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## Unemployment insurance and management of the older workforce in a dual labor market: Evidence from France<sup>☆</sup>

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### HIGHLIGHTS

- Is unemployment insurance (UI) used as an early retirement scheme?
- We analyze the effect of a cut in entitlement duration on older workers' UI inflow.
- A displacement of the spike from age 55 to age 57 appears clearly for insiders.
- There is no or little effect for workers far from retirement and for outsiders.
- The reform rose the mean age of workers dismissed close to retirement by 4 months.

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### ABSTRACT

In a context of population aging, reducing early exit from the labor force is a major challenge. In this domain, the role of unemployment insurance (UI) is probably underestimated and its statistical assessment remains insufficient. And yet, when considering a possible separation, it is likely that workers who are close to retirement, and thus their employers if they wish to reduce their workforce, care about UI. In particular, they are likely to care about whether or not, potential benefit duration is long enough to cover the time until retirement. This paper provides evidence in support of this hypothesis for some worker profiles. The analysis is conducted using data from the French employment agency over the period 2001 to 2005. It is based on a natural experiment: on January 1, 2003, the potential benefit duration of UI entrants was sharply reduced. Econometric analysis of the age patterns of UI inflow reveals that the age incentives provided by UI rules greatly influence labor market behaviors: dismissals of insiders close to retirement are often scheduled so that they can receive benefits until retirement. We estimate that the reform increased the mean age at job termination of workers dismissed close to retirement by 4 months. Our findings confirm that UI rules have an impact on inflow into unemployment and that UI is viewed by some employers and/or some workers as an early retirement scheme rather than as insurance against the risk of job loss. Thus, addressing the issue of older workers' participation in the labor market requires consideration of the joint impact of UI and retirement system rules.

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### 1. Introduction

In the context of increasing longevity, OECD countries are finding it difficult to ensure the future of their pension systems. In order to encourage later retirement, the number of quarters of contributions required to receive a full pension and the statutory pension age have been increased in several countries. Effects have often been lower than expected. For instance, Bozio (2008) shows in the case of the 1993 French pension reform, that requiring one additional quarter of contributions for a full pension led to an average increase of only

**Table 1**  
UI rules for older workers and their changes over 2001–2005.

2001's agreement		Employment contracts ending between Jan. 1 2001 and Jun. 30 2002			
Entitlement class	5	6	7	8	
Employ. record (ER, months)	≥ 14 m/24	≥ 14 m/24 but < 27 m/36	≥ 27 m/36	≥ 27 m/36	
Age	< 50	≥ 50	50–54	≥ 55	
PBD (months)	30 m	45 m	45 m	60 m	
Jul. 2002's transitory rules		Employment contracts ending between Jul. 1 2002 and Dec. 31 2002			
Entitlement class	5	6'		8'	
ER (months)	≥ 14 m/24	≥ 14 m/24		≥ 27 m/36	
Age	< 50	≥ 50		≥ 55	
(Contrib. to the pension syst.)				(≥ 100 quarters)	
PBD (months)	30 m	45 m		60 m	
2003's reform		Employment contracts ending between Jan. 1 2003 and Dec. 31 2005			
Entitlement class	B		C	D	
ER (months)	≥ 14 m/24		≥ 27 m/36	≥ 27 m/36	
Age			≥ 50	≥ 57	
(Contrib. to the pension syst.)				(≥ 100 quarters)	
PBD (months)	23 m		36 m	42 m	

1.5 months in retirement age, and encouraged individuals to claim more disability pensions.<sup>1</sup> In fact, a large proportion of older workers leave employment before their statutory retirement age: in 2010 in France, the employment rate among 55–64 year olds was 40%, which is below the average for the 27 EU countries (46%) and far from the 50% EU target set by the Lisbon strategy (Dares, 2011). Some measures were enacted to address the problem of insufficient participation of older workers in the labor force. One of them, which relied on special employment protection for older workers (called “contribution Delalande”, see Appendix C), had very little effect in preventing dismissals (Behaghel et al., 2008) and was finally canceled. A more lasting measure was to reduce entries into public early retirement or disability programs, which had become very widespread in the 1980s (Ben Salem et al., 2010).

The role of unemployment insurance (UI) in exit from the labor force is sometimes forgotten, or at least underestimated, and its statistical importance has not been well assessed. And yet, French UI rules are particularly favorable, especially to older workers. For all workers, the level of benefits is determined by previous wages with a good replacement rate: on average UI recipients get 69% of their previous net salary and the maximum benefit is more than €6000 (Unédic, 2013). Potential benefit duration (PBD) depends on the worker's previous work history and age at the date of job termination. PBD is quite long compared to many other countries: the maximum benefit duration over the period in question was 5 years for older workers with a continuous work history (it is 3 years today.) The rules are such that older workers, who often have high tenure and high wages, automatically receive higher benefits for longer periods than younger workers. Moreover, the French UI system includes more generous specific provisions for older workers. First, they have access to specific entitlement classes with longer PBD. Second, until recently, they could apply for exemption from active job search (see Appendix C). Third, and this point is particularly important in this paper, under certain conditions, workers over 59.5 years of age (or 60 from 2003) can continue to receive benefits until they reach the statutory retirement age, even if their PBD is exhausted. Given these favorable terms, there is a strong incentive for older workers dismissed before eligibility for a full pension to draw UI benefits rather than means-tested benefits because the latter are much lower in most cases and because compensated unemployment is taken into account in contribution record required to receive a full retirement pension. Thus there is good reason to suspect that UI can be used as a pathway

to retirement for older workers (Hairault, 2012), especially those employed by firms with many older workers or firms facing economic difficulties. For these firms, dismissing older workers first, particularly those close to retirement, may appear more socially acceptable than placing the burden of job loss on other employees. There may even be a coincidence between the interests of firms which want to reduce a costly segment of their workforce while avoiding social conflict and the interests of older employees who are happy to stop working before the legal retirement age.

In this paper, the hypothesis that UI is used as an early retirement scheme is tested. If such is the case, it should be visible empirically: the age at which older workers begin to draw UI benefits should be consistent with PBD in such a way to enable them to bridge the gap until eligibility for a full pension. Therefore, changing PBD (or the statutory retirement age) should impact the age at which older workers begin to receive UI benefits. The analysis is based on a change in UI rules which occurred in France on January 1, 2003. At that time, because the UI system was facing financial difficulties, UI entitlement durations were reduced for new entrants, especially for those aged 50 or over. For the latter, PBD was reduced by 20 months on average (see Table 1). However, employment record (ER) requirements themselves did not change, which means that the new UI rules induced no direct selection effects. It is thus possible to test the effect of the reduction in potential benefit duration on age-related workforce management practices.<sup>2</sup> The data used come from the FHS registry of the French agency in charge of UI (Pôle emploi) which provides information about spells of compensated unemployment over the past 10 years; it enables us to study in detail the age pattern of UI inflow. One other advantage of this administrative data source is that it specifies the type of job termination: this enables us to make inferences about firm's workforce management practices and about the bargaining power of dismissed workers. However only spells of unemployment are observed, so it is not possible to estimate individual probabilities of entering unemployment.

Econometric analysis of the distribution of inflow into UI benefits by age confirms hypothetical predictions for workers who are dismissed close to retirement: their UI inflow age pattern is consistent with the age incentives embodied in UI rules and responds to changes in these incentives. Three main types of behavior are identified as a response to UI rules: “entitlement effects,” “job search exemption effects” and “distance-to-retirement effects.” “Entitlement effects” correspond to a

<sup>1</sup> In the case of Germany, Hanel (2010) observes that when benefit receipt is delayed, employment spells grow longer, but by a lesser duration.

<sup>2</sup> This quasi-experimental setting has already been studied by Fremigacci (2010) in order to identify the effect of PBD reductions on older workers' unemployment duration.

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