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EXTENDED UNEMPLOYMENT BENEFITS AND EARLY RETIREMENT: PROGRAM COMPLEMENTARITY AND PROGRAM SUBSTITUTION

ABSTRACT

We explore how extended unemployment insurance (UI) benefits for older workers affect early retirement and welfare. We argue that extending UI benefits generates program complementarity (more labor market exits and disability benefit take-up in the future) and program substitution (less disability benefit take-up in the present). Exploiting a policy change in Austria, which extended UI benefits to 4 years, we find program complementarity effects for workers aged 50+ and program substitution effects for workers aged 55+. We apply the Baily-Chetty formula for optimal UI to account for complementarity and substitution, showing that UI benefits for older workers were too generous.

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Times Cited

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