Financial Incentives to Retirement in Belgium: What Policy Lessons?

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• Focus of the study
  ▶ role of the Belgian social security system in the retirement behaviour

• Contribution to the literature
  ▶ simulation model based on rich administrative data containing career and earnings histories at individual level → accurate approximation of social security benefits
  ▶ econometric model takes into account the potential eligibility for early retirement
Data

- Initial sample: 100,000 individuals randomly drawn from the *entire* Belgian population
  - administrative source
  - 2001 income year

- Final sample: 3,343 individuals
  - wage earners’ insurance scheme only
  - detailed career & earnings histories
  - 50-64 age range
  - employed at the end of Q1 of 2001
Methodology

Step 1  Construct social security incentive measures

- Financial
  - net present discounted value of lifetime social security benefits = SSW (Social Security Wealth)
    → including unemployment, sickness/disability, conventional early retirement and pension benefits
  - one year accrual in SSW (Social Security Accrual) & maximum accrual in SSW (Peak Value)

- Eligibility
  - identifies who is potentially eligible for the standard or conventional early retirement

Step 2  Estimate probit: effect of the financial & eligibility incentives on the retirement probability

Step 3  Based on the estimation results, analyse the effect of hypothetical policy reform that changes the incentives and/or the eligibility
Estimation results

(1) Financial incentives: not statistically significant (except SSA for women but has unexpected sign)

(2) Eligibility: strong positive impact

← Retirement decision is driven by the eligibility, rather than the financial incentives
Simulated policy reform = simultaneous increase in

- Conventional early retirement minimum age (58 → 60) & career years requirement (25 → 40)
- Standard early retirement minimum age (60 → 62) & career years requirement (28 → 40)

Impact on the predicted median retirement age at 50 years old

- Men: 58.1 → 59 (+ 11 months)
- Women: 58.6 → 59.5 (+ 11 months)
Thank you for your attention!

Photo: Howard McWILLIAM