Public Pension Reforms and Retirement Decisions: Narrative Evidence and Aggregate Implications

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News about future pension retrenchments leads to a decline in the labor force participation rate for people close to retirement and an increase in old-age pension spending.

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We construct a database of public pension policy changes with motivation and implementation information for ten OECD countries. Structural pension reforms, motivated by long-run sustainability concerns, often come with prolonged phase-in periods. In response to pension retrenchments implemented immediately, people close to retirement stay in the work force longer. News about future pension retrenchments with implementation lags, however, is likely to lead this group to exit the labor market. This decline in the labor force participation rate is particularly strong for reforms with long lags, ones that introduce fundamental policy changes, and where citizens have lower trust in the government.

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Article Citations


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