The Impact of Severance Savings Accounts on Workers, Firms, and Gender Gaps

Extended Abstract

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Severance savings accounts (SSAs) are employer-managed funds of deferred compensation that accumulate while a job match lasts and are typically paid out as a lump sum at separation. They are widespread in Latin America, Europe, and Asia and serve a dual purpose: for workers, they provide liquidity at job loss; for firms, they offer a predictable and low-cost source of internal finance. In systems with generous unemployment insurance and rising pressure on public pensions, policymakers have considered redirecting severance flows into funded retirement schemes. Yet reforms in Austria, Italy, and Korea show persistently low take-up of pension reallocations, suggesting that workers place high value on the liquidity embedded in SSAs or face frictions preventing reallocations.[1] Despite substantial policy interest, causal evidence on how these reallocations affect firms' labor demand and workers' employment trajectories remains limited.

This paper exploits the Italian reform of the Trattamento di Fine Rapporto (TFR)—a mandatory severance-type deferred wage worth roughly 7 percent of annual pay—to study the consequences of removing firms' access to SSA-based liquidity for both firms and workers. Before 2007, employers held TFR on their balance sheets, remunerated at a statutory rate below borrowing costs, and workers received the accumulated balance upon separation. Law 252/2005 introduced automatic enrollment of new TFR flows into occupational pension funds unless workers explicitly opted to keep TFR in the firm or chose an alternative fund. The 2007 Budget Law added a size-based mandate, announced in late October 2006: starting January 1, 2007, all private-sector firms with more than 50 employees—defined using their 2006 average workforce—had to transfer all new TFR flows, including those belonging to workers who had chosen in-firm TFR, into a state-managed Treasury Fund.

This institutional change generated a sharp quasi-experimental discontinuity, allowing us to study the effects of SSA reallocation reforms on both sides of the labor market. Firms just above the 50-employee threshold lost a stable stream of subsidized internal liquidity—net of fiscal offsets, about 6.3 percent of the wage bill per year—while otherwise similar firms just below the cutoff

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[1] Among these are lack of financial information, risk aversion towards financial markets, and employers' influence over workers' choices.

continued to finance themselves partially with TFR.[2] For workers, the reform altered the timing of severance payouts in cases of employer insolvency: employees in distressed above-threshold firms receive TFR quickly from the Treasury Fund, while workers in similarly distressed below-threshold firms face multi-year delays as they recover TFR through lengthy bankruptcy and enforcement procedures. These features allow us to estimate firms' adjustments in employment, wages, and contract composition in response to a large liquidity shock, as well as workers' responses to a substantial liquidity transfer at separation.

Our analysis combines newly extracted administrative records on TFR allocations from the Italian Social Security Institute (INPS) with matched employer–employee data for the universe of private-sector workers and firms, balance-sheet data, maternity and paternity leave records, and unemployment insurance (UI) benefit receipt. Balance-sheet information allows us to validate the first stage, documenting a sharp post-reform decline in TFR-related liabilities and internal liquidity for treated firms.

To study how firms reacted to the reallocation of SSAs, we estimate a firm-level Difference-in-Regression-Discontinuities (DiRD) design around the 50-employee threshold, using 2006 employment as the running variable and controlling for firm fixed effects and region-by-year and sector-by-year shocks. The DiRD coefficient captures the change in the size-50 discontinuity in employment, hires, separations, and wages attributable to the loss of TFR-based liquidity, net of pre-existing size-based policies. We also examine heterogeneity by pre-reform indicators of financial constraints to test whether firms that relied more heavily on TFR as internal finance adjusted more aggressively.

Next, we turn to a worker-level analysis using an analogous DiRD strategy, assigning each worker the 2006 size of their employer and estimating models with worker fixed effects and employer region-by-year and sector-by-year fixed effects. Outcomes include earnings, wages, contract stability, separations, and the probability of allocating future TFR flows to pension funds. Because opting into a pension fund withdraws liquidity from below-threshold employers, we exploit heterogeneity in workers' bargaining power to test whether firms influence employees' TFR allocation choices. We also examine whether firms disproportionately shift adjustment costs onto specific groups—especially women—consistent with evidence that they tend to hold weaker bargaining positions in the labor market (Card et al., 2016; Biasi and Sarsons, 2022).

We then turn to the liquidity effects of SSAs on workers separating from insolvent firms, who face a sharp discontinuity in payout timing. We construct several indicators of de facto insolvency based on balance-sheet distress, mass layoffs, and short-time work.[3] An event-study centered on the first separation from the 2006 employer compares earnings, wages, and contract types across the threshold. Effects should be largest for workers separating several years after 2007, when accumulated post-reform TFR balances are substantially larger.

We pay particular attention to heterogeneity by gender, as liquidity at job separation is likely to be especially valuable for women. Prior research shows that cash on hand at displacement is particularly important for liquidity-constrained workers (Card et al., 2007; Chetty, 2008), who

[2]Below-threshold firms also lose new TFR flows when workers opt into pension funds, but take-up remained limited: roughly 12 percent of employees in below-threshold firms joined a pension fund.

[3]We have requested access to administrative records on the exact timing and amounts of TFR payments made by the Treasury and Guarantee Funds in insolvency cases and are awaiting confirmation.

would otherwise be forced to accept job offers earlier than would be optimal. By identifying parents through parental leave records, we test whether the liquidity embedded in traditional SSAs is particularly important for mothers—especially single mothers or those with liquidity-constrained partners[4]—because liquidity can relax key search frictions, such as financing childcare or outsourcing household production (Philippe and Skandalis, 2023; Fluchtmann et al., 2024; Mariante, 2024).

By bringing together a sharp institutional discontinuity, novel administrative data on severance allocations, and empirical designs that follow firms and workers over time, this paper provides the first causal evidence on how reallocating SSAs away from firms affects labor demand, wage-setting, job quality, and re-employment. The results speak directly to ongoing debates on severance and pension reforms, highlighting a central tradeoff: redirecting severance flows to funded pensions can strengthen retirement income, but it also reduces workers' liquidity at job separation and weakens firms' access to cheap internal finance, thereby reshaping employment and earnings trajectories in ways that are heterogeneous and distributionally relevant.

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[4]While a secondary earner may in principle buffer income shocks, household risk-sharing is empirically asymmetric: husbands' labor supply provides weaker insurance against shocks to wives' earnings. In such settings, severance liquidity may play a disproportionately important stabilizing role for women.