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Determinants of early retirement: Evidence from Iceland

Research question

Problem: With increasing longevity, the retirement period becomes longer

Research questions:

Why do people retire early?

Do people that retire early, at the official retirement age, and late differ in income, wealth, debt and family circumstances?

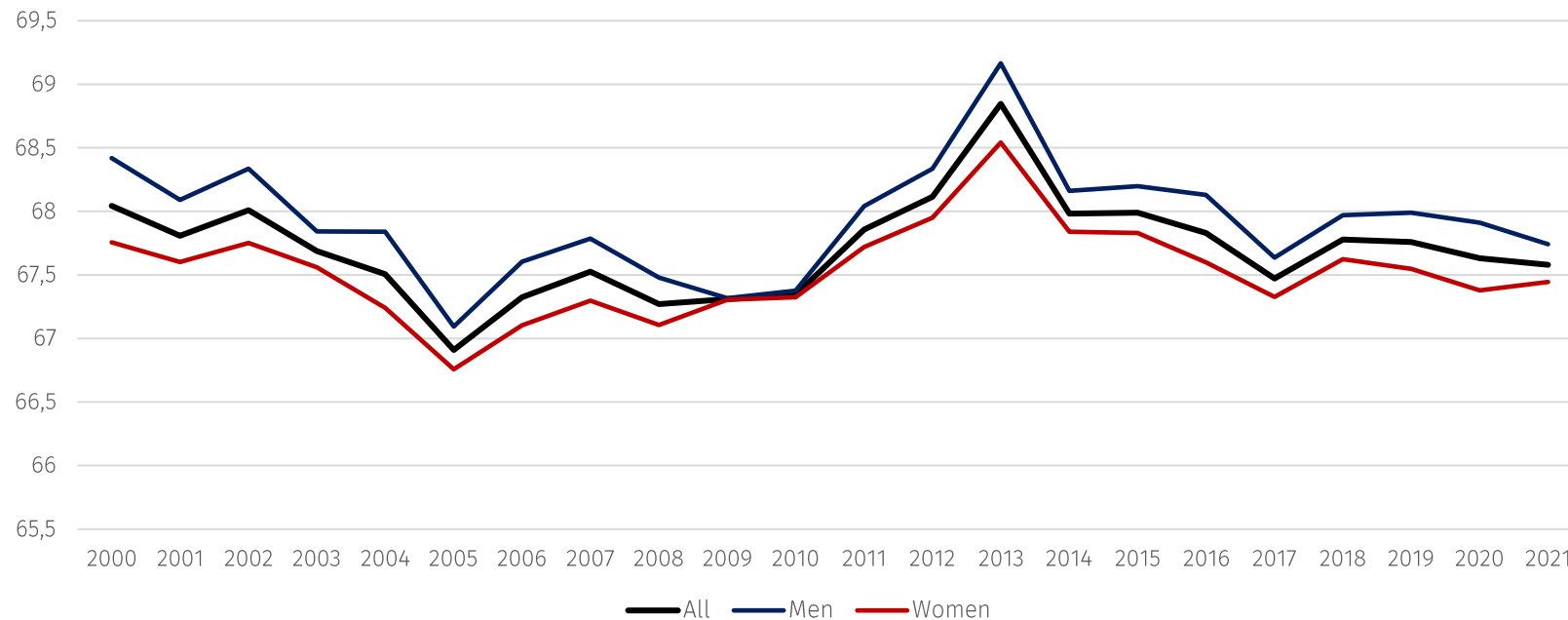
Goal: The aim is to provide information to pension funds and policy makers on what drives the retirement decision

Retirement age rose temporarily following the financial crisis

Pension benefits for private sector workers declined during the crisis

Average retirement age

Transition from employment to pension (not including partial pension)



Why do we retire early?

We studied the probability of retirement at different ages conditional on being in the labor force at different ages

Main conclusion



Joint retirement

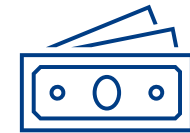
Having a retired spouse significantly increases the probability of retirement.

We find no statistical difference between the genders.



Debt-to-disposable income

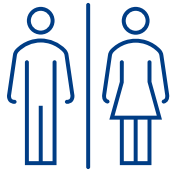
Those with higher ratio are less likely to retire early.



Labor income

Those with higher labor income are less likely to retire early.

Main conclusion



Gender

Men are less likely than women to retire early.



Education

University educated are less likely to retire early than others.



Year effect

We controlled for time.
E.g., because of the business cycle

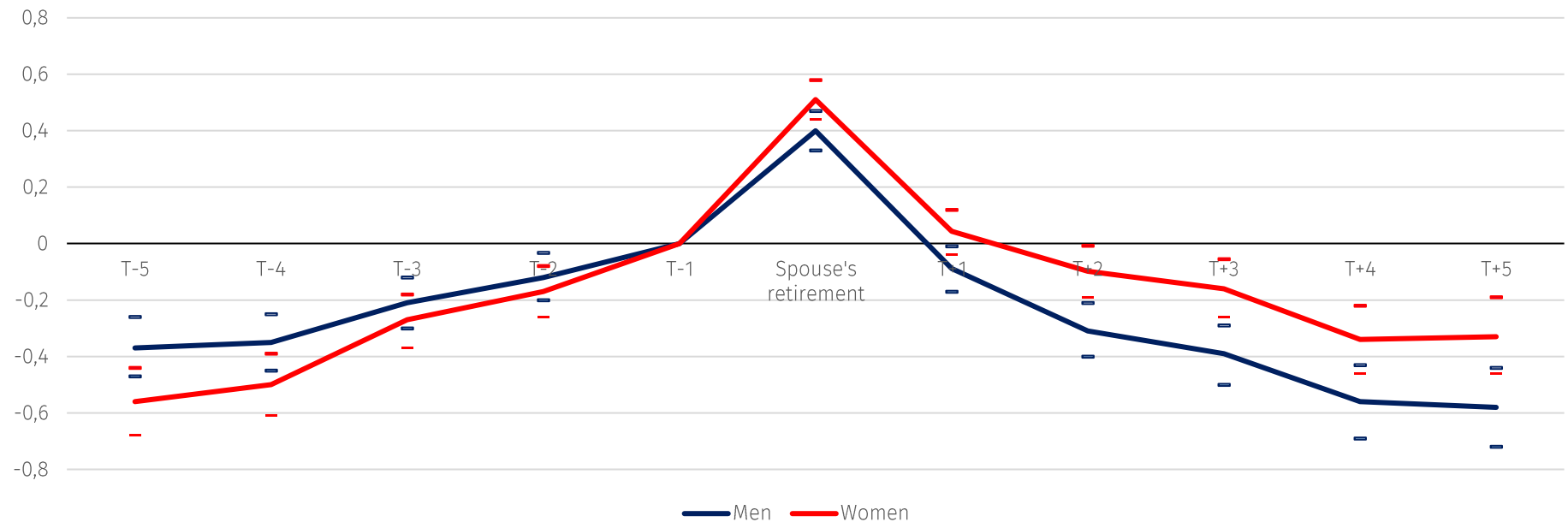
What happens when your spouse retires?

Event study

Probability of own retirement increases substantially when a spouse retires

Event study of the effect of retired spouse on own retirement by gender

The lines show the coefficient estimate, and the short lines show the upper and lower 95% confidence intervals



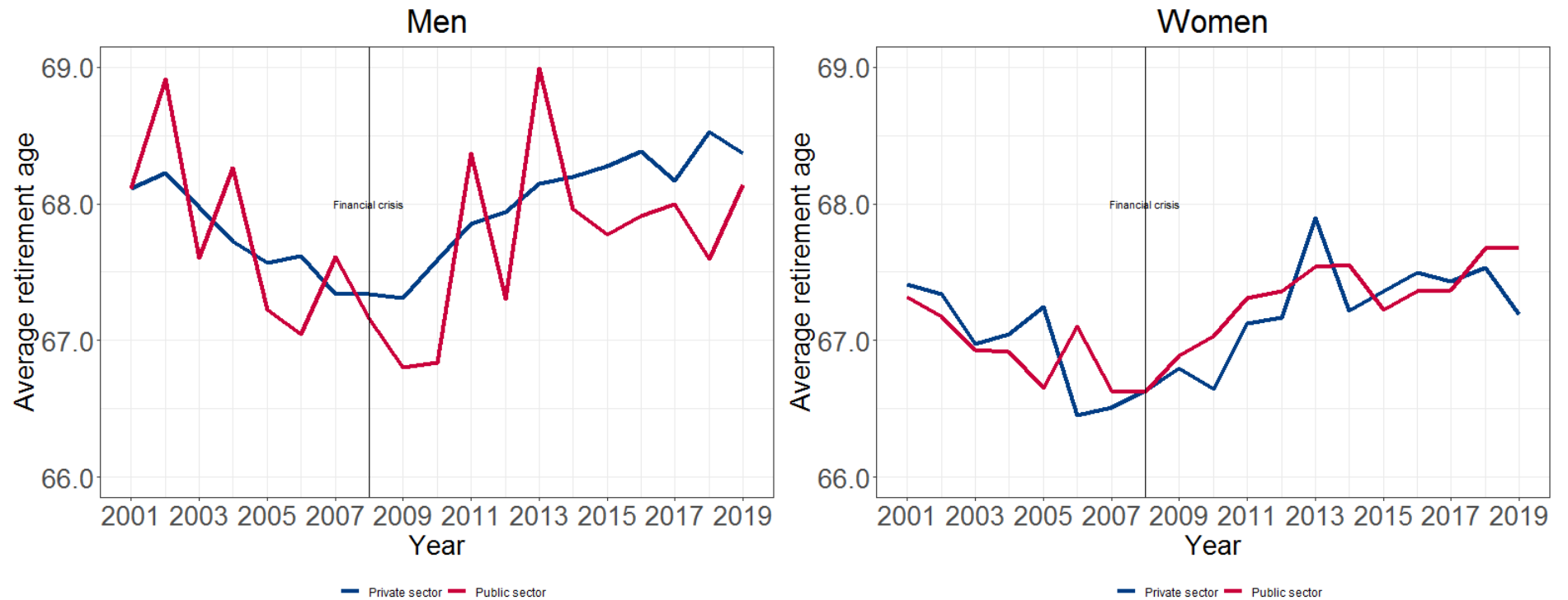
Pension benefits and the retirement decision

Case study of public and private sector workers during the financial crisis

Difference-in-Difference models

Retirement age for men in the public sector kept decreasing during the crisis

Average retirement age for public and private sector workers



Negative shock to pension benefits reduces probability of early retirement for men

Private sector pension funds severely hit in the crisis

Public sector pension fund was fully insured in the crisis

After the crisis



Men working in the public sector were more likely to retire early than men working in the private sector after the crisis than before



Men in the public sector with a spouse also working in the public sector were even more likely to retire early than other jointly taxed men after the crisis than before



No statistical effect like this for women

Will cases early retirement increase as a result of greater pension benefits in the future?



Evidence suggests that might happen
→ Further research needed



Interesting and important topic for future research



Important to make information held pension funds part of official statistics published by Statistics Iceland

- To get a more accurate picture of the distribution of wealth in the country.
- To help pension funds understand the reasons for early retirement