Assessing the short-term impact of pension reforms on older workers' participation rates in the EU: a diff-in-diff approach

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The last decade witnessed important changes in European pension systems. The paper presents an extensive overview of the reforms undertaken in the EU between 1990 and 2006. Using the information available for 27 EU countries over this period, we classified the pension reforms in fundamental, non-fundamental and early retirement reforms and assess with a diff-in-diff technique the short-term effects of pension reforms on the participation rates of individuals aged between 50 and 64 years. This technique evaluates the effect of a policy measure (the pension reform) by comparing the participation rate of the treatment group (i.e. countries doing a pension reform) after reform to both the participation rate of the same group before reform and to the participation rate of a control group made of countries that did not enact a reform. The analysis suggests that in the short-term pension reforms have different effects on the participation rate of men and women. First, reforms tightening the access to early retirement have a positive effect on female participation, but reduce somewhat male participation rates. We interpret this finding as related to the different length of working lives of men and women. Second, the results for non-fundamental reforms are more uncertain. These reforms usually adjust upwards the contribution rates, implying a lower net wage and motivating an individual to work more, in case the substitution effect prevails. Third, reforms that change the way of financing pensions or the eligibility conditions (what we dubbed fundamental reforms), usually with long phasing-in periods, may have unintended short-run effects on the female participation rate. Thus, our findings point at the importance of designing pension reforms and strategies to reform social security that reduce the risks of undesired effects on the decision to remain in the labour market. Workers' information about pension rules and uncertainties about long transition periods may influence in the short-term the retirement decision in a way which is not consistent with the intended effects of the reform. While transitory periods may be needed to gain the political support, long and reiterated discussions on how to reform the social security system may add uncertainty and, if allowed by the rule in force, lead to anticipate the retirement decision. Well-informed individuals are far more responsive to pension incentives, while ill-informed individuals seem to respond systematically to their misperceptions of pension incentives.