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BOOK REVIEW

Social security programs and retirement around the world: reforms and incentives

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The *Journal of Pension Economics and Finance* describes itself as a publication dedicated to fostering international discussion and debate on the consequences of aging populations and shrinking workforces throughout the developed world. An important policy question this aspiration raises is: what can be done to keep aging workers in the workforce longer? A 2021 book edited by Profs. Axel Borsch-Supan and Courtney Coile addresses this question. Titled 'Social Security Programs and Retirement around the World: Reforms and Incentives', it examines the effects of public pension reform on employment rates at older ages in 12 developed countries. Its special focus is to understand how changing financial incentives may have impacted the retirement decisions of older workers in these countries over the course of the last 35 years. A unique aspect of the research and its findings described in the book is that much of the underlying research was done by small expert teams embedded in each of the 12 countries.

A logical starting point for the book is to set out the actual labor force participation rate experiences for older workers in the 12 countries over the course of the last 35 years. It turns out that while the participation rates for older workers differ dramatically between countries (e.g., much higher in Japan and Sweden than in France and Belgium), the patterns of change in these rates over time were very similar. Specifically, after decades of declining participation rates, they started to go back up starting in the mid-1990s. For example, over the 1995–2016 period, they increased in all 12 countries for cohorts aged 60–64, climbing an average 14.9 percentage points for men, and 18.6 percentage points for women. The authors believe that reforms to the countries' social security systems (e.g., raising the statutory retirement age, inserting actuarial adjustment dis/incentives to retire early/late, lowering pension benefit generosity, raising requirements for eligibility to disability pension/unemployment insurance) were important contributors to these participation rate increases for older workers.

Can this logical inference be confirmed statistically? A good part of the book was devoted to addressing this question. A key metric created for the task was the present value of expected future social security benefits (termed Social Security Wealth or SSW) for a person with a set of predetermined set of attributes (e.g., age, gender, income level). Specifically, by how much would SSW change by postponing retirement for one year? This SSW change divided by the additional year of net work-related income is defined as ITAX (Implicit Tax on delaying retirement by one year). Depending on a host of factors, ITAX can be positive or negative. Logically, the higher positive the ITAX calculation, the lower the financial incentive to stay in the workforce. Conversely, the more negative the ITAX calculation, the greater the incentive to continue working. A number of ITAX calculations were made for

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each of the 12 countries. Overall, the average ITAX rate dropped from 35% in 1980 to 20% in 2014. Here is how the book editors interpreted the detailed statistical findings from the multi-country studies: 'We find strong evidence for the expected negative association between old-age employment rates and implicit taxes on working longer'.

Appropriately, the book authors caution not to convert this important finding into the magic bullet for solving all of the challenges associated with aging populations and shrinking workforces in the developed world. For example, the *Mercer CFA Institute Global Pension Index (MCGPI)* considers over 50 indicators and three broad criteria (adequacy, sustainability, and integrity) to assess the overall quality of the retirement income systems (RIS) of 43 countries, including the 12 that were part of the study described in the book. Arguably, the proportion of older workers in the workforce is a strong RIS sustainability indicator. Higher proportions should improve RIS sustainability, but so should other RIS quality indicators. Further, while sustainability is an important RIS quality feature, so are system adequacy and integrity. Retirement income systems are complex, multi-dimensional, with multiple paths to raising their quality. Having said that, the book confirms that reducing the ITAX rate to increase workforce participation by older workers is an important policy measure, and should be actively pursued.

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