

Disability Pensions and Labor Supply

Evidence from Germany

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I investigate the incentive effects of disability pensions on the labor supply decision of the elderly in Germany. In the year 2001, a reform decreased the level of benefits and tightened the criteria of eligibility. The purpose of this paper is twofold: First, I estimate transition rates into disability retirement, both prior to and after the reform in order to evaluate the effect of the reform on retirement behavior. Second, I use the exogenous variation in (a) expected benefit levels and (b) expected benefit accruals that is caused by the reform, in order to obtain reliable estimates of individuals' responses in retirement behavior to financial incentives. I use data from the GSOEP waves 1995-2005 and combine them with administrative micro data provided by the German retirement insurance. While health status and expected wages turn out to be important determinants of the decision to enter disability retirement, benefits have only a small effect.

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