

Relabeling, Retirement and Regret

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Key Findings and Policy Implications

This paper analyzes the effect on retirement behavior of public pension reforms that were enacted in Finland in 2005. Unlike most prior studies, the analysis differentiates between the effects of changes in the benefit formula (which were modest) and the relabeling of retirement ages, which was also part of the reform. Specifically, the reform introduced a newly labeled “flexible” retirement age at age 63. The study uses administrative data for all 100% of workers in Finland. It finds that:

- There was an enormous and immediate response to the relabeling of the system to include a so-called “flexible” retirement age. The estimates suggest that there was about a 40 percentage-point rise in retirement rates at age 63. This large change in behavior occurred even though the changes in the underlying financial incentives were modest.
- In addition, however, there is evidence of regret among those who responded to the relabeling. This is reflected in return-to-work rates that are much higher among those who initially retired at age 63, as compared with those retiring at other ages.
- The results also vary significantly according to the demographic characteristics of the worker. Those with less education and less wealth were more likely to respond to the relabeling when it was implemented, and more likely to return to work later.

Focal retirement ages are a central feature of Social Security programs around the world and provide a potentially powerful tool for policymakers in influencing retirement and claiming behavior. The findings from this study confirm that focal age relabeling significantly influences behavior above and beyond any changes in the underlying pension benefit formula.

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