The Effect of Pension Reforms on Old-age Income Inequality

Author: Stefan Etgeton

Discussant: Johan Bonekamp

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Raising the normal retirement age (NRA), which should result in a longer working life.

Behavioral responses to financial incentives might be low.

Only if a longer working life is possible in the first place.

Taking involuntary job loss into account, a raise of the NRA from 65 to 67 delays employment only 0.6 years (1.3 years when shifting base level disutility).

Already poverty-vulnerable groups suffer disproportionately (?) according to the author.
Summary (2) - Key features

- Estimate a Dynamic Discrete Choice model to describe the retirement process employing German administrative data.
- (1) Job Destruction (via combining data sources)
- (2) Behavioral: (a) disutility from working; (b) stigma
Information on institutional settings: “three pillar system”
- Public pensions: 85% of current total pension income
- Employment related (voluntary): 5%
- Personal: 10%

“. . . unemployment rate of people aged 55-64 in Germany lay above 10%, peaking at 15.4% in 1998.
- How does this compare to other age groups?
- Self-employment (as a way to escape unemployment)? How does this relate to pension contrubtion (voluntary)?
At age 60 individuals are employed: are they working full-time, or is part-time also allowed?

Key: Job Destruction parameter

- More emphasis on estimation procedure:
- “...last 12 waves of the German household panel SOEP (2001-2013) to estimate labor market frictions.” Thus a sample of 2,127 observations (918 individuals aged 60).
  - Working status at age 60?
  - Incorporate time (or crisis) dummies?
  - Are explanatory variables really the same in other dataset?
  - How many involuntary job losses do you observe?
  - Effect of temporary contracts?

- (predicted) Individual job loss probability of 6.8%.
Major comments (3) - Model

- **Key: Stigma parameter**
  - Sensitivity to tenure: does the stigma behave as expected for different tenure definitions?

- **Key: Disutility parameter (proxy for leisure?)**
  - More emphasis on the disutility parameter.
  - How are the “type 0” and “type 1” worker constructed?

- **How to interpret the estimates?**
  - Disutility enters equation (1) with a ‘+’, so but this seem to contradict with estimates in Table 3.
  - Only 46% likes his job at the age of 60?
**Major comments (4) - Results**

- More emphasis on Figure 9.
- Possibility to add confidence intervals?
  - scenario 1 (baseline):
    - pension benefit decile 1: avg. 700EUR (monthly?): ↓17.50EUR - on average?
    - pension benefit decile 10: avg. 1800EUR: ↓36.00EUR
  - scenario 2 (base level disutility):
    - pension benefit decile 1: avg. 700EUR: 0.00EUR
    - pension benefit decile 10: avg. 1800EUR: ↑9.00EUR
- How to generalize the results because of selective sample?
Minor comments (1)

- Vague word: “early retirement”
- “... revise literature on the evolution of wealth after retirement.” Do (and if so how) translate the findings in the US to Germany?
- (p.15) Kaplan-Meier curve is missing.
- (p.17) Inconsistency with “type 0” (“type 1”) and “type 1” (“type 2”).
- (p.24) Same y-axis Figure 7 and Figure 8.
“All West German male individuals born in 1940 to 1944 are employed at age 60 . . .”

- How would inclusion of (other) unemployed people affect your simulation exercise?

- Is retirement really an absorbing state?
  - Concept of un-retirement?
  - “When individuals claim pension benefits, all further observations are dropped . . .” Do you have information on whether they un-retire?

- Transition from unemployment to retirement: how do you coop with e.g. 18 months (1 period or 2 periods)?
Inconsistent notation using $\Phi$ (e.g.
(p.8): $\Phi$, (p.9): $\Phi_{a+1}$,
and (p.17): $\Phi_{a+1|a}$).

(p.26) Figure 9: title is a bit ambiguous.

Table 5 and Table 6: Symmetry (also included losses).

(p.i) “I need the IIA assumption to hold conditional on my observables. However, I have no reason to doubt that.” Possibly include test?