DISTANCE TO RETIREMENT AND OLDER WORKERS’ EMPLOYMENT: THE CASE FOR DELAYING THE RETIREMENT AGE

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Abstract

This paper presents empirical evidence and a theoretical foundation in favor of the view that the retirement age decision affects older workers’ employment prior to retirement. To the extent that there are search frictions on the labor market, the return on jobs is determined by their expected duration: the time to retirement is then key to understanding older workers’ employment. Countries with a retirement age of 60 are indeed characterized by lower employment rates for workers aged 55–59. Based on the French Labor Force Survey, we show that the likelihood of employment is significantly affected by the distance to retirement, in addition to age and other relevant variables. We then extend McCall’s (1970) job search model by explicitly integrating life-cycle features with the retirement decision. Using simulations, we show that the distance effect in interaction with the generosity of unemployment benefits and the depressed demand for older workers explains the low rate of employment just before the eligibility age for the Social Security pension. Finally, we show that implementing actuarially-fair schemes not only extends the retirement age, but also encourages a more intensive job-search by older unemployed workers.