Golden Shackles? The Effects of Pension Portability on Wages and Job Mobility

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Abstract

We study the effects of pension portability on job mobility and wages. Our context is Switzerland, where pension portability across employers was severely restricted until 1995, leading to large losses for job switchers. We exploit a 1995 reform that mandated full portability of employer pensions, creating sharp changes in pension portability that varied by age, tenure, and industry. We leverage administrative data on the universe of Swiss employees matched to employers to study the effects of the reform on job mobility and wages, especially among older workers.

Research questions

A core determinant of how much alternative employment options matter for wage determination are the costs of switching employers. In this project, we ask how wages react to lower or higher barriers to switching employers, focusing on *pension portability*. In much of the world, non-portable pensions are hypothesized to be a major impediment to the job mobility (and therefore bargaining power) of workers, especially older workers who have accumulated sizable employer-specific pension savings (Turner, 1993; Allen, Clark, and McDeremed 1993). This issue is of special importance given increasing concerns about the low mobility and worsening outcomes of older workers in a time of globalization (Hofäcker, 2012). However, no consensus has yet emerged on whether non-portable pensions indeed have a negative causal

effect on worker mobility and hence wages (Gustman and Steinmeier 1993; Ippolito, 2002; Hernaes, Piggott, Vestad, and Zhang 2010; Goda, Jones, and Manchester 2017).

We implement a research design exploiting a reform that dramatically improved the *portability of employer-provided pensions*, thus generating a sharp decrease in a worker's cost of moving from one firm to another. The reform occurred in Switzerland, specifically the Freedom of Movement Act of 1995 ("*Freizügigkeitsgesetz"*), which mandated that employer-funded pensions be portable across employers. Before the policy change, employer-funded pensions were only partially required to be transferable across employers, so that some workers faced significant losses when switching firms. Contemporary news stories indicate that this institutional feature was seen as a tremendous barrier to job mobility for some workers. News accounts include examples of workers who lost, e.g., CHF 130,000 (USD 180,000) after switching employers in the 1980s as a consequence of limited pension portability (Valda, 2015). The term "golden shackles" or "golden chains" was commonly used to refer to this phenomenon (see, e.g., Durr, 2018).

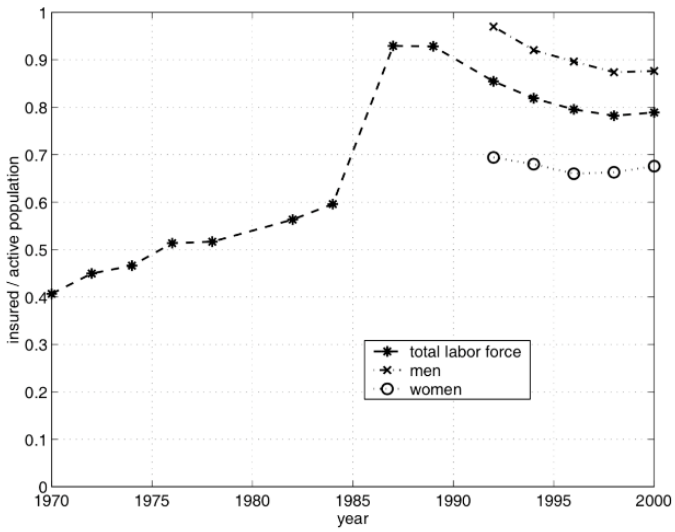
By eliminating this financial barrier, the 1995 pension portability mandate dramatically lowered workers' costs of switching employers. We exploit the policy change in several difference-in-differences designs between the pre- and post-reform period as well as additional dimensions of heterogeneity to study the effects of a reduction in the costs of switching employers on wages and job-to-job mobility.

Research Design and Methodology

Institutional Setting. Employer-provided pensions ("occupational pensions") have played a crucial role in the Swiss pension system since 1985, when a law ("*Berufsvorsorgegesetz*") mandated the introduction of such pensions, funded through equal employee and employer

contributions with contributions being a substantial share of earnings. Figure 1 plots the time series of the share of the population that participates in employer pensions, showing a sharp increase in 1985 as a consequence of the law. A large share of pension payments and contributions have been funded through the employer-provided pension system since 1985.

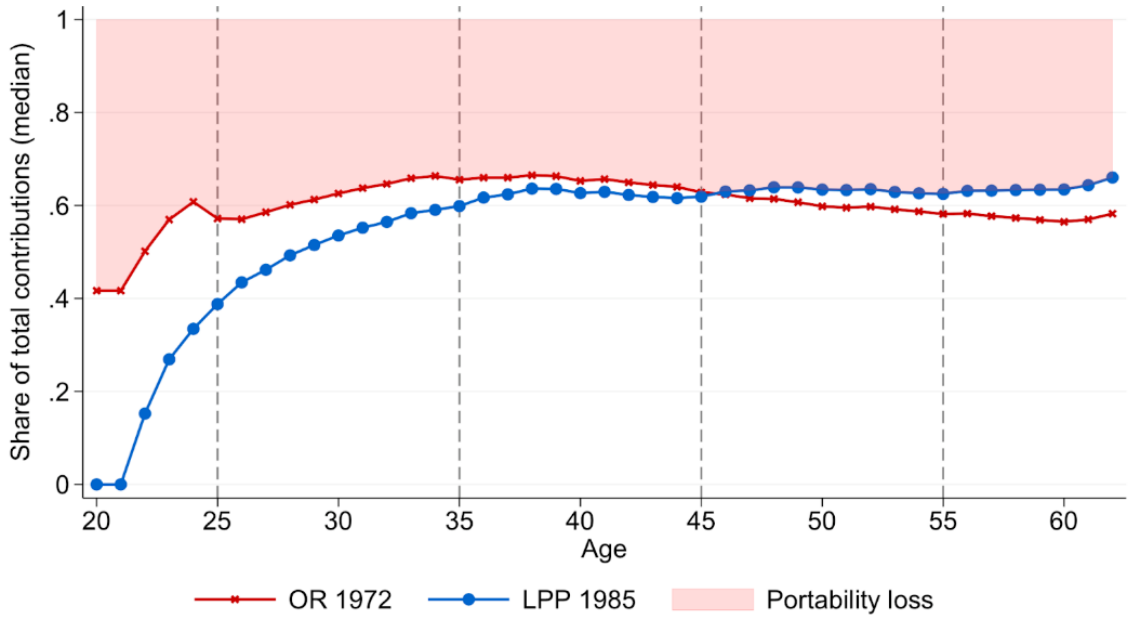
Figure 1: The Importance of Employer-Provided Pensions Since 1985: Time series of the share of population that participates in employer-sponsored pensions.



While the 1985 employer pension mandate had *some* provisions for portability of accumulated pension claims between employers, those were in practice irrelevant for most workers (Rechsteiner, 1988). Most workers would lose a significant share of employer contributions unless they had more than 30 years of tenure, and would lose *all* of the employer contributions when leaving with less than five years of tenure. Consequently, workers could face significant losses when switching employers. For example, Rechsteiner (1988) describes that the mobility losses for a typical worker with ten years of tenure could amount to around 9 months of salary. Figure 2 shows the share of total contributions workers were permitted to take with them prior to 1985; the figure, which we plot for male workers as a function of wage, indicates that pension portability was low---at least 40% of pension contributions were lost upon job switching. This

graph is the outcome of our pension portability calculator, which we have constructed carefully over the past two years.

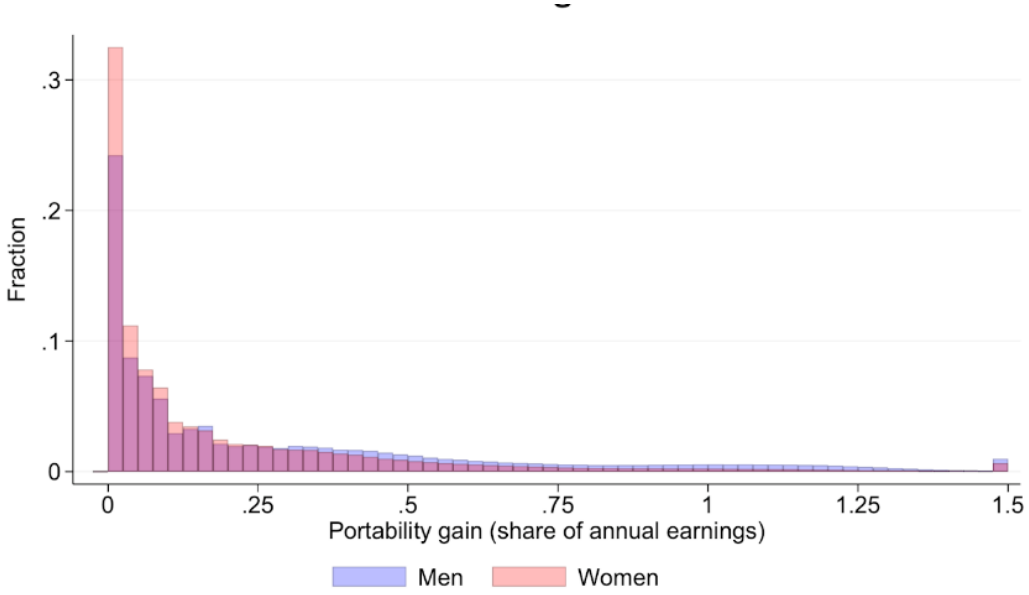
Figure 2: Pension losses (share of contributions) incurred by job mobility before 1995 reform



Source: Authors' calculations using Swiss administrative matched employer-employee data and authors' pension portability calculator. OR refers to the general civil law, LPP to the 1985 pension law. Workers could take advantage of the more generous regulation.

The 1995 Reform to Pension Portability. A 1995 reform then mandated portability of pension savings and thus sharply reduced the costs of switching employers for some workers. The 1995 reform also led to an age-dependent change in the calculation of the accumulated pension savings. Thus, the 1995 law led to sharp tenure- and age-dependent changes in the portability of pensions. These and a series of additional institutional quirks regarding the pension portability regime pre-reform led to considerable variation in the pension wealth "at risk" before the reform, and hence considerable variation in the reduction in the mobility cost due to the 1995 reform. Figure 3 plots the distribution of this treatment intensity ("portability gain") as share of annual earnings.

Figure 3: Portability Gains as a Result of 1995 Reform, as Share of Annual Earnings



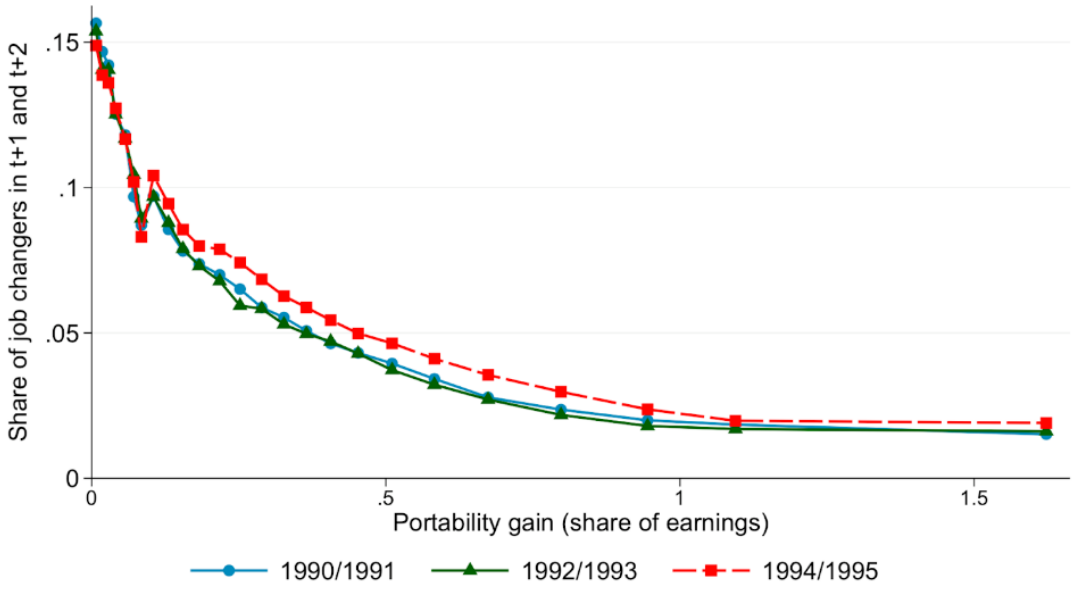
Source: Authors' calculations using Swiss administrative matched employer-employee data and authors' pension portability calculator.

Research Design. Drawing on rich survey data as well as comprehensive administrative data, we will exploit the 1995 policy change in several sharp difference-in-differences designs to estimate the causal effect of decreased costs of switching employers on mobility and wages. We will leverage variation between the pre- and post-reform period as well as across age, tenure, and industry. Specifically, we will use our custom pension calculator to impute, for each worker in our administrative datasets, the portability gain in CHF and as a fraction of lagged annual earnings. Factors that generate variation according to the pension system are tenure, age, gender and contribution histories (hence earnings). We will then estimate the effects (or lack thereof) of pension portability in a difference-in-differences (DiD) design, comparing workers before and after the reform, with a larger or smaller gain in pension portability. We will use individual-level panel data to do so.

Figure 4 previews highly preliminary results (presented in an NBER workshop), a nonparametric DiD graph that uses continuous variation in portability gains on the x-axis, and

plots the corresponding workers' job mobility (by group, i.e. a share) on the y-axis. Since the reform occurred in 1995, the 1994 and 1995 cohort can be considered cleanly treated, and the other years are pre-reform baselines, making for our control years. For clarity, we combine pairs of years. A first look at the data suggests somewhat of a moderate boost in job mobility (as the red line is above the other, pre-period placebo lines)---but not for all workers, and only when comparing the bottom workers to the middle workers in terms of pension portability boost do we see the opening occurring (but it stays stable as we go farther to the right).

Figure 4: Binned scatter plot of job mobility against portability gains induced by the 1995 reform.



Source: Authors' calculations using Swiss administrative matched employer-employee data and authors' pension portability calculator.

Over the course of the project, we will solidify our analysis, sharpen the pension calculator, and use regression-based DiD estimates to quantify the effects. We will also benchmark our findings against state-of-the-art models of worker mobility and labor markets, and discuss how our findings relate to active policy debates in the US, for example regarding the move from DB to DC pensions.

Timeline

This project started in 2018. Since then, we have been assembling data, assembling the research team, and refining the pension calculator and setting up the large-scale data set on a secure server environment built for our project by our local coauthor Michael Siegenthaler. We have been able to conduct first pilot studies of the setting, which we have reported on in an NBER conference "Facilitating Work at Older Ages Fall 2020" on November 13, 2020. We received a very positive reaction with a lot of constructive feedback.

We anticipate a fast and targeted progress in 2021 and 2022, hoping to finish a first public working paper in the spring of 2022. We then plan to present the paper in a variety of seminars and conferences, both in the aging community as well as the macro/labor community. We plan to have a first draft that can be submitted to a journal by winter 2022.

Budget Breakdown

We request the following items to support this research project in 2021-22*, while being grateful for any partial support as well*:

Total including addition of 12% max. overhead: $74,995, consisting of the following items (listed before 12% overhead):

1) Supporting salary of full-time predoctoral research assistant at UC Berkeley/MIT: $16,480
2) Summer salary 2022 for Schoefer (1/9 incl. 19% campus fees): $25,480
3) Summer salary 2022 for Jäger: $25,000

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