The Effect of Partial Retirement on the Labor Supply of Elderly Employees in Germany

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Discussion by
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The paper analyses the effects of different types of retirement incentives.

The introduction could start by describing the institutional background and main motivations behind all these incentives, and then motivate what other countries where policy reforms target older workers can learn from the German experience.
1 Introduction

- The paper mentions that its main motivation is similar to Gustman and Steinmeier (2014) who estimate a DP model with part-time work, but that the paper analyses the effect of a particular policy reform on partial retirement.
- Maybe it is better to first start by saying that the paper analyses the effect of a particular policy reform on partial retirement.
- Then perhaps say reduced form models comparing the change in the outcome of interest before and after the reform are popular in analyzing program evaluation but they do not allow policy simulations.
- Then refer to Rust (1989), Berkovec and Stern (1991), Rust and Phelan (1997), Gustman and Steinmeier (2014) which all estimate DP models with part-time work, and mention if it contributes to this literature.
- In the current version, the motivation is not so clear.
1 Introduction

• The paper also analyses the effects of cohort-specific pension incentives, labor market restrictions (in baseline analysis), and increasing early and normal retirement ages (in simulation analysis).

• What is the main aim of the paper?

• Perhaps the introduction can make it (more) clear if the main aim is to analyse the effect of the incentives for partial retirement, or to analyse this effect in relation to the effects of the other reforms and labor market restrictions.
2 Institutional background

- The partial retirement scheme (ATZ) offers two options: a worker can either work full-time for half of the time before entering retirement (Block Model), or work part-time for the full period (Continuity Model).

- But the Block Model is most common (Kirchner et al., 2010), which in fact could or should be treated as an early retirement scheme.

- Then it becomes unclear what we mean by partial retirement because in the literature it refers to reducing hours in a gradual manner (Continuity Model).

- The paper could consider the block model as an early retirement exit route, while it studies it together with the other competing routes of regular retirement and unemployment, similar to Heyma (2004).
3 Model

- The paper analyses the effects of the incentives for partial retirement, pension incentives that are cohort-specific, labor market restrictions, and increasing early and normal retirement ages.
- The aim is probably to identify these effects separately. Otherwise we will not know how effective each policy reform is, and how much labor market restrictions matter.
- Is this really the aim because it is already difficult to identify one effect, and to base counterfactual scenarios on that?
- If this is the aim, the story could be something like the reforms did not succeed in increasing labor supply, and we should accuse labor market restrictions.
- But to which extent can we identify the labor market restrictions. They are not always observed. In fact, Hutchens (2010) show that partial retirement arrangements are often informal agreements between the employer and the employee.
3 Model

- The pension level depends on the length of the working life and on the gross wage, and wage income in partial retirement incorporates financial incentives based on past wage. Hence wage determines the pension and wage income in partial and full retirement in the model.

- It is important to identify how much of the variation in the retirement hazard owes to the variation in pension levels through the impact of incentives and that in wages. In their option value model, Coile and Gruber (2007) find that the vast majority of the variation in the model derives from the variation in wages: a set of age dummies plus a quartic in earnings alone explains 66 percent of the variation in the option value.
3 Model

- The model allows for labor market restrictions through the probability of job loss.
- On the other hand, the opportunities for partial retirement are governed by collective bargaining agreements, and the model conditions on being eligible for partial retirement. Hence, this is also accounting for labor market restrictions.
- Are these two types of restrictions independent from each other?
- If they are related, identification of labor market restrictions probably becomes difficult.
- Think about the sectors where employment of older people are difficult. In these sectors, it could be easier to lay off older workers, and if not, early retirement could be encouraged with ATZ to cover up laying off older workers.
3 Model

- The model is conditioned on being employed at age 54. It seems there is no condition on the labor market history before age 54. It is not clear how important this is but the paper could at least acknowledge that incentives might differ across those who used to always work part-time or full-time and hence are more or less likely to opt for ATZ.
• The model abstracts from the role of health. This is mentioned. But it would be good to elaborate on this more perhaps by arguing that much of the variation in retirement rate is explained by the model.

• The same holds for the role of the spouse.

• Can spouses be linked in the data? If yes, joint retirement decisions of couples might be interesting to study if the effects of early retirement incentives (ATZ and other schemes) are already analysed in Germany.
Men are analysed. Simple descriptive statistics on labor market participation by gender groups might be helpful to understand to which extent we are missing the story for women.
5 Results

- Lumsdaine et al. (1992) plot the actual and predicted retirement rates from a fully structural model and from simpler versions to compare data fit across these models.
- It might be informative to do this here too to demonstrate how helpful it is to model different retirement incentives and labor market restrictions.