The hidden consequences of delaying retirement age

Francesca Carta*[1] and Francesco D'amuri[1]

[1]Bank of Italy – Italy

Abstract

Under a deferred compensation scheme, workers are paid less than their marginal productivity when they are young, more when they are old. An exogenous increase in retirement age raises the period over which the firm is paying wages higher than worker's marginal productivity. The wage profile is ex-post suboptimal. In the impossibility to renegotiate the wage contract or to adjust at no cost the age composition of the labour force, the firm will smooth the cost associated to the older workforce on new hirings and investment decisions. The direction of these effects will depend on the substitutability/complementarity relationship with the stock of older workers in the firm. By exploiting an Italian pension reform which increased the legal retirement age, we find that lower retirement ows decrease hirings, value added per worker and profits.

Keywords: both theory and empirics. preliminary work

*Speaker