Can I Stay or Should I Go? Mandatory Retirement and Labor Force Participation of Senior Workers

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Abstract

The growing pressure for reforming financially unstable pension systems makes it crucial to understand the determinants of retirement decision. This article focuses on a paramount though often disregarded channel, namely demand-side induced retirement through mandatory retirement. Labor supply and demand determinants of retirement are often difficult to disentangle. In this paper, I take advantage of a unique natural experiment, the progressive ban of mandatory retirement in France in the 2000s. Drawing on an extensive administrative dataset, I use inter-industry reform-induced variations in mandatory retirement legislation, to insulate this factor from other determinants of retirement, such as financial incentives. I find that demand-side determinants do play a role in retirement behavior, as the repeal of mandatory retirement increased employment of older workers. This channel, however, does not account for the major part of the large increase in labor force participation of older workers observed in the last two decades. Secondly, as in the French pension system the mandatory retirement age coincides with the full rate age, I exhibit a previously uncovered determinant of the large spike in retirement distribution at this age. Mandatory retirement is estimated to explain around 7% of the observed bunching at the full rate.

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