Forward-Looking Labor Supply Responses to Changes in Pension Wealth: Evidence from Germany[*]

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Abstract

We provide new evidence of forward-looking labor supply responses to changes in pension wealth. We exploit a 2014 German reform that increased pension wealth for mothers by an average of 4.4% per child born before January 1, 1992. Using administrative data on the universe of working histories, we implement a difference-in-differences design comparing women who had their first child before versus after January 1, 1992. We document significant reductions in labor earnings, driven by intensive margin responses. Our estimates imply that, on average, an extra euro of pension wealth in a given period reduces unconditional labor earnings by 54 cents.

Keywords: labor supply, social security, pension wealth

JEL Codes: H55, J22, J26

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1. Introduction

Demographic trends have increased the potential labor supply of the elderly, but are simultaneously exerting rampant pressure on the fiscal sustainability of pay-as-you-go public pension systems. To counteract these trends, governments have implemented – or are planning to implement – different types of pension reforms.[1] A large literature investigates how the design of pension systems affects the labor supply choices of individuals close to retirement. However, if individuals are forward-looking, pension reforms can affect behavior also at younger ages, with potential aggregate labor supply implications. For example, more generous systems might induce workers to reduce their lifetime labor supply by working fewer hours. In light of the demographic and economic trends common to most developed economies, understanding the size and nature of these forward-looking effects has become increasingly important.

In this paper, we study how changes in the generosity of public pension systems affect labor supply behavior far from retirement. In particular, we provide what are – to the best of our knowledge – the first estimates of forward-looking labor supply responses to changes in pension wealth. Knowledge of income (or wealth) effects is key for the evaluation of pension policies and other old-age income support schemes. In addition, income effects are important for welfare analyses and normative assessments of the distributional effects of retirement policies, since they are directly related to the insurance value of social security (Chetty, 2004; 2008; Kolsrud et al., 2024).

The identification of forward-looking labor supply responses to changes in pension wealth is challenging for various reasons. First, separately identifying income and substitution incentives is notoriously difficult, since most policy changes conflate the two.[2] Second, the gradual phase-in of reforms implies that they typically generate small discontinuities, which are unlikely to trigger meaningful responses. Third, individuals far from retirement are usually all identically treated, leaving little room for exogenous variation in incentives. Finally, changes in benefit generosity are generally achieved through changes in pension rules or formulae, making it hard to isolate behavioral responses that are not attenuated by cognitive or information frictions.

This paper contributes to our understanding of how changes in pension wealth affect labor supply in middle-age years by overcoming these limitations. We leverage unique variation stemming from a German pension reform to the pension scheme popularly known as 'Mütterrente' (mothers' pension). The reform exogenously changed the amount of pension contributions credited to mothers for the time spent raising their children. From July 2014, mothers of children born before January 1, 1992 had their pension contributions increased by an amount correspond-

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[1]Pension reforms typically entail a combination of a tightening of the contribution-benefit link, a reduction in the overall generosity of the system, and an increase of statutory retirement ages.

[2]Most social security reforms entail both changes in benefit levels and in the net marginal returns to additional earnings, making it difficult to separate income (or wealth) and substitution effects. For example, the well-known Social Security Notch, which led to large cuts in Old Age and Survivors Insurance (OASI) benefits for individuals born after 1917 in the United States, decreased both the level of pension benefits (income effect) and the returns to additional earnings (substitution effect); see Gelber, Isen and Song (2016).

ing to 4.4% of average pension wealth per child; the pension contributions of mothers of children born on or after January 1, 1992 were left unchanged. The timing and nature of the Mütterrente reform generate a pure pension wealth effect on affected mothers, which is permanent, is not confounded by changes in substitution incentives, and is sizable when compared to pension reforms in other countries. Importantly, the Mütterrente reform did not alter the pension benefit formula. If leisure is a normal good, the increase in pension wealth is expected to reduce the lifetime labor supply of recipients.

Using administrative data from the Integrated Employment Biographies (IEB) of the German Institute for Employment Research (IAB) covering the universe of employment histories in the private sector, we select women who gave birth to their first child in a small window around January 1, 1992. We analyze their labor supply responses to the change in pension wealth induced by the Mütterrente reform of July 2014 over the five years after the policy was enacted, when the affected women were on average aged 50 to 55. To identify the effect of interest, we implement a difference-in-differences design and compare the employment dynamics of women who had their first child just before (*treatment group*) and just after (*control group*) January 1, 1992, from before to after the 2014 reform.

We document significant reductions in total labor earnings unconditional on employment among treated mothers following the 2014 reform. In the 2.5 years following the policy change, unconditional labor earnings drop on average by EUR 101 per year or 0.7% of pre-policy levels. Consistent with the notion that optimization frictions may limit the ability of individuals to adjust their labor supply in the short run, we find larger medium-run responses – of EUR 196 per year or 1.3% of the pre-policy mean – in the 3-5 years after the reform. To interpret the magnitude of these reduced-form effects, we rescale the estimated medium-run earnings response by the pension wealth shock due to the 2014 reform. For an average increase in the present discounted value of pension wealth of EUR 3,830 or 4.4%, the implied pension wealth effect is EUR -5.1 per year per EUR 100 of wealth, and the implied pension wealth elasticity is -0.3.[3] The size of the pension wealth effect that we describe above can be hard to assess, since it does not account for the time horizon over which individuals plausibly allocate the increase in pension wealth. In order to better gauge the size of the wealth effect, we adopt the annuitization method described in Golosov et al. (2024) and compute a marginal propensity to earn (MPE) out of pension wealth far from retirement. Our estimates imply a moderately large MPE of -0.54.

We probe the anatomy of the labor supply response by decomposing the change in unconditional labor earnings into its extensive and intensive margin components. We find that the response is entirely concentrated along the intensive margin: in the medium run, labor earnings conditional on employment drop by 0.9%, and the probability of working full-time (as opposed to working

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[3]As we explain in more detail in Section 3, we use a second administrative data source, the Insurance Account Sample Versicherungskontenstichprobe (VSKT) from the German Pension Insurance (DRV), to calculate the change in pension wealth generated by the Mütterrente reform.

part-time or in marginal employment) by 1.8%.[4] By contrast, the probability of being employed is not affected by the reform.

The richness of the administrative data allows us to investigate various dimensions of heterogeneity. First, we consider whether individuals with different labor market returns to tenure and costs of working respond differently to the wealth shock. Consistent with forward-looking behavior, individuals with higher predicted returns to tenure are less likely to leave full-time employment. On the other hand, work disutility – measured by how physically demanding an individual's occupation is – does not seem to matter substantially for the size and nature of the response. Second, we show that the intensive margin response is stronger among those who, within their birth cohort, have higher pre-reform pension wealth, which can be viewed as a proxy for the income an individual expects to rely upon once retired. Third, we show that labor supply responses are muted among those who are likely to face stronger liquidity constraints, as proxied by their partner's pre-reform labor earnings.

For approximately 40% of our sample, we can match mothers to their spouses. Thanks to the possibility of jointly observing their working histories, we can explore the presence of behavioral spillovers across spouses. We find some evidence that male spouses also reduce their labor supply along the intensive margin, with effects that become quantitatively more pronounced in the medium run, are approximately half in magnitude compared to those of women, but are not always precisely estimated due to the small sample size. We also show that the labor supply responses of women are amplified when their partner is closer to the full retirement age. Both these pieces of evidence are consistent with some degree of within-household interaction in labor supply choices (Goux, Maurin and Petrongolo, 2014; Carta and De Philippis, 2023).

A large literature has investigated the effects of social security and other government old-age support programs on labor supply close to retirement (for reviews, see Gruber and Wise, 1999; Krueger and Meyer, 2002; Blundell, French and Tetlow, 2016). Instead, only a small number of papers have analyzed labor supply responses to changes in pension benefits far from retirement. Among these, existing studies examine the role of changes in the statutory retirement age (Hairault, Sopraseuth and Langot, 2010; Carta and De Philippis, 2023), the contribution-benefit link (French et al., 2022), and pension rules more generally (Bovini, 2019). Our paper contributes to this emerging strand of the literature by providing new evidence of 'forward-looking' labor supply responses to permanent changes in pension wealth.[5] In contemporaneous work, Becker et al. (2022) use data from the 2% Insurance Account Sample Versicherungskontenstichprobe (VSKT) from the German Pension Insurance (DRV) to analyze the effect of the 2014 Mütterrente reform on the probability of employment. They compare women who gave birth to any child in the two-year window before January 1, 1992 to women who gave birth only after that date, and document a 2% drop in participation, corresponding

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[4]Marginal employment – also called minijob – is a low-wage contract with monthly earnings below given thresholds. Employees in marginal employment are exempt from employee social security contributions.

[5]Other work has looked at savings responses to pension wealth changes. See, for instance, Attanasio and Brugiavini (2003); Attanasio and Rohwedder (2003); Bottazzi, Jappelli and Padula (2006); Lachowska and Myck (2018).

to a pension wealth elasticity of participation of -0.22. The effect in their paper is driven by mothers with two or more eligible births in the treatment period. By comparison, our treatment and control groups are considerably more homogeneous in observable characteristics, since we focus on women who gave birth to their first child (rather than any child) in a narrower bandwidth (3 months rather than 2 years) around the cut-off date of January 1, 1992. This is made possible by the significantly larger size of our sample. In fact, when focusing on mothers who gave birth to their first child in a 1-year window around the cutoff, Becker et al. (2022) also do not find evidence of extensive-margin responses.[6] Having access to information on earnings, we can show that these women respond, instead, at the intensive margin.

This paper is also related to work that attempts to separately identify income/wealth effects and substitution incentives in the context of retirement benefits (e.g., Costa, 1997; French, 2005; Liebman, Luttmer and Seif, 2009; Danzer, 2013; Gelber, Isen and Song, 2016; Fetter and Lockwood, 2018; Gelber, Jones and Sacks, 2020) and other welfare transfers (Deshpande, 2016; Jones and Marinescu, 2022; Coyne et al., 2024; Giupponi, 2024), using quasi-experimental or structural approaches. Our paper contributes to this literature in three ways. First, our setting allows us to compellingly identify the wealth effect of retirement income through quasi-experimental policy variation, rather than through the estimation or simulation of structural models that typically require strong functional-form assumptions. Second, thanks to the nature of the policy variation that we exploit, we can provide a point estimate of the wealth effect, thus complementing previous work that set bounds on it.[7] In this respect, our parameter estimates are similar in nature to those that can be obtained studying lottery winnings (Imbens, Rubin and Sacerdote, 2001; Cesarini et al., 2017; Picchio, Suetens and van Ours, 2018; Golosov et al., 2024), with the additional advantage that the windfall gain that we examine does not lead to contemporaneous marginal tax rate changes, since it only materializes in the future. Finally, in contrast to the papers cited above, we identify a forward-looking response, as opposed to a response to contemporaneous (or a mix of contemporaneous and future) wealth changes.

Finally, this paper complements a literature that has predominantly examined men's labor supply, by placing its contextual focus on female labor supply in the early twenty-first century. As recent demographic trends have given greater significance to the aggregate potential of female labor force at middle ages, it is ever more important to understand how the design of pension systems affects the labor supply decisions of this group.

The paper proceeds as follows. Section 2 outlines the institutional details of the German pension system and the 2014 Mütterrente reform. Section 3 describes the data used in the analysis. Section 4 discusses the expected effects of the reform on individual labor supply and illustrates the empirical strategy. Estimates of the pension wealth effect on labor supply are presented in Section 5. Section 6 discusses welfare implications and Section 7 concludes.

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[6]For this group, their point estimate of the effect of the reform on the probability of employment is very similar to ours, but considerably less precisely estimated.

[7]This is the case, for example, in Deshpande (2016), Gelber, Isen and Song (2016; 2017), and Giupponi (2024).

2. Institutional Context

2.1 The German Pension System

The German statutory public pension system is an earnings-related Pay-As-You-Go (PAYG) system.[8] Pension payments are determined by a formula based on cumulated pension contributions as measured by pension points, the monetary value assigned to each pension point, and an adjustment factor based on age at the time of retirement.[9] One pension point represents the annual pension contributions made by a reference contributor earning the average income in a given year. The amount of the monthly pension is calculated as the total number of cumulated pension points multiplied by a monthly 'pension-point value', i.e. the monthly monetary equivalent of a pension point. The value of a pension point is set annually by the government in relation to gross wage growth and is thus independent of individual conditions (e.g. individual earnings or contributions).

Eligibility for retirement pension is conditional on a minimum qualifying period of 5 years of contributions. Childcare periods count as qualifying periods. For the majority of individuals in our sample, the full retirement age is 67.[10] Individuals can retire at most four years earlier under the early retirement regulations, which require 35 years of contributions and imply a 3.6% reduction in pension entitlements for each year of retirement before the full retirement age.[11]

In Germany, individuals insured with the public pension system are regularly informed about their pension entitlements. Since 2002, the German Pension Insurance automatically sends information about pension entitlements on an annual basis to all insured persons aged 27 and over who have acquired at least five years of contribution periods. This information includes the amount of cumulated pension contributions and the projected level of old-age pension one would obtain if the individual kept contributing as in the previous five years until the full retirement age.[12]

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[8]Pensions from the statutory public pension system are the main form of retirement income in Germany. In 2019, about 91% of West German women aged 65 or older received payments from the statutory pension system. The average gross pension entitlement per recipient amounted to EUR 1,037. Only around 28% of women received retirement income from company-provided pension plans, averaging EUR 357 per recipient (Deutsche Rentenversicherung Bund, 2022*b*).

[9]In contrast to old-age pensions, disability pensions are subject to a second adjustment factor.

[10]More precisely, the full retirement age was 65 years and 6 months for women born in 1952, the oldest cohort in our sample. It progressively increased for subsequent cohorts, reaching 67 for women born in or after 1964. The average woman in our sample was born in 1964.

[11]An additional pathway into retirement is the seniority pension. Eligibility for seniority pension requires 45 years of contributions and 63 years of age for individuals born before 1953. The seniority pension age threshold increases step-wise to 65 for subsequent cohorts. Only a small fraction of individuals in our sample are likely to satisfy the seniority pension requirements (Börsch-Supan, Coppola and Rausch, 2015).

[12]See Figure A7 in Seibold (2021) for an illustration of the information letter (*Renteninformation*).

2.2 The Childcare Contribution Benefit 'Mütterrente'

In Germany, parents are credited pension contributions for the time spent raising their children under the Mütterrente childcare pension benefit scheme. This childcare pension benefit was first introduced in 1986. Since then, parents have been credited pension points for certain periods after childbirth, the generosity and length of the benefits having changed over time. Whilst, in principle, either fathers or mothers are entitled, childcare pension points are by default attributed to mothers and only assigned to fathers on the mother's request. Around 98% of the pension benefits go to mothers rather than fathers (Deutsche Rentenversicherung Bund, 2014).

The childcare benefit scheme has been subject to various reforms, which are visually summarized in Appendix Figure A1.[13] From 1986 to 1991, mothers were credited a maximum of 0.75 pension points per child for the first year after childbirth; this also applied to childbirths before 1986. The full 0.75 pension point benefit was granted to mothers who were not employed in this first year after childbirth. For employed mothers, childcare pension points were fully withdrawn against pension points from regular employment. Hence, if mothers earned half of a pension point through work during the first year after childbirth, they would be credited only 0.25 pension points as childcare benefit.

The 1992 Pension Reform Act, which was passed in December 1989, introduced an important change to the Mütterrente. Benefit duration increased from one to three years, but only for mothers of children born on or after January 1, 1992. These mothers were thus entitled to a maximum of 2.25 pension points (three years × 0.75 pension points) instead of a maximum of 0.75 pension points. Mothers of children born before January 1, 1992, continued to receive a maximum of 0.75 pension points per child. Childcare pension points were still withdrawn against employment contributions at a 100% rate.

A reform in 1999 introduced two main changes: (i) it increased the generosity of the childcare pension benefit from 0.75 to one pension point per year; (ii) it repealed the earnings test. Consequently, pension contributions from childcare were no longer withdrawn against those from employment.[14] The 1999 pension reform was retroactive, hence both current retirees and individuals with legal rights to future pension payments benefited from it.

We explore in this paper the reform implemented in 2014. Starting July 2014, mothers whose children were born before January 1, 1992, got one extra pension point per child, totaling two pension points per child born before 1992. In 2014, the accreditation of one additional pension point was equivalent to a EUR 336/312 higher pension per year in the West/East, respectively. As we describe in Section 5.2, for the average mother in our sample, who was 27 at

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[13]See also Thiemann (2015).

[14]This is true as long as the sum of childcare and employment contributions does not exceed the 'contribution ceiling'. The contribution ceiling varies over time. It is adjusted each year by the German government, mostly based on the gross salary growth rate. The contribution ceiling is roughly equivalent to twice the average income in the country and is defined separately for East and West Germany. In 2019, for example, the contribution ceiling was EUR 80,400 in West Germany and EUR 73,850 in East Germany. In our estimation sample, only 0.7% of women ever hit the contributory ceiling in the three years after childbirth.

the time of her first childbirth and close to 50 at the time of the reform, one additional pension point implied an increase in real pension wealth of approximately EUR 3,830 at the time of the reform. This increase corresponds to 4.4% of pension wealth, a sizable effect compared to other changes analyzed in the literature. By comparison, the US Social Security 'Notch' – the largest discontinuous change in Old Age and Survivors Insurance benefits in the United States – generated a reduction in average lifetime discounted benefits of 2% for women and of 5% for men (Gelber, Isen and Song, 2016; 2017).[15] At the time of reform, individualized letters were sent to affected mothers informing them of the accreditation of additional childcare periods for each of their eligible children (the letter was sent separately from the regular yearly information letter we mentioned before). Moreover, the German Pension Insurance (DRV) provided plenty of easily accessible information on the reform and its implications on its website.

The 2014 reform – popularly known as 'Mütterrente' reform – was an item of the Christian Democratic Union (CDU) throughout the electoral campaign for the 2013 elections. The main narrative of the CDU was to attenuate the unequal treatment of mothers with children born before or after January 1, 1992. On September 22, 2013, the CDU won the election by a 16 percentage point margin and subsequently formed a coalition with the Social Democratic Party (SPD). The Mütterrente reform became a central part of the coalition agreement signed in December 2013; this agreement already stated the implementation of the reform as of July 1, 2014. It was then legislated on May 23, 2014 and implemented only six weeks later on July 1, 2014. The reform was highly debated during the electoral campaign and received ample news coverage around the time of its announcement and implementation. Appendix Figure A2 reports the number of online and newspaper articles in German including the word 'Mütterrente' over time. There was an abrupt increase in newspaper coverage of Mütterrente in 2013, the year of the political campaign and the election, followed by even greater coverage in 2014, the year of legislation and adoption. The salience of the policy is also confirmed by the substantial increase in the intensity of Google searches for the term 'Mütterrente' in the German territory over the months preceding the reform implementation, as shown in Appendix Figure A3. The chart compares the evolution of the index of Google search intensity for Mütterrente with those for other salient gender- and pension-related policies. In light of this evidence, we consider December 2013, the signature date of the coalition agreement, as the time in which the enactment of the Mütterrente reform became almost certain, and use it as the relevant baseline period in our empirical strategy (see Section 4 for more details). From now on, we will refer to the period until December 2013 as pre-reform, and the period from January 2014 onward as post-reform.

In order to progressively equalize the treatment of mothers of children born before and after January 1, 1992, additional 0.5 pension points were credited to mothers of children born before January 1, 1992 starting from January 1, 2019, under the Mütterrente scheme. Appendix Figures A2 and A3 show substantial coverage and salience of this additional reform too. Due to the

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[15]Ye (2022) studies the effects of a German pension subsidy program that increased the pension benefits by 15% on average. Such a large effect is due to the subsidy targeting the most disadvantaged retirees.

smaller wealth shock generated by the 2019 reform and the short post-reform time window, we do not analyze this reform here and restrict our analysis to the years up to 2018 only.

We would argue that it is highly unlikely that individuals had anticipated the 2019 reform and expected a full equalization of childcare pension points already in 2014, or at any point before 2018. First, the 2014 reform received quite some criticism regarding its financing and the burden it would impose on the pension system. Second, the 2019 reform was not included in the CDU's official election manifesto, in contrast to the 2014 reform. Moreover, it became part of a CDU-SPD coalition agreement only in March 2018, when the coalition was however planning to grant one additional pension point per child only to women with 3 or more kids born before 1992, while the actual reform granted half a pension point to all women who gave birth before 1992. This implies that the average woman in our sample (who has two kids) would not have expected to benefit from the reform as stated in the coalition agreement. The law crediting 0.5 points to all mothers was then passed in November 2018. More generally, the mid-2010s were not characterized by intense pension policy activity nor policy uncertainty around retirement issues.[16] The last pension reform had in fact been passed in 2007.

To provide a complete picture of the institutional context, Appendix B describes reforms of maternity leave legislation in Germany that took place during the same time period as the reforms to the Mütterrente scheme. Specifically, a 1992 maternity leave reform took place concurrently with the Mütterrente reform, and increased the duration of job-protected leave from 18 to 36 months. As we argue in Section 4, this concurrent maternity leave reform does however not pose a problem for identifying the effect of the July 2014 pension reform on labor supply behavior in our empirical design.

3. Data and Sample Definition

Our empirical analysis is based on two administrative data sources. The first and main source are the Integrated Employment Biographies (IEB) of the Institute for Employment Research (IAB). The second source is the Insurance Account Sample Versicherungskontenstichprobe (VSKT) from the German Pension Insurance (DRV), which we use exclusively to calculate the change in pension wealth caused by the 2014 reform, and to check for differential fertility around the January 1, 1992 cut-off date. Pension points and information on all births are included in the latter data set, but not in the former. Yet, the sample size of the latter data set is much smaller.

3.1 Integrated Employment Biographies (IEB)

The IEB provide administrative data on *working histories* for the *entire* population of individuals who have ever worked in private sector employment subject to social security contributions or in

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[16]By contrast, the 1990s were a decade of high policy uncertainty regarding pension reforms (Giavazzi and McMahon, 2008).

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marginal employment.[17] It thus covers approximately 80% of the German working population starting from 1975 (1992) for West (East) Germany, excluding individuals who never worked, or always worked as either self-employed or civil servants.[18] The data include earnings and spell data on regular employment, marginal employment, receipt of unemployment insurance (unemployment benefit I) or of unemployment assistance (unemployment benefit II), registered job search, and participation in active labor market policies. Earnings are given as gross daily wages. Some spells indicate bonus payments which we include in our measure of total earnings. With this information, it is possible to construct the entire working and earnings history of individuals at daily frequency.

For our analysis, we determine individuals' main labor market status in a month selecting the status with the longest monthly duration.[19] Indicators for the different labor market statuses are coded as 1 if it is an individual's monthly main status and 0 otherwise. The monthly labor market indicators are collapsed at the half-year (six months) level to obtain the average participation rate per status and half-year period. Monthly earnings in the main status are determined by multiplying the gross daily wage and the monthly spell duration. Earnings per half-year period are obtained by adding up all earnings in individuals' main status in a half-year period.

Rich information on occupation is also included in the data. Occupations are classified according to the 5-digit German classification of occupations (Klassifikation der Berufe 2010). The first four digits indicate an increasingly fine-grained categorization of occupations, while the fifth digit indicates the qualification level of the occupation (helper, professional, specialist, expert). In our analysis, an occupation is defined as the interaction between (i) the first two digits and (ii) the fifth digit, for a total of 127 categories.[20] As commonly the case in administrative data, hours worked are not recorded in the IEB data. We can, however, differentiate between part-time and full-time employment, and we will use that as our main indicator of intensive margin responses. The decision of marking a spell as part- vs. full-time is up to the reporting firm.

The IEB data do not provide direct information on childbirths, which we impute following the methodology developed by Müller and Strauch (2017) and widely adopted in studies of parental leave policies and maternal employment (see, for instance, Collischon, Kuehnle and Oberfichtner, 2022; Illing, Schmieder and Trenkle, 2024; Schönberg and Ludsteck, 2014). A woman aged 38 or younger is identified as giving birth if she features an employment interruption of at least 14 weeks (which is the mandatory maternity leave period) or an unemployment

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[17]Marginal employment is covered by the IEB since April 1999.

[18]We cannot distinguish civil service, self-employment, and non-employment in the data.

[19]We break ties according to the following ranking: unemployment benefit I receipt > regular employment > unemployment benefit II receipt > marginal employment > registered job search > ALMP participation > not in IEB data. In a second step, if regular employment was determined to be the monthly main status in the first step, but spells of equal length in full-time and part-time employment exist, full-time employment is prioritized over part-time employment.

[20]A few very small categories have been combined with similar larger ones to obtain 127 groupings.

insurance de-registration, both due to entitlements from the statutory health insurance.[21] Since maternity leave is mandated to start six weeks before the estimated date of childbirth, the expected date of delivery is identified by adding 42 days to the last date of employment or the date of unemployment de-registration.[22] With this procedure, we can identify (expected) childbirths only for women with a record in the administrative data source immediately preceding childbirth, since we do not observe maternity leave spells for the self-employed, civil servants, or women out of the labor market.[23] This makes it likely that we miss second or higher order births, since many mothers do not return to the labor market between subsequent childbirths. We therefore focus in our analysis on first births only. Using a 1% sample of the IEB data that supplements the social security records with direct information on childbirth from the German Pension Insurance, Schönberg (2009) shows that approximately 54% of women in the IEB sample who gave birth in 1991 or 1992 took maternity leave and can thus be identified as mothers with the imputation procedure. Considering that Schönberg (2009) estimates that women are 37 percentage points less likely to take maternity leave for their second than for their first (recorded) child, 46 for their third and 49 for their fourth or more child, and taking the birth order percentages from 1991 and 1992 into account, we can conclude that the share of first-time mothers who take maternity leave and can therefore be identified with our imputation strategy is around 75% of all first-time mothers.[24] Given that 20% of West-German women born in the same cohorts as those in our sample are childless, our sample is likely representative of 60% of women in West Germany.[25]

In the IEB data, individuals can be matched to their spouses using a statistical matching procedure based on surnames and exact geo-referenced addresses (Bächmann et al., 2021). We describe the matching procedure in detail in Appendix C.3.

3.2 Insurance Account Sample (VSKT)

The second data source used in the analysis is the Insurance Account Sample Versicherungskontenstichprobe (VSKT) from the German Pension Insurance (DRV). VSKT is a stratified random sample of 2% of individuals living in Germany and registered with the statutory pension system.

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[21]Employment interruptions due to compensation by the statutory health insurance provider could be due to maternity leave or long-term sickness, which we cannot distinguish in the administrative data. The imputation procedure rests on the assumption that women of childbearing age are unlikely to experience employment interruptions due to long-term sickness. For women who move out of unemployment insurance receipt, we can distinguish de-registrations due to maternity from those due to sickness.

[22]We are unable to observe if a woman goes on maternity leave earlier than six weeks before the estimated due date, e.g. due to pregnancy issues. In those cases, we would underestimate the date of childbirth, potentially misclassifying as treated individuals in the control group.

[23]In addition, we cannot distinguish between single and multiple births, nor between live and still births.

[24]The birth order percentages are only available for births to married couples, which make up 88% of all births (Statistisches Bundesamt, 1991; 1992). Schönberg (2009) also shows that approximately 56% of women were working at some point in the nine months before childbirth, the criterion we use to be included in our VSKT sample. Again, this is likely a lower bound for first births.

[25]Data on the proportion of childless women by cohort are sourced from the Federal Statistical Office (Statistisches Bundesamt).

The data set provides the entire *contributory histories* of individuals aged between 30 and 67 in the reference year of the data. We use the 2020 wave of VSKT, which includes individuals born between 1952 and 1989.

The data set contains the full contributory histories of the sampled individuals up to the reference year, starting from age 14 and ending at age 67. For each individual, a monthly history of employment, unemployment, sickness, childcare and other contributions to the pension system is recorded. With this information, we can compute the exact number of pension points (both relating to the specific time period or cumulated) at each point in time, both in total and from different contributory events. We use these data to calculate the pension wealth effect of the 2014 Mütterrente reform.[26] The VSKT data also include detailed information on the number of children and the exact month of birth of each child, irrespective of the previous labor market status of the mother. When computing statistics based on the VSKT, we always use sample weights, because the VSKT oversamples certain groups.

3.3 Sample Selection

IEB Sample   We restrict the main sample of analysis in the IEB data to women born between 1952 and 1974, who gave birth to their first child in the last quarter of 1991 (treatment group) or the first quarter of 1992 (control group). We exclude mothers who gave birth in the two weeks right before and after January 1, 1992, to deal with mismeasurement in childbirth imputation, which could lead us to misassign treatment status. Any remaining misassignment of treatment status would bias our estimates towards zero. Since East Germans were only systematically included in the IEB data starting in 1992, we cannot identify births in the treatment group for East Germans, and therefore exclude them from the analysis. To do that, we exclude all women who had their first spell recorded after 1989, at least one spell recorded in East Germany, or missing district of employment. We also exclude women who ever worked in the mining sector, which is subject to different pension contribution rules. Last, we exclude women who died before July 2014. Our final sample comprises 99,104 women.

Appendix Table A1 reports summary statistics for our analysis sample as of December 2013 (with earnings relating to the half-year period from July to December 2013), distinguishing individuals in the treatment and control groups. The average woman in our sample was 27 at the time of her first childbirth and close to 49.5 at the end of 2013. In December 2013, 72% of women are employed, 21% full-time and 38% part-time, with the remainder in marginal employment. About 23% of women have no employment or unemployment spell in the data in December 2013, meaning they are either out of the labor force, in civil service, or self-employed. Earnings when in work average EUR 10,500 for the second half of 2013. Differences in means between the treatment and control groups are very small in magnitude. Out of those that are

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[26]For our heterogeneity analysis, we also impute pension points in the IEB data based on individual employment histories as described in more detail in Appendix C.2. Therein we also validate the quality of our imputation by comparing it with administrative records from the Insurance Account Sample of the German Pension Insurance.

statistically significant at 5% or less, most differences are below 2% of the mean in the control group.[27]

VSKT Sample   We follow the same sample selection criteria in the VSKT data as in the IEB data, with a few exceptions. Due to the smaller sample size by two orders of magnitude, we restrict the sample in the VSKT to women who gave birth to their first child in the twelve months, rather than three months, before or after January 1, 1992.[28] To increase consistency with the IEB sample of mothers, we further restrict the sample to mothers who have at least one employment spell in the nine months prior to giving birth. Our final VSKT sample comprises 2,787 women.

The summary statistics reported in Appendix Table A2 show that the average woman in the VSKT sample was approximately 48.5 in December 2013 with total fertility of 2 children and a total of about 24 pension points.

4.   Expected Effects of Mütterrente and Identification Strategy

Our objective is to identify the effect of pension wealth on individual labor supply behavior far from retirement. Before delving into the identification strategy and its empirical implementation, it is useful to consider the potential impact of the 2014 childcare pension benefit reform on mothers' labor supply decisions.

Consider two identical women giving birth to a child right before and right after January 1, 1992, and with earnings below the pension contribution limit in 1991 and 1992. As a consequence of the 1992 pension reform and the subsequent 1999 reform, the situation until July 2014 is the following: the mother who gave birth before January 1, 1992, receives one pension point for this birth, while the mother who gave birth on or after January 1, 1992, receives three points. The 2014 reform attributes one extra pension point to the first mother who gave birth before January 1, 1992, raising her points to two. In other words, the 2014 reform increased the number of cumulated pension points of mothers of children born before the cutoff date by one (per child), while leaving the number of cumulated pension points of mothers of children born after that date unchanged. We thus assign mothers of children born before January 1, 1992 to the treatment group, and mothers of children born January 1, 1992 or later to the control group.

Since the increase in pension points mechanically increases pension wealth, the reform generates a positive and permanent wealth effect for mothers of children born before January 1, 1992. This

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[27]Mean unconditional earnings are 1.6% lower in the treatment group than in the control group. While the higher pension wealth starting in 1992 should have induced mothers in the control group to reduce their earnings, their slightly higher level of education is in line with higher earnings. In fact, we find a similar earnings difference in favor of the control group also in placebo treatment and control groups giving birth around January 1, 1994 or 1995, in line with increasing education levels among women in the relevant birth cohorts.

[28]We do not exclude mothers who gave birth in the two weeks around the January 1, 1992 cutoff, since we observe the exact month of birth of children in the VSKT, thus not running the risk of mismeasurement.

is a pure wealth effect, not confounded by changes in substitution incentives. The reason why the reform creates a pure wealth effect is that the accreditation of pension points is independent of current and future labor supply choices. It is also fully exogenous to fertility choices, since eligibility is uniquely based on the birth date of existing children, which obviously cannot be manipulated ex post. In addition, since future pension wealth does not count towards taxable income, the windfall gain generated by the reform does not alter the marginal tax rate faced by affected mothers during their working life. The accreditation of the additional pension point does not affect the qualifying period for pension eligibility under either the early retirement or the seniority pension scheme.[29] Importantly, the pension wealth effect stems from a change in pension points for a constant pension benefit formula. The stability of pension rules makes it likely that information or cognitive frictions are minimal. As a result, the reform provides useful variation to neatly identify the effect of pension wealth on labor supply decisions.

If leisure is a normal good, the increase in pension wealth is expected to reduce the lifetime labor supply of recipients, at either the intensive or the extensive margin and including anticipating retirement, relative to a counterfactual scenario in which the 2014 reform did not take place. Clearly, we do not expect any labor supply response from individuals who had already retired by 2014, though the fraction of retired individuals among those who gave birth in 1992 is negligible.[30] Even though the increase in pension wealth could in principle induce individuals to anticipate retirement benefit claiming, this is a margin that we are unlikely to uncover since less than 5% of our sample is old enough to qualify for retirement benefits over the time period of analysis.[31]

Our objective is to identify the effect of pension wealth on labor supply behavior prior to retirement. The regression equation that describes the causal relationship of interest is:

$$Y_{it} = \alpha_0 + \alpha_1 W_{it} + X'_{it}\alpha_2 + \varepsilon_{it} \tag{1}$$

where Y_{it} is the labor supply outcome of interest Y for individual i at time t, W_{it} is the present discounted value of pension wealth cumulated by i at time t, X_{it} represents a vector of individual controls, and ε_{it} is an error term. For $Y = z$, where z is labor earnings, the parameter α_1 identifies the wealth effect of retirement benefits. Given the potential endogeneity of W, we exploit exogenous variation in cumulated pension wealth due to the 2014 pension reform, and use the timing and eligibility requirements of said reform as an instrumental variable (IV) for pension

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[29]As we explain in Appendix C.2, mothers are credited *consideration* periods for child care until the child turns 10. Such consideration periods do not increase pension entitlements (i.e. pension wealth), but count towards the qualifying period for eligibility for early retirement or seniority pension. On the other hand, *contribution* periods raise pension entitlements and count towards pension eligibility. The Mütterrente reform transformed the second year after childbirth for mothers of children born before 1992 from a consideration period to a contribution period, thus increasing pension wealth without affecting the overall qualifying period for retirement eligibility.

[30]In our VSKT sample, we see that around 2.7% of women who gave birth to their first child around January 1, 1992 had retired by December 31, 2013, primarily receiving pensions for (partial) disability.

[31]Appendix Figure A4 reports the age distribution of mothers in our main sample as of December 2013. Only mothers aged 57 and over in 2013 are potentially eligible for retirement benefits by the end of 2018 (subject to meeting other eligibility requirements).

wealth. In practice, we estimate the coefficient α_1 using a two-sample instrumental variables estimator, where, due to data availability, the first stage is estimated in the VSKT data and the reduced form in the IEB data.

To identify the reduced-form effect of the reform on labor supply, we implement a difference-in-differences design. We compare labor supply outcomes between mothers who had their first child before versus after January 1, 1992, and trace out the dynamics of this difference from before to after the 2014 reform.[32] More formally, for each half-year period t running from the first six months of 2010 to the last six months of 2018, our reduced form is estimated using the following specification:

$$Y_{it} = \sum_{s \neq Jul-Dec \ 2013} \gamma_s \cdot D_i \cdot \mathbb{I}[t = s] + \delta_t + \delta_i + \nu_{it} \tag{2}$$

where Y_{it} is defined as above, D_i is an indicator taking value 1 if individual i's first child was born before January 1, 1992, and zero otherwise, δ_t and δ_i are calendar time and individual fixed effects, $\mathbb{I}[\cdot]$ is an indicator function and ν_{it} an error term. Standard errors are clustered at the individual level. The set of coefficients γ_s identifies the difference in outcomes between the treatment ($D_i = 1$) and control ($D_i = 0$) group in each half-year period relative to the July-December 2013 one, which we take as baseline as explained in Section 2.2. The magnitude of the γ_s coefficients quantifies the reduced-form effect of the reform on outcome Y. When presenting the empirical estimates, we plot the set of estimated γ_s coefficients from January-June 2010 to July-December 2018, which allows to visually assess pre-policy trends and the dynamics of post-policy responses. We also report the estimated coefficients of a version of equation (2) in which we replace the first term with a set of interactions between D_i and indicators for 1-2.5 years after the baseline period and 3-5 years after the baseline period. We label the former as short-run effect and the latter as medium-run effect. Our two-sample instrumental variables estimates will be based on the medium-run reduced-form effect.

Our first stage effect is the change in the present discounted value of pension wealth generated by the 2014 reform as of December 2013. As we will explain in more detail below, we simulate the absolute and proportional increase in pension wealth using detailed data on pension contributions from the VSKT.

The key assumptions for the γ_s coefficients in equation (2) to be identified are a standard common-trends assumption and the lack of contamination effects. The former requires that the evolution of labor supply outcomes of women with children born after January 1, 1992 (control group) offers a good counterfactual for that of mothers of children born before that date (treatment group). This assumption can be corroborated by the lack of pre-policy differential trends between the treatment and control groups. To strengthen the case for a compelling counterfactual, we focus on women giving birth to their first child in a three-month bandwidth around the January 1, 1992 cutoff. Concerning contamination effects, the imputation procedure

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[32]Given that our sample excludes mothers who gave birth in the two weeks around January 1, 1992, our empirical strategy is in essence a *doughnut* difference-in-differences.

to impute childbirth is prone to measurement error around the January 1, 1992 cutoff, implying that the treatment/control group classification may be incorrect in a narrow window around the threshold. As described above, to overcome this issue, we implement a doughnut difference-in-differences estimation in which we exclude women with imputed childbirths in a two-week window around the cutoff. One may also worry about general equilibrium effects: if treated individuals reduce their labor supply in response to the reform, this may affect equilibrium wages and tax rates. However, it seems reasonable to believe that these effects will be small and, in any case, identical for individuals in both treatment and control groups, who should be perfect substitutes in the labor market.

For our two-sample instrumental variables estimate to have a causal interpretation, we also require the instrument to be relevant and to satisfy the exclusion restriction. We document below that the reform generated a meaningful increase in the present discounted value of pension wealth of EUR 3,830 or 4.4% of total pension wealth as of December 2013. As for the exclusion restriction, we are not aware of other reforms taking place around the same time and with the same eligibility criteria. Moreover, we believe it is unlikely that the timing and eligibility requirements of the reform affect employment outcomes through channels other than pension wealth. To the extent that it may do so, for example through general equilibrium effects, we expect those to be identical across the treatment and control groups.

The main advantage of this empirical strategy is that it neatly identifies a pure wealth effect, which is typically hard to do using policy variation. Moreover, our difference-in-differences design allows us to account for the potential confounding effect on labor supply of (i) the 1992 Mütterrente reform, which gave more generous pension contributions to mothers of children born after January 1, 1992, and (ii) a 1992 maternity leave reform, which increased the duration of job-protected leave for those same mothers. The 1992 pension reform was legislated in 1989 and, as such, was anticipated by mothers giving birth in a window around the January 1, 1992 cutoff. Knowledge of future benefits might have induced mothers to time the birth date of their children in order to take advantage of the more generous regime. In fact, evidence from Schönberg and Ludsteck (2014) seems to rule out this strategic behavior. The 1992 maternity leave reform is, instead, likely not anticipated, since the draft bill for the reform was proposed after children born within three months of the policy reform were conceived (Schönberg and Ludsteck, 2014). Nonetheless, by affecting the likelihood and timing of mothers returning to work after childbirth, both reforms are likely to have had an impact on the working history and, hence, on cumulated contributions for women with children born after January 1, 1992. The time difference of our design accounts for these potential effects.

5. Effect of Pension Wealth on Individual and Spousal Labor Supply

5.1 Reduced-Form Effects

Figure 1 reports estimates of equation (2) for our main outcome of interest: total unconditional earnings. These are defined as the sum of labor income from dependent employment (full-time, part-time and marginal employment), and take value zero when individuals are not recorded as employed (e.g. because they are registered as job-seeker or because they are out of the labor force and hence not covered by the data) or receive unemployment benefits.[33] As such, they provide an all-encompassing measure of employment at the extensive and intensive margin. Total unconditional earnings drop significantly for the treatment group after the reform. Our estimate of the short-run effect over the 2.5 years following the policy change is of a reduction of EUR 51 per half-year period, or 0.7% of the pre-policy mean in the treatment group (see the first row of Panel A of Table 1). Consistent with the notion that optimization frictions may limit the ability of individuals to adjust their labor supply in the short run, we estimate a larger medium-run effect in the 3-5 years after the reform, when the magnitude of the treatment effect appears to stabilize at around EUR 98 per half-year period, or 1.3% of the pre-policy mean.[34] The treatment leads are statistically insignificant, indicating that there are no differential pre-trends. Thus, we conclude that the positive pension wealth effect of the childcare pension benefit reform significantly reduces total unconditional earnings of the affected mothers.[35]

Appendix Table A3 reports estimates of the effect of the reform on total unconditional earnings for the sample of individuals employed in the baseline period in Panel A and the sample of the non-employed in Panel B. The table shows that the effect we detect on unconditional earnings in Figure 1 is entirely driven by individuals who are working before the reform and reduce their labor supply afterwards, rather than by fewer entries into the labor market following the reform.

Panels A to C of Figure 2 and Panels A and B in Table 1 uncover the anatomy of the labor supply response. As illustrated in Panel A of Figure 2, the reform has essentially no effect on the extensive margin, as measured by the probability of being employed. There is also no change in the probability of receiving unemployment benefits, nor of not appearing in the IEB records (because of non-employment, self-employment or employment in the civil service), as reported in Panel A of Table 1. Rather, individuals seem to respond at the intensive margin: Panel B of Figure 2 shows that labor earnings conditional on employment drop by 0.4% in the short run and 0.9% in the medium run. Whilst the data do not allow us to measure hours worked –

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[33]As a result, we work here with a balanced panel.

[34]According to VSKT data – where we observe all children born to a woman – the youngest child of the average woman in our sample is 18.3 years old in December 2013. This suggests that childcare constraints should not play a role in labor supply adjustment.

[35]In principle, the reduced-form effect that we estimate for 2018 could encompass both the effect of the 2014 reform and some anticipated responses to the 2019 one. In practice, though, the stability of the estimated effects in 2017 and 2018, coupled with the lack of evidence of anticipated effects of the 2014 reform, leads us to conclude that such anticipated responses are likely minimal.

and thus disentangle whether the drop in conditional earnings is due to a change in hours or wages – the estimates in Panel C document a drop in the likelihood of working full-time (as opposed to working part-time or in marginal employment) conditional on employment in the aftermath of the reform. Although less precisely estimated, the coefficients reported in Panel C indicate a drop in full-time employment of 1.1% in the short run and of 1.8% in the medium run. In Panel B of Table 1, we can see positive, but insignificant increases in the probability of working part-time and, to a smaller extent, of being in marginal employment in the medium run – effects that are also visible in Panels A and B of Appendix Figure A5. These results suggest that affected mothers reduce their hours of work in response to the positive pension wealth shock.

Finally, we investigate whether individuals adjust their labor supply by switching employer or type of job. As reported in Panel C of Table 1, we do not find evidence of an increase in the probability of switching establishment, nor in the likelihood of being employed in a part-time intensive occupation, that is an occupation with above-median share of employees working part-time in the pre-reform period.[36] In practice, though, the probability of working in a part-time intensive occupation is close to 90% at baseline, indicating that the vast majority of mothers already work in occupations that are suitable for part-time arrangements.

By reducing labor supply in response to the reform, mothers are implicitly reducing the amount of contributions paid into the system. We quantify the pension point loss associated with the unconditional earnings response, assuming that the unconditional earnings reduction remains stable at EUR 196 per year for the 12 years that separate the average individual from the full retirement age after our period of analysis. The pension point loss amounts to a total of 0.09 points over the entire post-reform period, which corresponds to approximately 1/11 of the childcare pension point increase due to the Mütterrente reform.

5.2 Implied Marginal Propensity to Earn out of Pension Wealth

To interpret the magnitude of the reduced-form estimates illustrated in the previous subsection, we rescale the estimated earnings response by the simulated pension wealth shock, in the spirit of two-sample instrumental variables. To simulate the pension wealth shock, we resort to the VSKT data. We describe our simulation in detail in Appendix C.1. Based on an assumed monthly discount factor of 0.9983, assumed retirement at age 67 and an assumed retirement period of 22.5 years (270 months), as well as an estimated monthly growth rate of the real value of a pension point of -0.0001619, we calculate that the present discounted value of pension wealth for mothers in the treatment group increases by EUR 3,830 as of December 2013, corresponding to a 4.4% increase in the present discounted value of their pension wealth.

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[36]To determine the pre-reform share of part-time employees in an occupation, we use a representative 2% sample of the IEB and only consider employment spells that include December 31, 2013. In case a worker has more than one relevant spell in an occupation, we keep the one with the highest working time. For each of our 127 occupations, we then calculate the fraction of part-time workers as the share of part-time and marginal employees among all employees.

To obtain measures of the wealth effect and the wealth elasticity that are plausibly not attenuated by optimization frictions, we consider the medium-run estimates of the unconditional earnings response reported in the first row of Panel A of Table 1. Total unconditional earnings dropped by EUR 196 per year or 1.3% of their pre-policy level. For an increase in the present discounted value of pension wealth of EUR 3,830, or 4.4%, the implied wealth effect is of EUR -5.1 per year per EUR 100 of wealth, and the implied wealth elasticity is of -0.3.

The size of the pension wealth effect that we estimate above can be hard to assess, since it does not account for the time horizon over which individuals plausibly allocate the increase in pension wealth. In order to obtain an effective estimate of the marginal propensity to earn (MPE) out of pension wealth in a given period, we first estimate the allocation of the pension wealth increase over time and then compute the MPE in a given year. We follow the annuitization method described in Golosov et al. (2024) to allocate the wealth windfall over time. We assume that individuals perfectly smooth the pension wealth increase over the years that separate them from the full retirement age, which correspond to 17 years on average in our sample. Under this assumption, individuals allocate 29% (5/17) of the windfall to the 5 years covered by our analysis. Our estimates of the unconditional earnings response from the first row of Panel A of Table 1 imply that, over the 5 years after the reform, earned income drops cumulatively by EUR 612 on average, discounting the per-period changes to December 2013.[37] Based on these computations, we estimate an MPE of -0.54: an extra euro of pension wealth leads to a 54 cent reduction in labor earnings in middle-age years.[38] The size and salience of the economic incentives generated by the pension reform could both be important for the magnitude of the response that we document (Seibold, 2021).

We can compare the magnitude of our MPE to other recent estimates of labor supply responses to wealth shocks within the domain of retirement benefits, in an attempt to reconcile the results in this paper with prior literature. Compared to our estimates, existing work identifies responses to contemporaneous rather than future wealth changes. Ceteris paribus, we would expect responses to contemporaneous benefit changes to exceed those to future changes if individuals are myopic or face liquidity constraints. Consistent with this reasoning, in Section 5.4, we show that mothers who are likely to face liquidity constraints respond less strongly to the reform. In the context of retirement benefits, Gelber, Isen and Song (2016) and Gelber, Isen and Song (2017) find MPEs of -0.6 for men and -0.9 for women in response to changes in Old Age and Survivors Insurance benefits in the United States.[39] Those estimates are based on responses to benefit changes occurring when affected individuals are on the cusp of retirement, and thus reflect responses to contemporaneous wealth changes. Large contemporaneous wealth effects have similarly been documented in the context of survivor insurance. Giupponi (2024) finds an

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[37]For discounting, we use a monthly discount factor of 0.9983. This is the same discount factor used to simulate the pension wealth change in Appendix C.1.

[38]If we are willing to assume that the medium-run response that we estimate also holds in the long run (i.e. for the years until the full retirement age that we do not observe in the data), our estimate of the MPE becomes -0.69.

[39]It is worth noting that the estimate in Gelber, Isen and Song (2017) is based on a selected sample of women born in 1916-1917 who had particularly high lifetime earnings relative to their husbands.

MPE of -0.8 among surviving spouses in Italy, while Coyne et al. (2024) of -0.3 in the United States. The latter, though, captures the short-run response to an anticipated income change, which could explain the smaller effect in absolute levels. Overall, the existing evidence points to larger responses to contemporaneous rather than future wealth changes. This finding is in line with evidence in French et al. (2022) that individuals are more responsive to changes in contemporaneous substitution incentives than to changes in the link between current social security contributions and future pension benefits.

The labor supply responses that we document are concentrated along the intensive margin. Studies that examine pension wealth changes closer to the retirement age (and disentangle margins of adjustment) tend to find, instead, responses along the extensive margin (Gelber, Isen and Song, 2016; Becker et al., 2022).[40] Our evidence of intensive margin responses is in line with the findings in Deshpande (2016), who documents large intensive margin responses by parents to the income effect induced by the loss of Supplemental Security Income payments for their children, when the latter are below the age of 13. Taken together, this evidence points towards age patterns in the use of different margins of adjustment, which could be explained by varying (utility) costs of adjusting labor supply with time to retirement. To the extent that extensive margin responses signal larger costs of adjustment, they reveal higher implicit valuations of social insurance transfers for a given level of the wealth effect (Chetty, 2004; 2008).

5.3   Identification Tests and Robustness Checks

Our difference-in-differences strategy rests on the 'common trends' assumption that the labor supply outcomes of treated and control individuals would have evolved in parallel absent the 2014 Mütterrente reform. As we already noted in Section 5.1, the fact that we do not see differential earnings and employment changes between the treatment and control groups in the pre-policy period is reassuring in this respect.

As a further test for the validity of our assumption, we report a battery of placebo tests in Panels A and B of Appendix Table A4, where we use – respectively – January 1, 1994, and January 1, 1995, as placebo thresholds to define (placebo) treatment and control groups.[41] The tables report estimates of equation (2) for our main outcomes of interest. We do not find any significant differential effects of the placebo reform across our placebo treatment and control groups, which is reassuring of the fact that our main estimates are picking up a genuine causal effect of the reform.

As discussed in Section 2, the January 1, 1992, threshold is not only relevant for the 2014 Mütterrente reform, but also for (i) the 1992 Mütterrente reform, which gave additional pension points per child born on or after, as opposed to before, January 1, 1992, and (ii) a maternity

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[40] Gelber, Isen and Song (2016) find that the probability of being employed decreases by -0.67 (standard error 0.18) percentage points per 10,000 dollars of additional pension wealth. For an equivalent pension wealth shock, our estimates imply an employment effect of -0.005 (standard error 0.005), and thus allow us to rule out effects lower than -0.015.

[41] We omit January 1, 1993, since a maternity leave reform was implemented on that date.

leave reform, which doubled the duration of job-protected leave for mothers of children born on or after January 1, 1992.[42] One may worry that differential fertility responses to those 1992 reforms might make our treatment and control groups different with respect to their childcare constraints as of 2014 and, more generally, their life-cycle labor supply trajectories. In Appendix Figure A6, we use data from the VSKT to document that the combination of the 1992 reforms did not affect the total fertility of women in our sample. The gray dots plot the average number of children born to mothers who had their first child in a given month around the January 1, 1992 cutoff, conditional on mother's cohort fixed effects and child's month of birth fixed effects. The number of children is computed as of December 2019, that is approximately 28 years after the first childbirth, and can therefore be considered a close proxy for total fertility. Whilst total fertility is on a declining trend, we do not observe any meaningful difference in the total number of children of women in a three-year bandwidth around the cutoff. This is further corroborated by the very small and statistically insignificant regression-discontinuity estimate reported in the graph.

To account for measurement error in childbirth imputation, our main doughnut difference-in-differences specification excludes women with imputed childbirths in a two-week window around the cutoff. We assess the robustness of our estimates to different doughnut-hole widths (zero, four and six weeks) in Appendix Table A5. Point estimates are stable across specifications.

As a final robustness check, we consider the soundness of conditioning some of our main outcomes on employment. In Section 5.1, we probed the anatomy of the unconditional earnings response by decomposing the latter into a participation response (extensive margin) and a conditional earnings response (intensive margin). In general, conditioning on an outcome – employment in this case – may raise concerns of endogenous selection due to compositional changes. In our specific case, the lack of employment effects of the reform suggests that endogenous selection should not be a concern. To further probe this point, Panel A of Appendix Table A3 replicates our main analysis on the sample of mothers who were already in employment in the second half of 2013. Albeit imperfectly, conditioning on pre-reform employment implicitly allows to isolate the effect of the reform on earnings (and the likelihood of working full-time) from that of potential compositional changes due to extensive-margin responses to the reform itself. Results are very similar to the ones for the baseline sample in the paper, suggesting that endogenous sample selection is not confounding our estimates.

5.4 Heterogeneity Analysis

The observed response to a change in pension wealth may vary across individuals depending on a range of factors, such as their idiosyncratic returns to tenure and costs of working, their liquidity constraints, or their ability to self-insure against the longevity risk through their

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[42]More precisely, the 1992 Mütterrente reform gave 2.25 pension points per child born on or after January 1, 1992, leaving the amount of pension points per child born before that date at 0.75. The 1999 Mütterrente reform increased retroactively the number of pension points per child to 3 for those born on or after January 1, 1992, and to 1 for those born prior to that date.

savings. In this section, we study heterogeneous responses to the pension wealth effect along these and other dimensions.

5.4.1 Returns to Tenure and Costs of Working

We start by considering whether individuals with different labor market returns to tenure respond differentially to the wealth shock. We measure returns to tenure as the late-career firm-level tenure gradient of earnings in the occupation in which an individual is employed. We first estimate occupation-specific wage tenure gradients in a 2% sample of the male population employed in the private sector in Germany.[43] Returns to tenure are estimated using a Mincerian regression in which log daily earnings are a function of individual demographics (education, age and age squared), year fixed effects, tenure and tenure squared (in months). To account for the intensive margin of work, months of tenure at a given establishment are weighted by working time, with weights taking value 1 for full-time, 0.5 for part-time, and 0.2 for marginal employment. This regression is estimated for each occupation separately using data for the years 2010 to 2018. Having estimated occupation-specific late-career returns to tenure, we assign women in our IEB sample to the occupation they were employed at in the second half of 2013. We rank individuals based on the predicted return to continuing working full-time in that occupation until the end of the sample period. We then median-split them into two groups, such that half of the women are in the above-median returns group and half in the below-median returns group. Panel A of Table 2 reports estimates of an augmented version of equation (2), fully interacted with a dummy for having above-median predicted returns to tenure. In Table 2, we report the coefficients on the term $D_i \cdot \mathbb{I}[t > \text{Jul-Dec 2013}]$ and its interaction with the heterogeneity indicator. Consistent with forward-looking behavior, the results show that individuals with higher predicted returns to tenure respond less strongly at the intensive margin, in that they are less likely to leave full-time employment for a part-time job or a minijob.[44]

On the cost side, we study whether individuals who are employed in more physically demanding occupations, for whom presumably the cost of working is thus larger, respond more strongly to the wealth shock. We classify occupations based on an index of physical strain constructed using information from O*NET.[45] The latter provides occupation-specific ratings of (i) the amount of time spent in tiring body positions (e.g. kneeling, bending, standing or making repetitive motions), (ii) the frequency of exposure to extreme environmental conditions (e.g. cramped work spaces, bright or inadequate lighting, hot or cold temperatures, body vibrations

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[43]We estimate returns to tenure on the sample of men for two reasons. First, men tend to have uninterrupted careers until retirement, which allows to better estimate tenure gradients. Second, men are not directly affected by the reform, implying that our estimates of the tenure gradients are not endogenous to the reform itself. We restrict the male sample to individuals in the same age range as women in our IEB sample (i.e. ages 39 to 61 in December 2013) and weight the male sample to be representative of the female one in terms of the age distribution.

[44]Note that, being weighted by working time, our measure of the returns to tenure is a proxy for returns at both the extensive and intensive margins of employment.

[45]For this analysis, we use the fine-grained 5-digit classification of occupations available in the IEB (not the 127 aggregated categories used above) as only this can be merged with the data from O*NET.

or discomforting sounds) and (iii) the likelihood of job hazards (e.g. exposure to disease or infections, to hazardous conditions or equipment, or to radiation). We construct an index of physical strain as an average of the O*NET rankings over these three dimensions, and study heterogeneous responses across mothers who were employed in occupations with above versus below median values of the physical strain index. The results reported in Panel B of Table 2 do not reveal any substantial difference in labor supply responses by physical strain of the occupation, indicating that the cost of work effort does not seem to be mediating the observed response to the wealth shock.[46]

5.4.2   Ability to Self-Insure Against Longevity Risk

The labor supply response to a change in pension wealth may depend on the amount of total resources that individuals expect to be able to rely upon once retired. In other words, we may expect individual labor supply responses to vary depending on the ability to self-insure against the 'risk of longevity' via one's own or the partner's savings and pension wealth. We explore this question by estimating heterogeneous responses to the 2014 reform by measures of individual and household wealth. Since in the data we cannot observe wealth from sources other than public pension, we employ as proxies for wealth the number of non-childcare pension points cumulated by the end of 2013.

We start by analyzing heterogeneous responses by the number of non-childcare pension points cumulated by the mother as of December 2013. Since cumulated pension points are likely correlated with age, we split the sample according to cumulated pension points by cohort. As a result, we define two groups of mothers, one with cumulated non-childcare pension points above the median in their cohort, and one below the median. Panel C of Table 2 shows that women with above-median pension points experience larger reductions in labor supply at the intensive margin. In Panel D of Table 2, we focus on couples that we can identify in the data. We consider the sum of both partners' pre-reform cumulated non-childcare pension points as a proxy for household wealth and investigate heterogeneous responses along this dimension. Here the above versus below median split is within partners' cohort. Consistent with our results on heterogeneous responses by own pension wealth, we find qualitatively larger responses at the intensive margin for individuals with higher household pension wealth. Overall, these results point to larger reductions in labor supply by individuals who have larger wealth to start with.

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[46]This result helps qualify the evidence on heterogeneity by returns to tenure described in the previous paragraph. To the extent that higher predicted returns to tenure could be driven by lower effort costs, our results in Panel A of Table 2 might partly reflect variation in costs. The evidence in Panel B of the same table would seem to exclude that this is the case.

5.4.3 Liquidity Constraints

Labor supply responses to the pension wealth change may also differ across individuals who face different liquidity constraints. Since for the majority of workers, labor earnings are the main source of income for consumption, we analyze heterogeneity in labor supply responses by the level of partners' labor earnings. We exclude from the sample couples in which the male spouse cannot be observed in the IEB data during the second half of 2013.[47] We then split the sample of mothers by partners' median earnings within partners' birth cohorts. The results reported in Panel E of Table 2 show that intensive margin responses are only visible among mothers with above-median partners' labor earnings, suggesting that liquidity constraints limit the ability to reduce labor supply among mothers married to less well-earning husbands.

5.4.4 Time to Retirement Age

We then consider whether different working horizons lead to differential responses to the pension wealth shock. The labor supply response to a pension wealth shock might be larger if the time to statutory retirement is shorter. In Panel F of Table 2, we report estimates of heterogeneous responses by the time to the full retirement age, measured as of December 2013. We take into account that individuals born in different years face different full retirement ages.[48] The results do not reveal differential responses by time to statutory retirement. We should note, however, that the number of years to the full retirement age in December 2013 is collinear with age at the time of the first childbirth and age at the time of the reform. This has two implications. First, it implies that we cannot separate out the impact of age from that of time to retirement. Second, heterogeneity by time to statutory retirement might also be capturing differences in the degree of labor market attachment. Mothers with a shorter time to the full retirement age in 2013 had their first child relatively late, possibly indicating a stronger attachment to the labor market. This could counteract a potential larger labor supply response of individuals closer to the full retirement age.

In Appendix Figure A7, we test the parallel-trends assumption for all estimates reported in Table 2. Each panel in the figure corresponds to the same-letter panel in the table. For each outcome Y_{it}, we regress Y_{it} against a time trend, its interaction with a treatment indicator, and the interaction of both those terms with an indicator taking value one if the observation belongs to the above-median group of the relevant dimension of heterogeneity. Individual fixed effects are also included. The estimation sample is restricted to the pre-reform period. In Appendix Figure A7, estimates in black (dots) refer to the coefficient on the interaction between the trend and the treatment indicator, while estimates in gray (crosses) to the interaction between the

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[47]This sample restriction is motivated by the fact that we cannot distinguish non-employment from self-employment or civil service, and it reduces the sample by 10%. Results are qualitatively similar, but less precisely estimated, if we retain all couples and impute zero earnings to partners who are not in the IEB data in December 2013.

[48]Note that the inclusion of individual fixed effects in the regression implicitly accounts for the fact that shorter working horizons may correspond to higher baseline levels of pension wealth.

trend, the treatment indicator and the above-median indicator. As can be appreciated from the graphs, pre-reform differential trend estimates are all statistically insignificant, the only exception being the estimates for the probability of being employed in Panel A, which are marginally significant.

5.5 Evidence on Effects across Spouses

Our ability to match the working histories of spouses allows us to explore behavioral spillovers in labor supply choices within the household.

We first analyze whether mothers' labor supply responses differ by their partner's distance to the full retirement age. In December 2013, partners in the sample are on average 51.5 years old and are thus approximately 15 years away from the full retirement age.[49] As reported in Panel A of Table 3, we find that the intensive-margin labor supply responses of women in our sample are driven by mothers whose partner is closer to the full retirement age (and thus older), consistent with within-household interactions in labor supply choices.[50] The estimates reported in Panel A of Appendix Figure A8 provide supporting evidence for the parallel trends assumption.

We can also investigate whether the pension wealth shock generated by the 2014 reform has spillover effects on partners' labor supply choices. To this end, we estimate equation (2) on the sample of male spouses whom we can match to our original sample of women. The treatment indicator D_i takes value one for the male spouses of women in our treatment group, and zero for the male spouses of women in our control group. Panel B of Table 3 reports the estimated coefficients. All point estimates are negative, suggesting that male spouses also reduce their labor supply, with effects that become more pronounced in the longer run. For total unconditional earnings, we estimate an effect size that is approximately half of the one found among women in absolute terms (see Table 1).[51] Also in the case of male spouses, the effect appears to be driven by reductions in employment at the intensive margin. However, due to the small sample size, most coefficients are imprecisely estimated, with the exception of the negative coefficient on the likelihood of working full time conditional on employment, which is statistically significant.[52] We test the common trends assumption for partner's outcomes in

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[49]Slightly less than 1% of partners had reached the full retirement age in December 2013.

[50]To the extent that age is correlated across spouses, time to full retirement age could also be correlated across spouses. As such, heterogeneity by partner's time to full retirement age could also reflect heterogeneity by own time to full retirement age. Since, in our setting, one's own time to full retirement age does not seem to matter for labor supply responses (Panel E of Table 2), we believe that the heterogeneity reported in Panel A of Table 3 is likely to reflect genuine variation in partner's time to full retirement age.

[51]We note here that, even though we can match only around 40% of women in our main sample to a partner, the effect of the reform on total unconditional earnings is comparable in the full sample of mothers and the sample of married mothers for whom we can identify a partner. The latter respond more strongly in the short run (EUR -85 versus EUR -51), but have a similar medium-run response (EUR -100 versus EUR -98); see Appendix Table A6.

[52]In Germany, married individuals and civil partners can choose whether to be taxed on their individual or joint income. Under joint taxation, mothers' earnings reductions in response to the Mütterrente reform could, in principle, lower the marginal tax rate faced by their partners. Our estimates of partners' labor supply responses to the pension wealth change could therefore be attenuated (in absolute value) due to the concurrent change in substitution

Panel B of Appendix Figure A8. Here, we regress each outcome Y_{it} against a time trend, its interaction with a treatment indicator and individual fixed effects, restricting the sample to the pre-reform period, and plot the estimated coefficient on the interaction. We detect a marginally significant differential pre-trend for unconditional earnings only (driven by effects in 2010 and early 2011), with all remaining outcomes passing the pre-trends test.

6. Welfare Implications

The results show that the Mütterrente reform caused a substantial drop in labor income among mothers and, albeit smaller and less significant, their partners. We now turn to consider the implications of these results for social welfare using Hendren (2016)'s policy elasticity approach. This approach uses the causal impact of the behavioral response to a given policy change on net government spending as a sufficient statistics for the welfare impact of that policy change.

An important implication of our results is that the true government cost of the Mütterrente reform is higher than its mechanical cost. Let us first focus on mothers' labor supply responses. Our estimates indicate that increasing pension wealth by EUR 3,830 decreases labor earnings by EUR 101 per year in the short run and EUR 196 per year in the medium run. If we are willing to assume that our estimates of the medium-run effect of the policy on earnings hold for all years until full retirement age, our estimates imply that increasing pension wealth by EUR 3,830 decreases labor earnings by EUR 2,660 in present discounted value. Assuming that labor is the only source of taxable income, tax simulations indicate that the average mother in our sample faces a 42% marginal income tax and social security contribution rate when filing taxes individually and of 47.5% when filing taxes jointly with her spouse. In the 2014 German Microcensus, approximately 21.5% of mothers are not married and thus file individually. Virtually all married couples file jointly. For an average 46.3% marginal income tax and social security contribution rate, the EUR 3,830 increase in pension wealth has a net impact on government expenditures of EUR 5,062 (= EUR 3,830 + EUR 2,660 × 0.463 = EUR 3,830 + EUR 1,232). Equivalently, the policy generates a fiscal externality (FE) of 32 cents per euro of transfer (= EUR 1,232/EUR 3,830).

Even though we acknowledge that spousal earnings responses are rather imprecisely estimated, we provide here calculations of the fiscal externality accounting for their impact on the government budget. If we consider spousal earnings responses, the total net impact of the Mütterrente reform on government expenditures amounts to EUR 5,541. This is equal to the sum of the mechanical increase in pension wealth due to the policy change (EUR 3,830), the reduction in income tax and social security contribution paid by mothers (EUR 1,232 = EUR 2,660 × 0.463) and the reduction in income tax and social security contribution paid by their married partners

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incentives. We use a tax simulator to quantify the change in the marginal tax rate due to the mothers' earnings response (Bick et al., 2019). Our simulation indicates that the marginal tax rate changes by less than 1 percentage point across all deciles of the household income distribution. Thus, in practice, substitution incentives are negligible in our context.

on the estimated present discounted value change in their labor earnings (EUR 372 = EUR 997 $\times$ 0.475 $\times$ 0.785).[53] As before, the effect of the reform on the present discounted value of spousal labor earnings is computed assuming that our estimates of the partners' medium-run earnings response to the policy holds for all years until full retirement age. The above calculations imply that, accounting for spousal labor supply responses, the fiscal externality of the policy amounts to 42 cents per euro of transfer (= EUR 1,604/EUR 3,830).

We can use our estimate of the fiscal externality to assess the welfare implications of the reform using the marginal value of public funds (MVPF). The MVPF is the ratio of the beneficiaries' willingness to pay for the policy (WTP) to its net government cost (1+FE), and quantifies the amount of welfare delivered to policy recipients per euro of government spending on the policy. Inferring the willingness to pay for future benefits would require knowledge of how individuals discount future well-being and – for household-level valuations – knowledge of how resources are allocated across spouses. We take a conservative stance and assume that the willingness to pay for the increase in pension wealth is determined by the mechanical cost of that increase for the government. In other words, we assume that individuals have a willingness to pay of EUR 1 for a EUR 1 increase in the net present value of pension wealth. The MVPF of the Mütterrente reform is thus $\frac{1}{1+FE} = \frac{1}{1+0.32} = 0.76$ when considering mothers' labor supply responses only, and of $\frac{1}{1+0.42} = 0.70$ when also accounting for spousal responses.

To gauge the magnitude of these values, we compare them to the MVPFs for analogous policies reported in Hendren and Sprung-Keyser (2020) and Policy Impacts (n.d.), which provide a living collection of MVPFs from a broad range of government programs. Therein, the average MVPF for retirement benefits is 0.8 and for disability insurance for adults 0.86. Since those MVPFs do not account for spousal responses, to ensure comparability, we consider the MVPF of the Mütterrente reform as implied by the mothers' response only. In addition, the MVPFs for retirement and disability insurance benefits in the Policy Impacts library are all based on a willingness to pay of 1, which further guarantees comparability with our estimate. The value of 0.76 that we find is in line with those found for similar programs. Taken together, these programs have MVPFs below 1 due to the earnings crowd-out that they entail. Welfare weights on pension recipients would have to be substantial to justify the Mütterrente benefit increase, compared to alternative policies with larger MVPFs.

7. Conclusion

In this paper, we study how changes in the generosity of public pension systems affect labor supply behavior far from retirement. We exploit the 2014 reform of the Mütterrente, which increased the pension wealth of mothers of children born before January 1, 1992 by 4.4% per child on average. We document significant reductions in labor earnings when affected women are on average 50-55 years old, driven by shifts out of full-time employment. Our estimates

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[53]Note that here we account for the fact that only 78.5% of mothers are married.

imply a marginal propensity to earn out of pension wealth of -0.54, which can be considered a moderately large effect. We also provide evidence of within-household interactions in labor supply choices. Our findings contribute to a growing strand of the literature that analyzes how the design of pension benefits affects labor supply far from retirement. In particular, our setting allows us to overcome several empirical challenges in the identification of pension wealth effects far from retirement.

Our results have important policy implications. We show that (i) individuals are forward-looking and (ii) spillovers within the household can amplify responses to individual incentives. This implies that pension reforms can have aggregate labor supply effects well beyond the direct impact on individuals on the verge of retirement. An interesting avenue for future research lies in integrating this and other recent empirical evidence on forward-looking responses to pension design changes in a cohesive, structural framework. This could potentially shed light on the relative effectiveness of different policy levers – a tightening of the contribution-benefit link, a reduction in the overall generosity of the system, and an increase of statutory retirement ages – in encouraging labor supply far from retirement and, thus, enhancing the fiscal sustainability of social security systems.

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Figures

Figure 1. EFFECT OF 2014 MÜTTERRENTE REFORM ON TOTAL EARNINGS UNCONDITIONAL ON EMPLOYMENT
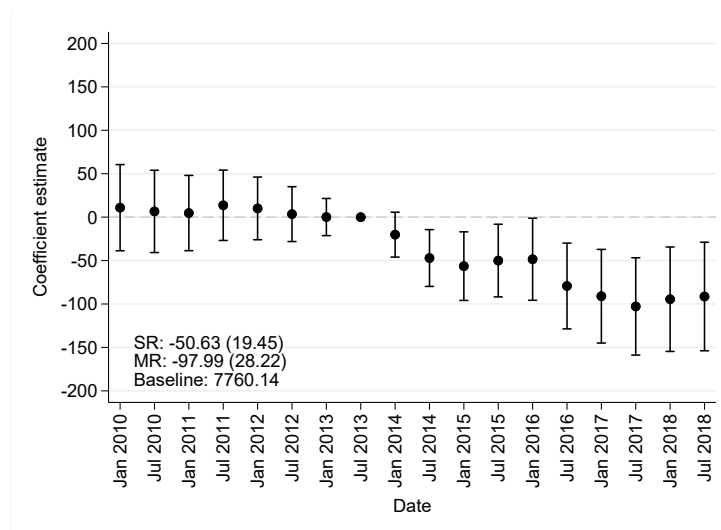
Notes: The graph reports estimates of the coefficients γ_s from equation (2). The dots represent the point estimates and the capped vertical bars 95% confidence intervals based on robust standard errors clustered at the individual level. The graph also reports estimates of the short-run effect over the 1-2.5 years after the 2014 reform (SR) and of the medium-run effect over the 3-5 years after the reform (MR), with robust standard errors clustered at the individual level in parenthesis. The baseline statistic is the average value of the outcome in the treatment group in July-December 2013.

Figure 2. Effect of 2014 Mütterrente reform on labor supply outcomes
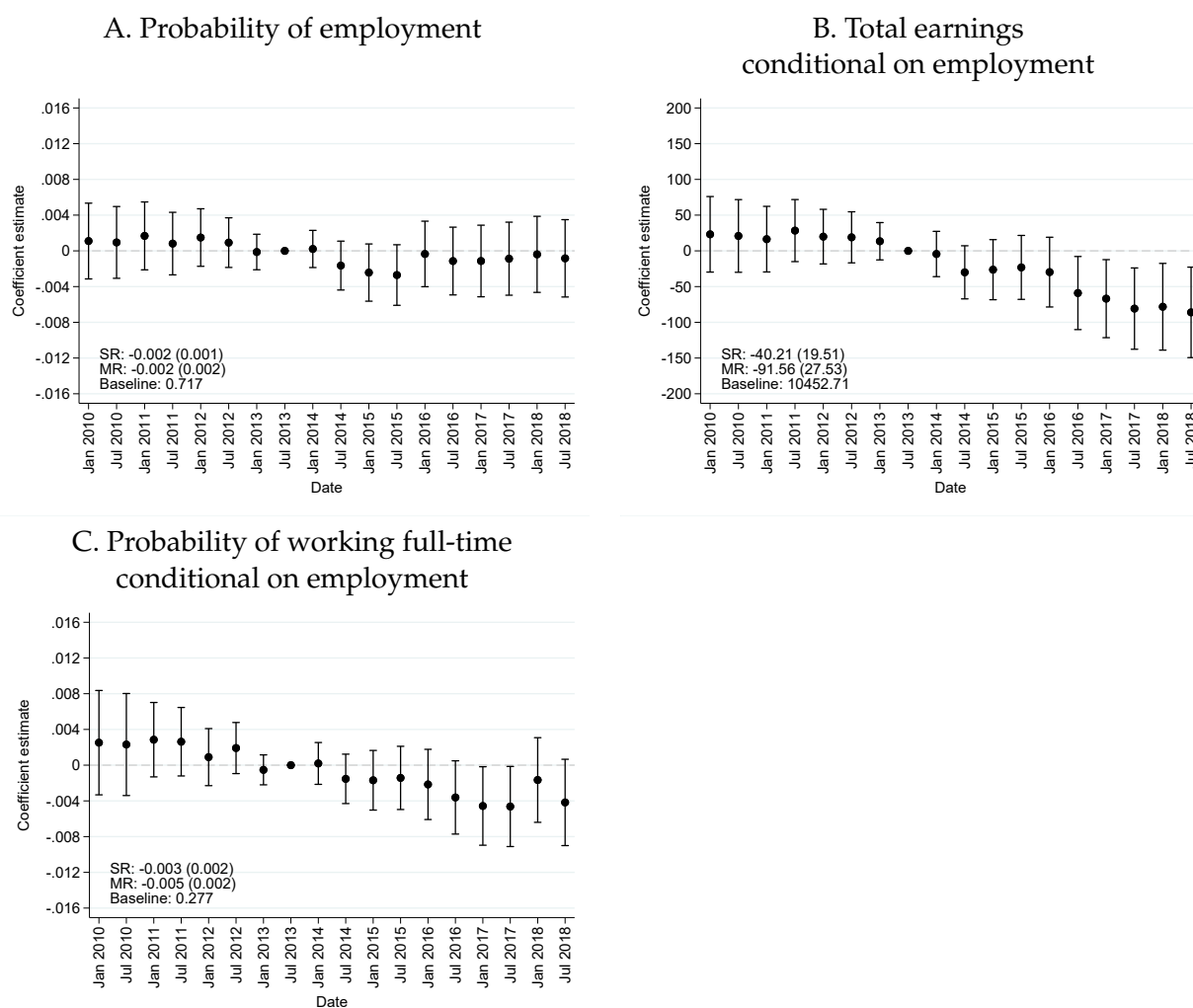
A. Probability of employment

SR: -0.002 (0.001)
MR: -0.002 (0.002)
Baseline: 0.717

B. Total earnings conditional on employment

SR: -40.21 (19.51)
MR: -91.56 (27.53)
Baseline: 10452.71

C. Probability of working full-time conditional on employment

SR: -0.003 (0.002)
MR: -0.005 (0.002)
Baseline: 0.277

Notes: The graphs report estimates of the coefficients γ_s from equation (2). The dots represent the point estimates and the capped vertical bars 95% confidence intervals based on robust standard errors clustered at the individual level. Each graph also reports estimates of the short-run effect over the 1-2.5 years after the 2014 reform (SR) and of the medium-run effect over the 3-5 years after the reform (MR), with robust standard errors clustered at the individual level in parenthesis. The baseline statistic is the average value of the outcome in the treatment group in July-December 2013.

Tables

Table 1. MAIN RESULTS

	T × Post (yr 1-2.5) (1)	T × Post (yr 3-5) (2)	Mean of dep. var. (3)	N of individuals (4)
A. Unconditional earnings and labor market status				
Unconditional earnings	-50.63***	-97.99***	7,760.14	99,104
	(19.45)	(28.22)		
Prob. of employment	-0.002	-0.002	0.717	99,104
	(0.001)	(0.002)		
Prob. of UI receipt/job-seeker status	-0.000	-0.001	0.053	99,104
	(0.001)	(0.001)		
Prob. of not being in IEB data	0.002*	0.002	0.230	99,104
	(0.001)	(0.002)		
B. Earnings and working time conditional on employment				
Conditional earnings	-40.21**	-91.56***	10,452.71	82,876
	(19.51)	(27.53)		
Cond. prob. of working full-time	-0.003*	-0.005**	0.277	82,876
	(0.002)	(0.002)		
Cond. prob. of working part-time	0.002	0.004	0.506	82,876
	(0.002)	(0.003)		
Cond. prob. of marginal employment	-0.001	0.002	0.182	82,876
	(0.001)	(0.002)		
C. Other outcomes				
Prob. of switching establishment	0.000	0.001	0.052	82,250
	(0.001)	(0.001)		
Cond. prob. of being employed in part-time intensive occupation	-0.000	0.001	0.898	82,986
	(0.001)	(0.001)		

Notes: The table reports estimates of the coefficients γ_s from equation (2) for post-reform years and for a set of different outcomes. The coefficients γ_s are estimated pooling post-reform years together. Column 1 reports estimates of the short-run effect over the 1-2.5 years after the 2014 reform (SR) and column 2 of the medium-run effect over the 3-5 years after the reform (MR), with robust standard errors clustered at the individual level in parenthesis. Column 3 reports the average value of the outcome in the treatment group in July-December 2013. Part-time intensive occupations are defined as occupations with above-median share of part-timers in the German economy. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table 2. HETEROGENEITY ANALYSIS

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
A. Returns to tenure in pre-reform occupation				
T × Post	-106.60**	-0.004**	-60.75*	-0.008***
	(41.46)	(0.002)	(31.66)	(0.003)
T × Post × above median	56.87	0.001	3.16	0.007*
	(54.76)	(0.003)	(44.16)	(0.004)
Pre-reform mean of dep. var. (below median)	13,997.40	0.985	13,997.40	0.396
Pre-reform mean of dep. var. (above median)	7,112.69	0.949	7,112.69	0.165
N individuals	73,178	73,178	73,139	73,139
B. Physical strain of pre-reform occupation				
T × Post	-44.57	-0.000	-49.79	-0.005*
	(43.10)	(0.002)	(34.14)	(0.003)
T × Post × above median	-45.55	-0.004	-4.74	0.001
	(54.90)	(0.003)	(44.09)	(0.004)
Pre-reform mean of dep. var. (below median)	12,596.27	0.975	12,596.27	0.328
Pre-reform mean of dep. var. (above median)	8,575.82	0.959	8,575.82	0.234
N individuals	72,826	72,826	72,787	72,787
C. Individual pre-reform non-childcare pension points				
T × Post	-53.99**	-0.005*	-64.11**	-0.000
	(25.62)	(0.002)	(32.38)	(0.003)
T × Post × above median	-32.60	0.004	0.70	-0.007*
	(44.70)	(0.003)	(43.79)	(0.004)
Pre-reform mean of dep. var. (below median)	3,074.85	0.561	5,211.72	0.119
Pre-reform mean of dep. var. (above median)	12,579.63	0.878	13,990.00	0.383
N individuals	99,104	99,104	82,876	82,876
D. Household pre-reform non-childcare pension points				
T × Post	-68.77	-0.004	-86.25*	-0.001
	(46.72)	(0.004)	(44.14)	(0.004)
T × Post × above median	-46.15	0.005	-8.43	-0.007
	(72.08)	(0.005)	(64.70)	(0.005)
Pre-reform mean of dep. var. (below median)	6,315.00	0.794	7,679.81	0.196
Pre-reform mean of dep. var. (above median)	10,766.48	0.876	12,018.78	0.269
N individuals	37,427	37,427	34,962	34,962

Table 2 (cont.): HETEROGENEITY ANALYSIS

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
E. Partner's pre-reform labor earnings				
T × Post	-31.87	-0.005	-22.30	0.001
	(50.94)	(0.004)	(45.85)	(0.004)
T × Post × above median	-90.92	0.007	-119.19*	-0.010*
	(74.57)	(0.005)	(67.88)	(0.006)
Pre-reform mean of dep. var. (below median)	8,280.42	0.837	9,593.91	0.250
Pre-reform mean of dep. var. (above median)	8,718.33	0.845	10,032.05	0.201
N individuals	33,605	33,605	31,563	31,563
F. Time to full retirement age				
T × Post	-60.30*	-0.002	-50.82	-0.003
	(32.50)	(0.002)	(31.92)	(0.003)
T × Post × above median	-20.91	-0.000	-24.05	-0.002
	(44.71)	(0.003)	(44.09)	(0.004)
Pre-reform mean of dep. var. (below median)	8,159.65	0.705	11,221.98	0.272
Pre-reform mean of dep. var. (above median)	7,364.86	0.730	9,722.14	0.281
N individuals	99,104	99,104	82,876	82,876

Notes: The table reports estimates from versions of equation (2), where we interact the term $D_i \cdot \mathbb{I}[t >$ Jul-Dec 2013] with indicators capturing heterogeneous treatment effects. The coefficient γ_s is estimated pooling all post-reform years together. Robust standard errors clustered at the individual level are reported in parenthesis. In Panel A, we interact the term $D_i \cdot \mathbb{I}[t >$ Jul-Dec 2013] with a dummy for being employed in an occupation with above-median predicted returns to tenure in the second half of 2013; in Panel B, with a dummy for being employed in an occupation with above-median index of physical strain in the second half of 2013; in Panel C, with a dummy for having above median non-childcare pension points within birth cohort in December 2013; in Panel D, with a dummy for having above median household-level non-childcare pension points within partners' birth cohort in December 2013; in Panel E, with a dummy for having above-median partners' labor earnings within partners' birth cohort in the second half of 2013; and in Panel F, a dummy for being at above-median distance from full retirement age, as of December 2013. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table 3. HOUSEHOLD-LEVEL SPILLOVERS

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
A. Heterogeneity by partner's time to full retirement age				
T × Post	-143.49***	-0.004	-120.63***	-0.009**
	(52.12)	(0.003)	(46.27)	(0.004)
T × Post × above median	107.07	0.005	59.96	0.009*
	(72.09)	(0.005)	(65.09)	(0.005)
Pre-reform mean of dep. var. (below median)	9,157.64	0.840	10,627.70	0.234
Pre-reform mean of dep. var. (above median)	7,901.56	0.829	9,228.65	0.235
N individuals	37,427	37,427	34,962	34,962
B. Partner's labor supply response				
T × Post (yr 1-2.5)	-19.49	0.001	-49.84	-0.001
	(48.46)	(0.002)	(32.05)	(0.001)
T × Post (yr 3-5)	-44.49	0.000	-77.30	-0.004**
	(74.15)	(0.003)	(47.75)	(0.002)
Pre-reform mean of dep. var.	19,982.79	0.844	23,177.00	0.916
N individuals	37,427	37,427	34,604	34,604

Notes: Panel A reports estimates from versions of equation (2), where we interact the term $D_i \cdot \mathbb{I}[t > \text{Jul-Dec 2013}]$ with a dummy taking value one for individuals whose partner is at above-median distance from the full retirement age. The coefficient γ_s is estimated pooling all post-reform years together. Panel B reports estimates of the coefficients γ_s from equation (2) for post-reform years using the sample of male partners. The coefficients γ_s are estimated separately for the 1-2.5 years and the 3-5 years after the reform. Robust standard errors clustered at the individual level are reported in parenthesis. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Appendix A. Additional figures and tables

Figure A1. HISTORY OF MÜTTERRENTE UP TO 2018
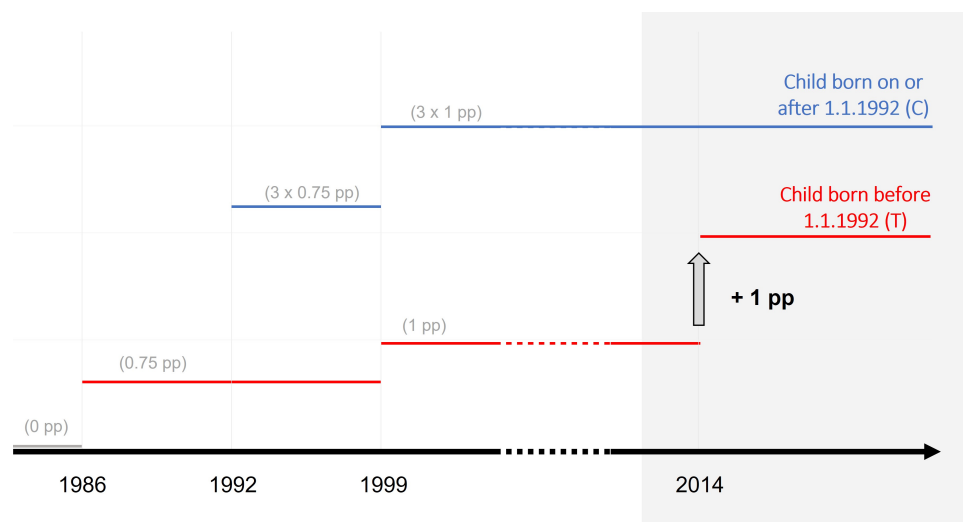
Notes: The chart illustrates the evolution of Mütterrente from 1986 to 2018. From 1986 to 1991, mothers were credited a maximum of 0.75 pension points per child for the first year after childbirth; this also applied to childbirths before 1986. The full 0.75 pension point benefit was granted to mothers who were not employed in this first year after childbirth. For employed mothers, childcare pension points were fully withdrawn against pension points from regular employment. From 1992, mothers of children born on or after January 1, 1992 were entitled to a maximum of 2.25 pension points (three years × 0.75 pension points). Mothers of children born before January 1, 1992, continued to receive a maximum of 0.75 pension points per child. Childcare pension points were still withdrawn against employment contributions at a 100% rate. A reform in 1999 increased the generosity of the childcare pension benefit from 0.75 to one pension point per year and repealed the earnings test. The 1999 pension reform was retroactive. Starting July 2014, mothers whose children were born before January 1, 1992, got one extra pension point per child, totaling two pension points per child born before 1992. The effect of this reform is analyzed in this paper.

Figure A2. NUMBER OF NEWSPAPER ARTICLES INCLUDING THE WORD 'MÜTTERRENTE'
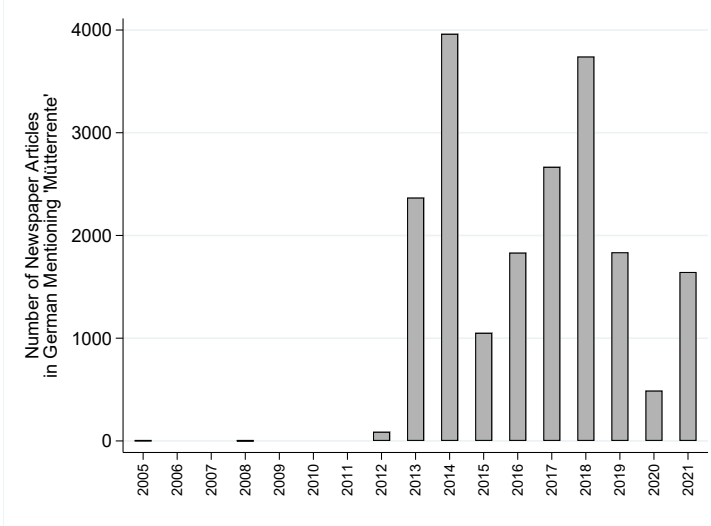
Notes: The graph reports the number of newspaper articles in German including the word 'Mütterrente'. Data are sourced from Factiva.

Figure A3. GOOGLE SEARCHES FOR 'MÜTTERRENTE' AND OTHER GENDER- AND PENSION-RELATED POLICIES
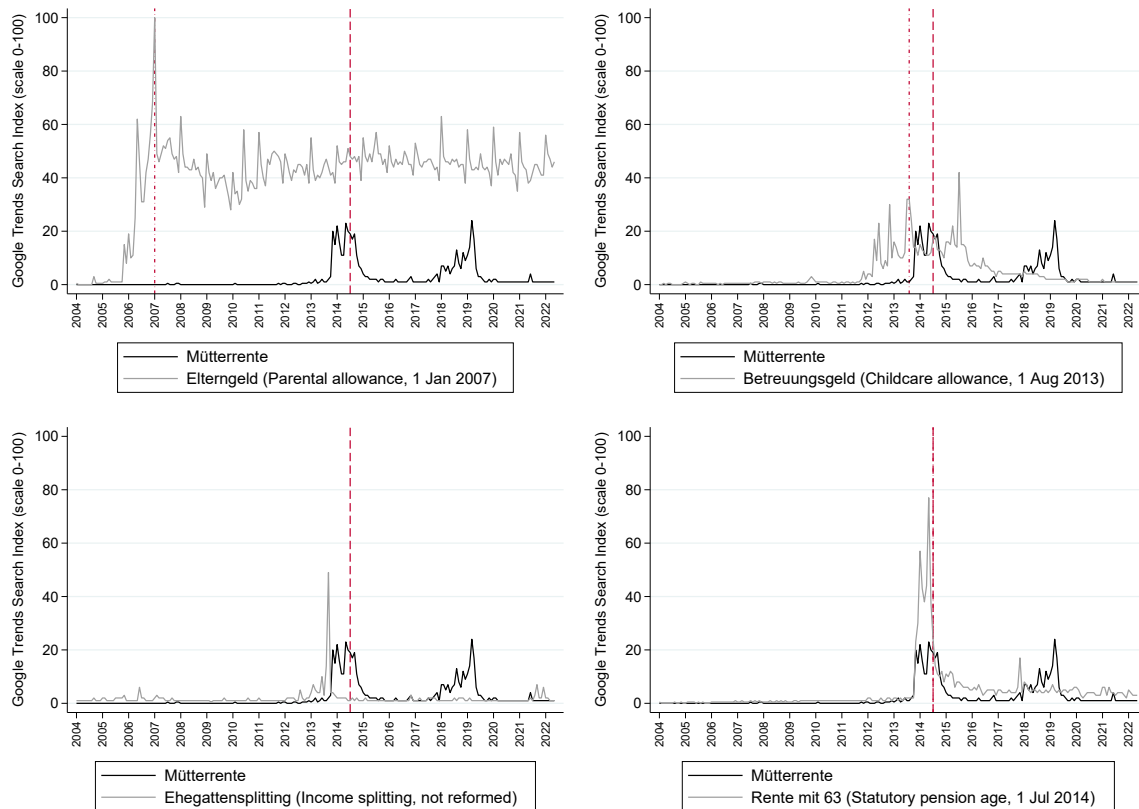
Notes: The figure reports the evolution of Google Trends search indices for the term 'Mütterrente' and for terms referring to other gender- and pension-related policies implemented in Germany. The Google Trends search index is normalized to take values between 0 and 100, where 100 corresponds to the point in time in which the largest number of searches took place within the location specified in the query. Our query covers Google searches across Germany between 2004 and the beginning of 2022. The index is comparable across searches. Each panel reports a comparison of the Google Trends search index for the term 'Mütterrente' (black line) and other gender-related policies (grey line). Panel A reports searches for 'Elterngeld', a parental allowance introduced on January 1, 2007; Panel B for 'Betreuungsgeld', a childcare allowance introduced on August 1, 2013; Panel C for 'Ehegattensplitting', the German system of joint taxation of married couples, which was not reformed during this period but is often discussed; Panel D for 'Rente mit 63', a reduction of the statutory seniority-pension age to 63 down from 65 which took place on July 1, 2014. The dashed vertical line corresponding to July 2014 indicates the time of implementation of Mütterrente; the dash-dotted vertical line indicates the time of implementation of the other policy, when relevant.

Figure A4. AGE DISTRIBUTION OF MOTHERS IN THE MAIN SAMPLE IN DECEMBER 2013
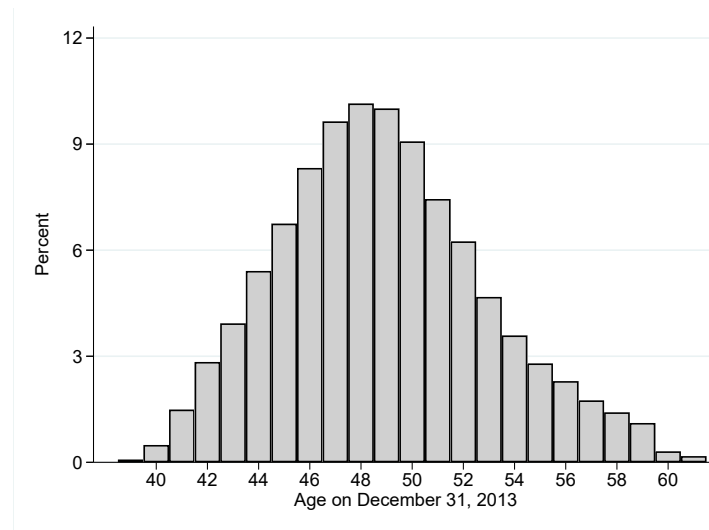
Notes: The graph shows the age distribution for women in the main sample as of December 31, 2013.

Figure A5. EFFECT OF 2014 MÜTTERRENTE REFORM ON THE PROBABILITY OF WORKING PART-TIME OR IN A MINIJOB CONDITIONAL ON EMPLOYMENT
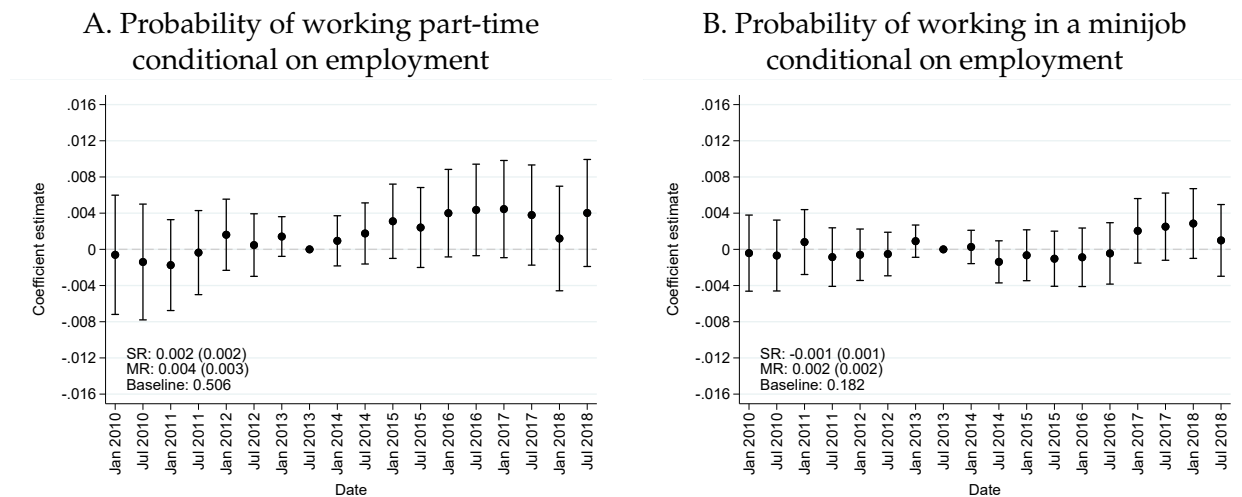
A. Probability of working part-time conditional on employment

B. Probability of working in a minijob conditional on employment

Notes: The graphs report estimates of the coefficients γ_s from equation (2). The dots represent the point estimates and the capped vertical bars 95% confidence intervals based on robust standard errors clustered at the individual level. Each graph also reports estimates of the short-run effect over the 1-2.5 years after the 2014 reform (SR) and of the medium-run effect over the 3-5 years after the reform (MR), with robust standard errors clustered at the individual level in parenthesis. The baseline statistic is the average value of the outcome in the treatment group in July-December 2013.

Figure A6. EFFECT OF 1992 MATERNITY-LEAVE AND MÜTTERRENTE REFORMS ON TOTAL FERTILITY
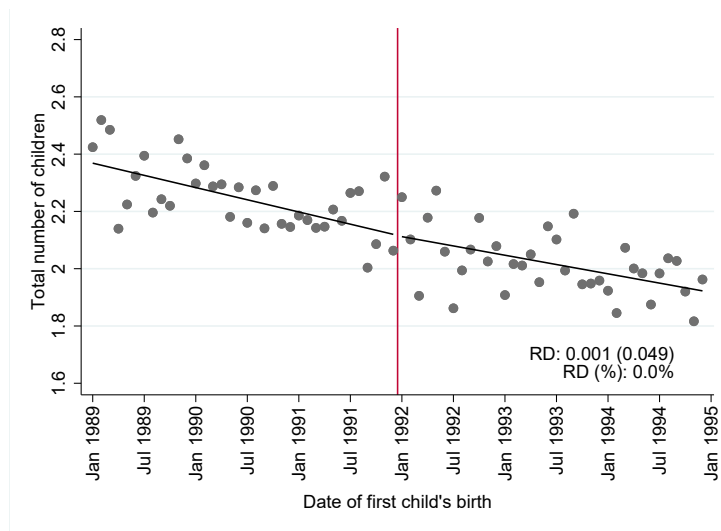
Notes: The graph reports parametric regression-discontinuity-design (RDD) estimates of the effect of the 1992 maternity-leave and Mütterrente reforms on total fertility. We use data from VSKT to compute the total number of children born to a mother as of December 2019. The gray dots plot the average number of children born to mothers by month of birth of their first child, residualized against mother's cohort and child's month of birth fixed effects. The solid line is fitted based on a parametric RDD with linear fit, also conditional on cohort and month of birth fixed effects. The graph also reports the point estimate of the (negative of the) discontinuity at the January 1, 1992 cutoff and associated robust standard error, clustered at month of birth level. We report the negative of the discontinuity so that it reflects the impact on the total fertility of the treatment group (relative to the control group). We also report the discontinuity as a percent of the mean outcome on the left of the cutoff.

Figure A7. TEST OF PARALLEL TRENDS FOR HETEROGENEITY ANALYSIS
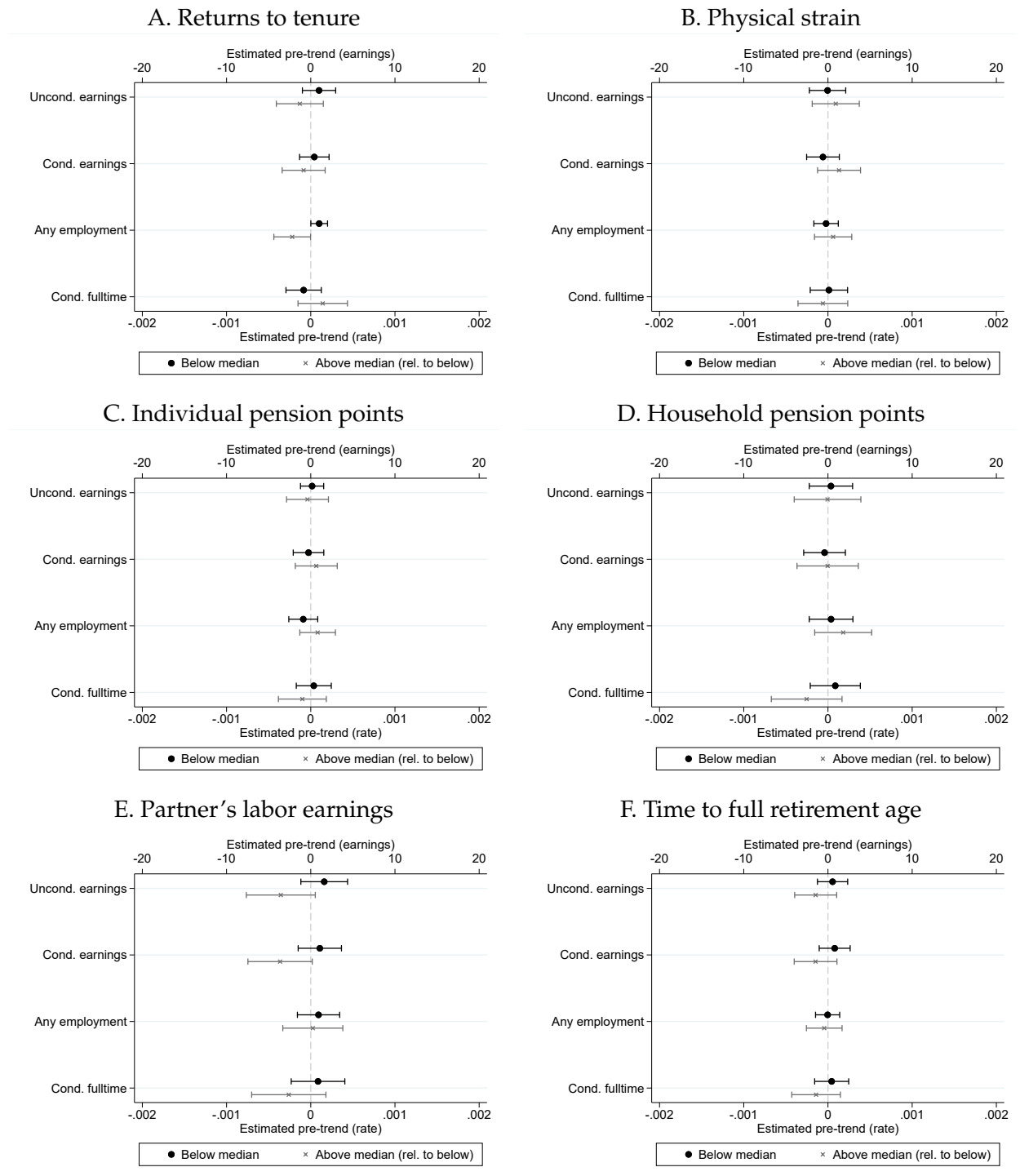
Notes: The graph reports estimates of pre-reform trends for our main outcomes of interests across the heterogeneity dimensions investigated in Table 2. For each outcome Y_{it}, we regress Y_{it} against a time trend, its interaction with a treatment indicator, and the interaction of both those terms with an indicator taking value one if the observation belongs to the above-median group of the relevant dimension of heterogeneity. Individual fixed effects are also included. The estimation sample is restricted to the pre-reform period. The dots/crosses represent the point estimates and the capped vertical bars the associated 95% confidence intervals based on robust standard errors clustered at the individual level. Estimates in black (dots) refer to the coefficient on the interaction between the time trend and the treatment indicator, while estimates in gray (crosses) to the interaction between the trend, the treatment indicator and the above-median indicator. Estimates for unconditional and conditional earnings are plotted along the top x-axis, while those for the employment rate and the conditional full-time rate on the bottom x-axis. Each panel correspond to the same-letter panel in Table 2.

Figure A8. TEST OF PARALLEL TRENDS FOR HOUSEHOLD SPILLOVERS
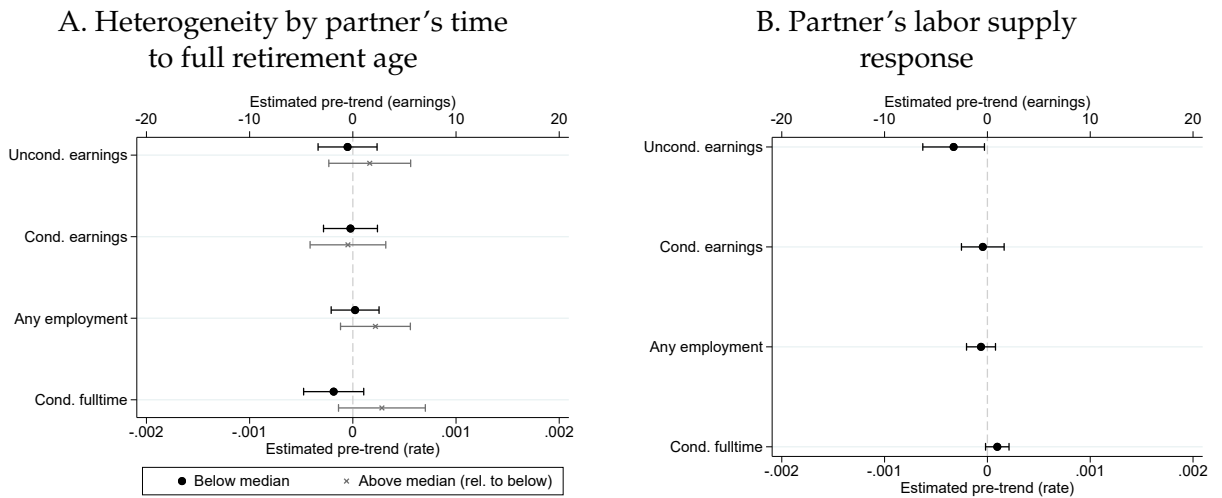
A. Heterogeneity by partner's time
to full retirement age

B. Partner's labor supply
response

Notes: Panel A reports estimates of pre-reform trends for our main outcomes of interests across the heterogeneity dimension investigated in Panel A of Table 3. For each outcome Y_{it}, we regress Y_{it} against a time trend and its interaction with an indicator taking value one if the observation belongs to the group with above-median partner's time to full retirement age. Individual fixed effects are also included. The estimation sample is restricted to the pre-reform period. The dots/crosses represent the point estimates and the capped vertical bars 95% confidence intervals based on robust standard errors clustered at the individual level. Estimates in black (dots) refer to the coefficient on the interaction between the time trend and the treatment indicator, while estimates in gray (crosses) to the interaction between the trend, the treatment indicator and the above-median indicator. Panel B reports estimates of pre-reform trends for the outcomes analyzed in Panel B of Table 3. For each outcome Y_{it}, we regress Y_{it} against a time trend, its interaction with a treatment indicator and individual fixed effects, restricting the sample to the pre-reform period. The dots represent the point estimates on the interaction and the capped vertical bars the associated 95% confidence intervals based on robust standard errors clustered at the individual level. Estimates for unconditional and conditional earnings are plotted along the top x-axis. Estimates for the employment rate and the conditional full-time rate are plotted on the bottom x-axis.

Table A1. DESCRIPTIVE STATISTICS: IEB SAMPLE

	Mothers with first child born			
	before 1.1.1992 (3 months)	after 1.1.1992 (3 months)		
	Mean	Mean	Difference	p-value of diff.
	(1)	(2)	(3)	(4)
Individual characteristics				
Age at first birth	27.30	27.46	-0.164	0.000
Age on December 31, 2013	49.44	49.32	0.125	0.000
High education	0.22	0.23	-0.004	0.109
Labor market status in December 2013				
Any employment	0.72	0.72	-0.007	0.010
Full-time employment	0.21	0.20	0.002	0.475
Part-time employment	0.38	0.39	-0.011	0.000
Marginal employment	0.13	0.13	0.002	0.344
UI benefits and/or jobseeker	0.05	0.05	0.003	0.059
Not in IEB data	0.23	0.22	0.005	0.069
Cumulative duration (in months) as of December 31, 2013				
Any employment	240.44	241.21	-0.775	0.194
Unconditional earnings July to December 2013				
Any employment	7760.14	7870.71	-110.56	0.028
Observations	50,428	48,676		
Earnings July to December 2013 conditional on employment of the respective type				
Any employment	10,452.71	10,511.84	-59.13	0.283
Observations	37,438	36,446		
Regular employment	12,155.55	12,149.61	5.94	0.917
Observations	30,426	29,830		
Regular FT employment	15,931.47	15,889.06	42.41	0.695
Observations	10,839	10,384		
Regular PT employment	9,909.16	10,001.16	-92.01	0.099
Observations	19,793	19,652		
Marginal employment	1,905.09	1,910.04	-4.95	0.697
Observations	7,536	7,152		

Notes: The table reports summary statistics from the IEB sample, separately for mothers of children born before (treatment group) and after (control group) January 1, 1992 (columns 1 and 2 respectively), omitting all births in the two weeks around January 1, 1992. The table also reports the difference in means between the treatment and control groups (column 3), and the p-value of the difference. High education is defined as having either a university (of applied science) degree or A-levels plus vocational training.

Table A2. Descriptive statistics: VSKT sample

	Mothers with first child born			
	before 1.1.1992 (12 months)	after 1.1.1992 (12 months)		
	Mean	Mean	Difference	p-value of diff.
	(1)	(2)	(3)	(4)
Demographics and pension points as of December 2013				
Age	49.10	48.36	0.745	0.000
Number of children	1.96	1.94	0.027	0.474
Cumulated pension points	23.32	24.60	-1.283	0.002
Labor market status in December 2013				
Employed	0.73	0.74	-0.016	0.443
Regular employment	0.60	0.62	-0.018	0.440
Marginal employment	0.13	0.13	0.002	0.897
Unemployed	0.05	0.05	0.003	0.767
Observations	1,300	1,487		

Notes: The table reports summary statistics from the VSKT sample, separately for mothers of children born before (treatment group) and after (control group) January 1, 1992 (columns 1 and 2 respectively). The table also reports the difference in means between the treatment and control groups (column 3), and the p-value of the difference.

Table A3. MAIN ESTIMATES BY PRE-REFORM EMPLOYMENT STATUS

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
A. Sample of mothers employed in July-December 2013				
T × Post (yr 1-2.5)	-49.70**	-0.003	-39.47**	-0.003
	(23.50)	(0.002)	(19.35)	(0.002)
T × Post (yr 3-4.5)	-103.56***	-0.003	-82.39***	-0.005**
	(34.54)	(0.002)	(27.72)	(0.002)
Pre-reform mean of dep. var.	10,452.71	0.966	10,452.71	0.277
N individuals	73,884	73,884	73,845	73,845
B. Sample of mothers not employed in July-December 2013				
T × Post (yr 1-2.5)	-13.59	-0.001		
	(28.35)	(0.003)		
T × Post (yr 3-4.5)	-39.99	-0.002		
	(41.57)	(0.004)		
Pre-reform mean of dep. var.	0.00	0.000		
N individuals	25,220	25,220		

Notes: The table reports estimates of the coefficients γ_s from equation (2) for post-reform years. The coefficients γ_s are estimated pooling post-reform years together, distinguishing between a short-run effect over the 1-2.5 years after the 2014 reform and a medium-run effect over the 3-5 years after the reform. Robust standard errors clustered at the individual level are reported in parenthesis. The estimates in Panel A are based on a sample restricted to individuals who had positive labor earnings (i.e. were employed) in the second half of 2013. Those in Panel B are based instead on the sample of those with zero labor earnings (i.e. not employed) in the second half of 2013. In Panel B, we do not report results for earnings conditional on employment and full-time status conditional on employment, since those are not defined in the base period for the sample analyzed. The table reports the average value of the outcome in the treatment group in July-December 2013. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table A4. PLACEBO ESTIMATES

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
	A. Placebo threshold: January 1, 1994			
T × Post (yr 1-2.5)	-23.48	0.001	-21.73	0.002
	(21.71)	(0.002)	(21.66)	(0.002)
T × Post (yr 3-5)	-24.43	0.003	-30.34	-0.002
	(31.15)	(0.002)	(30.44)	(0.002)
Pre-reform mean of dep. var.	7,938.53	0.737	10,410.72	0.254
N individuals	84,676	84,676	72,538	72,538
	B. Placebo threshold: January 1, 1995			
T × Post (yr 1-2.5)	-7.77	0.001	-11.75	0.000
	(23.08)	(0.002)	(22.96)	(0.002)
T × Post (yr 3-5)	-17.53	0.002	-20.27	-0.000
	(33.32)	(0.002)	(32.45)	(0.003)
Pre-reform mean of dep. var.	8,037.86	0.745	10,435.18	0.243
N individuals	77,636	77,636	66,954	66,954

Notes: Panels A and B report estimates of the coefficients γ_s from versions of equation (2), where we use January 1, 1994 and January 1, 1995 as placebo thresholds to define (placebo) treatment and control groups, respectively. The coefficients γ_s are estimated pooling post-reform years together. Row 1 of each panel reports estimates of the short-run effect over the 1-2.5 years after December 2013 (SR) and row 3 of the medium-run effect over the 3-5 years after the reform (MR), with robust standard errors clustered at the individual level in parenthesis. Row 5 reports the average value of the outcome in the (placebo) treatment group in July-December 2013. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table A5. ROBUSTNESS TO DIFFERENT DOUGHNUT-HOLE WIDTHS

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
	A. Zero weeks			
T × Post (yr 1-2.5)	-51.76***	-0.002*	-40.42**	-0.002
	(17.82)	(0.001)	(17.88)	(0.002)
T × Post (yr 3-4.5)	-86.30***	-0.001	-84.69***	-0.004**
	(25.81)	(0.002)	(25.24)	(0.002)
Pre-reform mean of dep. var.	7,742.31	0.717	10,431.27	0.276
N individuals	117,554	117,554	98,220	98,220
	B. Four weeks			
T × Post (yr 1-2.5)	-55.54**	-0.003*	-50.48**	-0.005***
	(21.57)	(0.002)	(21.56)	(0.002)
T × Post (yr 3-4.5)	-115.73***	-0.003	-114.03***	-0.008***
	(31.22)	(0.002)	(30.39)	(0.002)
Pre-reform mean of dep. var.	7,783.90	0.717	10,487.23	0.277
N individuals	81,054	81,054	67,769	67,769
	C. Six weeks			
T × Post (yr 1-2.5)	-39.84*	-0.002	-39.07	-0.005**
	(24.13)	(0.002)	(24.13)	(0.002)
T × Post (yr 3-4.5)	-106.55***	-0.002	-108.15***	-0.009***
	(34.98)	(0.002)	(34.15)	(0.003)
Pre-reform mean of dep. var.	7,790.85	0.718	10,489.34	0.279
N individuals	64,253	64,253	53,716	53,716

Notes: The table reports estimates of the coefficients γ_s from equation 2 for post-reform years for samples with different doughnut-hole widths around the January 1, 1992 cutoff. Our baseline sample excludes observations with imputed childbirths in a two-week window around January 1, 1992 (see Table 1). Panel A reports estimates for a sample with no doughnut hole; Panel B for a sample with a four-week doughnut whole and Panel C for a sample with a six-week doughnut hole. The coefficients γ_s are estimated separately for the 1-2 years and the 3-4.5 years after the July 2014 reform. Robust standard errors clustered at the individual level are reported in parenthesis. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Table A6. MAIN ESTIMATES FOR SAMPLE OF MOTHERS MATCHED TO A PARTNER

	Unconditional earnings	Any employment	Conditional earnings	Cond. fulltime employment
T × Post (yr 1-2.5)	-84.52***	-0.003	-77.14***	-0.004
	(31.49)	(0.002)	(28.69)	(0.003)
T × Post (yr 3-4.5)	-100.14**	-0.001	-107.45***	-0.005
	(45.18)	(0.003)	(40.60)	(0.003)
Pre-reform mean of dep. var.	8,535.93	0.835	9,937.45	0.234
N individuals	37,427	37,427	34,962	34,962

Notes: The table reports estimates of the coefficients γ_s from equation 2 for post-reform years using the sample of mothers who can be matched to a partner. The coefficients γ_s are estimated separately for the 1-2 years and the 3-4.5 years after the July 2014 reform. Robust standard errors clustered at the individual level are reported in parenthesis. *** indicates significance at the 1% level, ** at the 5% level, and * at the 10% level.

Appendix B.   Maternity leave legislation in Germany

To provide a complete picture of the institutional context, we briefly illustrate the features of German legislation in the matter of maternity leave. In Germany, mothers have been entitled to fully paid maternity leave for the 6 weeks before and the 8 weeks after childbirth since the mid-1950s. During maternity leave, the firm cannot dismiss the mother, and the mother has the right to return to a job comparable to the one she held before childbirth in the same firm.

In 1979, Germany introduced additional parental leave, which in practice has been used by mothers in the vast majority of cases. This parental leave extended the job protection period to 6 months after birth, and introduced parental pay (at a fixed amount) for the same time period.[54] From the late 1980s, Germany enacted a series of reforms to this scheme. In July 1989 and July 1990, the job protection and maximum benefit periods were extended to 15 and 18 months, respectively. In January 1992, the duration of job-protected leave was increased from 18 to 36 months, while that of leave payments was extended to 24 months in January 1993. Schönberg and Ludsteck (2014) analyze the effect of these reforms on mothers' labor supply decisions after childbirth. They find that the 1992 reform — whose timing coincides with one of the childcare pension benefit reforms — reduced the share of mothers who had returned to work 19 months after childbirth by 9.6 percentage points. It also slightly reduced the probability that a mother had returned to work 6 years after childbirth (by 0.8 percentage points).

Even though the child's birth date of January 1, 1992 is a relevant cutoff date with respect to both the Mütterrente and the parental leave reforms, this does not pose a problem for identifying the effect of the July 2014 pension reform, since we compare the behavior of mothers who had children before versus after the cut-off date of January 1, 1992, before versus after July 2014. We assume that any confounding effect of the 1992 maternity leave reforms is accounted for by the second, time difference.

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[54]The first eight weeks after childbirth are still fully paid.

Appendix C. Details on data construction

C.1 Simulation of pension wealth effect using VSKT data

We use the VSKT data to simulate the absolute and proportional increase in the present discounted value of pension wealth generated by the 2014 reform at the time of the coalition agreement in December 2013, which is the baseline period in our difference-in-differences analysis. We employ the sample restrictions described in Section 3.2 to make the VSKT sample as close as possible to our IEB one.

The absolute effect of the reform on the present discounted value of pension wealth is simulated based on the following formula:

$$\Delta W_{\text{Dec 2013}} = \beta^J \cdot \Delta P_{\text{Dec 2013}} \cdot (1 + \gamma)^J \cdot R_{\text{Dec 2013}} \cdot \sum_{k=0}^{270-1} \beta^k (1 + \gamma)^k \tag{C1}$$

where $\Delta W_{\text{Dec 2013}}$ indicates the change in the present discounted value of pension wealth induced by the 2014 reform as of December 2013. $\Delta P_{\text{Dec 2013}}$ is the mechanical change in cumulated pension points due to the reform, which is of one pension point per child born prior to January 1, 1992. In our sample of analysis $\Delta P_{\text{Dec 2013}} = 1.03$, which is slightly larger than 1 due to multiple births.

In order to map the pension point increase into a monetary quantity, we multiply it by the value of a pension point R (Rentenwert), which was EUR 28 per month in West Germany in December 2013. We account for the fact that the value of a pension point R is expected to change over time by multiplying its monthly value in 2013 by a growth factor γ over (i) the J months that separate a mother from her full retirement age and (ii) the following months over which she is expected to be retired. We estimate γ empirically by regressing the natural logarithm of the CPI-adjusted R in each month on a time trend and use the coefficient on the trend as our measure of γ.[55] We estimate $\widehat{\gamma} = -0.0001619$ over the years from 2002 (the introduction of the Euro) to 2019.[56] According to official life expectancy tables from the German Federal Statistical Office, the average woman in our sample is expected to live – and hence receive pension payments – for 22.5 years (270 months) after her full retirement age (67).[57] Last, we discount the change in cumulated pension payments due to the reform to December 2013. For discounting, we use $\beta = 0.9983$ as monthly discount factor.

This formula provides an increase in the present discounted value of pension wealth of EUR 3,830, corresponding to a 4.4% increase of pension wealth as of December 2013.[58]

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[55]In practice, the Rentenwert is updated each year by the government as a function of gross wage growth.

[56]If we consider the period between 2002 and 2013 – to reflect the time period over which individuals in the sample are likely to have formed their expectations of the Rentenwert's growth – we obtain a more negative $\widehat{\gamma}$, which would imply a slightly larger estimate of the MPE.

[57]The data on life expectancy are sourced from the Federal Statistical Office (Statistisches Bundesamt).

[58]The increase in the present discounted value of pension wealth as of June 2014 – one month prior to the reform implementation – is EUR 3,950, also corresponding to 4.4% of pension wealth.

C.2 Imputation of pension points in IEB data

In the German pension system, there are three types of pension-relevant periods: contribution periods (Beitragszeiten), non-contributory periods (beitragsfreie Zeiten) and consideration periods (Berücksichtigungszeiten) (Deutsche Rentenversicherung Bund, 2021*b*).[59] Contribution periods are periods during which contributions to the pension insurance are made, most importantly periods of employment subject to social security contributions, of childcare as outlined in Section 2.2, or of specific times of unemployment. Non-contributory periods include periods during which no contributions can be made, e.g. because of long-term sickness, rehabilitation, maternity leave, education, or certain periods of unemployment. As will be explained below, some non-contributory periods can also be credited with pension points. Consideration periods are important for determining how many pension points someone might get attributed for non-contributory periods. The most important ones are related to childcare until the child is aged 10 as explained in more detail below.

Some of the events associated with pension-relevant periods, such as long-term sickness or rehabilitation, can either not be (reliably) identified in the IEB or have eligibility conditions that cannot be directly verified in the data. For our analysis, the quantitatively most important contributory events are employment and care for the first child, so that we discuss the imputation of pension points for these periods in more detail. For brevity, the imputation of pension points for other pensionable periods like unemployment is only discussed briefly.

In order to impute pension points from employment subject to social security contributions (SSC), we compute monthly earnings based on gross daily wage and monthly employment duration. While wages in the IEB are in principle capped at the social security contribution ceiling, it is possible for calculated monthly earnings to exceed the cap in some cases. This can be due to approximation error of the monthly wage, or, for instance, bonus payments that are added up to regular income. In all these cases, we cap earnings at the pension contribution ceiling. Monthly pension points from employment subject to SSC are then calculated as the ratio of monthly earnings to the average annual income in the population as determined by the government (see also Section 2.1).

Earnings from marginal employment are subject to employer pension contributions, while employee contributions were voluntary until the end of 2012.[60] Although pension contributions became the default for marginal employees in 2013, employees can still opt-out of making contributions. In the data, we cannot observe whether an employee actually contributes to pension insurance for marginal employment. In March 2020, more than 80% of marginal employees did not pay pension contributions (Minijob-Zentrale, 2020). Therefore, only employer contributions

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[59]Non-contributory periods comprise so-called Anrechnungszeiten and Ersatzzeiten. In the following, we omit the latter as these are periods during which individuals cannot make contributions due to, for example, captivity of war or persecution.

[60]Under certain conditions (e.g. earnings above the income threshold), marginal employment is subject to regular social security contributions. In these cases, income from marginal employment is added to income from employment subject to SSC above.

are taken into account when imputing pension points. The employer contribution rate was 12% until June 30, 2006, and subsequently increased to 15%. Marginal employment in private households is subject to an employer contribution rate of 5%. Pension points from marginal employment per spell are calculated as $\frac{\text{Income from marginal employment}}{\text{Average annual income}} \times \frac{\text{Sector employer contribution rate}}{\text{Total pension contribution rate}}$. The total pension contribution rate is the sum of the employer and employee pension contribution rates for regular employment subject to SSC and amounted to 18.6% in 2018. The monthly pension points from marginal employment are the sum of pension points for all spells in a month.

The regulations on how periods of receipt of different types of unemployment benefits (unemployment insurance, unemployment assistance, maintenance benefits, unemployment benefits II) are credited with pension points have changed repeatedly over time (Steffen, 2011; Deutsche Rentenversicherung Bund, 2022a). In the imputation procedure, we take these changes into account as far as the data permits to impute the pension entitlements derived from unemployment as accurately as possible.

To impute pension points for contribution periods of childcare before the Mütterrente reform, we assign 0.0833 (i.e. 1/12) pension points per month for the first 12 (36) months to the treatment (control) group starting from the month after the birth of the child. If the annual cap on pension points is exceeded by the sum of pension points from other contribution periods and childcare, the pension points from childcare are reduced accordingly (Deutsche Rentenversicherung Bund, 2021a). In the analysis, we only use childcare pension points as of December 31, 2013, and only assign them for the first child, since we cannot identify the majority of higher order births.

There are two types of non-contributory periods, those that are credited with pension points (bewertete Anrechnungszeiten) and those that are not credited with pension credits (unbewertete Anrechnungszeiten). For instance, non-contributory periods like school-based education are not credited with pension points, while specific periods of unemployment are credited with pension points.[61,62] How many pension points are credited for these periods is determined in the overall assessment procedure explained further below. Both of these non-contributory periods have in common that they are subtracted from the pensionable period and therefore indirectly increase an individuals' average monthly pension contribution over the insured life calculated in the overall assessment procedure. While this procedure is normally performed upon retirement, we use it to calculate individuals' total pension entitlements from contribution, consideration and non-contributory periods as of December 31, 2013. We do this for both partners, though childcare-related pension points are only calculated for women.

Consideration periods for childcare play a role in the overall assessment procedure and are intended to close gaps in the insurance records or compensate for reduced contributions that

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[61]We cannot observe school-based education in the data, but assume that individuals with A-levels have two years of education after their 17th birthday and individuals with a university (of applied science) degree have seven years.
[62]Additionally, months of vocational training are considered reduced-value contribution periods (beitragsgeminderte Zeiten), so that the pension entitlements derived from these periods are topped up to 75% of the average monthly pension value, but subject to a cap of 0.0625 pension points obtainable per month.

are caused by childcare obligations. The consideration period for childcare begins on the child's day of birth and ends when the child turns 10. This period counts towards the qualifying period necessary to be eligible for certain types of pensions, e.g. the seniority pension that requires 45 years of contributions. The consideration period does not directly increase pension entitlements, but is 'fictitiously' credited with 0.0833 pension points per month subject to the annual cap on pension points (Beye, 2009).

Upon retirement, the so-called overall assessment procedure (Gesamtleistungsbewertung) is performed to determine the pension entitlements for non-contributory periods that are credited with pension points. The overall assessment procedure first calculates an individual's sum of actual pension points from contribution periods and fictitious pension points from consideration periods. These points are then divided by the total pensionable period (belegungsfähiger Zeitraum) to calculate individuals' average monthly pension contribution over their insured life (Gesamtleistungswert) (Beye, 2009). Months of creditable non-contributory periods are then assigned pension points to the value of the average monthly pension contribution, thus increasing total pension entitlements. Therefore, a shorter pensionable period is beneficial in the overall assessment procedure. The pensionable period starts the day after the individual turns 17, but includes pension-relevant periods before age 17 (if any), and typically ends when entering retirement (Beye, 2009). Non-contributory periods are subtracted from the pensionable period, while other gaps in the insurance record (e.g. periods out of the labor force for non-pension-relevant reasons) are not.

As shown in table C1, our procedure accurately imputes pension points for employment and unemployment spells. Due to the difficulty in identifying multiple and second or higher order births, we underestimate total childcare pension points, but we precisely estimate the difference in total childcare pension points between mothers whose first child was born right before and right after January 1, 1992. We note that the table reports pension points for the contributory events that we can impute in the IEB data.

Table C1. VALIDATION OF PENSION POINT IMPUTATION

	VSKT		IEB	
	Mothers with first child born		Mothers with first child born	
	before 1.1.1992	after 1.1.1992	before 1.1.1992	after 1.1.1992
	(1)	(2)	(3)	(4)
Cumulative pension points for contribution periods on December 31, 2013				
Income subject to SSC	11.60	11.48	11.47	11.56
Unemployment	0.321	0.313	0.240	0.246
Childcare	4.00	5.90	0.995	2.971
Observations	1,300	1,487	50,428	48,676

Notes: The table reports the number of cumulated pension points for different types of contributory events, separately for mothers whose first child was born before and after January 1, 1992, and separately for the VSKT and IEB samples. Pension points are directly available in VSKT; they are, instead, imputed in IEB. In the IEB data, childcare pension points only include those for the first child.

C.3 Matching of individuals to their spouses

In order to match spouses, Bächmann et al. (2021) create cross-sections from the Integrated Employment Biographies as of June 30 of each year from 2001 to 2014. They restrict the sample to individuals who are at least 16 years old, the legal age to marry in Germany. Using information on surnames and geo-coded residential addresses, two individuals of opposite sex are matched as spouses if they meet all three of the following conditions: (i) having same surname, (ii) having exact same residential location, and (iii) being uniquely identified as a couple.

The first condition requires that couples have the same surname recorded in the data, including double surnames if they are hyphenated (e.g. Müller-Schmidt). The procedure thus cannot identify married couples who do not share a surname nor cohabiting couples. Second, the matching procedure requires that married couples share the exact same residential location consisting of municipality, postal code, street name and street number. Spouses who do not cohabit, report different addresses or report the same address in different ways can therefore not be linked. Third, the uniqueness condition requires that only two individuals aged 16 or older with the same surname can report the exact same residential location. Finally, matched individuals with an absolute age difference of more than 15 years are excluded from the sample.

Appendix Table C2 reports, for each year, the number of couples that can be identified for the last time in that year, using the matching procedure described above. More than half of the couples can be identified at least once in the five years preceding 2014, which correspond to the pre-reform years in our analysis. Overall, out of the 99,104 women in our sample, 41,646 (42%) can be matched to a spouse. We restrict the sample of couples to exclude male partners who ever had an employment spell in East Germany, had potential times at the Knappschaft, died before July 2014 and/or were born after 1979.[63] This reduces the final sample size of couples to 37,427 (38%).

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[63]As for women, we exclude partners with employment spells in East Germany and potential times in the Knappschaft, due to incomplete working histories and different pension rules, which make it difficult to precisely impute pension points. We exclude partners who died before July 2014, since they are no longer alive after the reform. Finally, even though we do not (and cannot) restrict the sample to partners who are also the father of women's children, we do exclude male partners born after 1979, since those would be 12 or younger at the time of the female partner's first childbirth. This restriction only affects a very small number of male partners.

Table C2. MATCHING OF SPOUSES

Last year of observation as couple (June 30)	Frequency	Percent	Cum. percent
2001	1,581	3.80	3.80
2002	1,273	3.06	6.85
2003	1,259	3.02	9.88
2004	1,347	3.23	13.11
2005	1,383	3.32	16.43
2006	1,486	3.57	20.00
2007	3,357	8.06	28.06
2008	4,356	10.46	38.52
2009	3,750	9.00	47.52
2010	3,282	7.88	55.41
2011	3,384	8.13	63.53
2012	2,520	6.05	69.58
2013	2,912	6.99	76.57
2014	9,756	23.43	100.00
N couples	41,646	100.00	
N couples final sample	37,427	89.87	

Notes: The table reports, for each year, the number of couples that can be identified for the last time in that year, using the matching procedure and sample restrictions described in Section C.3. The final sample excludes couples in which the male partner fulfils any of the following conditions: (i) at least one employment spell in East Germany, (ii) potential times at the Knappschaft, (iii) died before July 2014, or (iv) born after 1979.