Using Tax Credits to Postpone Retirement. A Panel Data Analysis of a Large Dutch Reform

Egbert L.W. Jongen (CBS)

Discussion by Amparo Nagore García (LISER)
Summary

• Motivation: Increasing the employment rate of older workers is crucial for the sustainability of public finances (Gruber and Wise, 2007)

• Research question: To what extent governments can postpone retirement of older workers via target tax credit?

• Aim: The impact of the introduction of a large tax credit targeted for older workers on:
  ➢ Sustainability of public finance (back-of-the-envelope calculation)
Summary

• Identification strategy: The introduction of the Deferred Pension Bonus for older workers in the Netherlands in 2009


II. Regression Discontinuity: at age 61 (Deferred Pension Bonus eligibility) after the reform
Empirical analysis


- **Sample** selection: 58 to 63 years old (to ensure the similarity between treatment & control groups)

- **Dif-in-Dif**: Treatment group: 61-63 years old & control group: 58-60 years
  - Check the similarity in the characteristics between the treatment & control groups before & after the reform and they are rather similar
  - Test the assumption of **common time effects**: group specific trend
  - Test the **anticipation** effect and robustness: Control group 55-57
  - Placebo Test: dummy placebo 2008
Empirical analysis

- RD

  - Identifying assumption: In the absence of the reform the outcome variables are smooth functions in age
  - For testing placebo: RD in the Pre-reform (Table A14)
  - For testing anticipation: RD in the Pre-reform (Table A14)
  - For time effects: yearly RD (Table A14)
Main findings

• Effects on the employment rate: small and insignificantly different from zero

• Effects on other incomes are mixed across methods and specifications (sensitive to the inclusion of group specific trends)

• D-D: For some outcomes might exist violation of anticipation and/or common time effects

• RD: Some results are not robust over the years

• The treatment effects are too small for the DBP to improve the sustainability of public finances
Questions/Comments

- Labor market outcomes:
  - Employment rate includes inflows and outflows, so it may mask different effects, could you analyze the effect of the reform on job exits and job entries rates?
  - Why do you include the zeros in hours worked (you refer Angrist and Pinsche, 2009) instead of applying Heckman selection?

  ➡ Could you analyse the effect of the DPB separately by gender? Maybe women are more or less sensitive to the policy than men.
Questions/Comments

Dif-in-Dif:

• It may be useful to see D-D figures after controlling by observed and unobserved heterogeneity.

• To check/show the validity of the common trend assumption, could you show D-D figures including group specific trend? If necessary, could you specify a more flexible group specific trend (multiple years)?

• How do you define placebo 2008 in DD? Individuals who are 61-63 years old in 2008?
RD analysis:

- Which is the intuition behind the *reduction of hours worked*? Maybe workers need to work less hours to get the same wage as before the reform.

  However, there is a *significant variation* in the estimation of RD treatment effects *by years*, even before the reform (tableA14), is it an anticipation effect?
Minor things

• In Table 3: Why you do not include **descriptive statistics** for the treatment group in 2009-2012?

• It is difficult to see Figures A1-A3 DD, maybe **bigger** size is helpful.

• In the introduction: “The DPB is a tax credit for working individuals **60** years of age and older” while in section 2: “**61** years of age and older”
Thank you for your attention.