

The Effects of Increasing the Early Retirement Age on Employment of Older Workers

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Key Findings and Policy Implications

This paper examines the impact on work and retirement decisions of raising the early retirement age in the Austrian Social Security program. In 2000, Austria implemented a phased-in increase in the early retirement age from 60 to 61.5 for men, and from 55 to 56.5 for women. A second phased-in increase was initiated in 2004. The paper uses administrative, matched employer-employee data from the Austrian Social Security Database, and enables independent analyses of both job exits and pension claiming. Among the key findings:

- Both the ages of retiring from work and the claiming of Social Security benefits appear to have increased in lock step for both men and women. The results show increases in average claiming and exiting ages, as well as increases in the 25th, 50th and 75th percentiles. These percentile results highlight that essentially the entire distribution of claiming and exiting ages appear to have increased due to the increases in the early retirement age.
- The shifts in job exits versus pension claims resulted in slightly longer gaps between the exiting and claiming ages, but we do not find evidence for substantial substitution with alternative insurance programs such as disability pensions or unemployment insurance.
- There were significant but slightly smaller increases in the exiting ages for unhealthy and low income individuals. Nonetheless, the results indicate that roughly 80 percent of the increase in claiming ages can be accounted for by increases in job exiting ages, again suggesting little scope for substitution to unemployment insurance or disability insurance in response to the increased early retirement age.

Given that changes in the early or normal retirement age have been proposed as potential reforms to increase the financial solvency of the U.S. Social Security system, understanding the effect of such reforms in other countries can clearly inform the continuing discussions of U.S. Social Security policy as well.

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This research was supported by the U.S. Social Security Administration through grant #RRC08098400-07 to the National Bureau of Economic Research as part of the SSA Retirement Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.