

# Raising the Full Retirement Age: Defaults vs Incentives

## Abstract:

We study a Swiss reform that increased the female full retirement age (FRA) in stages, from 62 to 63 to 64, offering the option to claim early at the low price of a 3.4% cut in pension benefits. Exploiting sharp cutoffs generated by the reform, we find that individuals delay pension claiming by 7-8 months and labor market exit by 6-7 months, although maximization of pension wealth dictates early claiming.

The price of early claiming was then raised from 3.4% to a more than actuarially fair level of 6.8%, providing strong financial incentives to delay but leaving the FRA constant at 64. This change delays pension claiming by 4 months and has no effect on labor market exit. These findings suggest that the FRA represents a default claiming age that many individuals passively comply with, regardless of the financial implications. We identify and estimate bounds on the fraction of passive decision makers in the population, exploiting the structure of the reform and the fact that a passive individual would always respond to stages of the reform that raise the FRA, but would not respond to a change in financial incentives alone. The fraction of passive individuals is estimated to lie between [0:463; 0:691]. Finally, we show that if we assume active decision makers maximize discounted expected pension wealth, the fraction of passive decision makers can be point identified and estimated using a simple dynamic discrete choice model of benefit claiming. Our estimate of the fraction of passive individuals is 0.65, consistent with the bounds estimates, which has significant implications for the optimal design of social security.

The paper is joint work with Rafael Lalive and Arvind Magesan

**Stefan Staubli**  
**University of Calgary**