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# Pension benefit reform and the substitution of younger for older workers

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## Abstract

The age structure of employment reflects the relative prices of retaining workers of different ages, and early pension benefits encourage workers to retire before normal pensionable age, yet little is known about the effects on employment of the young. We use a recent reform to pension benefits in Denmark to analyze the relationship between the wages and employment of workers of different ages at the firm level. We find that the reform changed retirement ages of unskilled workers – the group with lowest wages and largest replacement rate changes due to the reform. We estimate the elasticity of substitution between young and old unskilled workers at the firm level to be unity – they are perfect substitutes.

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