

Social security earnings test and labour supply: Evidence from Japan

Naoki Motohashi

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Abstract

The social security earnings test reduces pension benefits if the individual's income exceeds a given threshold. Does it reduce the labour supply of older workers? The literature analyses the impact on employment, but little research investigates the influence on working hours in Japan. I analyse the impact of the Japanese social security earnings test by studying two pension reforms in the 2000s. The results suggest four points: (1) for male workers aged 60-64, there is a positive impact on the employment rate, the proportion of full-time workers, and working hours, (2) a non-robust impact on female behaviour, (3) no robust effect on those aged over 65, and (4) the impact is stronger for low-income households and non-regular workers. These findings suggest that policy makers should consider these heterogeneous impacts and reform the system to minimize the deadweight loss in the future.

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