



mea

Flexible Retirement

Prof. Axel Börsch-Supan, Ph.D.

Munich Center for the Economics of Aging (MEA)

CINTIA Opening Lecture, Torino, 24 November 2014



mea



Flexible Retirement



Prof. Dr. Ingrid Isenhardt
Municipal



Prof. Dr. Ingrid Isenhardt
(MEA)



CINT



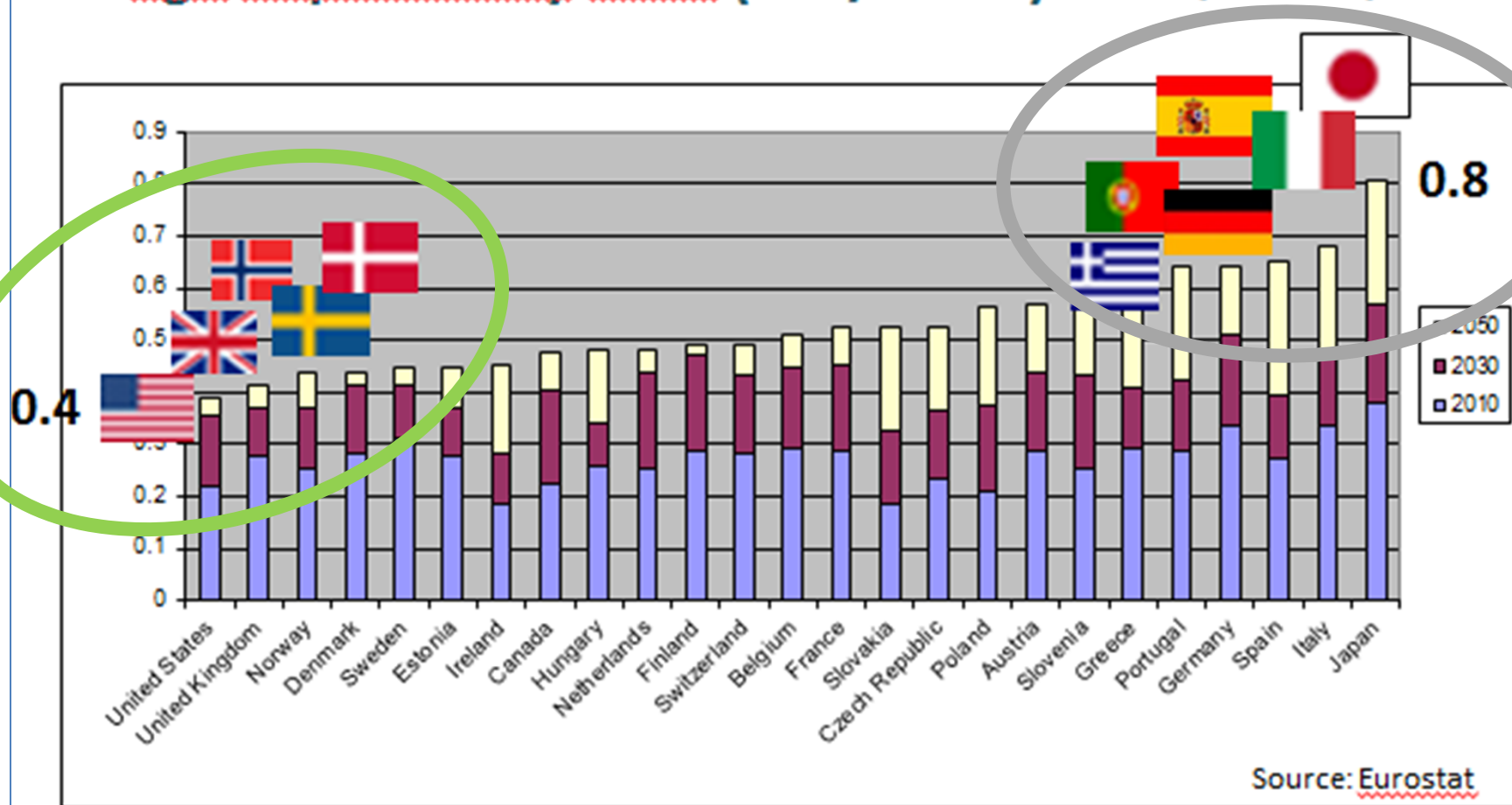
4



mea

Where does Germany stand w.r.t. demography

Old age dependency ratio (60+/20-59) 2010, 2030, 2050:



Source: Eurostat



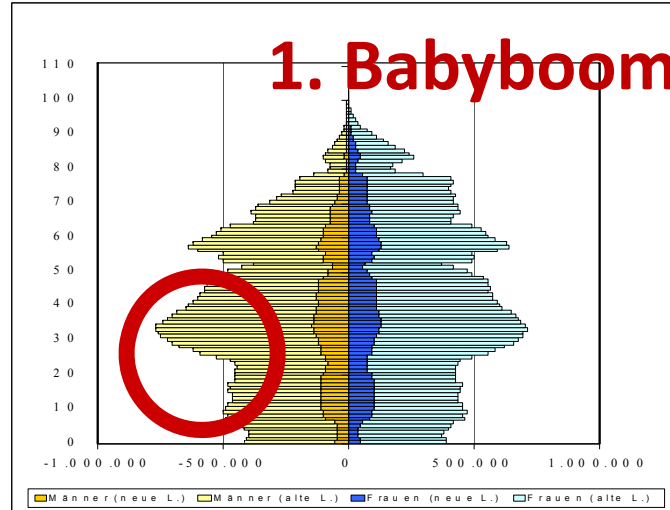
mea

Demography & policy tools

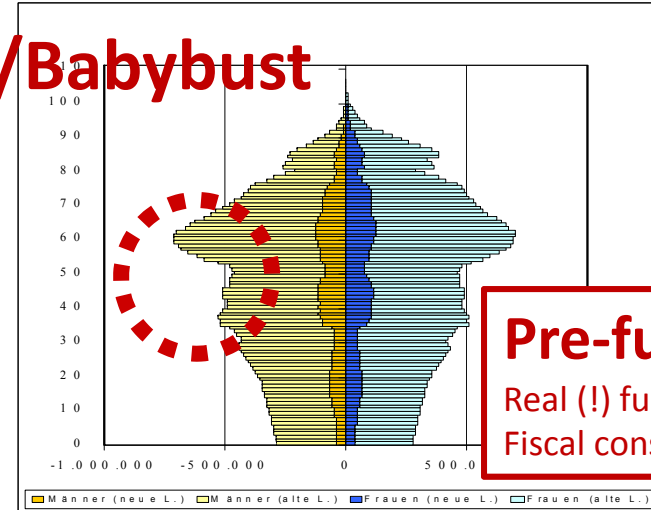
Schaubild 1.6



2000

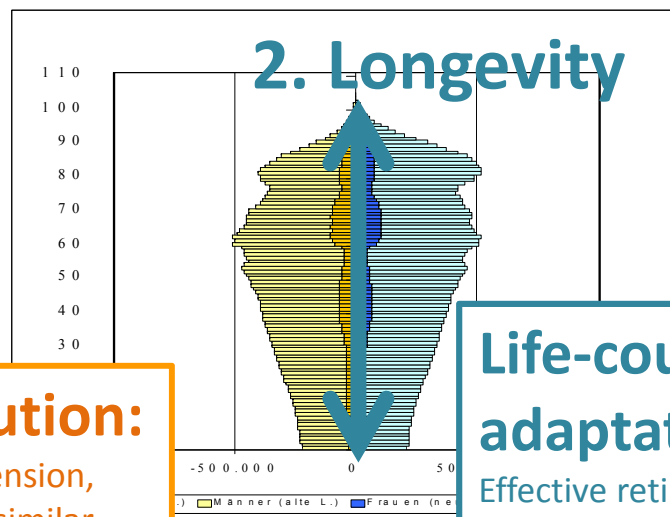


2025



Pre-funding
Real (!) funding of pensions
Fiscal consolidation

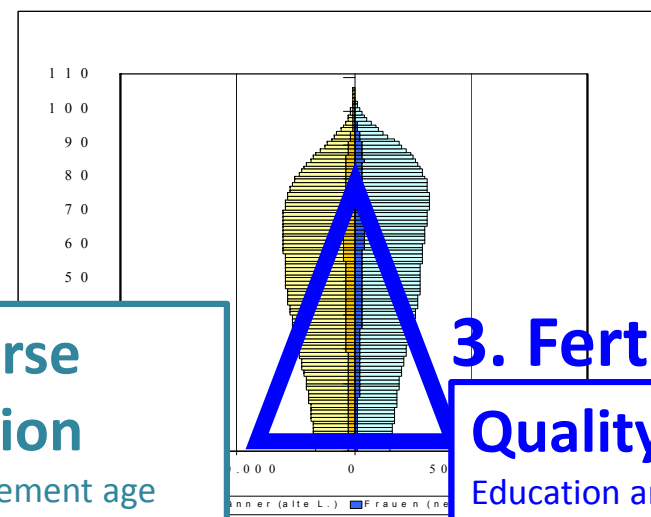
2050



Distribution:
Minimum pension,
„Pillar 0“ or similar

Life-course adaptation
Effective retirement age

2100



**mea**

Historical Milestones

Expansion:

1972: Introduction of flexible retirement at 63/60

Reforms:

1992: Gross to net wage indexation,
introduction of actuarial adjustments

2001: Private pension pillar and minimum pension

2004/07: Sustainability factor, retirement age -> 67

Reversal:

2013/14: Retirement at 63, flexible retirement at 60

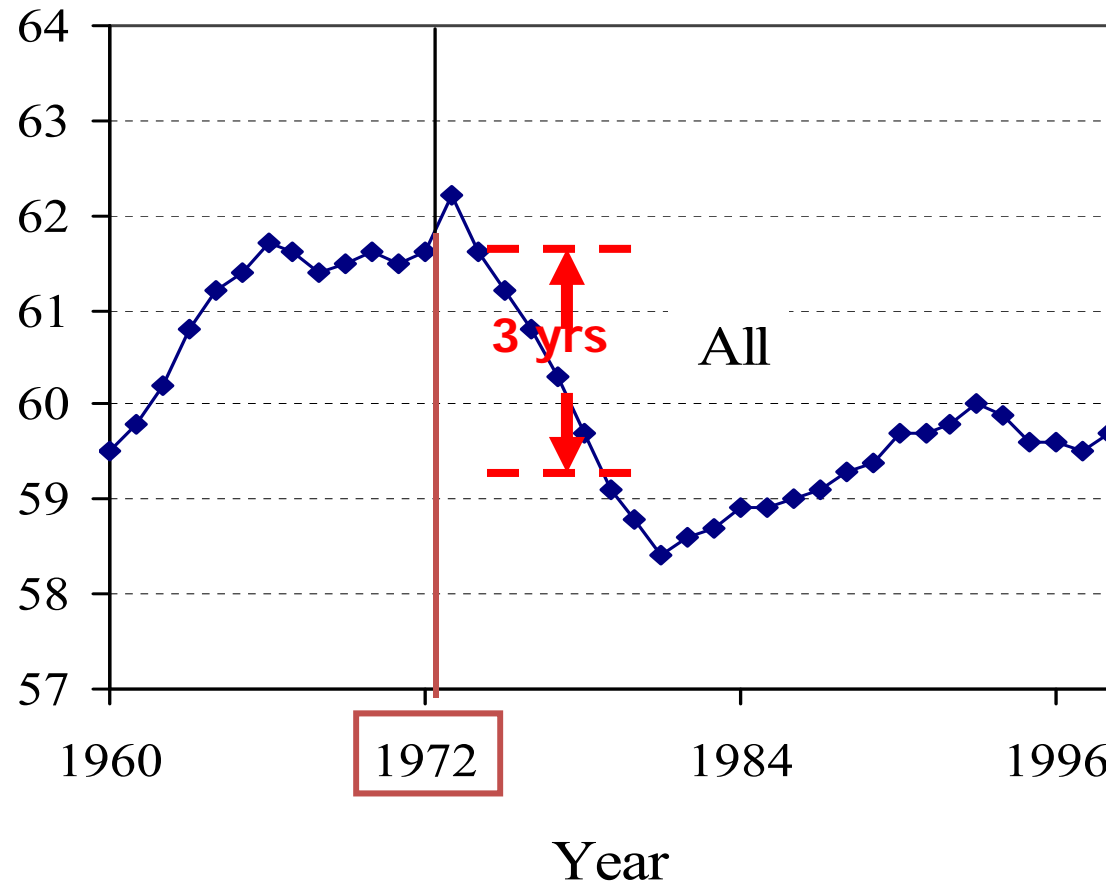




mea

Pension reform 1972

Expansion: Average entry/exit age



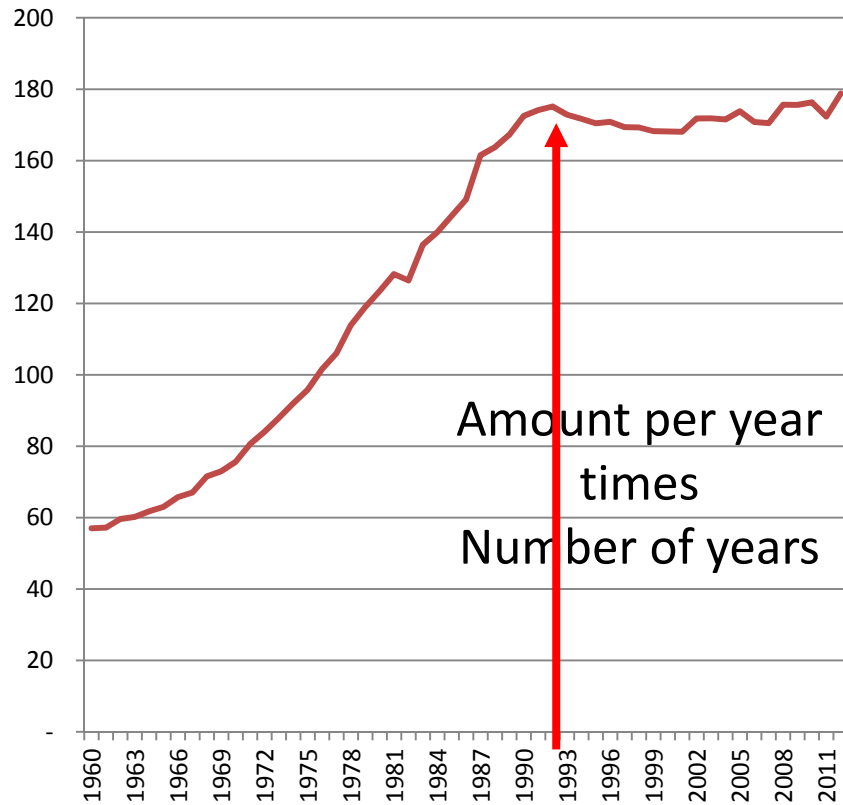


mea

Pension reform 1992

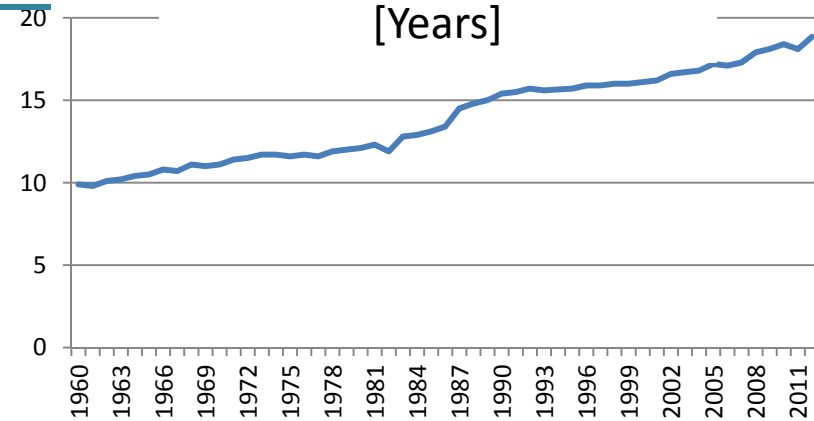
Gross to net wage indexation:

Volume [1000 Euro]

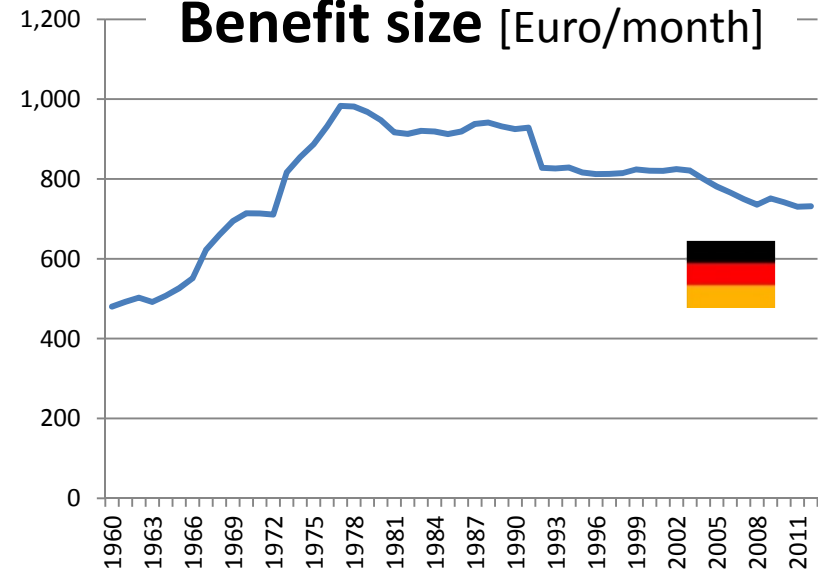


Benefit duration

[Years]



Benefit size [Euro/month]



**mea**

Reform Agenda 2010

Labor market policies:

1. increase of the retirement age by 2 years
2. decrease of the job entry age by 2 years
3. increase of female labor force participation
(e.g.: convergence to 90 percent of the rate for men)
4. reduction of unemployment to the NAIRU rate

=> Would add some 15 percent to labor force

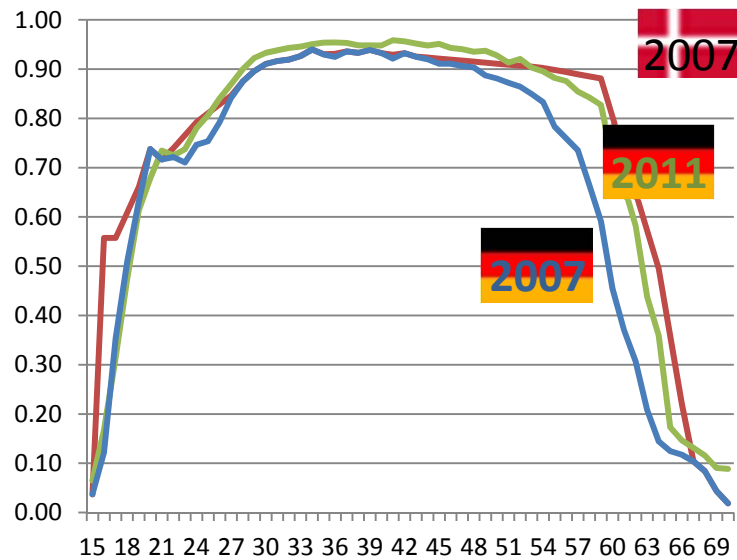


mea

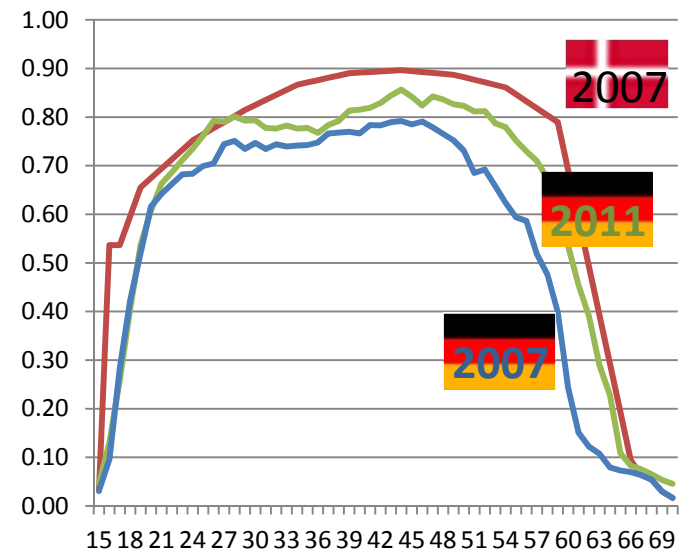
Reform Agenda 2010

Changes 2007 to 2011:

Men



Women



**mea**

Reform Agenda 2010

Labor market policies:

1. increase of the retirement age by 2 years ✓
2. decrease of the job entry age by 2 years
3. increase of female labor force participation ✓
(e.g.: convergence to 90 percent of the rate for men)
4. reduction of unemployment to the NAIRU rate ✓

Has added some 17 percent to labor force!



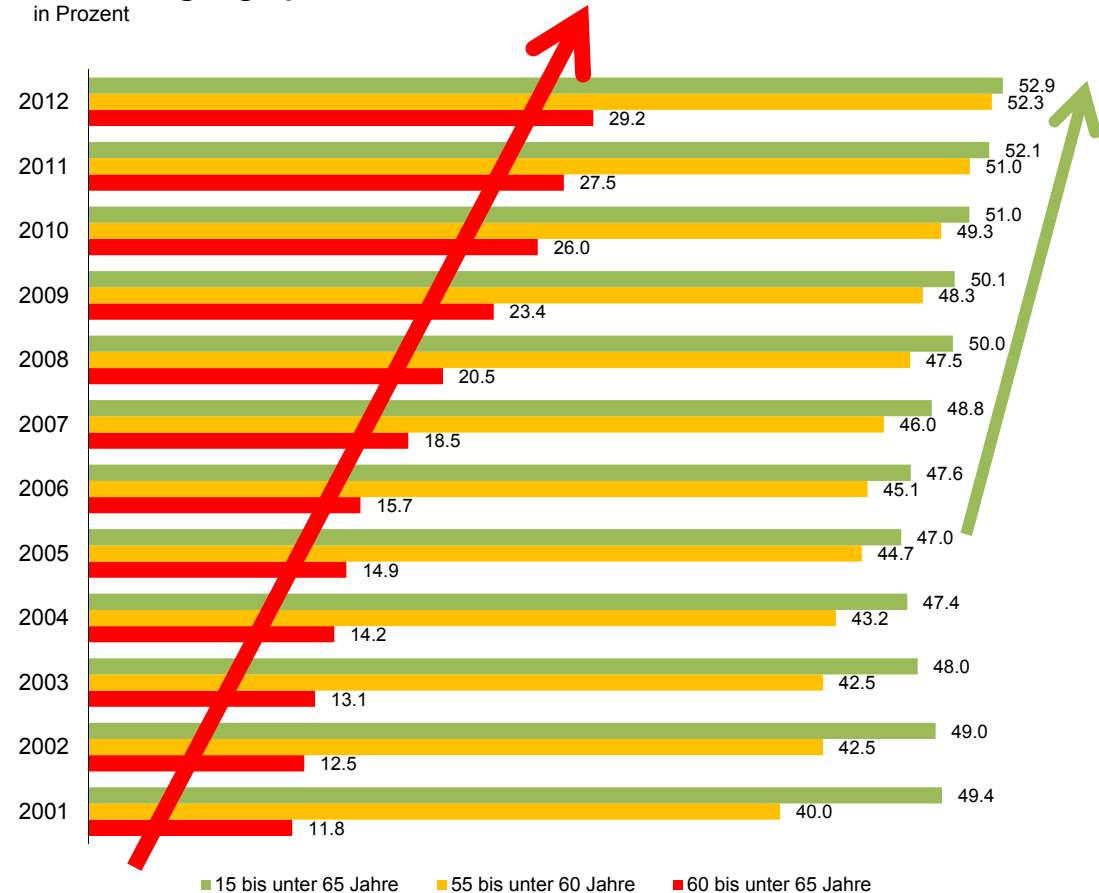
mea

Reform Agenda 2010

Employment age 60-65:

Headwind through more employment in spite of tailwind through demography

Beschäftigungsquoten in Deutschland
in Prozent



**mea**

Reform Agenda 2010

Pension policies:

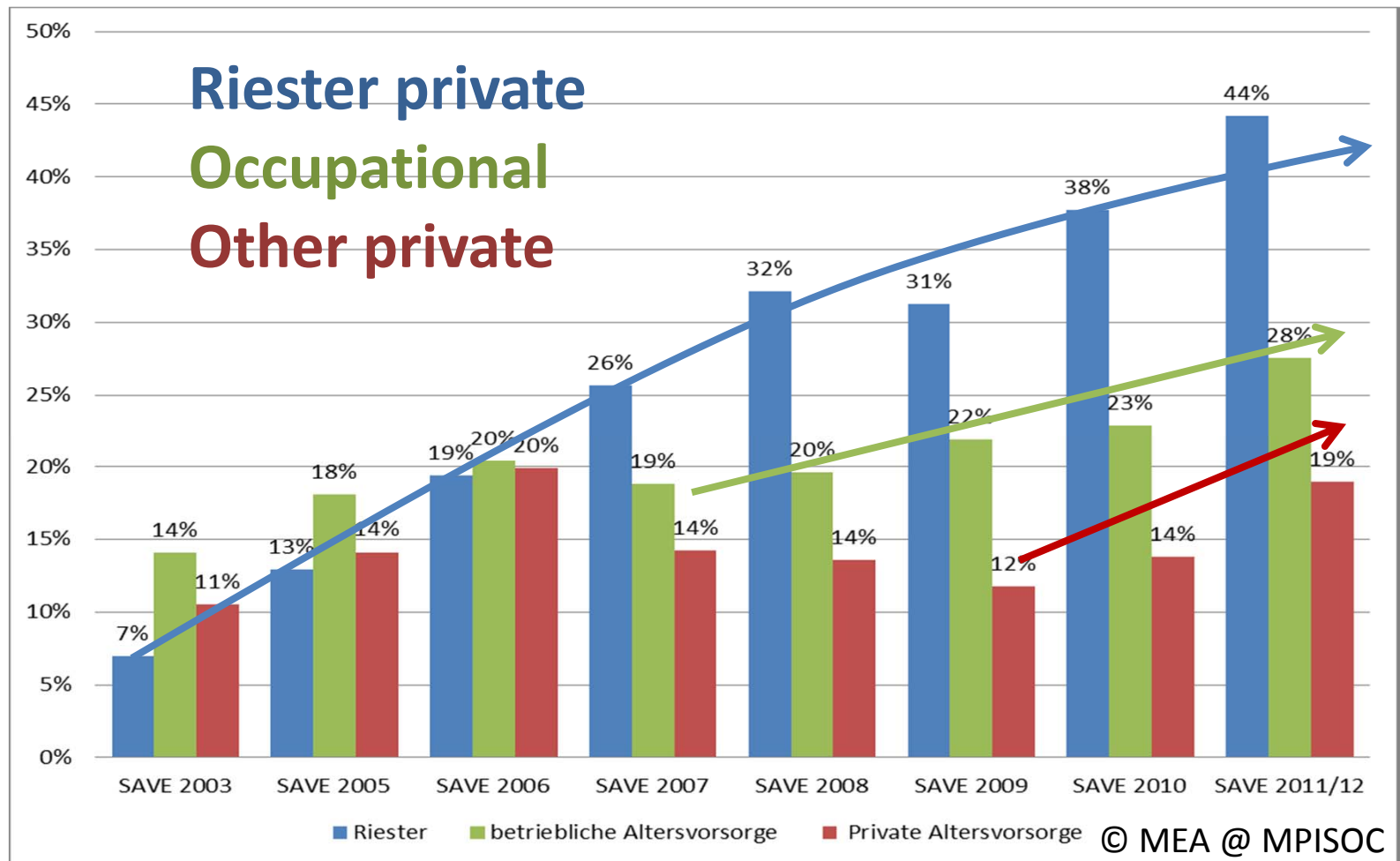
- Earnings-related pay-as-you-go pension system
- Actuarial adjustments at early retirement
- Indexation to dependency ratio
- Sweden & Italy: **NDC**; Germany: Quasi-NDC wrapped as DB (“**sustainability factor**”)
- Supplemental funded system(s)

**=> Would change pillar weights (10 -> 40%)
and labor supply incentives**



mea

Reform Agenda 2010



**mea**

Reform Agenda 2010

Pension policies:

- Earnings-related pay-as-you-go pension system ✓
- Actuarial adjustments at early retirement
- Indexation to dependency ratio ✓
- Sweden & Italy: **NDC**; Germany: Quasi-NDC wrapped as DB (“**sustainability factor**”)
- Supplemental funded system(s) ✓

=> **Has changed pillar weights (10 -> 25%)**

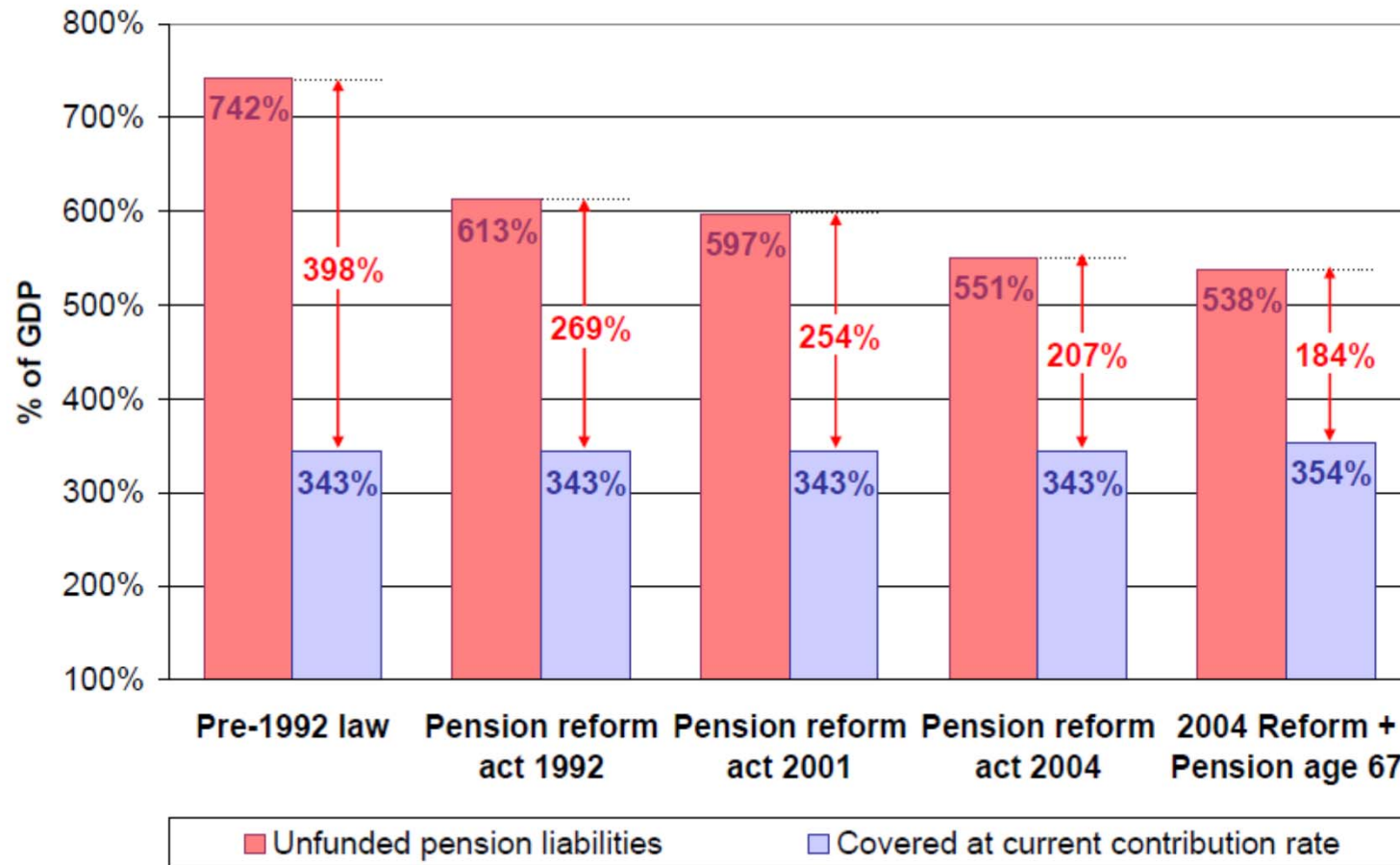
(No direct data on labor supply incentives)



mea

Reform Agenda 2010

Reduction of implicit debt:



**mea**

Time inconsistent policy 2013/14

Employment

- *Minimum wage (€8.50/\$12.00)*
- *General tendency to less flexibility in the labor market*



„Pension package“

- *„Mütterrente“ & Retirement at 63 after 45 „service“ years*
- *Direct effect of „Rente mit 63“: ca. 150.000 jobs*
- *Indirect effects of entire „Rentenpaket“: ca. 50.000 jobs*



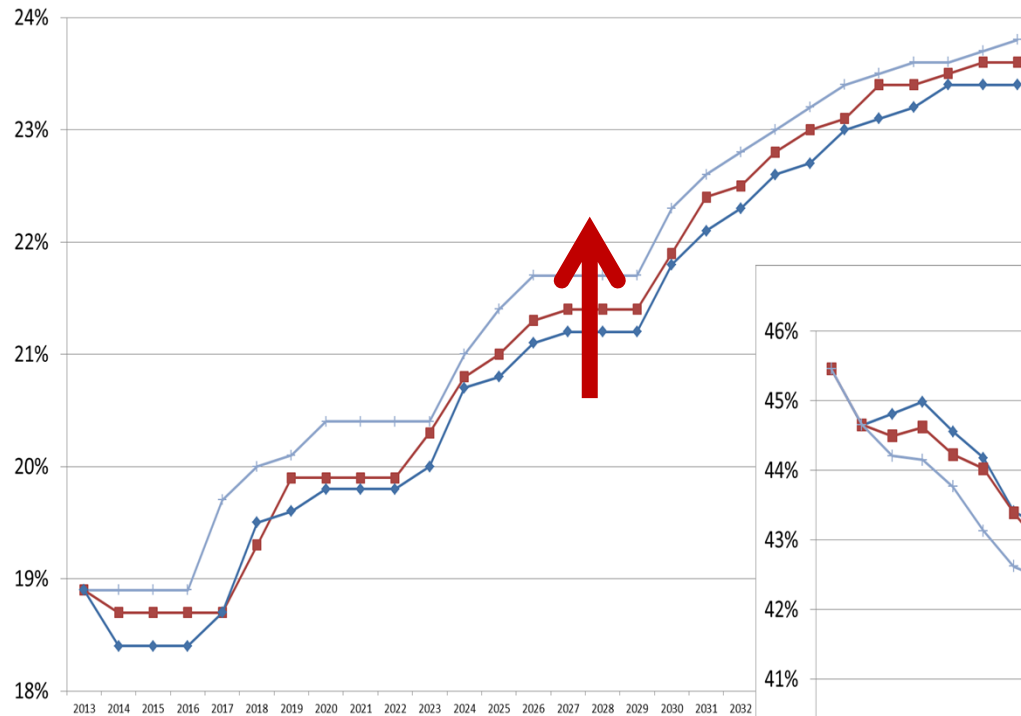


mea

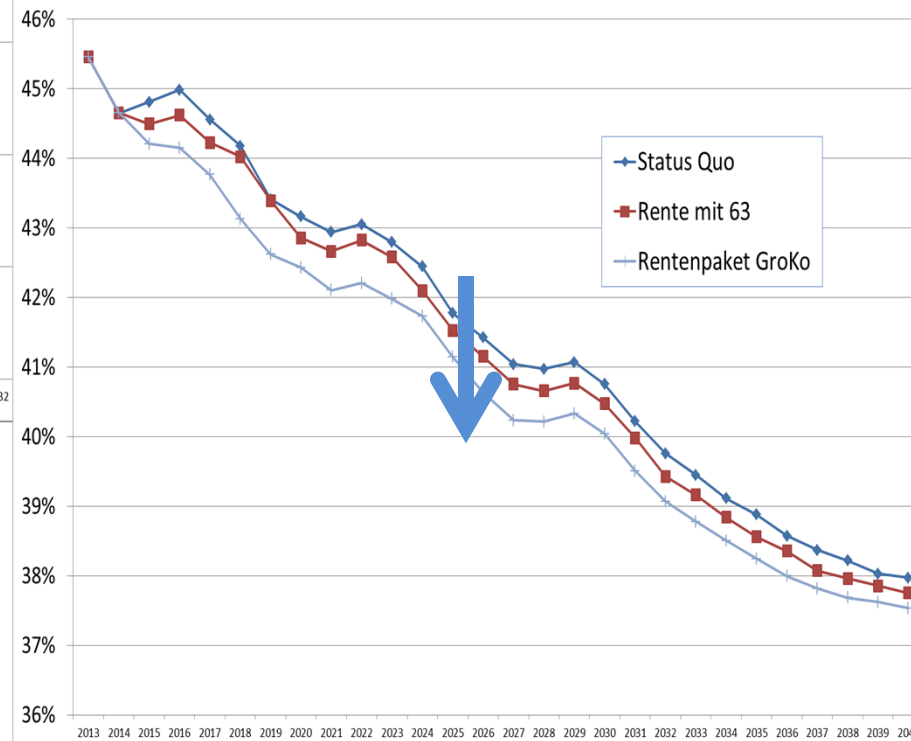
2013/14: Costs of "Rentenpaket"



Beitragssatz



Brutto-Standardrentenniveau





mea

Who profits from "Rente mit 63"?

EP = 44.4

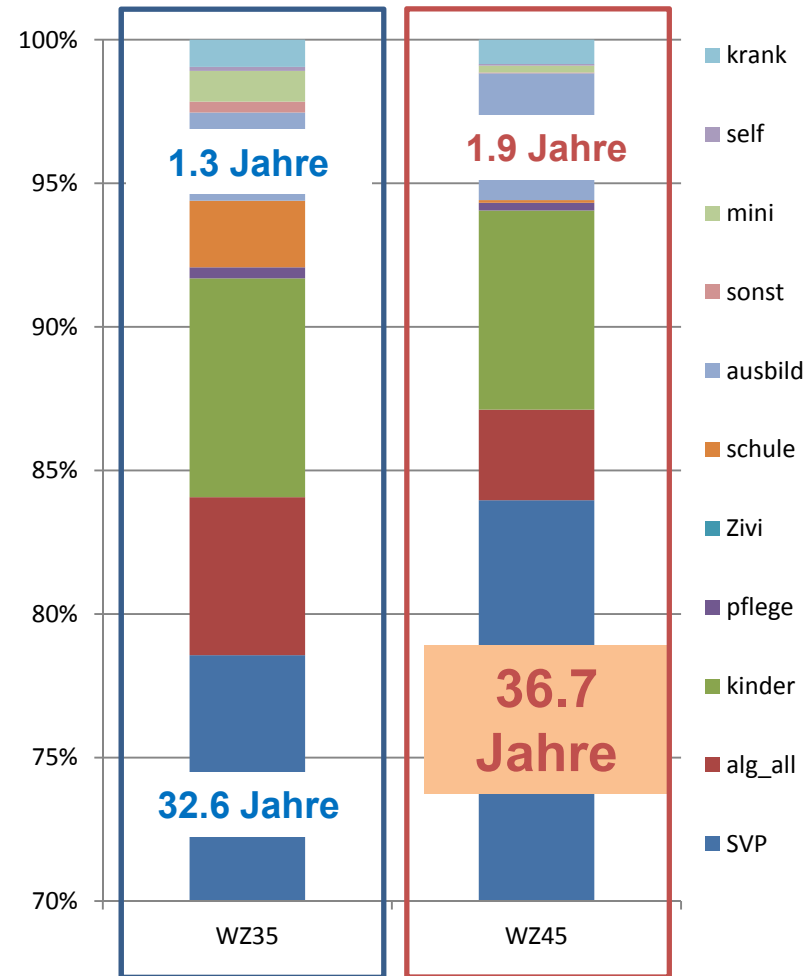
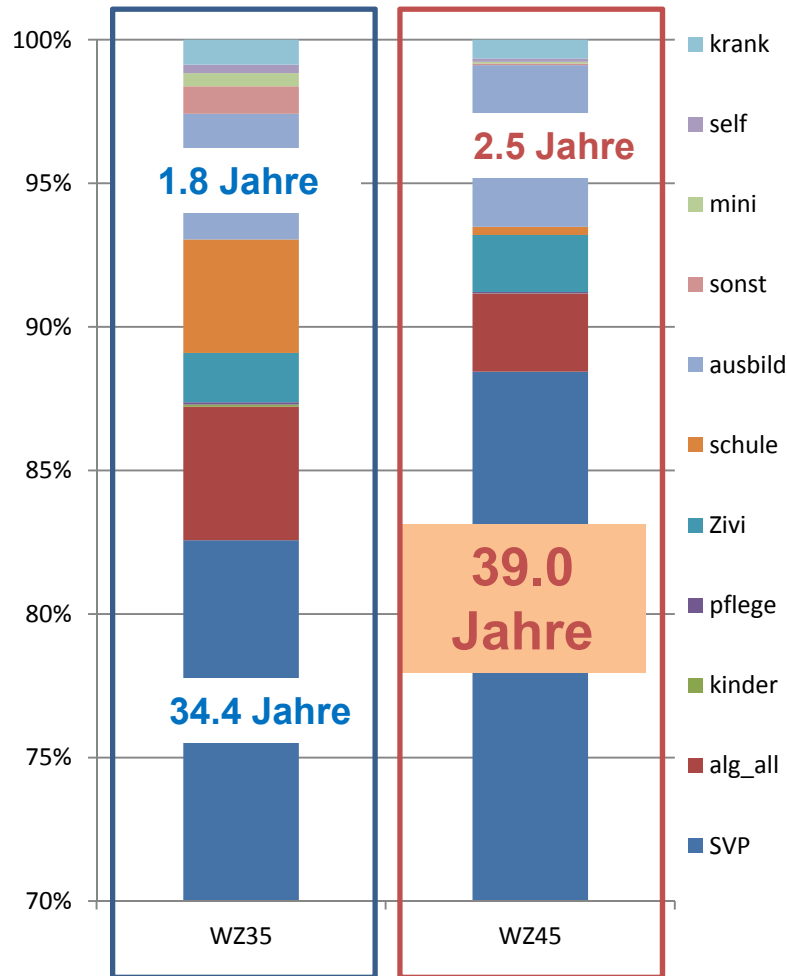
EP = 46.2

EP = 33.1

EP = 35.9

Männer

Frauen

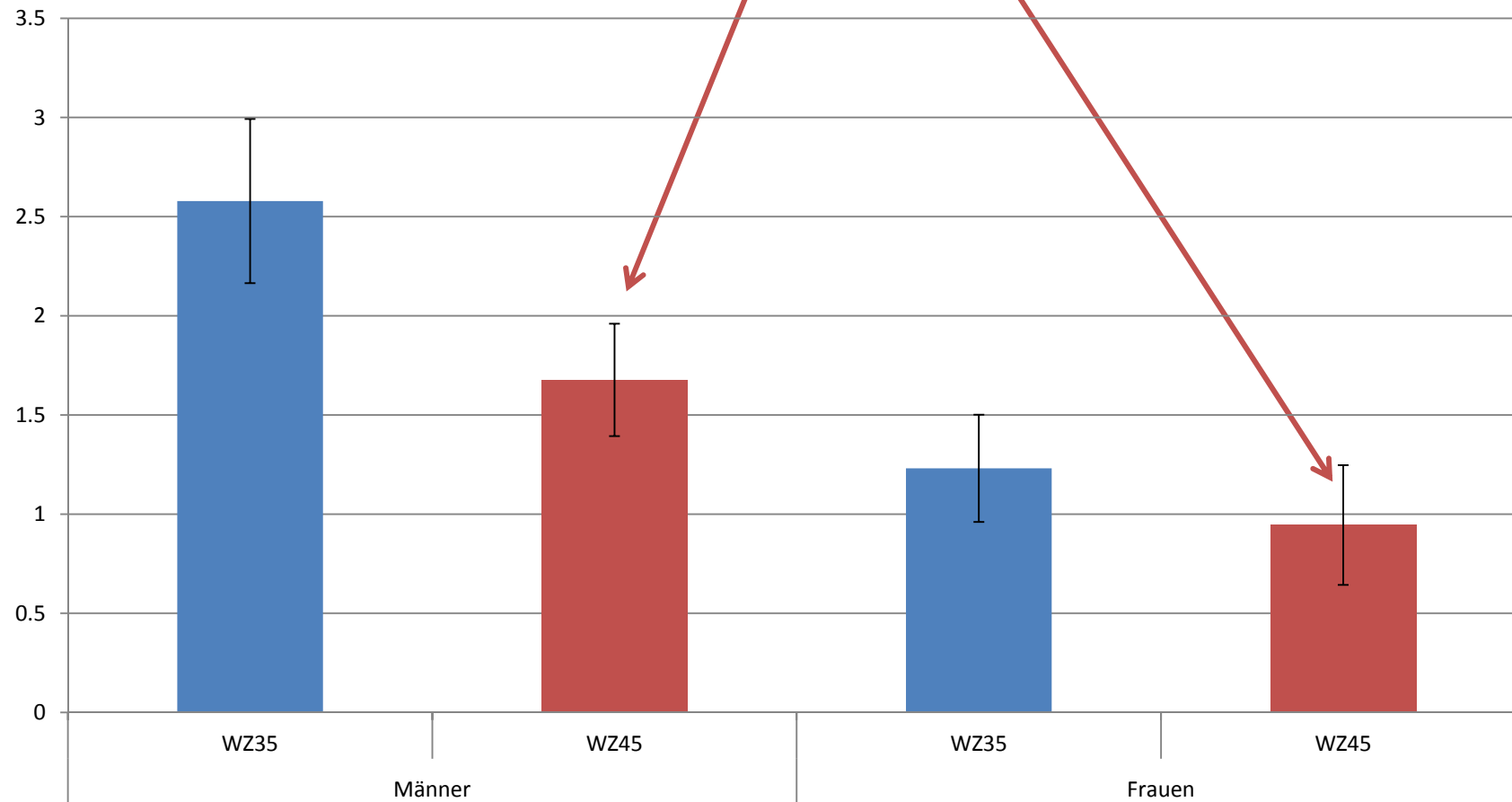




mea

Who profits from “Rente mit 63”?

**Month with illness
(Age 50 – 59)**



**mea**

Outcome of the barrage

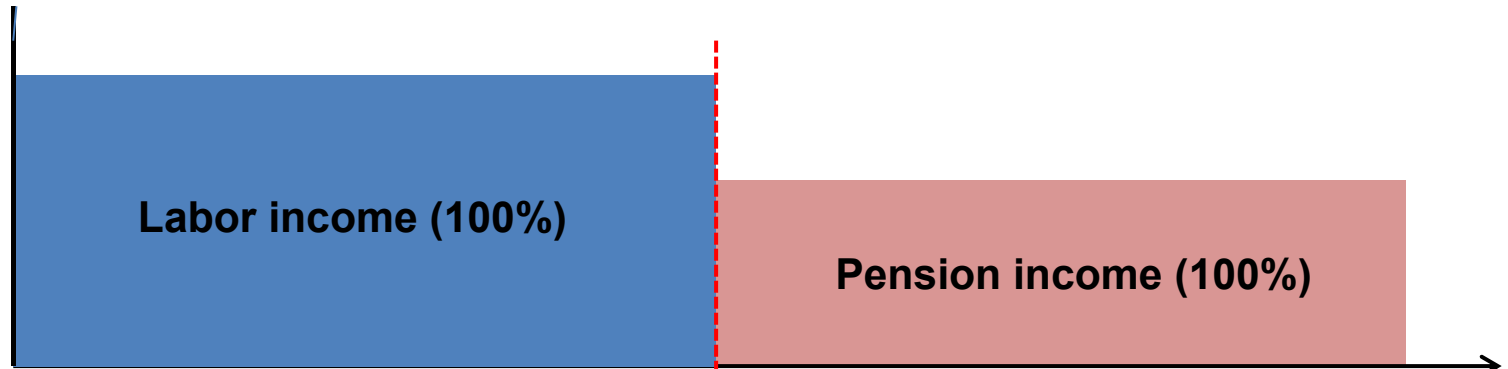
- Widely attacked as textbook example for time inconsistency
- Law was anyway passed by large margin (grand coalition)
- Applies to some 200.000 (privileged) workers
- Not harmful? LF=42m, but symbolic character
- Limited to cohorts 52-64
- Public statement that retirement at age 67 will not be touched, neither „sustainability factor“ (DB -> DC)
- Glas a bit less full..... ~~☹~~ ☹



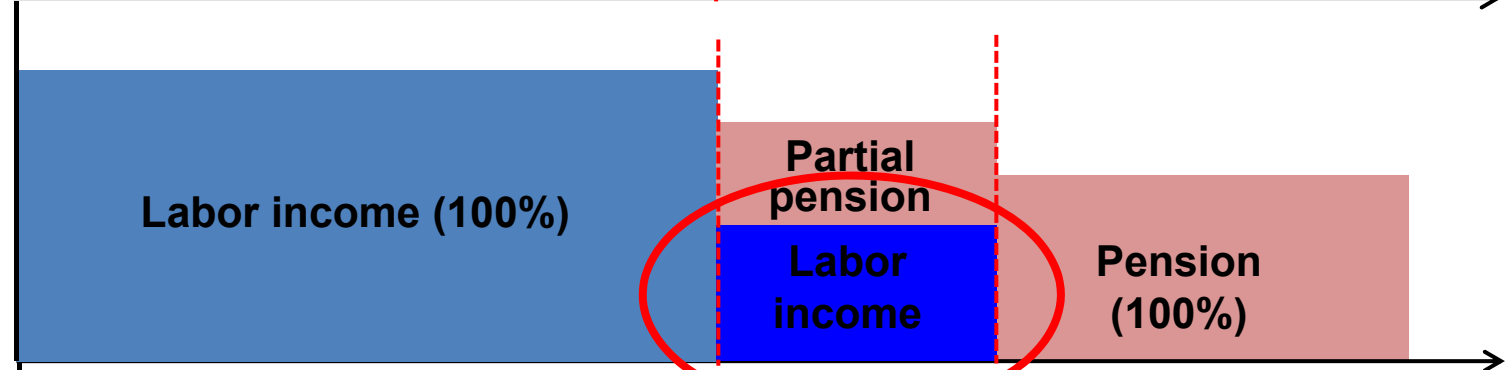
mea

Flexible retirement at 60

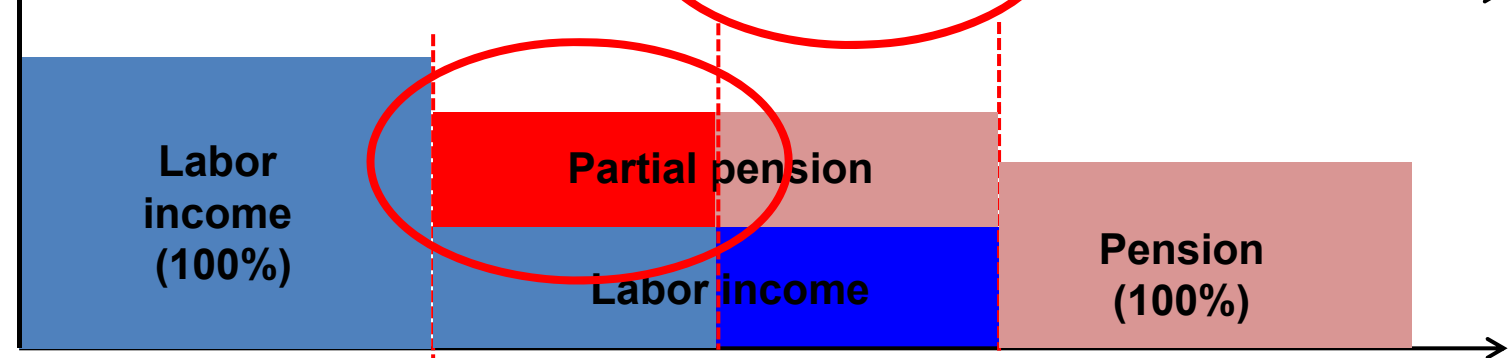
Currently:



Aim:



Likely outcome:





mea

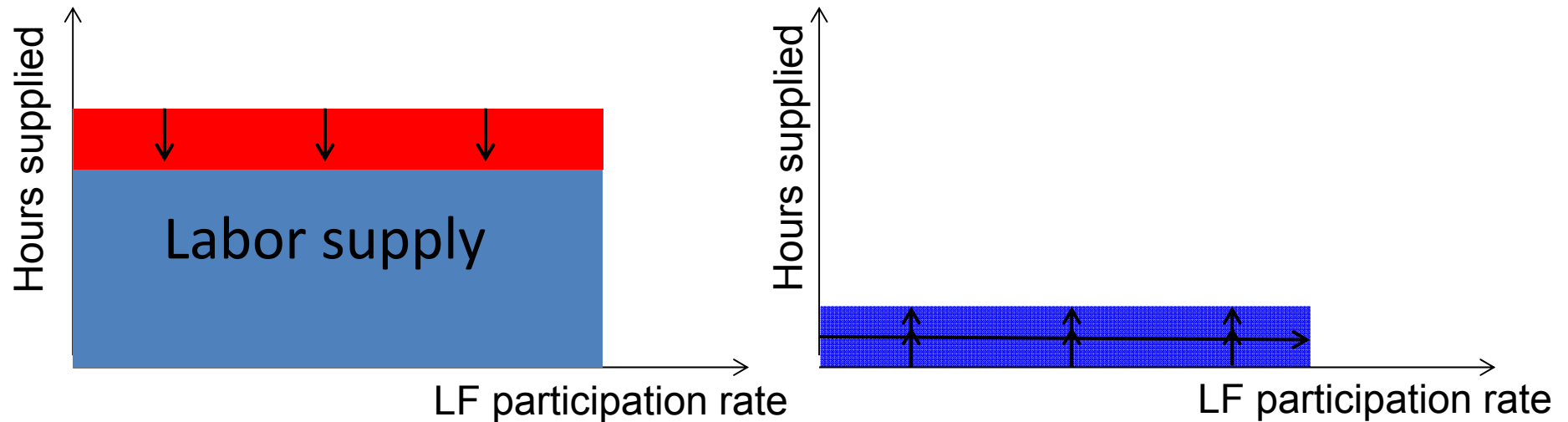
Flexible retirement at 60

Currently working full time:

→ **reduce labor supply**

Currently no working at all:

→ **increase labor supply**



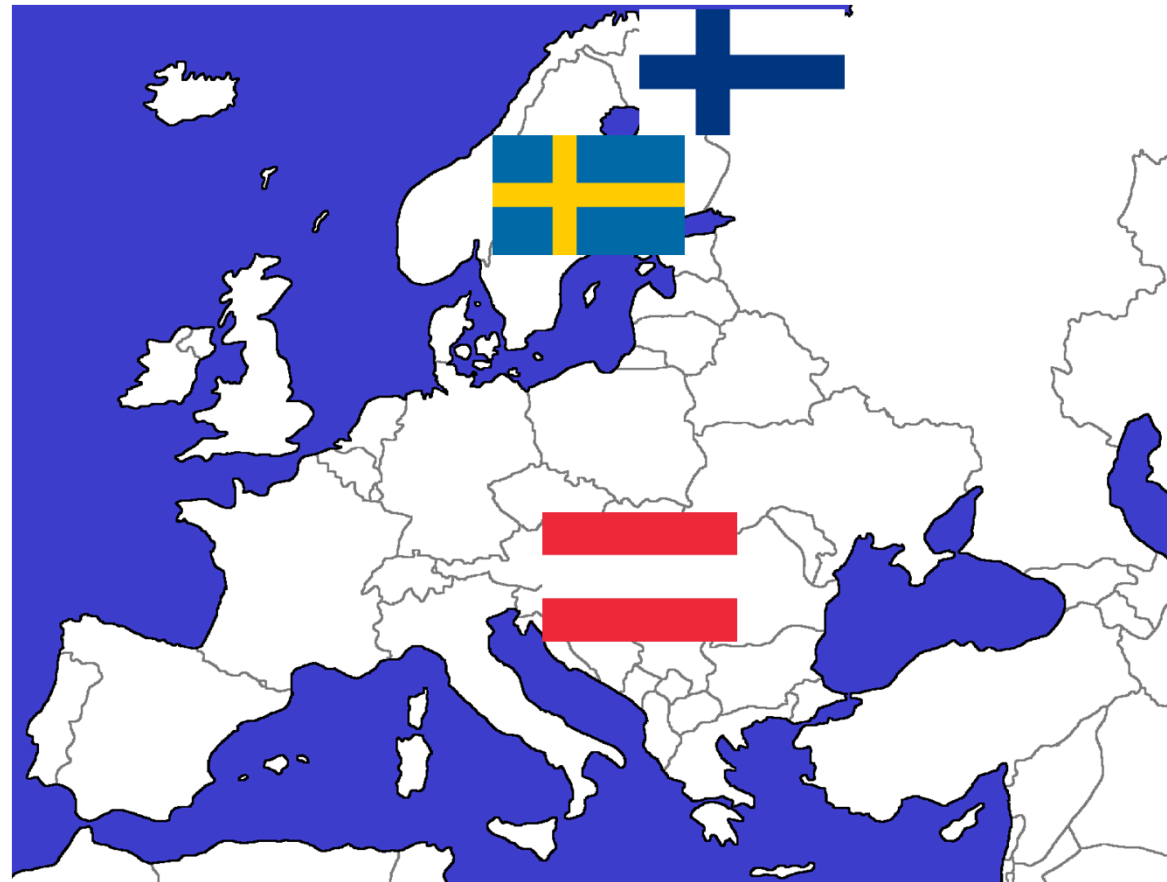
→ **Participation rate [Persons] likely to increase**

→ **Labor supply [hours] ex ante undetermined**



mea

Flexible retirement: evidence





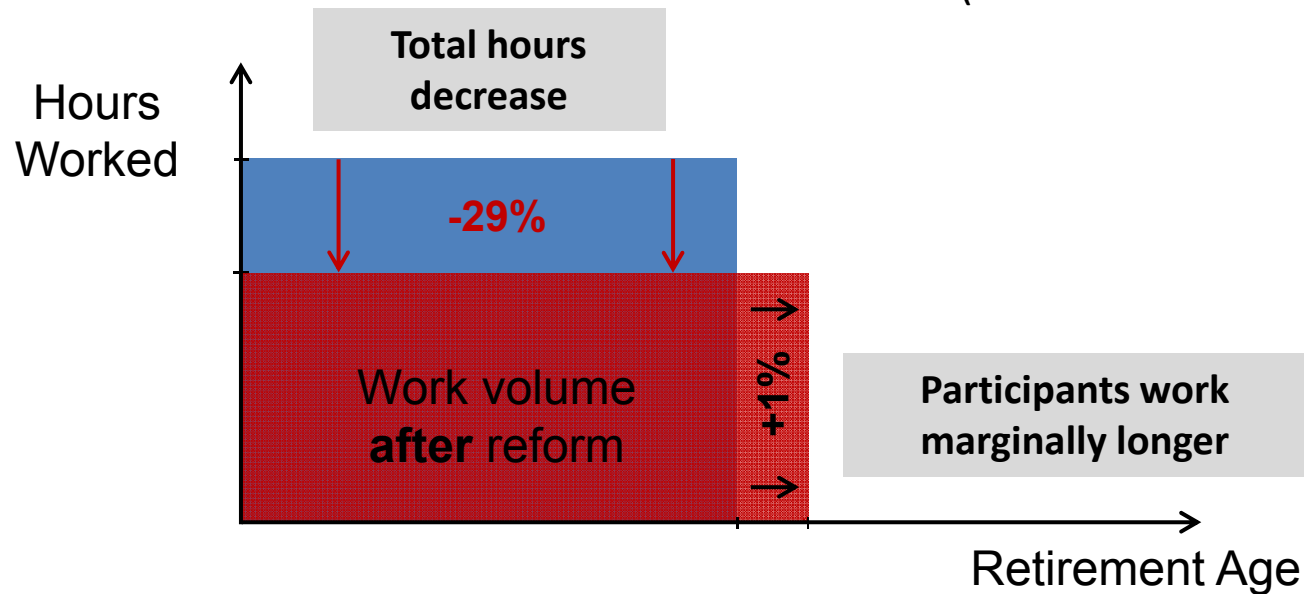
mea

Flexible retirement: evidence

Austria



(Winter-Ebmer et al. 2012)



→ Part-time scheme reduces work volume

→ Ineffective measure to support employment of the elderly

**mea**

Flexible retirement: evidence

Finland

Source: OECD 2001, Ilmakunnas (2006)

Part-Time Pensions in Finland

2000 reform:

Increased flexibility but no reform of lack of actuarial adjustment:

-> Strong decline of labor force participation and work hours

2005 reform:

-> No effect on part-time pension on the expected prob. to continue working in the window 63-68



mea

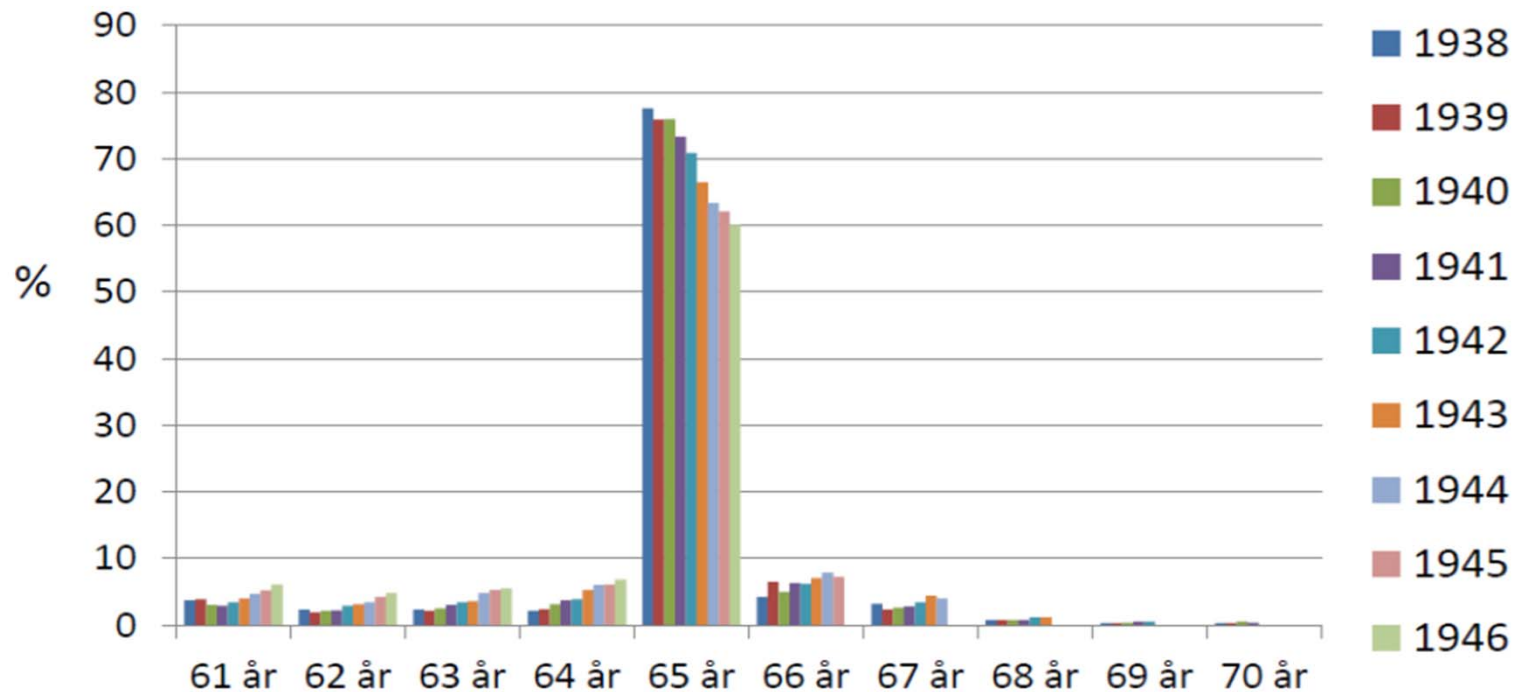
Flexible retirement: evidence

Total Flexibility in Sweden

Sweden



➤ Empirical evidence

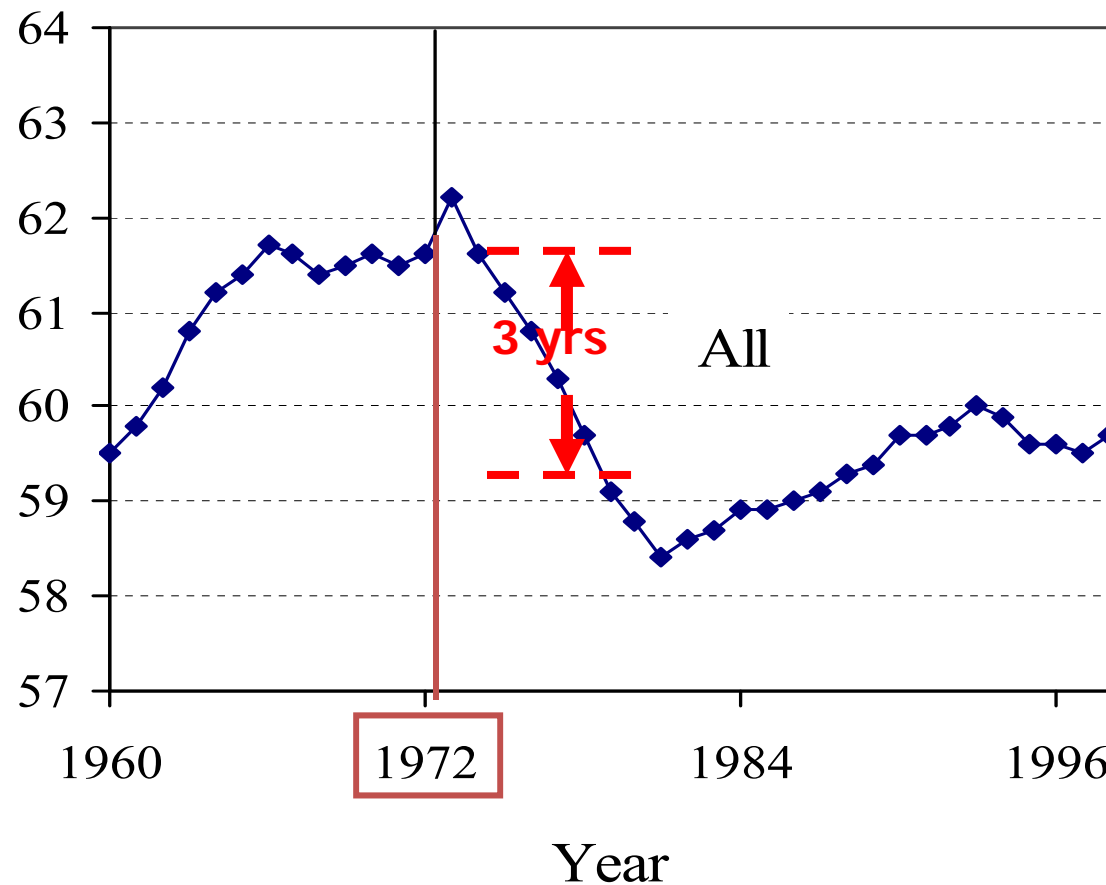


➔ Pensions are drawn earlier

**mea**

Pension reform 1972

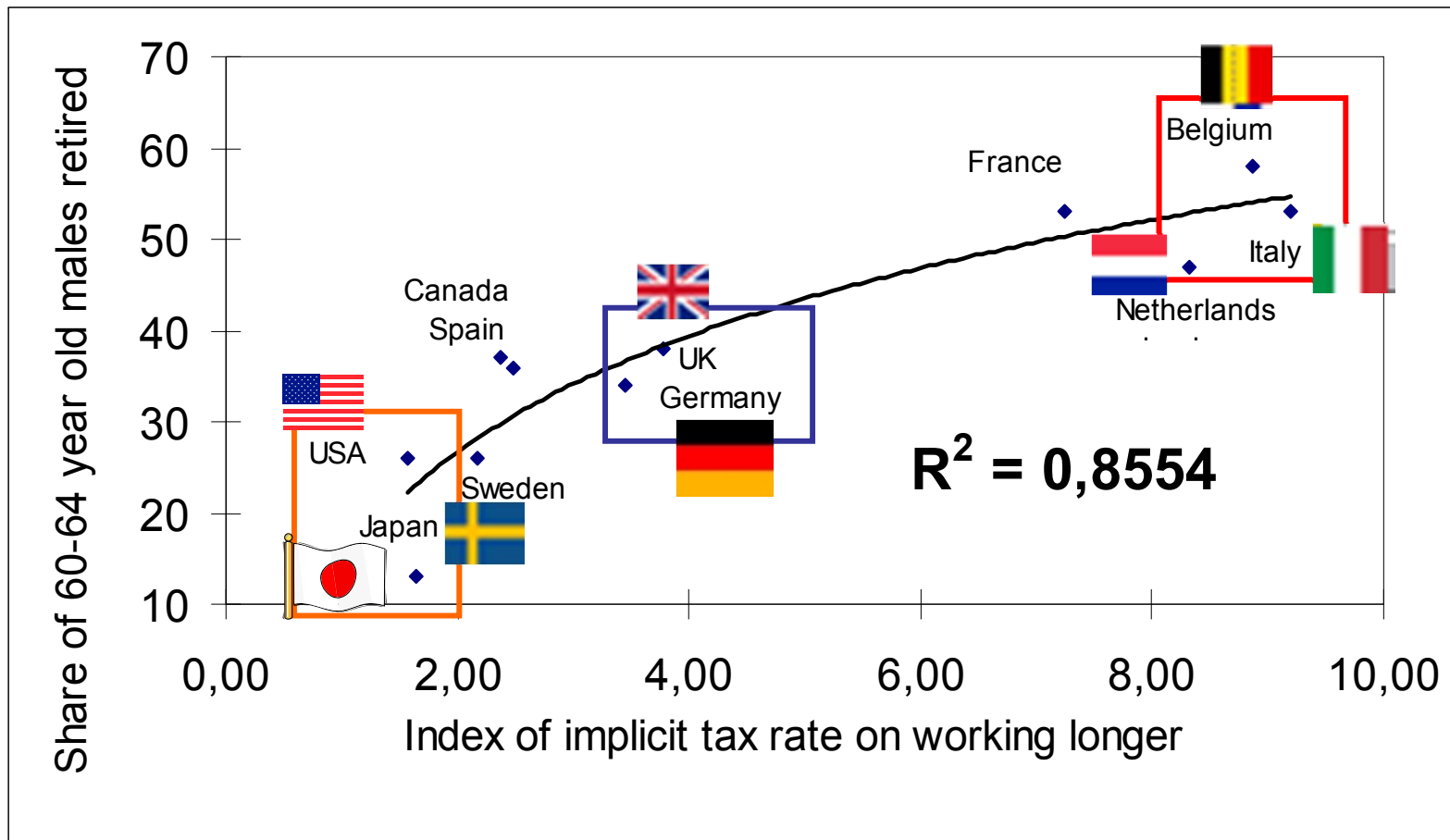
Flexibility without (correct) actuarial adjustments:





mea

Flexibility without (correct) actuarial adjustments



Gruber and Wise (1998)



mea

Signal beyond (narrow) economics

PROBIT: RECEIPT OF A PENSION		
	MEN	WOMEN
	entry	entry
ov	-0.038*** (0.002)	-0.048*** (0.003)
retage_actadj	0.843*** (0.035)	1.381*** (0.038)
retage_noactadj	0.956*** (0.041)	1.067*** (0.035)
ssw	-0.000*** (0.000)	0.000 (0.000)
income54	0.000*** (0.000)	0.000*** (0.000)
income542	-0.000*** (0.000)	-0.000*** (0.000)
sick_v	0.299*** (0.008)	0.357*** (0.010)
edu_d2	-0.070 (0.066)	-0.092 (0.065)
edu_d3	-0.142 (0.098)	-0.243* (0.140)
nrkids	-0.011 (0.059)	-0.030* (0.015)



mea

Flexibility without (correct) actuarial adjustments



**mea**

Can we reduce the power of time inconsistent policies?

Why? Myths!

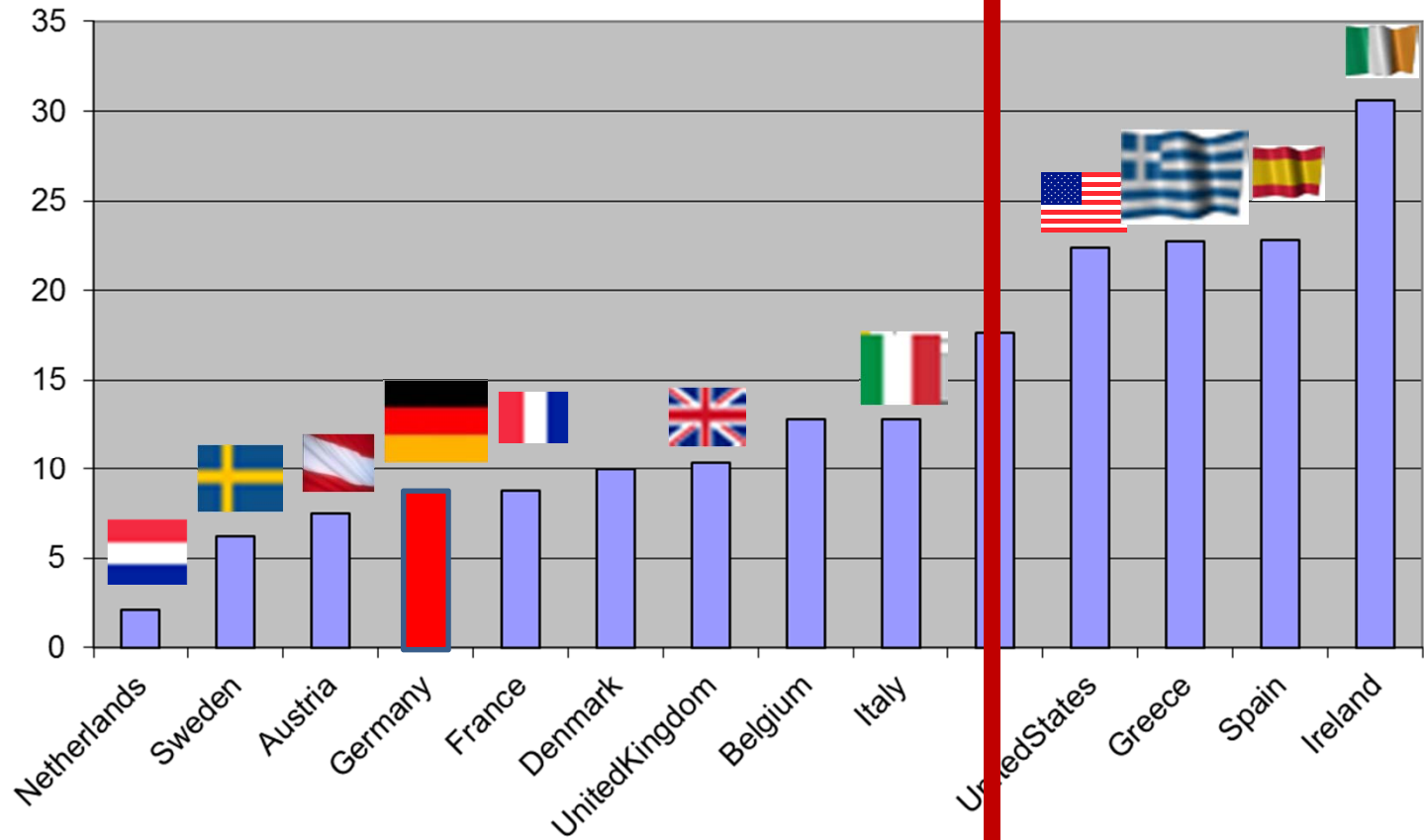
1. *„Solidarity gap “: Who is threatened? Who will gain/lose?*
2. *Lump of labor fallacy („old crowd out young“)*
3. *More subtle: Health („too ill to work“)*
4. *Productivity („too outdated to work“)*
5. *Sideeffects of inactivity („use it or lose it“)*



mea

Myth 1: Poverty is old

Share of persons aged 65+ with income below 50% of median



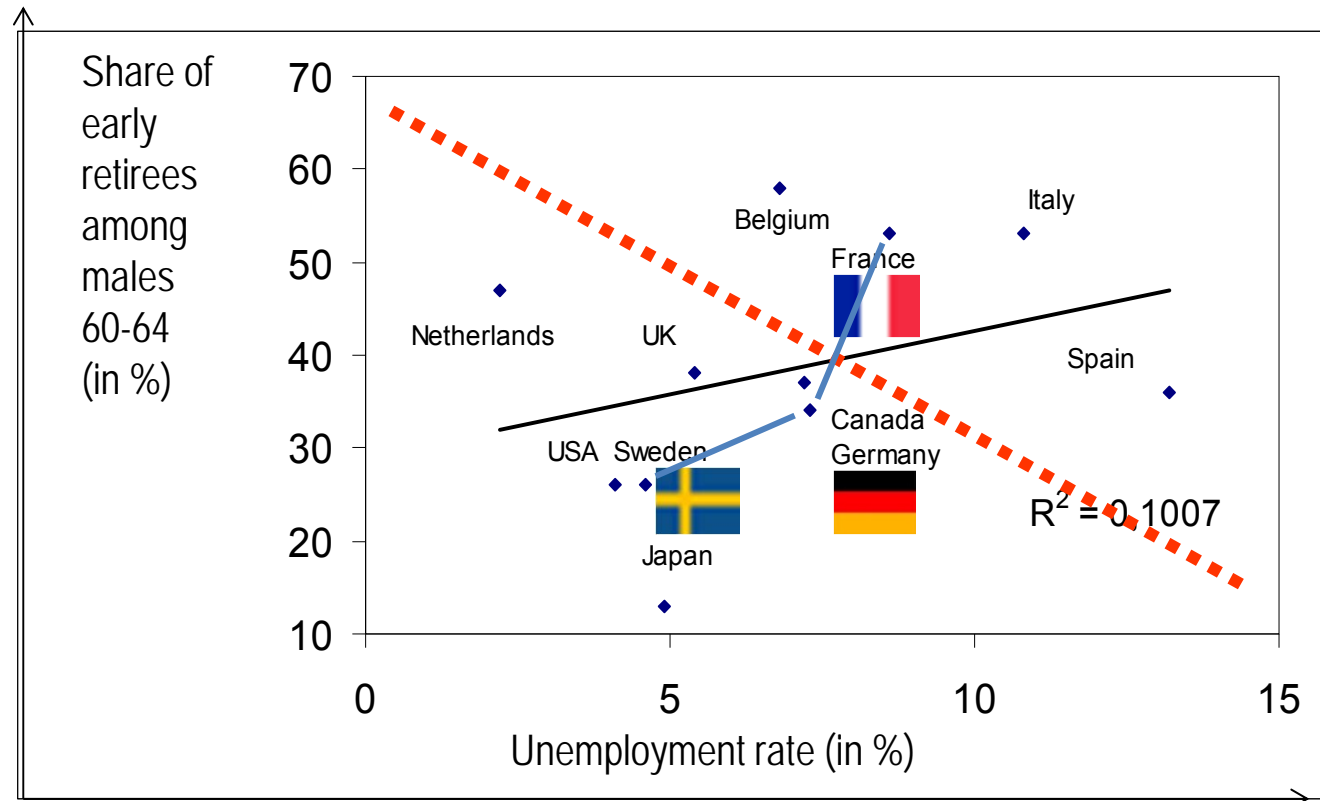
OECD Definition. Quelle: OECD (2012) Pensions at a Glance, OECD, Paris.



mea

Myth 2: Old take jobs from young

„Place made free by the old“



(data: OECD Employment Outlook)

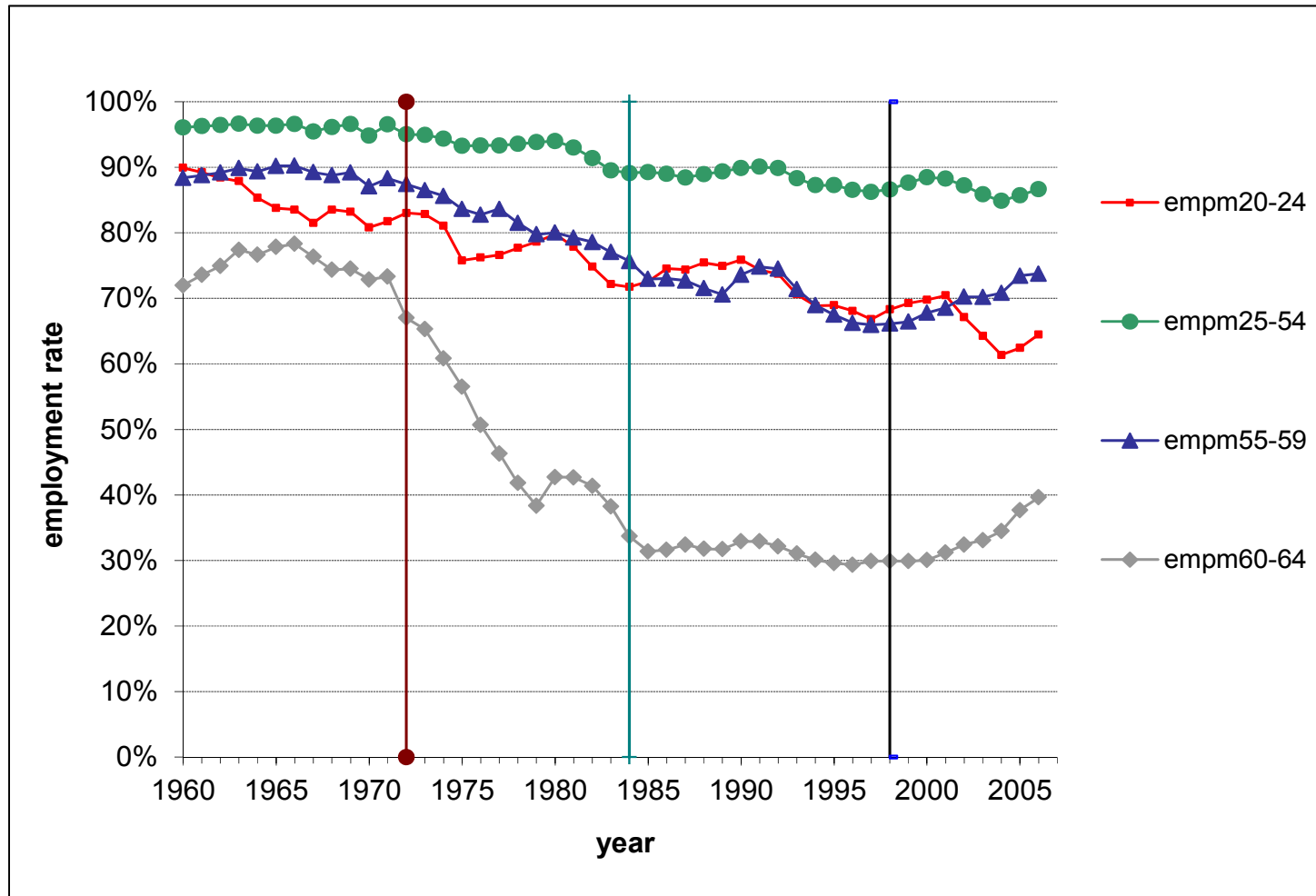
„Lack of place for the young“

„Lump of labor fallacy“



mea

Old do not take jobs from young

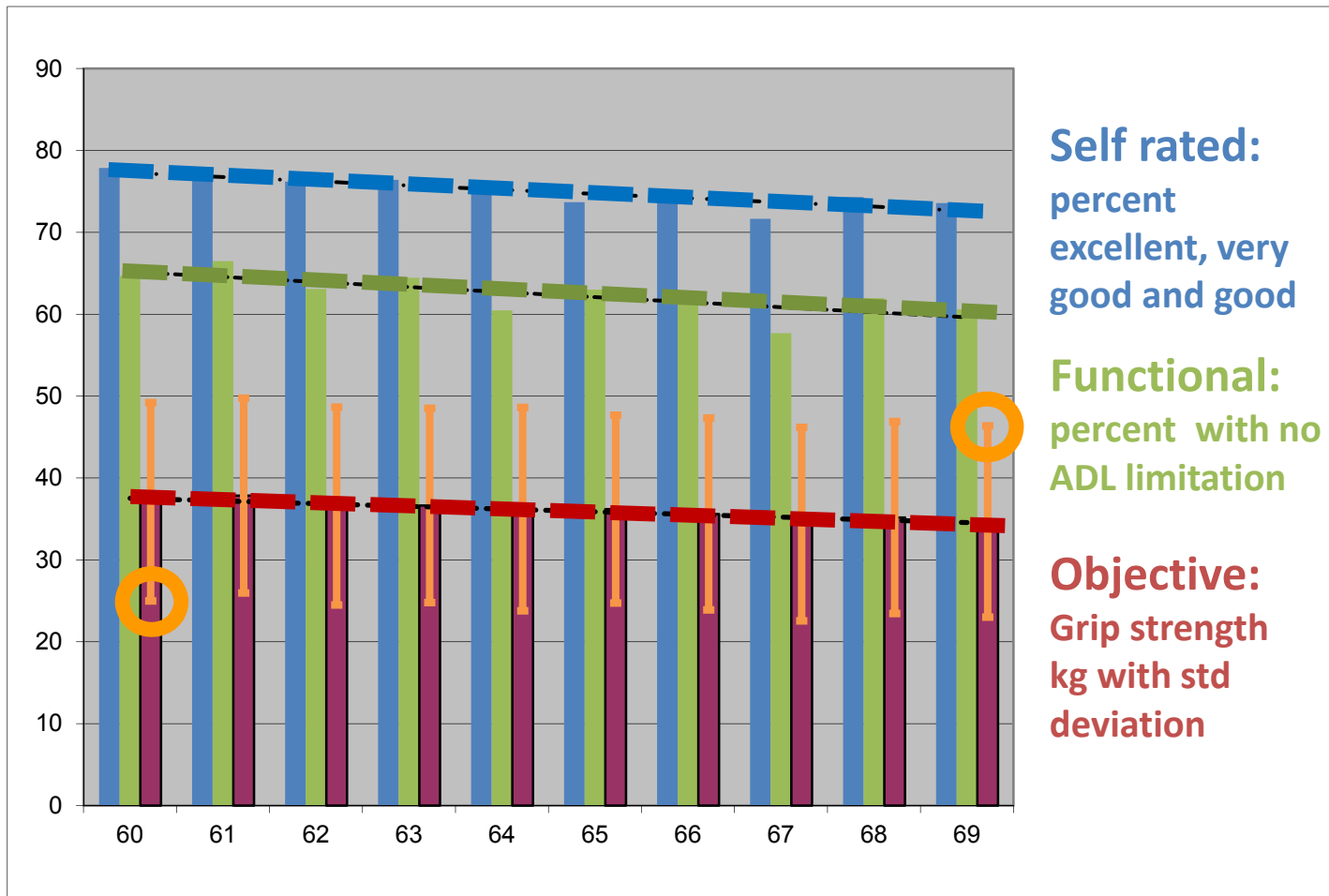




mea

Myth 3: Health is insufficient...

Health at age 60-69 in Europe



Self rated:
percent
excellent, very
good and good

Functional:
percent with no
ADL limitation

Objective:
Grip strength
kg with std
deviation



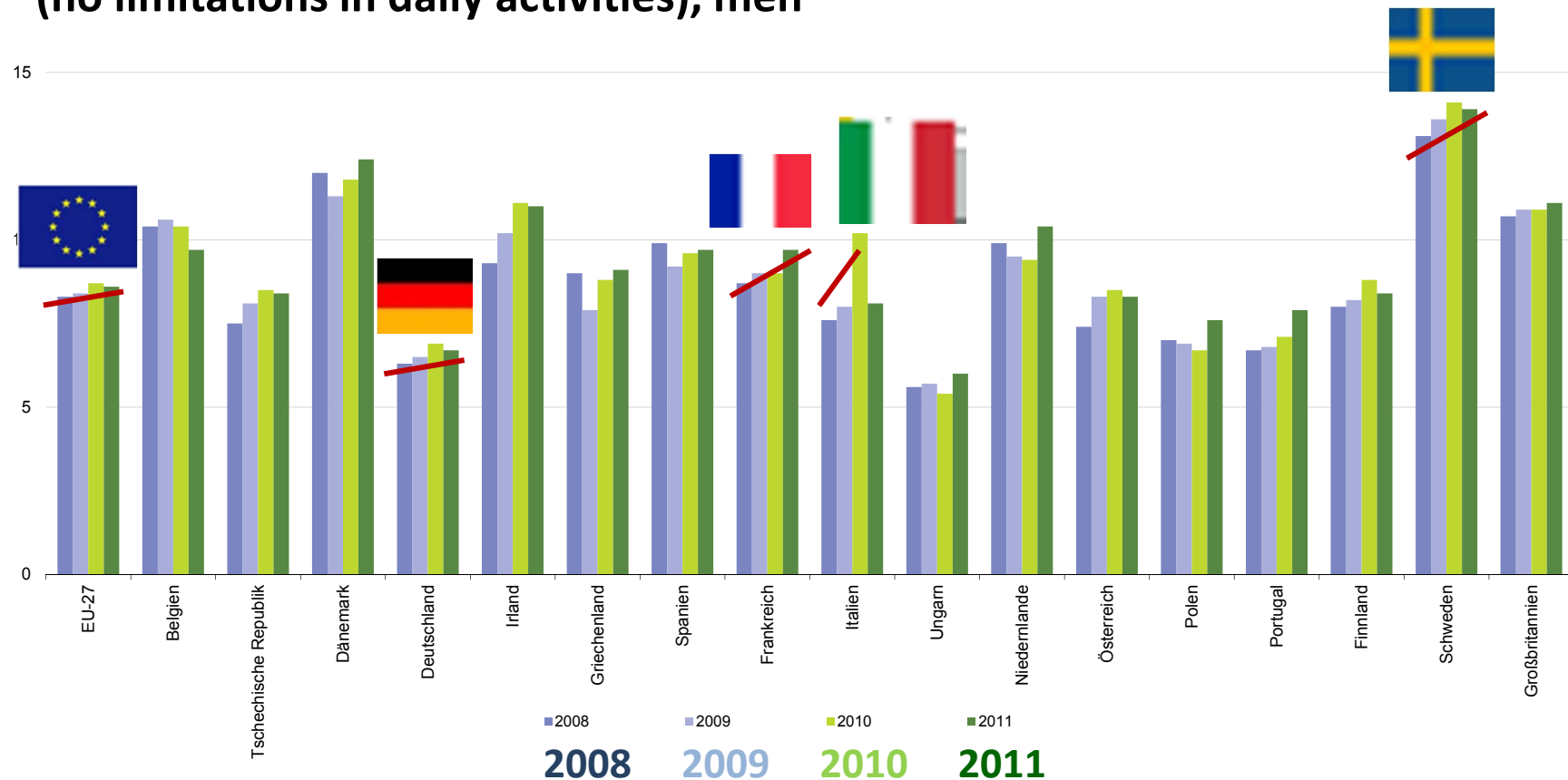


mea

Morbidity compression

Expected healthy life after age 65

(no limitations in daily activities), men





mea

Myth 4: Loss of productivity



1.2 mio observations
over 4 years

Errors as
„dis-productivity“



BASF
The Chemical Company



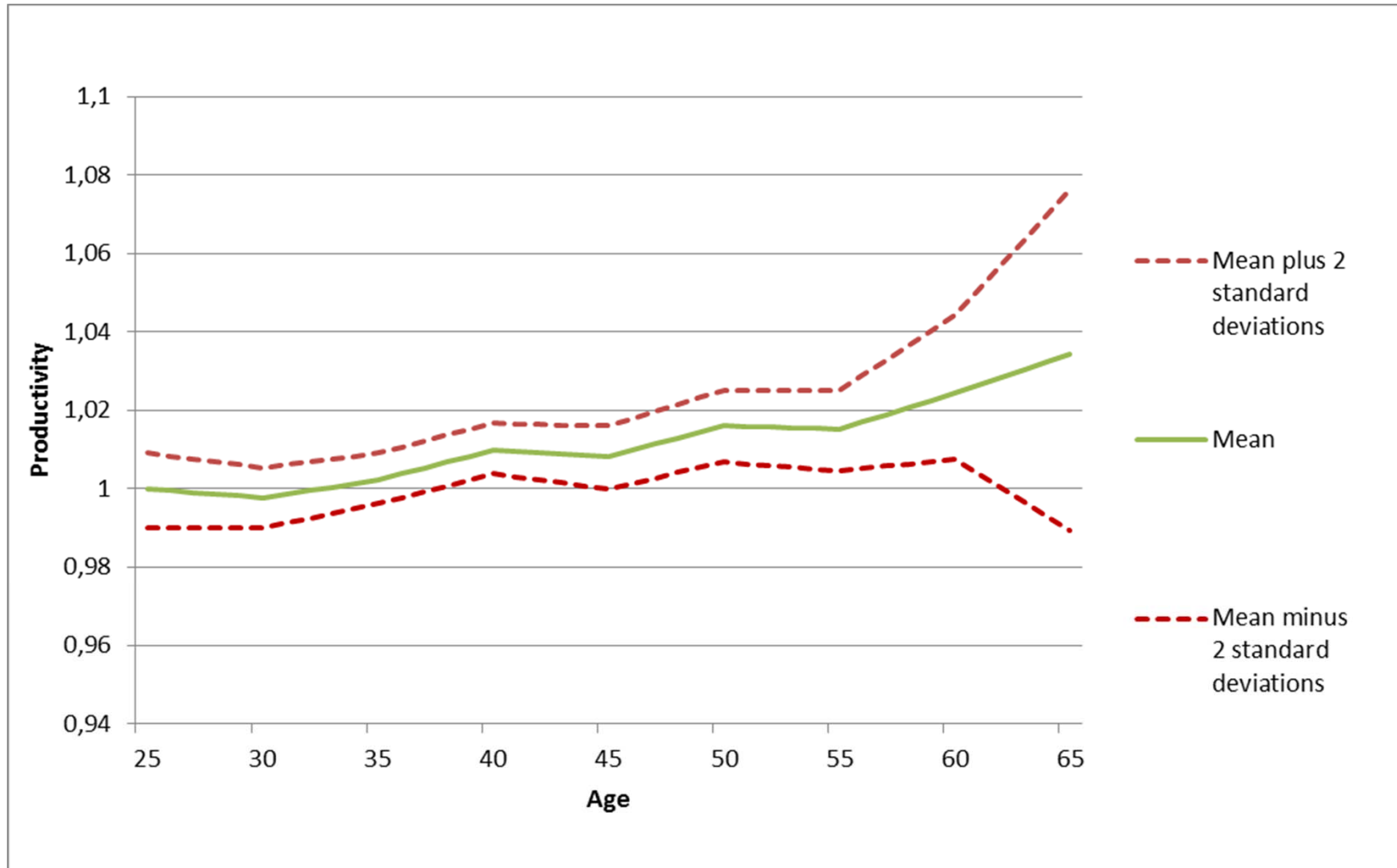
**Insurance
Company**





mea

Age and productivity



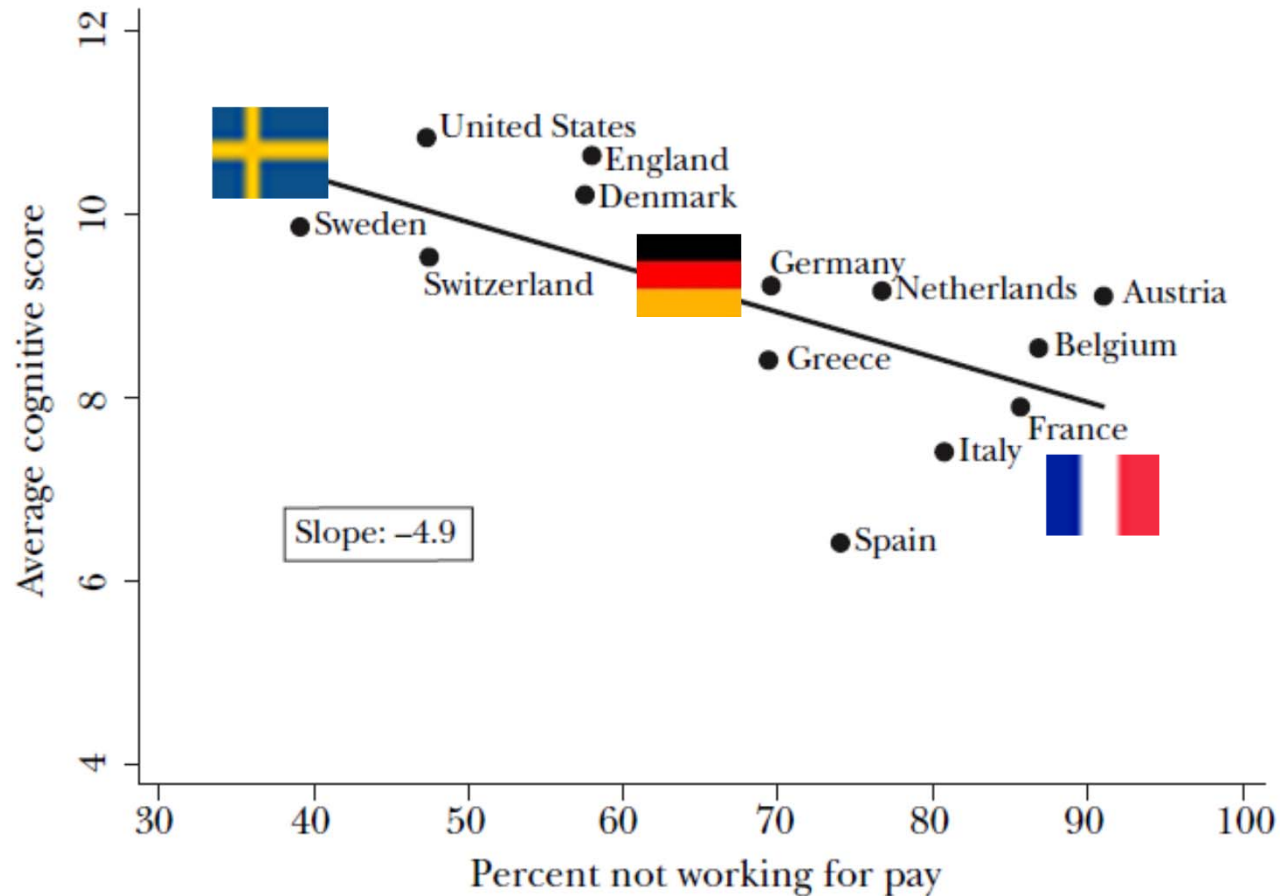


mea

Myth 5: Is retirement really bliss?

Cognition by Percent Not Working for Pay, 60–64 Year-Old Men and Women,
Weighted

(Rohwedder and Willis 2010 with SHARE data)



**mea**

Conclusions

The demographic „problem“ is **not an economic problem** since we have the tools to handle it, and they have proven to be successful. It is rather:

- a **political problem of time inconsistency**
- and many **misperceptions**



What can we economists do?

- **Show costs** of time inconsistency: macroeconomic growth, microeconomic analyses of incentive effects
- **Dispel myths** through carefully collected evidence