

**FARMAFACTURING FOUNDATION - AIES
CALL FOR RESEARCH PROJECT PROPOSALS 2016
‘Changing patterns of diseases across generations:
what future challenges for health care systems’**

Project title

Health, Disability Insurance and Labour Supply of Older Workers: challenges of an ageing population.

Principal investigator

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Executive summary

The persistent increase in life expectancy, the resulting change in the demographic structure of the population and the risk of an increasing number of individuals having health conditions and disabilities causing work limitations, have risen the concern about the sustainability of countries’ pension systems and disability insurance programmes. As a result, a large economic literature has tried to identify the role of financial incentives and health patterns in explaining trends in labour market exit.

Together with the well established and studied role of retirement incentives, the insurance and the financial incentives provided by state provided disability insurance (DI) are of particular importance because they often offer an early exit from the labour market before pension eligibility age is reached.

This project suggests two line of research that complement each other. First, a life-cycle model of labour supply, DI application and pension claiming decisions for older workers approaching retirement age and facing health and mortality risk will be developed and estimated. The institutional context considered is the one of the UK, characterized by a welfare system similar to that of other European countries. The model will allow to investigate the welfare and labour supply effects of alternative disability insurance programmes. Second, the model assumptions about health measurement, health dynamics and health exogeneity will be exploited in order to understand how model fit and model predictions are affected by alternative specifications of the process for health.