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Key Findings and Policy Implications

This paper looks at how older workers responded to a major pension policy reform that was implemented in Norway in 2011. The reform brought three major changes: (i) the possibility to start claiming pensions anytime between ages 62 and 75; (ii) actuarially neutral pension adjustments for early/late claiming; and (iii) the abolishment of the earnings test. The analysis distinguishes between two categories of workers: “AFP” workers, who had generous early retirement eligibility before the reform, and “non-AFP” workers, who were not previously eligible for early retirement. The primary data source for the project is the Norwegian Register of Employers and Employees, an administrative database covering the entire Norwegian working age population with individual pensionable earnings dating back to 1967. The paper finds that:

- Using a difference-in-difference methodology, and focusing first on AFP workers, the reform had large positive effects on employment and annual earnings. Registered employment among those aged 62 to 65 increased by about 26 percent, and annual earnings increased by about 15 percent.
- Interestingly, there was no major employment response for non-AFP workers, even though their initial age of eligibility for benefits dropped from age 67 to age 62. Non-AFP workers did, however, have moderately lower earnings after age 62. The estimated earnings reduction was 1% at age 62, 3% at age 63, and 5% at age 64.
- Using a bunching methodology, we find that the large spike in retirement for AFP workers at age 62 is significantly lower for post-reform cohorts than for pre-reform cohorts. Moreover, what appears to be a pent-up desire for early retirement materializes into exits occurring over the first few months after pension eligibility, and even more so after the reform than prior to the reform. This suggests that the relevant incentives of the policy are salient and well understood.

The significant reforms implemented in Norway in 2011, and its differential implications for two distinct categories of workers, provides very strong evidence about how the age of eligibility for benefits, the adjustments to benefit levels for retiring at different ages, and the elimination of the earnings test affect labor market behavior.

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