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**Labour Law, Social Norms and  
the Early Retirement Decision**  
An Empirical Study

## **Labour law, social norms and the early retirement decision: an empirical study**

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### **Abstract**

The study examines the influence of values, social norms and labour law and social security institutions on the decision to exit the labour market and to give up job security and even some income security for early retirement. The paper analyses transitions out of work into various alternative routes of early retirement including unemployment and disability, using comparative panel data in 23 countries including the Baltic States and many East-European countries. The data come from EU-SILC 2005-2008, matched with EVS data for 2008. The results confirm the well-known impact of the generosity of old-age pensions on early retirement but also show the influence of individual values and social norms. Benefit generosity has a larger impact on the early retirement decision of the low-skilled than the high-skilled. The effects of individual values and the early and statutory retirement age as set by labour law and social security regulations appear to differ by gender but not by education or skill level. Social norms have a substantial effect which is however shown to be different for men and women in some instances and more important for the early retirement decision of the high skilled worker than the low-skilled worker, whereas some commonly shared values in society such as a high work ethos exerts a stronger effect on the low skilled workers' retirement decision.

*Keywords:* labour law, social security, early retirement, uncertainty, social norms, SILC, European Values Study (EVS), work ethos, leisure values

## 1. Introduction

Promoting active and healthy ageing, including stimulating longer working careers, is one of the key goals of the European Union 2020, as documented *inter alia* in the Horizon 2020 research programme<sup>1</sup>. Labour law too is expected to play an important role in this paradigm shift. However, the role of labour law is ambiguous, to say the least. On the one hand EU and national labour law increasingly attempt to “rule out” age discrimination, and in various countries social security legislation has raised the age when people can enter the state provided old age benefit schemes. Moreover, early retirement schemes have been discouraged by fiscal and other measures. However, on the other hand, EU case law and national labour law still support mandatory retirement (Schlachter, 2011) and many labour laws and collective agreements contain age-dependent rights and facilities that encourage withdrawal from the labour market.

One particular interesting issue contains the relationship between legal norms (or standards) and social norms and values. It has been widely acknowledged, especially within the sociology of law, that law is merely one normative realm within a much larger system of legal and normative pluralism or “indigenous” law (Griffiths, 1986; Galanter, 1981). Legal norms, although supported by judicial and state authority and enforcement, inevitably have to deal with “semi-autonomous fields” (Moore, 1978) or even “autopoietic social sub systems” (Rogowski & Wilthagen, 1994). From the perspective of the founding fathers of the sociological discipline, such as Durkheim (1897), the conceptualization of legal norms as only one source of normativity was already self-evident. The question then remains about the precise relationship between these sources. Are legal norms congruent with social norms? Do legal norms follow and originate in social norms or can legal norms influence and innovate social norms?

It has been suggested, based on literature review and experiments, that raising the pension age impacts the social norms operating within people’s environments and thus (indirectly) determines retirement behaviour (Fouarge, De Grip & Montizaan, 2012). The effect of raising the statutory pension age by one year on the postponement of the labour market exit is estimated at varying between less to one month to six months. Raising the pension age creates an income effect: people have to work longer for the same pension income. Cohorts of people that are affected by pension reforms do expect that they will have to work longer. In the case of the Netherlands, the planned extension of the current statutory retirement age of 65 to 66-67 actually leads to an increase of the number of people that actually expects to be working up to the new retirement age. As the authors conclude: a shift of the social norm does occur, following the shift of the statutory norm. Interestingly, this shift seems to apply mostly to women and their retirement behaviour.

This chapter examines why many senior workers in European countries still exit the labour market prior to the statutory retirement age. Although many older workers have stable jobs, being employed at a later age is not something we can all be certain of. For instance, workers may become unemployed (e.g. due to a business close-down or a reorganisation) and have trouble finding a new job because employers are more inclined to hire younger workers, e.g. due to their higher number of potential working years and their greater adaptability (Taylor & Walker, 1998). Moreover, as already indicated,

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many companies still provide early retirement options to older workers and, although these are often presented as voluntary, some workers may feel pressured by their employers to leave their jobs, especially in economic downturn, making the decision to exit the labour market a more or less forced one (Vickerstaff & Cox, 2005). Also, health issues can be an unforeseeable reason for partial or full withdrawal from the labour market, implicating that early labour force withdrawal does not always come forth out of free choice. Therefore it is crucial to understand what motivates people to move into early retirement.

The vast literature on (early) retirement has already defined several influential factors, economic ones such as labour demand shifts associated with the knowledge economy and increased international competition, institutional ones associated with the extension and generosity of the social protection system, and social ones associated with individual and household demographics, health and working conditions, and policy context (Duval, 2003; Blekesaune & Solem, 2005; Davey, 2008), but so far little attention has been paid to the influence of personal preferences and social norms in society in relations to labour law and social security. This chapter acknowledges the importance of economic incentives to retire and therefore examines the effect of the generosity of old-age pensions (measured through pension replacement rates) on the retirement decision, but also focuses on the influence of social norms regarding the importance of work and leisure time. Moreover, special attention is paid to gender and skill differences, as women and low skilled workers are generally assumed to be more vulnerable to changes in income and employment security than men and higher skilled workers.

The chapter is organised as follows. Section 2 provides a more elaborate description of the theoretical background. In section 3 information is provided about the data studied and the methods used to analyse the data. The results of our study are discussed in sections 4 and 5, and finally, the chapter ends with the general conclusions (section 6).

## **2. Theorising early exit behaviour**

### *2.1. Pathways to retirement*

There are several pathways for an older worker to exit the labour market. Besides working up to the official retirement age and exiting through statutory old-age retirement benefits, one can retire early by participating in occupational or private pension schemes. Generally, most pension systems can be subdivided into three pension pillars. The first pillar comprises public pensions, which are state-managed, mandatory and mainly tax-funded (Schils, 2005). For most pensioners, public or state pensions are the main source of income (European Commission, 2004). The second pillar consists of occupational pensions, which are organised by the employer or at the sectoral level. Participation in these pension schemes can be voluntary or quasi-mandatory; for instance if participation is specified in the labour contract. The third pillar comprises private pensions, which are privately managed and voluntary (Schils, 2005).

However, as Dahl, Nilsen and Vaage (2000) point out, retirement is not merely a matter of choosing a retirement age, because "it also involves choosing between different transition states or retirement schemes" (p. 1865). Besides the three pension pillars, it is important to take into account that other social transfer programmes can also be used to facilitate early retirement (Duval, 2003). This is known

as the spill-over effect (Gautier & Van der Klaauw, 2012; Glans, 2009), which implies that there is interaction between benefit schemes and that changes in one benefit program can cause people to exit through another scheme instead. Hence, if early retirement benefits are not yet available, an older worker with a desire to exit the labour market could consider different pathways such as exiting via unemployment or disability benefits.

Unemployment at an older age can result in an early exit out of the labour market, partly due to labour market restrictions. Unemployed older workers have more difficulties finding a job, since employers are often more inclined to hire younger workers because of e.g. their adaptability, trainability and higher number of potential working years (Taylor & Walker, 1998). Moreover, in many countries unemployment-related benefit periods for senior workers are extended up to the pensionable age and the active job-search requirements are removed, turning their unemployment spell into *de facto* early retirement (Blöndal & Scarpetta, 1998).

Disability benefit schemes may in some cases also facilitate early exit. Bad health is considered as a legitimate reason to exit the labour market, even in work-oriented societies (Kohli & Rein, 1991), and disability schemes are relatively generous in most countries (Blöndal & Scarpetta, 1998), which creates moral hazard and spill-over problems as it makes it more attractive to get access to a disability scheme than to a less generous scheme (Gautier & Van der Klaauw, 2012).

Retirement is no longer the standard stage after labour force withdrawal. The life course has in fact been de-standardised, as it is no longer self-evident for workers to follow a foreseeable pathway of “continuous, consecutive sequences of functions and statuses” (Guillemard, 1989: 177). Besides exiting via the aforementioned pathways, people may be forced to stop working to take care of an ill partner or relative, for example. Also, some people may voluntarily choose labour force withdrawal, for instance to pursue further education or to do (more) volunteer work. Hence, the end of the career can be quite unpredictable and uncertain. We therefore do not only focus on transitions from work to early retirement, but also take the alternative exit routes unemployment, disability and other inactivity into account.

## *2.2. Incentives to retire*

Given the many uncertainties and risks with regard to one’s income situation, the question is what drives people to choose early retirement rather than the “safer” option of working up to the official retirement age. The retirement literature indicates that there are various factors “pushing” or “pulling” workers out of the labour market. Push factors are defined as negative considerations for retirement, such as bad health (in which case a worker can be pushed towards disability retirement). Pull factors are positive considerations to retire, such as the attractive post-retirement benefits or the desire to spend more time on leisure activities (Schultz, Morton & Weckerle, 1998).

From an economic viewpoint, the literature suggests that for older workers there can be an “implicit tax” on continuing work beyond a certain age. Older workers weigh the costs and benefits of early retirement and if the expected benefits outweigh the costs, there is an implicit tax on continued work. For instance, as soon as the eligibility age for retirement benefits has been reached, an extra year of work entails an extra year of wage income (and paying pension contributions) and a higher

(occupational) pension in the future, but foregoing one year of leisure and receiving generous pension benefits. However, if this increase in future pension benefits does not exceed the extra costs of working longer (i.e. additional pension contributions and foregone pension benefits), there is an incentive to retire, or in other words, an implicit tax on work (Blöndal & Scarpetta, 1998).

The level of the implicit tax rate is related to the level of the pension replacement rates. These rates represent “the ratio of post-retirement income to pre-retirement income” (Schils, 2005: 84) and determine the generosity of benefits such as old-age pensions. When a benefit scheme offers a relatively generous compensation, i.e. if the replacement rate is relatively high, there is an incentive to make use of this scheme as early as possible (Blöndal & Scarpetta, 1997). Generous benefits increase the costs of continued work, in terms of foregone benefits, which can in turn increase the implicit tax on work. Although replacement rates and implicit taxes measure two different concepts, the cross-country differences in implicit tax rates usually match those in expected replacement rates fairly well (Duval, 2003).

### *2.3. Personal preferences*

The literature on retirement shows a dominant focus on the economic rationality of the retirement decision, whereas the role of preferences, values and social norms is often neglected. According to Lindenberg (2001), human beings’ rational and social sides are intertwined, and he therefore speaks of “social rationality”. Although people do have a rational, utility-maximizing side, they also behave socially by assigning meaning to situations through their interactions with other people (Lindenberg, 2001), and therefore it is expected that both social values and economic incentives to retire influence the retirement decision.

Concretely, we expect that the extent by which people value work and leisure time in their lives greatly influences their preference for continued work or early labour force withdrawal, and we therefore examine the effects of social norms with respect to work ethos, work values and leisure preferences. Drawing from Max Weber’s work on the Protestant work ethic, having a strong work ethos means being willing “to identify and conform with the goals of society and to volunteer his or her services to the abstract ethic of industrial acquisition, effort, enterprise, and growth” (Furnham, 1990: 142). It concerns one’s attachment to work regardless of specific job characteristics, and thus makes work in itself satisfying (Furnham, 1990). Work values, on the other hand, refer to the meanings people attach to perceived job characteristics (Kalleberg, 1977)<sup>2</sup>. We expect at the individual level that both work ethos and work values lower the likelihood of exiting the labour market prior to the official retirement age. Individuals with a strong work ethos resemble the “traditional work ethic” ideal type, as described by Higgs, Mein, Ferrie, Hyde and Nazroo (2003), which believes that one should work until the official retirement age, even if one could afford to retire early. As to work values, we expect that workers who strongly value having a job with favourable intrinsic and extrinsic characteristics (e.g. having a job

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<sup>2</sup>A distinction is made between intrinsic and extrinsic work values. Intrinsic work values concern job characteristics associated with the task itself, e.g. whether a job is interesting and allows one to use and develop his or her skills. Extrinsic work values concern job characteristics external to the task itself, e.g. good pay and job security (Kalleberg, 1977).

which allows development and usage of capabilities, or having pleasant co-workers) experience higher levels of job satisfaction, and are therefore less likely to retire early. On the other hand, leisure values are expected to have the opposite effect; we expect that workers with strong leisure values are more likely to choose a “third age exit”, i.e. an exit to pursue opportunities for leisure and self-fulfilment (Higgs et al., 2003).

At the country level, the common values people have influence their behaviour since people generally obey norms to avoid the threat of social sanctions, ranging from raised eyebrows to social exclusion (Elster, 1989). This also means that a commonly shared strong work ethos in society will “socially enforce” people to continue work at a late age and to postpone retirement. On the other hand, a high work ethos in society might also lead to believe that people deserve a period of rest after a long working life. A strong work ethos might therefore also be associated with a stronger popular support for early retirement via the creation of an “early retirement culture”. Whether the effect of the social norm with respect to work is positive or negative depends on which mechanism prevails, the shared work ethos or the long working-life deservingness mechanism. With a view to the work values at the country-level, the final effect will also be undecided since the commonly shared norms about work might have a different effect than the individual work values once the actual working conditions do not meet the social norms. For instance, if people share the belief that work should be challenging but in reality it is not, meaning that peoples’ expectations on the content of the job are unmet, it will have a positive effect on early retirement instead of a postponing effect.

#### *2.4. Differences across countries and specific groups of people*

Early retirement patterns are expected to differ across low and high skilled workers, and between men and women. Skill differences are interesting since low skilled workers experience more income and employment insecurity and receive lower benefits after retirement than higher skilled workers. They also build up lower pension rights because they are more likely to work in low paid, “dead-end” jobs (Muffels & Luijkx, 2008). Consistent with human capital theory, which states that people decide whether to invest in their human capital (e.g. to pursue further education or training) by weighing the costs and benefits associated with this investment (Becker, 1993), having a higher education has many advantages. For instance, higher educated workers generally have higher wages and access to more stable jobs (Blöndal & Scarpetta, 1998) and less physically strenuous jobs. Research indicates that higher educated workers usually retire at a later age than lower educated workers, which is partly because they are less at risk of developing health problems such as musculoskeletal diseases (Blekesaune & Solem, 2005).

We also expect to find gender differences in retirement patterns, since women often have a less secure place in the labour market than men (Crouch, 2010). Whereas men generally remain working even after becoming a parent, many women start working part-time or even stop working altogether for a period of time to fulfil care tasks. Having an interrupted employment history can in turn have negative consequences for career development and accrual of occupational pensions et cetera, generally leaving women in a more vulnerable position than men.

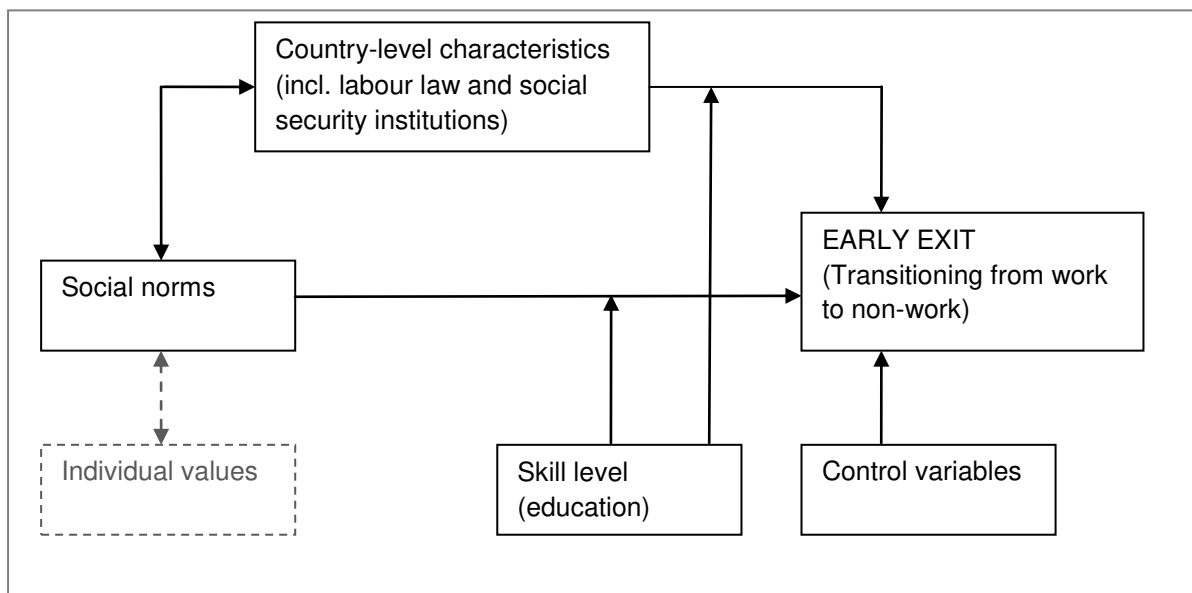
### 2.5. Conceptual model

Figure 1 shows the relationships that are of interest in this chapter. Besides the effect of social norms on the decision to exit the labour market early, we also examine the influence of country characteristics (including labour law, social security institutions) and skill level.

The values included are work values, work ethos and leisure values, and the country characteristics referred to are the statutory retirement age, the early retirement age (i.e. the eligibility age for early pension benefits provided by the state), and pension replacement rates. Furthermore, interactions with skill levels (educational levels) will be examined. And finally, several control variables are added which may influence the retirement decision as well: gender, age, age<sup>2</sup>, health, marital status, self-employment, unemployment rate and interview year.

Individual-level values are also included in the conceptual model, since they are believed to have a reciprocal relationship with social norms and it is assumed that behaviour comes forth out of the interplay between values and social norms (Skugor & Muffels, 2011). However, in order to keep the results more comprehensible, only the social norms will be used in the analyses, which are the country aggregates of the individual values.

Figure 1. Conceptual model



### 3. Data and sample

Two databases are used: the European Values Study (EVS) and the EU Statistics on Income and Living Conditions (EU-SILC). The EVS is a long running, cross-national survey research program about human values regarding life, family, work, religion, politics and society ("About EVS", n.d.) and is therefore a valuable source for data on values and norms. The EVS started in 1981 and since then the survey has been distributed once every nine years in increasingly more countries. We used data from

the fourth and most recent wave, i.e. the survey of 2008. Since the EVS is not a panel study<sup>3</sup>, the dataset is not suited for the examination of transitions from work to non-work, such as early retirement or unemployment. Using only EVS data would mean we only have data on the respondents' current employment status and no data about the transitions they make in the course of years. Therefore, the EVS data on values and norms are linked to the EU-SILC database. Using multiple waves from the longitudinal and cross-sectional EU-SILC database, we are able to study transitions out of the labour market at three points in time: 2005-2006, 2006-2007 and 2007-2008.

Transition models are estimated using multinomial logistic regression. Concerning the transitions we distinguished one origin state, i.e. working, and two destination states, i.e. retirement and other non-work (which comprises unemployment, disability and other inactivity). The probability of making a transition from work to retirement or other non-work is compared with the probability of continuing to work, which thus is the reference group.

Our sample consists of people from 23 European countries, from 45 years of age up to one year prior to the statutory retirement age that applies to them according to their gender and the country they live in. Table 1 provides an overview of these countries and their retirement ages. The early retirement age refers to the age at which early retirement benefits provided by the state become available, and the statutory retirement age is the age at which old-age pension benefits become available (most commonly at age 65).

*Table 1. Statutory (early) retirement ages 2008 by country and gender (rounded numbers)*

<b>Country</b>	<b>Early retirement age</b>	<b>Retirement age</b>	<b>Country</b>	<b>Early retirement age</b>	<b>Retirement age</b>
	Male/ Female	M/ F		M/ F	M/ F
Austria (AT)	62/ 58	65/ 60	Lithuania (LT)	58/ 55	63/ 60
Belgium (BE)	60/ 60	65/ 64	Luxembourg (LU)	60/ 60	65/ 65
Bulgaria (BG)	-- <sup>1</sup>	63/ 60	Latvia (LV)	60/ 60	62/ 62
Cyprus (CY)	63/ 63	65/ 65	Netherlands (NL)	-- <sup>1</sup>	65/ 65
Czech Rep. (CZ)	59/ 55	62/ 58 <sup>2</sup>	Norway (NO)	-- <sup>1</sup>	67/ 67
Estonia (EE)	60/ 58	63/ 61	Poland (PL)	-- <sup>1</sup> / 55	65/ 60
Spain (ES)	61/ 61	65/ 65	Portugal (PT)	55/ 55	65/ 65
Finland (FI)	62/ 62	65/ 65	Romania (RO)	58/ 53	63/ 58
Great Britain (GB)	-- <sup>1</sup>	65/ 60	Sweden (SE)	61/ 61 <sup>3</sup>	65/ 65
Hungary (HU)	-- <sup>1</sup>	62/ 61	Slovenia (SI)	-- <sup>1</sup>	63/ 56
Ireland (IE)	-- <sup>1</sup>	65/ 65	Slovakia (SK)	60/ 55	62/ 57
Italy (IT)	58/ 58	65/ 60			

Source: MISSOC 2008 and ISSA 2008.

<sup>1</sup> No state pension until the official retirement age; only second and third pillar early retirement schemes.

<sup>3</sup> A panel study is "a study that provides longitudinal data on a group of people, households, employers, or other social unit, termed "the panel", about whom information is collected over a period of months, years, or decades" (Marshall, 1998).

<sup>2</sup> Female retirement age in CZ varies between 56 years and 4 months to 60 years and 4 months, depending on number of children. Respondents' average number of children is almost 2, so the corresponding retirement age (58 years and 4 months, rounded as 58) is reported.

<sup>3</sup> Sweden has a flexible retirement age between 61 and 67, but full old-age pension is available at age 65. Technically, Sweden does not have an early pension, but since state pensions (although reduced) become available at age 61 this age will be considered as the early retirement age.

#### **4. Descriptive results**

We first summarize some descriptive results of our study. Overall, the vast majority of people stay in work within two consecutive years and do not exit. Less than two percent of all the transitions observed in 2005-2006, 2006-2007 and 2007-2008 are from work to early retirement, and four percent of the transitions are from work to inactivity.

Most workers stay in work, but the high skilled more than the lower skilled workers. Consequently, fewer high skilled workers make a transition out of the labour market, which especially is the case for exits through other inactivity, e.g. unemployment, disability. For low skilled workers, the opposite pattern can be observed: fewer of them stay in the workforce, and the number exiting via early retirement or other inactivity is relatively higher. Hence, educational level seems to be negatively associated with early exit. As was mentioned in the theoretical part of this chapter, this may be because lower educated workers are more at risk of developing health problems and more prone to exit via disability benefits for example (Blekesaune & Solem, 2005). However, further analysis shows that skill level only appears to have significant effects on exiting the labour market through the alternative pathways, i.e. unemployment, disability and inactivity.

Although female employment rates are generally substantially lower than male employment rates, once they are employed, both men and women are inclined to remain in the work force as respectively 94.6 and 93.7 percent of men and women in the sample report to have stayed in work. It appears that those who exit the labour market take the inactivity route more often than the early retirement route. However, an additional analysis (not presented) indicates that the number of men making a transition out of the labour market via early retirement or unemployment benefits is about equal (approximately 2 percent) and that respectively 0.8 and 0.6 percent exits via disability benefits or inactivity. Among women, we see a slightly different pattern as the most common ways to exit the labour market are via unemployment or inactivity (both approximately 2 percent), followed by early retirement (1.4 percent) and disability (0.8 percent). Women appear to be significantly less likely to make a transition to early retirement than men, yet more likely to transition into other non-work.

Not surprisingly, a lower age and good health decrease the chance of exiting the labour market early. As to marital status, we do not find any substantial differences between married and unmarried people, yet divorced/separated people are less likely to retire early than married people and people who are divorced/separated or never married are more likely to exit via other non-work. Lastly, the self-employed appear to be less likely to retire early than those who are in employment.

## 5. Explaining retirement patterns

In an attempt to explain retirement patterns, we examined the impact of social norms and labour law and social security institutions on early retirement exit. Section 5.1 concerns the transition from work to early retirement, and in section 5.2 labour market exits via alternative routes, e.g. via unemployment or disability benefit schemes, are discussed.

### *5.1. Transitioning from work to early retirement: main effects*

The work-related social norms appear to have significant effects on early retirement. Extrinsic work norms have a significant negative effect, meaning that a stronger country-level<sup>4</sup> extrinsic work norm decreases the probability of making a transition to early retirement. In other words, someone living in a country that strongly values extrinsic job characteristics, such as job security and good pay, is less likely to move into early retirement than someone living in a country where these characteristics are generally considered less important<sup>5</sup>.

Intrinsic work norms, on the other hand, have a positive marginal effect on early retirement. Keeping in mind that these social norms reflect country-level values, an explanation can be found in the feeling of dissatisfaction caused by the gap between the social norm of how a job should be and what an individual's actual experiences are. For instance, individuals living in a country where the general idea is that a job should have favourable intrinsic characteristics (e.g. that a job should be interesting, useful for society, provide opportunities to learn new skills, etcetera) may feel dissatisfied when their actual job does not have these characteristics and therefore be more inclined to move into early retirement (Skugor & Muffels, 2011).

Work ethos also appears to have a positive effect, which indicates that a stronger work ethos actually increases the probability of making a transition to early retirement. Although at the individual level work ethos might motivate people to work up to the official retirement age, countries with strong work ethics might also have a strong "early retirement culture" which is associated with the belief that after a long working-life, when people have "fulfilled their duty" towards society, they deserve to retire prior to the statutory retirement age.

Leisure norms are the fourth and last type of social norms and they have a positive effect on early retirement, which supports our expectation. It suggests that living in a society that strongly values leisure time increases the probability to retire early and to choose for a third age exit (Higgs et al., 2003).

The institutional - labour law and social security - variables (early) retirement age and replacement rates all have significant effects on early retirement. Although early retirement age and statutory retirement age were both expected to have negative effects, this appears only the case for the statutory retirement age. As expected, a relatively high statutory retirement age decreases the chance

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<sup>4</sup> The social norms discussed in this paper are in fact the aggregated values by country, or in other words, country-level values.

<sup>5</sup> Because we are using cross-sectional data rather than a panel study, we cannot speak of causal effects. We can only establish that there is a statistically significant relationship between variables.

of retiring prior to that age, which might be associated with the formal age threshold functioning as a social norm prescribing the socially acceptable age to retire. It might however also be related to the existence of actuarial benefit reductions in pension schemes which increase with the length of the period to bridge to retirement. An additional analysis indeed shows that the larger the gap between the early and statutory retirement age (and thus the longer the period to bridge), the lower the chance one will retire early.

The early retirement age appears to have the opposite effect and to actually stimulate early retirement. This might reflect that when the early retirement age is set close to the statutory pension age the actuarial reductions are smaller, making it more attractive for people to retire early. Another interpretation is that the closer age limits together with the smaller actuarial reductions reflect the social norms with respect to the age at which early retirement is considered socially acceptable. When early retirement options are limited or even non-existent in the statutory pension schemes, people may be more inclined to participate in the second or third pillar pension schemes, in which case the decision to retire early is less driven by the social norm represented by the early retirement age and more by individual values or personal preferences. Pension replacement rates have the expected positive effect, indicating that relatively generous pension benefits increase the chance of retiring early. Lastly, educational level does not appear to have significant direct effects on early retirement, but to see if there is a significant indirect relationship, the interaction effects with norms and institutions are examined and discussed in paragraph 5.3.

#### *5.2. Transitioning from work to other non-work: main effects*

As mentioned earlier, besides early retirement schemes, people may use other more attractive benefit schemes to exit the labour market instead of through early retirement, which is known as the spill-over or substitution effect (Gautier & Van der Klaauw, 2012; Glans, 2009). We therefore examined the effects of norms and institutions on transitioning to other non-work statuses, being unemployment, disability and inactivity, and found that the early retirement age has a similar (positive) effect on these alternative exit routes as it has on exiting through early retirement. The statutory retirement age however does not have a significant effect.

Interestingly, pension replacement rates have a significant negative effect. In some countries unemployment and disability benefits are relatively generous and can therefore be an attractive way to leave the labour market early. However, when pension replacement rates are higher, and thus retirement benefits are more generous, more people may choose to exit via early retirement than via an alternative route (spill-over effect), which may explain the negative effect of the pension replacement rates. As to the effects of the work and leisure norms and the effect of educational level, see the table in annex 1.

#### *5.3. Differences across skill levels*

Regarding transitions into early retirement we observe that social norms have some different effects across skill levels. Assuming that higher skilled workers have higher wages and higher future pension rewards, their retirement decision may therefore be less driven by financial considerations than by

social norms and values. In fact, research has shown that even after controlling for wage and other sources of income, higher educated workers tend to stay in the labour force longer than lower educated workers (Blöndal & Scarpetta, 1998).

The interactions with extrinsic work norms and leisure norms show that there is indeed a significant positive interaction with skill level. These social norms have stronger effects on early retirement for respectively high skilled workers and both medium and high skilled workers than for the low skilled workers, which are the reference category. Interestingly, social norms with respect to work ethos appear to be less important for high skilled workers than for low skilled workers, so living in a country with strong work norms may keep lower skilled workers in the labour market up to a later age.

As to the institutional variables, only the interaction effect with statutory retirement age appears to be significant, indicating that retirement age has a stronger effect for medium skilled workers than for low skilled workers.

Concerning transitions from work to other non-work (i.e. unemployment, disability, or inactivity), our analyses show an entirely different pattern, indicating that this type of exit out of the labour market has substantially different underlying mechanisms and incentives than the early retirement exit. For instance, the effect of early retirement age on exiting through non-work routes is less strong for medium skilled workers than low skilled workers, and the effect of replacement rates less strong for medium and high skilled workers.

#### *5.4. A further look into gender differences*

After examining the main effects and the differences across skill levels, this section is dedicated to gender differences. Our analyses show that the effects of the social norms on early retirement are quite similar but slightly less strong for women than for men. Regarding the institutions, it appears that replacement rates have a stronger effect for men than for women. Since women generally have lower wages (for various reasons; see Petersen & Morgan, 1995) and are less often economically independent than men, one would expect them to be more susceptible to financial incentives retire early. However, perhaps the fact that many countries have lower early and statutory retirement ages for women (see table 1) already makes it easier for women to exit the labour market at early ages which makes them less sensitive to financial incentives. In addition, most women in the sample are married and can (partially) rely on their partners' income, which is generally also higher. Regarding the effects of skill level and the control variables, there are no differences worth mentioning.

As to the effects on making a transition to other non-work, it appears that intrinsic and extrinsic work values are significant for both genders, but that the effects are stronger for women. Hence, higher expectations on the content of a job seem to have a stronger influence on women's exit behaviour. This may indicate that women feel more stressed than men when their jobs do not meet their expectations with respect to the intrinsic and extrinsic job characteristics jobs should have and more often leave their jobs for reasons of dissatisfaction. Pension replacement rates also appear to have stronger (negative) effects for women than for men. Health status acting as a control variable appears to be a stronger factor for women to exit the labour market through non-retirement options than for men. The same holds for being divorced/separated and never married which increase the chance of

exiting through other non-work for both men and women, but more so for women. This might be related to the lower quality of the jobs women are engaged in, both in terms of the employer's disability arrangements and the provided job security.

## **6. Conclusions and discussion**

The results provide insight into the retirement decision by examining the effects of micro- and macro-level determinants on transitions out of the labour market. Using SILC panel data combined with country-aggregated EVS data on values, we estimated multinomial logistic regression models combining economic and social determinants such as benefit replacement rates on the one hand and social norms with respect to work and leisure on the other. The models indicated that both the institutional factors and the social norms have statistically significant effects on exiting the labour market through early retirement even though the effects of the economic determinants seems more important.

The findings regarding the institutional variables (early) retirement age and pension replacement rates indicate that the early retirement age and replacement rates have positive effects on early retirement whereas the statutory retirement age has a negative effect. As expected, the latter functions as a social norm for the appropriate age to retire and enforces people to work up to that age. On the other hand, a high eligibility age for early retirement benefits from the state (i.e. a high early retirement age) may be a motivation for people to retire through occupational or private pension schemes, or even to use other benefit systems such as unemployment and disability schemes as an early exit route (also known as the spill-over effect (Gautier & Van der Klaauw, 2012)). The positive effect of the pension replacement rates on retirement and the accompanied negative effects on unemployment and disability indicates that generous old-age benefits pull people into early retirement and that there are indeed some spill-over effects.

The results with respect to social norms affecting the retirement decision firstly concern the influence of intrinsic job characteristics (e.g. that a job should be interesting, or useful to society) and extrinsic job characteristics (e.g. a job should deliver a good pay, good working hours) which appeared to have opposite effects. Apparently, when societies strongly value extrinsic job characteristics people seem to be inclined to hold on to these working conditions and work up to a later age, whereas strong intrinsic work norms are associated with a higher chance of early retirement. People tend to behave according to shared social norms (Elster, 1989), so when actual intrinsic characteristics deviate substantially from the shared expectations in society on the content of a job, a feeling of dissatisfaction may arise, making people more inclined to leave the labour market through early retirement. The third social norm in our study, concerning a commonly shared work ethos, appeared to increase the likelihood of early retirement, which supports our hypothesis about the creation of an "early retirement culture". Although in societies with strong work ethics there is a general believe that work is important for people's life and a duty towards society; at the same time older workers are exempted from that claim because of the "deservingness criterion", that is the acquired right of older workers to a good pension after a long working life. The last social norm included is about the importance of leisure time and has a positive association with early retirement; thereby supporting our "third age exit"-hypothesis which

states that when leisure time is strongly valued people are more inclined to retire early to pursue opportunities for leisure and self-fulfilment (Higgs et al., 2003).

We finally examined differences by skill level and gender. The results indicate that skill level (education) has significant interaction effects with institutions and norms. When comparing the direct effect for the low and high skilled worker on the early retirement decision we found no significant differences. By gender, it seems that social norms affect both men and women in their early retirement decision, but men slightly more than women. The early retirement and statutory pension age resemble the social norms towards early retirement and “normal” retirement and both affect the retirement decision for men and women equally. The pension replacement rates are, slightly surprisingly, more important for men than for women, which may be partly due to the fact that the majority of the women in the sample are married and can count on their partners’ (generally higher) pension income besides their own pension.

With a view to the role of institutions, including labour law and social security, our study confirms the findings of other studies that indeed institutional pull factors, such as the benefit generosity, are important to motivate older workers to exit into early retirement. We argued that institutional push factors are important, which especially deal with the economic conditions (business cycle and unemployment level) on the one hand and the working conditions or the quality of the job on the other hand. The competing risk model used here allowed us not only to assess the relevance of the institutional factors for the various exit routes (retirement, unemployment, disability) but also to acquire some insight into the spill-over effects of the early retirement system on to the social security system for which we find some evidence.

The added value of our approach however is in examining the combined effects of institutions and social values and norms on the early retirement decision. Even though the effects of institutions appeared to be more important than the effects of the social norms and values, the effects of the social norms still appeared significant and substantial even after controlling for institutional effects. Part of the impact of values is already captured by the effects of the institutions since labour law and social security institutions partly reflect the values and norms of a society. Social norms and values seem to affect people’s retirement decisions and support the idea of the existence of a “retirement culture” in a particular country. Even in countries with a strong work ethos at the individual level social norms prevail with a view to “deservingness” criteria, according to which older workers have a right to rest after a long working life. The positive impact of commonly shared leisure norms on early retirement also suggests that such deservingness criteria still play an important role. Social norms are however not fixed and might change over time. Our time horizon was too short to assess changes over time but the strong influence of these norms, even in the period under scrutiny 2005-2008 in which debates on the future sustainability of the pension system were already quite common, suggests that these norms are only slightly changing.

Some issues are left for further examination. A first addition would be to define better measures for entitlement, access and generosity to social security benefits by including more detailed information on replacement rates, benefit access conditions and benefit durations. A second is that while we included

controls for the business cycle and the unemployment level in our models, little information was available on working conditions. This certainly asks for more scrutiny to associate the retirement decision to the quality of jobs in society. Third, we were not able to simultaneously measure individual values, social norms and institutional factors to examine their separate and joint effects. Finally, our time horizon was too short to examine and associate changes in policies with changes in social norms and vice versa.

The shown impact of social norms on retirement behaviour might also have implications for pension policies. Social norms are also reflected in the age limits of early retirement and statutory retirement. The early retirement age has some unanticipated effects, suggesting that if the early retirement age is set at a too high level compared to the social norm in society, older workers may choose for alternative exit routes such as unemployment or disability. This might then lead to spill-over effects between the various competing exit routes reducing the effectiveness of policies. Support is further found that countries with a higher statutory retirement are able to postpone the retirement decision. This latter finding supports policies to increase the retirement age but the first issues a warning to policies denying the existence of strong social norms in society. Labour law can do an important task, but it can not just go its own way.

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Annex 1: Marginal effects on making a transition from work to early retirement or to other non-work (i.e. unemployment, disability, inactivity). N = 93,614

<b>Y = Labour market exit:</b> (reference = continued work)	<b>Transition from work to early retirement</b> -- Model 1 --	<b>Transition from work to other non-work</b> -- Model 2 --
	<i>Marginal effects</i>	<i>Marginal effects</i>
<b>Social norms:</b>		
Intrinsic work norms (0-1)	.029***	-.050***
Extrinsic work norms (0-1)	-.030***	.043***
Work ethos (1-5)	.014***	-.001
Leisure norms (1-4)	.013***	.004
<b>Institutions:</b>		
Early retirement age	.000**	.002***
Statutory retirement age	-.003***	.001
Pension replacement rates	.070***	-.024***
<b>Skill level/ education (ref = low):</b>		
- <i>medium skill</i>	.001	-.014***
- <i>high skill</i>	-.003	-.032***
<b>Controls:</b>		
Gender (ref = male)	-.004***	.019***
Age	.005***	.000***
Good health	-.003***	-.019***
Marital status (ref=married)		
- <i>widowed</i>	.003	.002
- <i>divorced/ separated</i>	-.004**	.008***
- <i>never married</i>	-.001	.011***
Self-employment	-.006***	.000
Unemployment rate (macro)	.001***	.001***

Source = SILC-EVS 2005-2008. Note: \* p < .10; \*\* p < .05; \*\*\* p < .01.

Annex 2. Marginal effects by gender on making a transition from work to early retirement or to other non-work (i.e. unemployment, disability, inactivity). N = 93,614

<b>Y = Labour market exit:</b> (reference = continued work)	<b>Transition from work to early retirement</b>		<b>Transition from work to other non-work</b>	
	-- Model 3a --	-- Model 3b --	-- Model 4a --	-- Model 4b --
	<i>Men</i>	<i>Women</i>	<i>Men</i>	<i>Women</i>
<b>Social norms:</b>				
Intrinsic work norms	.031***	.026***	-.041***	-.064***
Extrinsic work norms	-.032***	-.027***	.035***	.054***
Work ethos	.015***	.012***	-.001	-.001
Leisure norms	.014***	.012***	.003	.005
<b>Institutions:</b>				
Early retirement age	.000**	.000**	.002***	.002***
Statutory retirement age	-.003***	-.003***	.001	.001
Pension replacement rates	.076***	.062***	-.020***	-.030***
<b>Skill level/ education (ref = low):</b>				
- <i>medium skill</i>	.001	.001	-.011***	-.018***
- <i>high skill</i>	-.003	-.002	-.026***	-.040***
<b>Controls:</b>				
Age	.006***	.005***	.000***	.001***
Good health	-.004***	-.003***	-.016***	-.024***
Marital status (ref=married)				
- <i>widowed</i>	.003	.003	.002	.002
- <i>divorced/ separated</i>	-.004**	-.003**	.007***	.011***
- <i>never married</i>	-.001	-.001	.009***	.014***
Self-employment	-.007***	-.006***	.000	.001
Unemployment rate (macro)	.001***	.001***	.001***	.001***

Source = SILC-EVS 2005-2008. Note: \* p < .10; \*\* p < .05; \*\*\* p < .01.