

A Discussion on:
Distance to Retirement and Older Workers'
Employment: The Case for Delaying the
Retirement Age

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Finding

- ▶ The employment rate of workers close to retirement age is lower than in any other group of workers
- ▶ Important Policy Implications: Retirement Age Policy

Empirical Analysis

- ▶ **Cross-Country Evidence:** The employment rate for 55-59 year-old workers are lower in countries with early retirement (Belgium, France, Italy) than in late retirement countries (Sweden, US, Canada, UK)
- ▶ **French Individual Panel Data** (from 1990 to 2002):
Estimate how distance to pension age affects male employment probabilities

Empirical Finding with French Data

- ▶ Distance effect strongly non-linear
- ▶ Effect particularly significant when individuals are sufficiently close to retirement

If retirement age is increased one year:

- ▶ Employment odds for a worker aged 59 increases by 21.1%
- ▶ Employment odds for a worker aged 56 increases only by 8.5%

A Theoretical Model of Old Workers' Flow Out of Unemployment

- ▶ The wage offer distribution for searchers shifts to the right along the life cycle
- ▶ Exogenous, age-specific firing
- ▶ Endogenous search intensity

Distance to retirement and the flow from unemployment to employment of old workers

Results from the Model

The distance effect matters only if:

- ▶ High unemployment benefits (as they increase the value of unemployment)
- ▶ Separation rates are high (as they decrease expected job duration and thus the value of employment)

(Calibration of T and h ?)

Institutions and Distance Effect: The Two Flows

- ▶ Wage Setting:
 - ▶ Wedge between wages and productivity for old workers in continuing jobs
 - ▶ No wedge for old age searchers
- ▶ Firing Costs
- ▶ Employers' contribution to workers' pensions (increases with workers' wages): 23.3% in Italy
- ▶ Maximum Duration of Unemployment Benefits
- ▶ The Determination of Pension Income (earnings-related pensions)

Unemployed Old Workers

- ▶ Old workers' unemployment benefits (fraction of previous wage)
- ▶ Wage offers closer to productivity

Value of unemployment likely higher than value of employment for close-to-retirement workers