages and how much of it owes to the variation in pension claims i.e. impact of the disincentives? In their OP analysis Coile and Gruber (2007) find that the vast majority of the variation in the OP derives from the variation in wages: a set of age dummies plus a quartic in earnings alone explains 66% of the variation in the OP.

§2 Institutional setting

- More on identification. In Section 2.3, referring to the changes in social security contributions and the tax code, you mention “In sum, all of which has an impact on monthly disposable income and pensions is accounted for to insure an accurate estimation of retirement behaviour.” This means that the wage income, which is subject to progressive tax rates, is affected by the tax reforms which might contribute to the variation in the OP. And this is not the variation you want to control.

§3 Conceptual framework

- You claim in the introduction that other countries can learn from the experience of Germany. For this, it is important to relate the paper to other studies using similar research settings in terms of the econometric modelling or policy analysis so that the reader could evaluate to which extent the research settings and the results are comparable. See Coile and Gruber (2007) as an example.
- You could elaborate on your model choice and in particular on why you do not employ a DP or a PV model. Perhaps the former is too complicated to estimate, and the latter is too simplistic not allowing you to estimate certain structural parameters. But how could a PV model predict the share of the retired agents you present in Figure 1? Such a comparison might highlight the capabilities of your model.

§3 Conceptual framework

- You could tell about how your study relates to other studies analysing disincentives rather than incentives. This might be important because people are probably more sensitive to disincentives than to incentives because the former is a matter of restriction while the latter is more about a choice. If evidence on the impact of disincentives is scarce, this would make your study more special.
- It would be good to mention that the model does not control for a time trend, and perhaps why your results would be robust to possible macro-economic or business cycle effects that might affect younger and older cohorts to different degrees.

§4 Data

- You select those who have spent at least 35 years in the pension system. These people could be work lovers and favour later retirement. Moreover you select males. For various reasons gender may be correlated with retirement decisions. Your results are apparently prone to selection. You acknowledge that “sample is highly selective...” Maybe you could elaborate on this. Belloni and Alessie (2013) estimate an OP model that accounts for self-selection for the same reason that work lovers might be over represented in the sample. You could refer to this study as a possible extension of your framework. Or, you could give a short discussion on the implications of selection for your parameter estimates, or mention that the results would be interpreted given the strict sample restrictions, perhaps in Section 5 too.

§5 Results

- In Section 5.1, Figure 1 shows that the model fit is good except that during age 64 there is a little discrepancy between the predicted and observed retirement rates. You could spend a sentence for a possible reason.
- The important observation of Stock and Wise (1990a, 1990b) is that it is not simply the level of retirement wealth or the increment with one additional year of work that matters, but the entire evolution of future wealth with further work (Coile and Gruber, 2007). Indeed Figure 3 demonstrates how retirement disincentives, which affect the pension annuity, affect the average age of retirement. Maybe you could explicitly state that Figure 3 implies that agents indeed account for future wealth in their retirement decisions which could not only motivate Figure 3 further but also your choice of the OP model.

§5 Results

- Figure 3 relates disincentives for early retirement to the average age of retirement. You also exploit institutional variation stemming from tax reforms – the reduction of tax rates and the reform of pension taxation. Hence one could expect a figure similar to Figure 3 that relates the tax reforms to the average age of retirement. Such a figure might be important to present since the variation in the OP could be driven also by the taxation of future earnings.

Miscellaneous comments

- Other textual corrections and suggestions for clarification are to be provided by e-mail.