



YOUNG LABOR ECONOMISTS AWARD “Ezio Tarantelli” 2018

Prime-age labour supply responses to the transition from a Defined-Benefit to a Notional-Defined-Contribution public pension system: evidence from Italy

Giulia Bovini

Giulia Bovini's paper asks how the architecture of a pension system affects individual labour supply. It studies the effect of moving from a defined-benefit scheme into a notional defined-contribution scheme on prime-age labour supply. The question is both relevant and novel: while most of the literature on the effects of pension reforms focuses on the impact on the elderly, i.e. on those close to retirement, mostly looking at the impact on the timing of retirement, Giulia's paper looks at the labour supply response during workers' prime-age and its evolution over the lifetime.

The paper exploits a reform that took place in Italy in 1995 and transformed the Italian defined-benefit scheme into a notional defined-contribution scheme, establishing a tighter link between contributions and benefits. The effect of interest is identified thanks to a grandfathering clause, according to which the pension of individuals that had already accumulated 18 years of contributions in 1995 were still computed according to the previous DB rules. Individuals with less than 18 years of contribution accessed, instead, a mixed regime. Only individuals starting to work after 1995 entered the new system wholly. Thus, identification is achieved exploiting the discontinuity around the threshold of 18 years of contributions, i.e. the paper compares treated workers below the 18-year threshold with control workers above the 18-year threshold. The paper finds that the labour supply of prime-age individuals is (mildly) affected both along the extensive and intensive margin. The probability of working goes up by about 1 percentage point and the number of days worked goes up by about 1.5%. These effects also translate into higher yearly labour earnings. The labour supply reaction is found to be stronger for low-income workers (at the time of the reform), females, older workers (with shorter time horizons before retirement), educated workers and self-employed.

The AIEL executive board believes that the paper is highly deserving of the *Young Labor Economists Award* "Ezio Tarantelli" because it adopts a careful estimation strategy in order to obtain reliable and credible estimates of the effect of interest, and because it is both novel and policy-relevant. The results of the paper are all the more important and useful in the Italian and European context, in which the financial sustainability of pension systems is threatened by deteriorating demographic trends, and require urgent reforms.