

The Effect of Pension Reforms on Old-age Income Inequality

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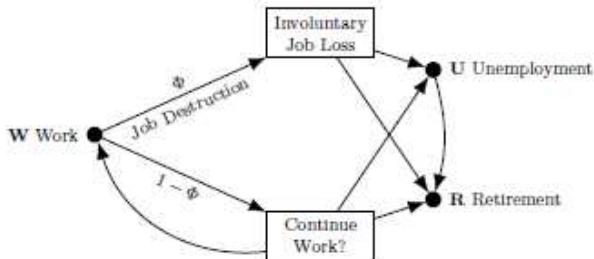
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Summary (1)

- 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



Major comments (1) - Pension System in Germany

- 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 contribution (voluntary)?

Major comments (2) - Model

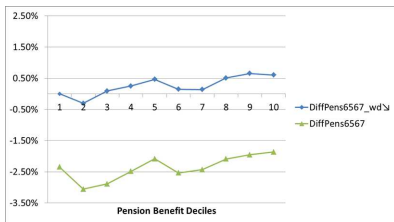
- At age 60 individuals are employed: are they working full-time, or is part-time also allowed?
- Key: Job Destruction parameter
 - More emphasis on estimation procedure:
 - "... last 12 waves of the German household panel SOEP (2001-2013) to estimate labor market frictions." Thus a sample of 2,127 observations (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?
 - Administrative dataset for the period 2003-2007.
 - (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.

Minor comments (2) - Model

- “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)?

Minor comments (3)

- Inconsistent notation using Φ (e.g. (p.8): Φ , (p.9): Φ_{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?