Name, E-Mail: Virginia Hernanz; virginia.hernanz@uah.es

Institution: Universidad de Alcalá, Spain

Titel: The determinants of early retirement across Europe (Greece, France, Italy, Spain, Finland and Sweden)

Abstract: Pension reform is a major political and economic policy issue in recent months when many EU countries are proposing, or have already passed, new legislations including relevant changes in some of the crucial elements of the European pension systems. In particular, many of these reforms (France, Spain and Greece, among others) include the extent of the statutory retirement age. The main goal of these proposals/new legislations is to ensure the sustainability of the respective pension systems once demographic projections point out to a significant population ageing in European countries. Against the background of higher life expectancy, lower fertility rates and, in some cases, shorter working careers, a delayed in the transition to retirement is usually seen as an indispensible ingredient of any pension reform.

However, legal; retirement age is not, by far, the unique determinant of effective retirement age. While statutory retirement age is quite similar across European countries, vast differences are observed in effective retirement age (OECD, 2006). Moreover, some of the countries with lower effective retirement age (Hungary, Germany, France or Spain) suffer also from a greater incidence of involuntary early-retirement (Dorn, Sousa-Poza, 2010). The main goal of this paper is to explore the factors behind these cross-country differences in effective retirement age. In this respect we will be interested in questions such: Are firms using social security early retirement benefits as a form of unemployment insurance? Which is the incidence of other labor market institutions in retirement decisions? In particular, is the involuntary early retirement greater in countries with stricter employment protection legislation?

There is an extensive literature on the determinants of early retirement from the perspective of labor supply. In this type of models, individuals are supposed to choose freely their optimal retirement age taking into account future wages and pensions. But the demand effects of early retirement have received far less attention. In particular, we are concerned by situations where individual retirement decisions are affected by the lack of employment opportunities (see, for instance, Desmet et al (2005)). In this paper, following the work from Dorn and Sousa-Poza (2010) we try to analyze how different factors, such as differences in national regulation (generosity of early retirement provision of the social security systems) across European countries and firm’s behavior may determine effective retirement and “involuntary” retirement decisions.

Availability if EUSILC data for most EU countries allows us to deeply analyze effective retirement age, the extent of voluntary versus involuntary decisions and their major

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2 OECD latest report on pensions shows that only in Portugal effective retirement age was above the legal age. Furthermore, among men, effective retirement age is below 60 years in several countries (Slovakia, Hungary, Austria and Belgium) while in others (Italy, Holland, Germany, Finland, Spain and Greece) effective retirement age is above but close to 60. Regarding recent evolution, despite legal retirement age has remained mostly unchanged, great disparity is observed with relevant differences across countries and collectives. For instance, in Spain the retirement age of women has increased significantly while a slight decrease is observed among males. The opposite is the case of Ireland where the effective age of retirement for women has declined significantly, while that of men slightly increased.
explanatory factors. Hence, the main contribution of this paper will be carry out a deeper analysis of determinants of effective retirement age and voluntary/involuntary share given the rich set of information available in EUSILC (Personal, job characteristics, Household information, panel structure) about the determinants of the likelihood of transitions to early retirement.

In particular, EUSILC provides information about activity status and changes during the last year which can be used to analyze transitions from unemployment, employment and inactivity to retirement (PL180: MOST RECENT CHANGE IN THE INDIVIDUAL’S ACTIVITY STATUS). Furthermore, their panel structure allows us to follow individuals during at least 3 years. Therefore, following the definition of the OECD (1995) we will consider as early retirees all those who have performed any of these transitions before the legal retirement age, whether they are receiving a pension or not.

In this respect, EUSILC information about different paths to retirement is especially useful since indirect paths to retirement may be understood as involuntary decisions forced by labor market conditions. Special attention will be devoted to analyze the role of institutional factors (unemployment benefits, employment protection, early-retirement benefits) and labour market conditions (regional unemployment rate, sectoral GDP growth) in order to explain early retirement and the extent of involuntary retirement decisions. EUSILC is especially useful to carry-out this analysis since additional information on previous employment characteristics may also be obtained using panel structure of EUSILC. Also, information about being a recipient of a public or private pension or other social benefits and other personal and family characteristics (health status of workers, spouse’s activity status as well as income and financial situation of the household) will be useful control variables in our analysis.

In terms of the country dimension of our analysis, although EUSILC provide information about most EU countries, we will focus in the following countries: Greece, Italy, France, Spain, Finland and Sweden (longitudinal information is available for all of them) since they constitute an especially interesting set of countries. We observe marked differences in retirement age between them joint with a variety of labor market institutions and pension systems features. Furthermore all these countries are implementing or proposing a reform in their pension system in the recent months.