How do Pension Wealth Shocks affect Working and Claiming?

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Key Findings and Policy Implications

This paper looks at the effect on retirement and benefit claiming of a social security reform package adopted in Switzerland in 1997. The policy reform increased women’s full retirement age in steps, from age 62 to age 63, and then age 63 to age 64. It also allowed early claiming with a reduced pension at age 62, also implemented steps, reducing the pension amount by 3.4% initially, and then by the actuarially fair rate of 6.8% subsequently. The study uses Swiss Social Security data that includes labor market histories, earnings, disability and pension claims, and income tax records. The paper finds that:

- Increasing the full retirement age (FRA) by one year delays pension claiming by 7 to 8 months, and delays labor market exit by 5 to 6 months. The later pension claiming offsets about 10% or the wealth shock from the change in the FRA; the earnings from working longer offsets about 25% of the wealth shock.

- Because the benefit reduction for early retirement at age 62 was implemented in steps, we estimated the impact on behavior of the incremental second step. We find that doubling the price of early retirement delays pension claiming by 4 to 5 months, but has no effects on labor market exit. This delay in claiming, however, fully offsets the wealth shock from this component of the reform.

The ages of eligibility for early and full retirement benefits, and the formulas used to adjust benefits for retirement at different ages are two sets of policy parameters that are often considering in discussions of Social Security reform. This study provides new evidence on the behavioral implications of each type of reform.

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