



Demanding occupations and the retirement age



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HIGHLIGHTS

- We analyse unique Dutch survey data on the public's opinion on what are demanding occupations on the willingness to support an early retirement scheme for such occupations.
- We find that the Dutch think that workers in physically demanding occupations should be able to retire earlier.
- Perceiving an occupation as demanding also translates into a much higher willingness to contribute to an early retirement scheme for that occupation.
- There is some evidence that respondents whose own job is similar to the occupation they evaluate find this occupation more demanding than other respondents but respondents are typically also willing to contribute to early retirement of demanding occupations not similar to their own.

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ABSTRACT

We analyse unique Dutch survey data on the public's opinions on what are demanding occupations, on whether it is justified that someone with a demanding occupation can retire earlier, and on the willingness to contribute to an earlier retirement scheme for such occupations through higher taxes. We find that the Dutch think that workers in physically demanding occupations should be able to retire earlier. A one standard deviation increase in the perceived demanding nature of an occupation translates into a twelve months decrease in the reasonable retirement age and a 30 to 40 percentage point increase in the willingness to contribute to an early retirement scheme for that occupation. There is some evidence that respondents whose own job is similar to the occupation they evaluate find this occupation more demanding than other respondents, but respondents are typically also willing to contribute to early retirement of demanding occupations not similar to their own.

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1. Introduction

Many governments are reforming pension schemes to tackle concerns about their fiscal sustainability, due to ageing of the population. A widely employed and highly visible reform is to increase the statutory retirement age (OECD, 2011) – the age at which individuals are entitled to the 'full' old age pension provided by the state (usually called the first pillar pension). This seems reasonable in most cases, since both life expectancy and "healthy life expectancy" (the number of years spent without any serious disability) have risen and are still increasing (Majer et al., 2013). In other words, the trend is that health at a given age improves, so that in most occupations, workers will be able to work and remain productive longer. These facts taken together naturally lead to the generic policy of increasing the statutory retirement age at which individuals become eligible for the state pension, in order to

guarantee the sustainability of the first pillar pension system, with future cohorts paying premiums for a longer time period and claiming benefits for a shorter time period.

Concerns, however, have been raised about the consequences of such a generic policy for workers in demanding occupations, who currently already often stop working before the statutory retirement age to receive early retirement benefits. The policy debate in the Netherlands has, for example, emphasized that low-skilled workers in the construction sector cannot be expected to work longer since their jobs require a level of physical health that they often can no longer maintain at older age, partly because the heavy work they have done during their whole career has deteriorated their health. The government suggested making an exception for this kind of physically demanding occupations.¹ Many also disagreed with this idea however, and pointed at the large costs of such policies (cf. Boldrin et al., 2004).

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¹ See, e.g., <http://www.nu.nl/economie/2152950/kabinet-blijft-bij-lijst-zware-beroepen.html>

They suggested that occupations should become less demanding by investing in technological improvements. If workers in demanding occupations could get access to early retirement, such investments could become unattractive (OECD, 2007).

In the debate that followed, several other occupational groups have also argued for exceptions, not only based upon physical demands but also because of the mentally demanding nature of their occupation. This is in line with Borghans and ter Weel (2012) who argue that putting up a (subjective) list of heavy occupations will not work in practise, since too many groups will claim they have to be included. On the other hand, it is also not easy to define objectively what constitutes a demanding occupation. Because of these practical considerations, the Dutch government in the end decided to raise the statutory retirement age without making any exceptions. Since 2013 the statutory retirement age is increasing and it will increase further in the near future. The issue of differentiating among occupations may therefore come back on the policy agenda. Moreover, a similar debate seems to have started in Belgium² and the UK, where the new Labour leader Jeremy Corbyn stated, “Manual workers in ‘physically demanding jobs’ should be allowed to retire early.”³ This illustrates that the issue is relevant in many countries where pension systems are reformed and the standard retirement age increases.

As far as we know, there are currently no countries in which the state pension eligibility age explicitly depends upon the demanding nature of the occupation.⁴ On the other hand, there are many countries in which state pension eligibility depends upon the number of years individuals have contributed pension premiums (Germany, Italy and Spain, for example; see the appendix in Mazzonna and Peracchi, 2014, or OECD, 2015, Section 2.2), so that those who entered the labour market at a younger age can retire earlier. This will often apply to low educated workers in physically demanding occupations. In the Netherlands, this is not the case: the state pension eligibility age does not depend on labour market history at all, possibly making the issue more pressing in the Netherlands than elsewhere.

This study analyses the opinion of the Dutch on early retirement arrangements of demanding occupations, where data on the people's views were collected at the time when the policy debate on demanding occupations was taking place. It contributes to the literature as it directly elicits survey respondents' attitudes and beliefs concerning a specific reform of the pension system. This is important since the shape and implementation of social security reforms in general and pension reforms in particular often depends on the opinion of the general public (Cremer and Pestieau, 2000; O'Donnell and Tinios, 2003). For the political feasibility of differentiation in the statutory retirement age, the public's willingness to accept such an arrangement and its views on what it should look like may therefore play a crucial role. We study whether the Dutch population is willing to contribute to early retirement schemes for specific occupations. We investigate which characteristics make an occupation demanding in the public's view, and how the perceived burden of an occupation affects the reasonable retirement age and the willingness to contribute to an occupation-specific early retirement scheme. Moreover, we analyse whether people are only willing to contribute to a scheme for occupations similar to their own (possibly reflecting self-interest) or also to schemes for other occupations, where they cannot expect direct gains for themselves. The latter would reflect some kind of social preferences (see, e.g., DellaVigna, 2009).⁵

The survey questions used in this study refer to pensions in general and not specifically the first pillar. Many workers with physically demanding jobs are low-paid workers.⁶ In the Dutch system, first pillar pensions play a much larger role for low income than for higher income groups. This is because the first pillar provides an essentially flat basic income, which is the main source of income for those with low lifetime earnings, but only a limited part of total pension income for higher lifetime earnings groups who have built up a second pillar occupational pension (mandatory for almost all employees). This implies that the effects of an increase in the statutory retirement age are heterogeneous, reducing total retirement wealth by a much larger fraction for low income than for high-income individuals. It also means that “repairing” the increase in the eligibility age for state pensions for low-income earners through an earlier occupational pension is relatively expensive – this pension has to be much higher in the years before the state pension can be claimed.

Several earlier studies have proposed to differentiate the statutory retirement age. Life expectancy increases with income.⁷ Bovenberg et al. (2006) therefore argue that the statutory retirement age should not be uniform but linked to the (remaining) life expectancy of the socio-economic group. Ravesteijn et al. (2013) analyse the relation between occupation and health, and conclude that workers whose poor health was caused by occupational characteristics should be exempted from an increase in the statutory retirement age if their occupational health damage was not compensated through a wage premium.

The Dutch reforms of the system of disability benefits since the 1990s also make the issue more relevant, since the alternative for older workers with health problems to enter disability has become much more difficult and less financially attractive for individuals as well as firms. Access rules have been tightened, benefits have been reduced, and experience rating has made it costly for firms if many of their workers enter disability. As a consequence, inflow rates into disability insurance have fallen substantially (see, e.g. García-Gómez et al., 2011). By largely eliminating the alternative exit route through disability insurance, early retirement has become more important, particularly for older individuals with demanding occupations for whom work limiting health problems are more prevalent.

Our findings lead to clear conclusions on what the public considers a demanding occupation. Respondents attach a large weight to physical effort while mental effort or job stress is not important. They see “construction worker” as a burdensome occupation, while “teacher” and “desk job” are not. This also implies a lower reasonable retirement age and a higher willingness to contribute to an early retirement scheme for construction workers than to a scheme for other occupations. The data show that people are willing to contribute to early retirement schemes of construction workers even if this occupation is not similar to their own job. For other occupations, such as desk jobs or teacher, this is much less the case. This suggests that self-interest is not the only thing driving the support for early retirement of demanding occupations – at least part of it is due to other factors such as social preferences.

The remainder of this paper is organized as follows. Section 2 discusses some background literature and Section 3 describes the relevant institutional framework in the Netherlands. Section 4 describes the survey design and the data. Section 5 introduces the econometric model and discusses the empirical results. Section 6 concludes.

² e.g., <http://pvda.be/artikels/regering-wil-debat-met-sociale-partners-over-zware-beroepen-maar-niet-echt>

³ http://www.telegraph.co.uk/news/politics/Jeremy_Corbyn/11837898/Jeremy-Corbyn-Manual-workers-in-physically-demanding-jobs-should-be-allowed-to-retire-early.html

⁴ In many countries, very specific occupations such as the military or the police force have their own retirement system with a younger eligibility age. In this paper we do not pay attention to these specific cases and refer to demanding occupations more in general.

⁵ Of course, the arrangement could be in the interest of a family member or friend who has such an occupation.

⁶ See, e.g., the following list of earnings by occupation: <http://www.gemiddeld-inkomen.nl/gemiddeld-salaris-per-beroep/>. Rho (2010) demonstrates a strong negative association between earnings and physical job demands for older workers in the US.

⁷ For example, Kalwij et al. (2013) find that low-income individuals have an approximately 2.5 years shorter remaining life expectancy at 65 years of age than high-income individuals.

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