

Early Retirement Incentives, Self-employment, and Voluntary Unemployment Insurance: Evidence from Administrative Data

Mette Ejrnæs
University of Copenhagen

Stefan Hochguertel
VU University Amsterdam

Version: March 14, 2006

VERY PRELIMINARY AND INCOMPLETE: COMMENTS WELCOME

Abstract. We use Danish administrative (register) panel data that follow half a million individuals over more than 20 years, and observe their labor market and unemployment insurance (UI) status. Denmark is one of the very few countries where both wage earners and self-employed workers can choose to become members of UI funds, which cover income loss during unemployment. In addition, being enrolled in a UI fund opens up the possibility of participating in an early retirement (ER) program. We study labor market transitions of the self-employed relating to their UI fund enrollment decision. Since the data strongly suggest the presence of age, cohort and time effects in labor market participation, we can rely on institutional reform in the ER program eligibility conditions (which vary over both age and time in the sample) as an instrument for the UI enrollment decision. Indeed, we argue that the self-employed's benefits of UI fund membership clearly stem from the (subsidized) ER plan rather than from the UI cover. We find that the self-employed who have just joined a UI fund are more likely to transit into unemployment (consistent with moral hazard), but controlling for the enrollment choice via the ER incentive there is no additional induced effect on transitions.

Keywords: self-employment, early retirement, unemployment insurance, Denmark, panel data

JEL codes: C33, D12, D14, D91, J23, J26

Acknowledgements: This paper makes use of the "CAM 10% sample". We thank the Danish Science Foundation for support of the first author and Statistics Denmark for providing access to the data. Insightful comments from Rob Alessie helped improving the paper.

Correspondence to: mette.ejrnæs@econ.ku.dk and shochguertel@feweb.vu.nl.