



Full Length Article

The side effect of pension reforms on the training of older workers. Evidence from Italy

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ABSTRACT

Due to pension reforms, minimum retirement age in Italy increased substantially above age 50 between the second part of the 1990s and the early 2000s. We evaluate whether these reforms affected training participation by private sector employees aged 40–54, who entered their fifties during the relevant years. We find evidence of a sizeable effect: our estimates suggest a 9% increase in training incidence following a one-year increase in minimum retirement age. We also show that, while policies that increase the residual working horizon are effective in increasing training participation by senior workers in their forties and early fifties, traditional training policies that aim at reducing training costs by providing subsidies are ineffective.

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Introduction

Population ageing is a key challenge facing OECD economies. Over the next 50 years, all OECD countries will experience an important increase in the share of elderly persons in the population and a significant decline in the share of the population of prime working age (OECD, 2006). Since many individuals aged above 50 are out of the labour market, especially in Southern Europe, policies that increase the activity rates of senior workers can reduce the pressure of ageing on public finances, and at the same time ensure living standards.¹

Many OECD Governments have embraced training as one possible means of keeping older workers in employment or bringing them out of unemployment or inactivity and into employment (see Mayhew and Rijkers, 2004).² Training policies are often

advocated because of the evidence showing that skilled older workers remain in the labour market longer than their unskilled peers. There is also evidence that a positive correlation exists in European countries between the incidence of training among older workers – relative to younger cohorts – and the average effective age of retirement (see OECD, 2006, and Bassanini et al., 2007).

In spite of their popularity in policy circles, training policies that provide monetary subsidies to workers and firms have been criticized by economists, because of the substantial deadweight losses involved and the small expected returns (see Heckman, 2000; Falch and Oosterbeek, 2012; Abramovsky et al., 2011). A recognized problem is that senior workers and their employers have only a short time to recoup their investment in skills before retirement occurs. This problem raises the question whether pension policies that increase minimum retirement age and therefore force affected senior workers to stay longer in the labour market can contribute to stimulate training investment.

Empirical evidence documenting the effects of changes in minimum retirement age on training is limited. Montizaan et al. (2010), review this small literature, including a study by Fouarge and Schils (2009), who found a positive relationship between retirement age and training. This study, however, cannot establish whether the direction of causality runs from retirement to training or vice versa. Causal inference requires a source of exogenous variation in retirement age. Using a natural experiment in the Dutch public sector as such a source, Montizaan et al. report that a shock to pension rights which postpones retirement has had a

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¹ According to OECD, 2012, the employment/population ratio of males ages 55–64 in 2011 was 64.4 in the US, 55.2 in Europe (15 countries) and 48.4 in Italy.

² The European Commission has strongly encouraged member countries to promote lifelong learning and training of older workers, by promoting equal opportunity in the workplace and by providing training incentives with the European Social Fund. According to the Bruges Communiqué (European Commission 2011) "...the future European labour market will be simultaneously confronted with an ageing population and shrinking cohorts of young people. As a result, adults – and in particular, older workers – will increasingly be called upon to update and broaden their skills and competences through continuing VET..." (p. 2). US training policies targeted at older workers are reviewed by Eyster et al. (2008).

positive but small (causal) impact on the training participation of senior public sector employees. In this paper, we add to the existing literature by providing empirical evidence on the effects of exogenous changes in minimum retirement age on the training participation of Italian senior private sector employees.

Italy is an interesting case for the topic at hand. According to the OECD, it shares with Spain and Greece a very low labour force participation rate in the age group 50–64, limited training of senior workers and a high predicted old age dependency ratio.³ During the 1990s, the country has experienced a sequence of pension reforms, that first introduced and then progressively increased minimum retirement age from 50 to 57 (see Angelini et al., 2009). These reforms increased the residual working horizon of the affected cohorts.

Participation rate Age group 50–64	Old – age dependency ratio, 2000–2050		
	Moderate	Large	Very large
High	USA, Sweden	Canada	Japan
Average	UK, Netherlands	Germany, France	Portugal
Low	Belgium	Austria	Italy, Spain, Greece

Source: OECD (2006).

We use Italian labour force data to evaluate whether training participation by private sector employees aged 40–54 – who entered their fifties during the 1990s and early 2000s, when these reforms occurred – was affected. In our empirical application, we compare cohorts born between 1942 and 1944, the control group, and cohorts born between 1945 and 1950, the treatment group, and find that training participation has been higher in the latter group. The estimated difference is sizeable: we estimate that adding one year to minimum retirement age to post-reform cohorts increased training incidence – or the probability of having had any training during the reference period – by about 9%. We show that this finding is qualitatively robust to changes in the baseline specification, in the definition of training and in the data being used.

This effect is much larger than the one estimated by Montizaan et al. (2010), in their study of Dutch public sector employees (3.2%). There could be several reasons why our results differ, ranging from institutional differences to the characteristics of the pension reforms in the two countries. One reason could be that training incidence typically declines with age and that treated individuals in our data are significantly younger than in the Dutch data (early fifties for us, late fifties for Montizaan and co-authors).

We also show that regional training subsidies paid to workers and firms have had no effect on training incidence and a small – but statistically significant – negative effect on the probability that senior workers retire or are unemployed. These findings suggest that, by increasing profits rather than training, training subsidies may have helped firms in retaining their senior employees. Our combined results indicate that – in the case of Italy – increases in minimum retirement age, that are typically motivated by the need to reduce the pressure of ageing on public finances, may be more effective than traditional training subsidies to increase the training of senior workers.

The remainder of this paper is organized as follows. Section “Introduction” provides some background on institutional details and describes the Italian reforms of minimum retirement age. The data and the empirical approach are introduced in Sections “Data” and “The empirical approach” respectively. Results are discussed in Section “Results”, which precedes our conclusions.

³ We report below a table from a OECD report, which classifies OECD countries according to their participation rate and old age dependency ratio. The same report shows that the percentage of employees who participated in education or training during the previous 12 months was well below 10% (2003 data).

Table 1
Minimum retirement age for seniority pensions. Period 1995–2004.

Year	Minimum retirement age of private sector employees
Until 1995	50
1996	52
1997	52
1998	54
1999	55
2000	55
2001	56
2002	57
2003	57
2004	57

Changes in minimum retirement age. Italy from 1996 to 2004

In this section we review pension arrangements in Italy, and highlight how the various reforms that were implemented during the 1990s impacted on the retirement age of private sector male employees. The Italian retirement system comprises both *old age* and *seniority* pensions. Until 1992, private sector employees qualified for old age pensions at age 60 and for seniority pensions at any age, provided that they had accumulated at least 35 years of social security contributions.⁴ Empirical evidence suggests that eligibility for seniority pensions was acquired, in the large majority of cases, way before that for old age pensions. As a result, until 1995 male employees in the Italian private sector with a continuous working career from age 15 could retire as early as age 50 (i.e. after 35 years of contributions).

Starting from 1995, eligibility conditions for seniority pensions were progressively tightened by a sequence of reforms, aimed at containing public expenditure. In the new system, access to seniority pensions required not only at least 35 years of contributions, but also a minimum age. For male private sector employees, this age was initially set to 52 in 1996, and then progressively increased to 57 by 2002. The age condition for old age pensions also changed, increasing progressively from 60 to 65. We document these changes in Table 1 and provide further details on pension reforms in Appendix A.

The variation in eligibility conditions over time is most simply put across by considering Fig. 1, where we report the minimum number of years required to a hypothetical private sector employee aged 50 and with 35 years of contributions to qualify for seniority and old age pension. The figure sets out the comparison of consecutive cohorts of individuals, who share the same number of years of contributions and are indexed by the year in which they reach age 50. For instance, an employee who turned 50 in 1994 needed zero additional years to qualify for a seniority pension and 11 additional years for an old age pension. On the other hand, an employee turning 50 six years later, in 2000, needed 5 and 14 years to be eligible for seniority and old age pension, respectively. As documented by the figure, relatively close cohorts of individuals faced during the 1990s and early 2000s sharp differences in their eligibility rules.

Data

We use the spring waves of the Italian Labour Force Survey (LFS), a quarterly household survey conducted by the Italian Statistical Office with the purpose of collecting labour market information from a representative sample of nearly 77,000 households, or 175,000 individuals who are resident in Italy. The

⁴ See, for instance, Angelini et al. (2009). In Italy, social security contributions are paid by the employer and the employee.

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