



Regulatory Barriers to Employment of Older Workers: Analysis and Proposed Solutions

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This is a short summary, for the full paper (in Hebrew) see

<https://www.runi.ac.il/research-institutes/economics/aiep/policy-papers>

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This policy paper examines the barriers to employment of older workers approaching or past retirement age in Israel, and proposes solutions to address these barriers.

For this purpose, we analyzed the current situation of employees and retirees in Israel by reviewing relevant reports and interviewing experts and professionals, in order to discern the retirement track as compared with the track of continued work at older ages. The relevant ages for the evaluation of the various tracks are: prior to formal retirement age (55+), past formal retirement age (62 for women, 67 for men), and past the absolute retirement age (70 for both women and men). Our analysis addresses tax payments and pension allowance, as well as other rights and obligations at these ages which might constitute a barrier to continued employment. In the framework of this paper, we also present selected policy measures taken in other countries regarding the issues examined here. The conclusion emerging from this paper is that there are several applicable measures which may impact wide swaths of workers and motivate them to continue working, as well as measures which can be applied to encourage the return of older people into the labor market. In light of this analysis, we propose several policy recommendations aiming to pave the way toward resolving employment barriers and increasing employment rates at older ages. The unique feature of this paper, as opposed to our previous policy paper (Axelrad, Eckstein, and Larom, 2021), is that the recommendations herein focus on practical, concrete, and immediate measures, which may already be advanced and implemented during the discussions on the 2023 state budget: optimal utilization of tax benefits upon retirement, specifically through amending the default provision in favor of the employee; easing the transition from work as a salaried employee to self-employment; cancellation of the income disregard; amending the allowance deferral mechanism; and more. Due to the short timelines prescribed, this work **does not include** a comprehensive specification of populations and cost-benefit analysis, nor an economic assessment of all the consequences which may result from each recommendation.

Nevertheless, generally speaking, it may be stated that increased employment tends to substantially raise the GDP, hence also contributing to an increase in the standard of living across the economy, which is the primary goal. The effects on the volume of taxation are of secondary importance in our opinion, both from an economic perspective and because an analysis of general equilibrium which incorporates the overall effects of increasing employment at older ages, particularly its effect on the employment of the workforce as a whole, is highly complex. It should be noted that the common conception which sees an increase in the employment of older workers as “replacing” the employment of other cohorts, particularly young workers, does not reflect a common economic outcome.