The effect of financial retirement incentives originating from the social security system on the retirement behavior of older Belgian workers

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SUMMARY

Rapid population ageing and the influx of baby boomers arriving at the age of retirement is generating a considerable threat for the financial sustainability of Belgium’s pay-as-you-go old-age pension system. In addition to these demographic trends, Belgium must cope with relatively low elderly employment rates and one of the earliest average effective retirement ages in the OECD. Concurrently to a trend observed in many developed countries, the country has witnessed a major transformation of its labor market environment over the last decades. The employment rate of elderly Belgian men exhibits a u-shaped curve – with a decline in the 1980’s and 1990’s and then an upward trend starting in the 2000’s. The employment rate of elderly Belgian women is characterized by a long-term upward trend, reflecting a structural increase in the labor force participation of women.

While these increases in employment rates show potential for improving the financial sustainability of the pension system, these tendencies are in no way sufficient to absorb the overwhelming burden of population ageing on public old age spending. Confronted with predictable demographic trends, the Belgian government has implemented various social security reforms since the 1990’s to restrict the impact of population ageing on the financial sustainability of the country’s pension system. On the one hand, access to early labor force exit routes outside of the old-age pension system has been tightened. On the other hand, efforts have been made to reduce the incentives of early old-age pension benefits claiming.

The objective of the present thesis is to explore the impact of the social security system’s provisions as a driver of the retirement behavior of older workers, using Belgium as a case study. We use detailed social security eligibility and benefit calculation rules and their
reforms from the nineteen eighties until today to compute measures of financial retirement incentives and we study their impact on retirement using Belgium as a case study.

The second chapter of the thesis contains a thorough review of the Belgian social security landscape relevant for the study of retirement. We illustrate the complexity and sometimes incoherency of the Belgian social security system, which generates an enabling environment for intertwined effects between programs and reforms. The third chapter presents a microsimulation model aimed at assessing the evolution of financial retirement incentives stemming from the social security system from the 1980s to the present day for different subgroups of the population. We update previous studies by using recent data and we calculate the financial incentives to exit employment for various typical workers, differentiated by age, year, income level, marital status and sex – integrating changes both in benefits and in the tax system. The aim of the fourth chapter is to examine the empirical link between the financial retirement incentives created by the social security system and the retirement decisions of older Belgian workers. We update previous studies in terms of period coverage by using a more recent panel administrative dataset and we provide additional simulations of reforms. The fifth chapter documents the dissociation of the retirement decision into a labor market exit and a benefit claiming decision. Increasingly, individuals face more complex choice sets, that sometimes lead them to – optimally or not – disjoin these two decisions. We consider four different sub-statuses of individuals, based on work and benefit claiming statuses and we examine the impact of this decomposition from a public policy and a retirement analysis point of views. The objective of the sixth chapter is to examine the retirement behavior of individuals in one-earner households, i.e. households composed of one earner and one partner who is financially dependent. These individuals are automatically granted a more generous replacement rate in the calculation of their old-age pension benefits, the so-called
household replacement rate. We provide an ex-ante impact evaluation of the removal of the household replacement rate on both pension sustainability and pension adequacy measures.