Financial Incentives to Retirement in Belgium: What Policy Lessons?

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Briefly

- 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 $\rightarrow$ accurate approximation of social security benefits
  - econometric model takes into account the potential eligibility for early retirement

Data

- Initial sample: 100,000 individuals randomly drown 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)

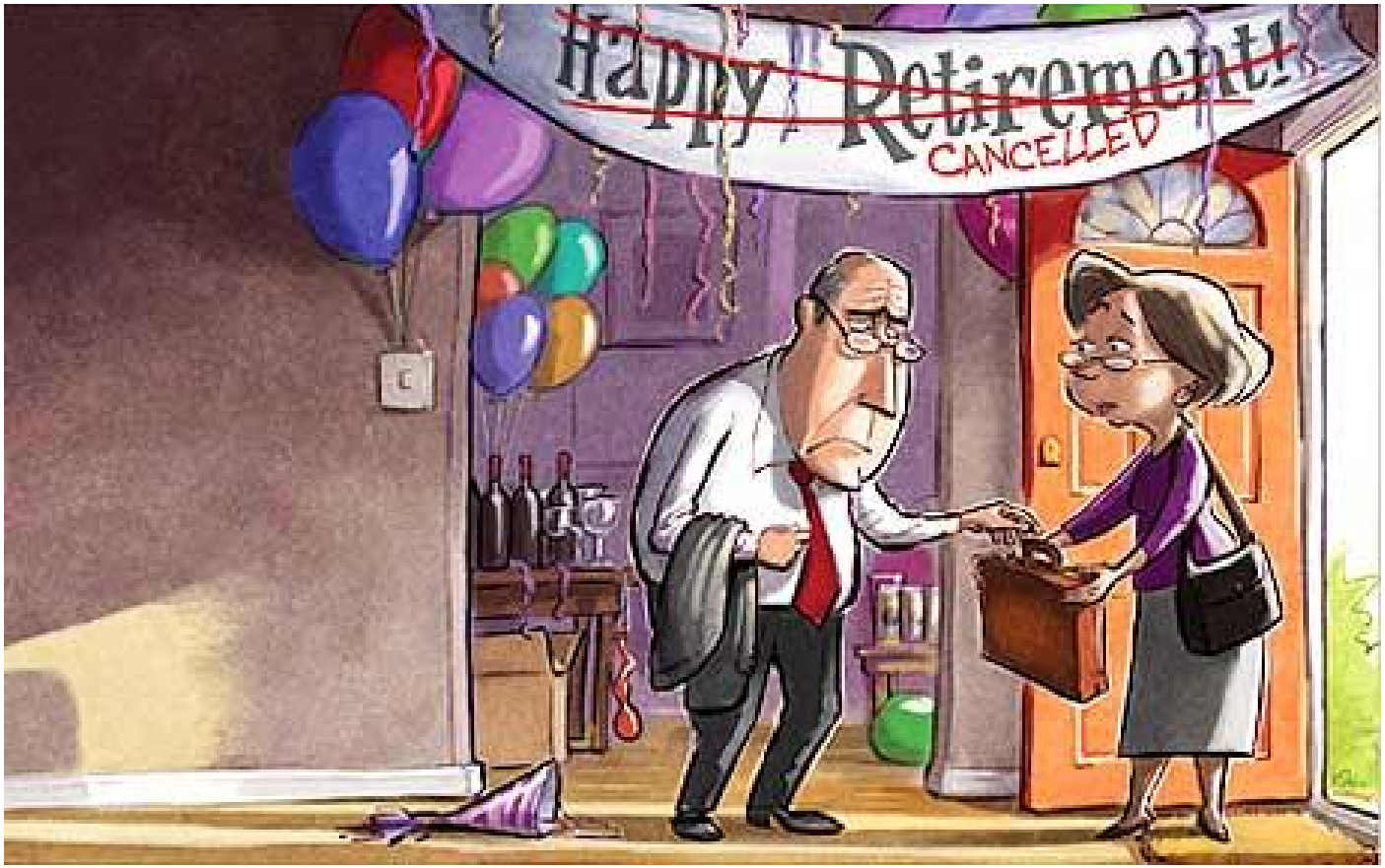
(2) Eligibility: strong positive impact

$\hookrightarrow$ Retirement decision is driven by the eligibility, rather than the financial incentives

Policy simulations

- Simulated policy reform = simultaneous increase in
  - Conventional early retirement minimum age (58 $\rightarrow$ 60) & career years requirement (25 $\rightarrow$ 40)
  - Standard early retirement minimum age (60 $\rightarrow$ 62) & career years requirement (28 $\rightarrow$ 40)
- Impact on the predicted median retirement age at 50 years old
  - Men: 58.1 $\rightarrow$ 59 (+ 11 months)
  - Women: 58.6 $\rightarrow$ 59.5 (+ 11 months)

Thank you for your attention!



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