Consequences of the increase in the retirement age on occupational disability

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A higher statutory retirement age implies higher labor participation among older people, a longer period of tax and social security contributions, and a shorter period of pension claims. The extent of the gains for public finances and the effect on well-being of older workers remains unclear, however. A higher statutory retirement age may lead to more claims of disability benefits. We first document that since the statutory retirement age was raised, more people claim disability insurance benefits. We then focus on older workers who are sick, and analyze to which extent they are able to cope with their health impairment and still utilize their remaining work capacity instead of claiming (full) disability benefits. We provide strong evidence for a negative age gradient in remaining work capacity utilization, which implies that a higher retirement age reduces how much sick workers close to the retirement age utilize their remaining work capacity. Compared to younger sick workers, older sick workers are much less likely to go back to work or increase their working hours, and much more likely to depend on unemployment benefits. Furthermore, a higher disability grade leads to a much higher earnings loss among older workers compared to the earnings loss of younger workers.