Raising the Full Retirement Age: Defaults vs Incentives

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Key Findings and Policy Implications

This paper examines the impact on labor market behavior of a policy reform in Switzerland that increased women’s full retirement age (FRA) from 62 to 63, and then from 63 to 64. The reform also provided for early retirement at age 62, but with a stepped increase in the benefit reduction rate from 3.4 percent to 6.8 percent per year before the normal retirement age. The analysis uses Swiss Social Security data from three sources: labor market histories for all women born 1935 to 1948, disability and pension claims records, and income tax records for the period between 2001 and 2015. The paper finds that:

- The increase in the full retirement age (FRA) had a strong effect on both claiming behavior and labor force withdrawal. Women delayed pension claiming by about half a year, following the increase in the FRA from 62 to 63, and by about half a year, following the increase in the FRA from 63 to 64. The greater reduction in benefits for early retirement also delayed pension claiming by an estimated 0.3 years.

- Modeling labor withdrawal behavior, an estimated 70 percent of women make an active decision that weighs pension benefits at all possible retirement dates. The other 30 percent of women appear to make a passive decision, accepting the full retirement age as the societal norm. Because some women appear to use a rule-of-thumb to decide on retirement (i.e., accepting the full retirement age passively), the effect of the FRA increase is amplified.

The effects of these policy reforms on labor market behavior and benefit claiming in Switzerland have direct implications in the United States, where the full retirement age is also increasing, and where further increases are commonly proposed to address long-term financial imbalances in the Social Security system. While the institutional context, policy details and labor market conditions vary across countries, the evidence of a behavioral response in Switzerland is indicative of potential effects from comparable reforms in the United States.

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