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International Experiences in the Transition between Work and Retirement

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The transition from work into retirement is determined by a broad range of factors, among which incentives set by pension schemes and the labour market, individual health status, the availability of sufficient resources from public and private pensions, other social transfers and capital.[1] Workers in Germany are not alone in experiencing this transition long before statutory retirement age; this is also the case in many other countries. While the possibility of a premature exit from the labour market often used to be regarded as an achievement of the welfare state, it is increasingly considered as a problem that, in an ageing society, places an additional burden not only on pension finances, but also on social cohesion.

This contribution will give an overview on international experiences in the transition between work and retirement, and will mainly focus on retirement ages. After briefly outlining the relationship between demographic change and retirement age, I will offer some methodological remarks on the definition and measurement of retirement age in an international context. I will then go on to present empirical evidence on retirement ages in two steps, first for a number of OECD countries and then for a number of countries in Central and Eastern Europe. A short discussion on the potential and the preconditions for increasing effective retirement ages concludes the contribution.

Demographic change and retirement age

Higher life expectancy in many industrialized countries has not been accompanied by a longer working life, although demographic change generally is associated with a longer, healthier life span. On the contrary, workers tend to effect the transition from work to retirement earlier than some decades ago.

While most OECD countries set a statutory retirement age of 65, it is 60 for most other countries, or even 55 in many African and Asian countries. Pension ages for women often are below those of men's, but many countries have initiated reforms to increase women's pension age.[2]

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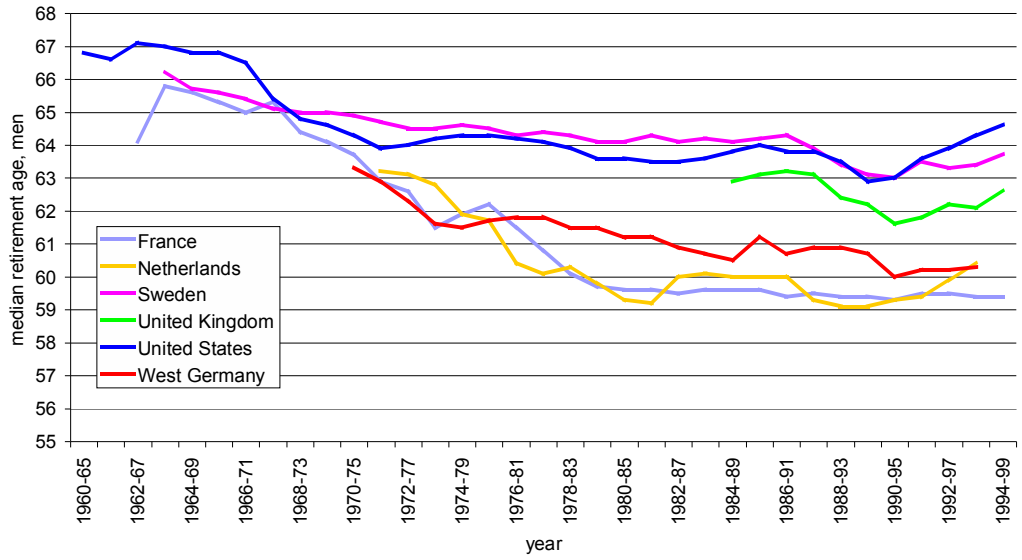
[1] Cf. Christopher Rhum (1990): The determinants of the timing of retirement, pp. 23-32 in *Bridges to Retirement: Older Workers in a Changing Labor Market*, edited by Peter B. Doeringer, Ithaca (NY): Cornell University Press.

[2] Cf. Colin Gillion, John A. Turner, Clive Bailey, and Denis Latulippe (eds.) (2000): *Social Security Pensions: Development and Reform*, Geneva: International Labour Organization, pp. 41-55, 437-452.

Since the early 1970s, many countries have facilitated early retirement by policies aimed at facilitating labour market exit for older workers. In the context of high unemployment, especially among young people, it was hoped that these policies would open socially acceptable „pathways" out of work for older workers and foster employment for the young.[3] These hopes have however been widely disappointed. Companies have used these policies as a way to shrink their workforce, especially in countries where strict labour market regulations inhibit the dismissal of workers. The positive employment effects on younger workers were very limited, while pension payments and other transfers to early retirees put an additional strain upon already burdened social security schemes.

Such policies have contributed to the fact that the transition between work and retirement often takes place years before the statutory retirement age. Frequently, this transition is gradual, e.g. in the case of partial retirement, and is often associated with spells of unemployment, sickness or invalidity.[4] As a consequence, there is a growing gap between statutory pension age and effective retirement age, especially among men.

Graph 1: Development of the median effective retirement age for men 1960-1999



Source: Scherer (2002).

Graph 1 shows the trend towards a lower effective retirement age for male workers in selected countries. Whereas the effective retirement age in the USA and Sweden has remained relatively stable and high, it has decreased markedly to around 60 years in Germany, France and the Netherlands.

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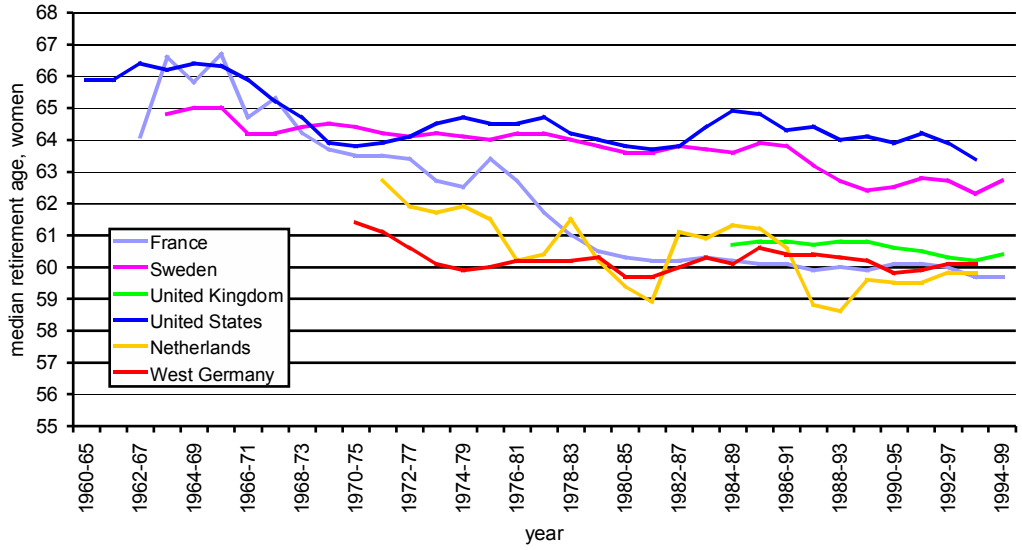
[3] Cf. Martin Kohli, Martin Rein, Anne-Marie Guillemard, and Herman van Gunsteren (eds.) (1991): *Time for Retirement: Comparative Studies of Early Exit from the Labor Force*, Cambridge (MA): Cambridge University Press; Jonathan Gruber and David A. Wise (eds.) (1999): *Social Security and Retirement Around the World*, Chicago: University of Chicago Press.

[4] Cf. Denis Latulippe and John Turner (2000): Partial Retirement and Pension Policy in Industrialized Countries, *International Labour Review* 139 (2): 179-195.

Graph 2: Development of the median effective retirement age for women, 1960-1999



Source: Scherer (2002).

A similar pattern is found for women who on average retire at about the same age as men, although legal regulations in some countries stipulate lower pension ages.

Before presenting additional evidence for a larger group of countries, I will first offer some remarks on the definition and measurement of retirement age in international comparisons.

Retirement age – some methodological remarks

Whereas actual pension age is already difficult to determine in a national context, it becomes quite complex in an international context. Because of the diversity of pension arrangements and institutional structures, the meaning of retirement varies across countries. Withdrawal from the labour market often coincides with the beginning of drawing a pension - either an old-age or an invalidity pension -, but often people start to claim unemployment, sickness or disability benefits, at least for some time, until they begin claiming an old-age pension. These difficulties in determining or even measuring pension age have lead researchers and policy analysts to look rather at the age of withdrawal from the labour market than at actual retirement age. International comparisons of pension age therefore relate to the age of withdrawal from the labour force, and not, in the stricter sense, to the receipt of a pension.[5]

Estimations of effective retirement age are based on a comparison of labour market participation by age cohorts. This implies that retirement age is not estimated from the receipt of an old-age pension or any other social security benefit, but on the basis of

[5] Cf. Denis Latulippe (1996): *Effective Retirement Age and the Duration of Retirement in the Industrial Countries between 1950 and 1990*, Geneva: International Labour Office; Sveinbjörn Blöndal and Stefano Scarpetta (1998): *The Retirement Decision in OECD Countries*, OECD Economics Department Working Papers 202, Paris: OECD; Peter Scherer (2002): *Age of Withdrawal from the Labour Force in OECD Countries*, Labour Market and Social Policy Occasional Papers 49, Paris: OECD.

participation in the labour market.[6] Developed and used in an influential study by the ILO, this approach however can lead to misleading results if the age-related reduction of labour market participation by cohort is counteracted by a general trend of increasing labour force participation. In this case, the lower labour market participation of an older cohort may be partly explained by a generation effect, and the calculation of average retirement ages would overestimate the extent of early retirement. This problem is particularly relevant for women, as an increasing number of women return to the labour market at the age of 45-50 years after having raised children. For this reason, most of the empirical studies on the transition from work to retirement focus exclusively on men. A recent study by Peter Scherer of OECD proposed an alternative method of calculation that is supposed to be more robust in this respect.[7] This "dynamic" method draws on time series of labour market participation by age cohort for the estimation of the age of withdrawal from the labour force. The empirical data presented for OECD countries is based on the results of this study and refer to the period 1994-99.

A further difficulty is that estimating retirement age on the basis of labour market participation rates inadequately reflects the nature and the extent of employment. The data do not reveal the precise nature of employment: are people employed while drawing a pension or not, what is the contribution of earned income to household income, and what motivates people to retire or stay in employment? The data presented here should be interpreted with this difficulty in mind.

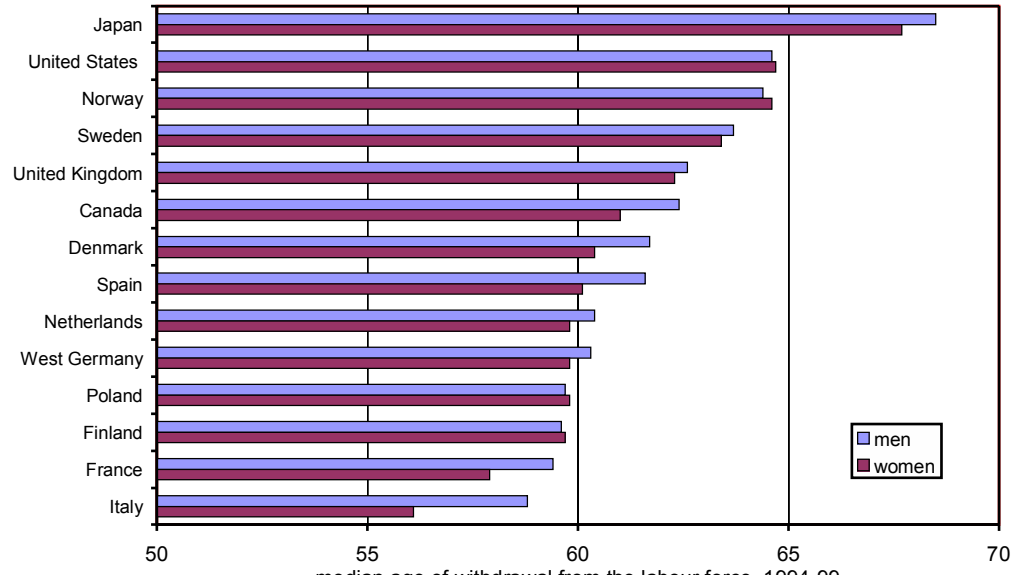
International variations in pension age in the OECD world

International comparisons show that effective retirement age varies strongly across countries. The median age of transition into retirement ranges from 58.8 years in Italy to 68.5 years in Japan for men, and from 56.1 to 66.6 years for women. For the majority of men and women, effective retirement age spreads over some ten years (Graph 3).

[6] Cf. Denis Latulippe (1996): *Effective Retirement Age and the Duration of Retirement in the Industrial Countries between 1950 and 1990*, Geneva: International Labour Office.

[7] Cf. Peter Scherer (2002): Age of Withdrawal from the Labour Force in OECD Countries, in *Labour Market and Social Policy Occasional Papers*, Paris: OECD. See also OECD Employment Outlook, December 2002.

Graph 3: Effective retirement age in selected OECD countries (median)

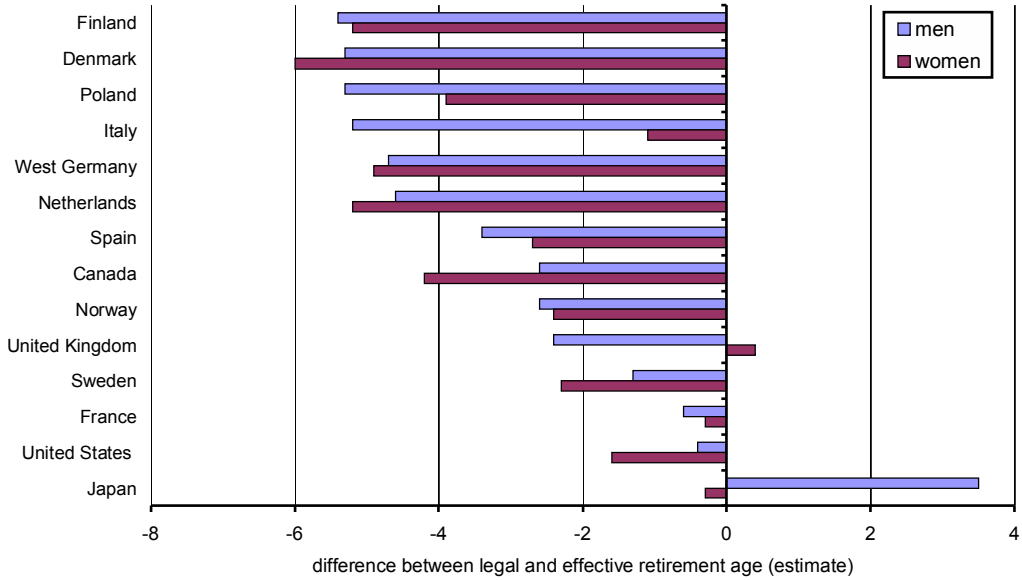


Source: Scherer (2002).

Japan is the only country in which the median effective retirement age surpasses the age limit of 65 that in most countries delimits the statutory retirement age. In most other countries, median effective retirement age is much lower. Italy and France figure at the opposite end of the spectrum: median age at transition into retirement is much lower than 60 years; also Finland, Poland, West Germany and the Netherlands hardly attain a median age of 60. In the Anglo-saxon countries, together with Norway and Sweden, the transition into retirement tends to occur later in life.

Notable also are the differences between men and women. While in some countries gender differences are hardly noticeable, the gap between genders is much more pronounced in others, yet this does not necessarily coincide with gender differences in statutory pension age.

Graph 4: Difference between statutory and effective pension age

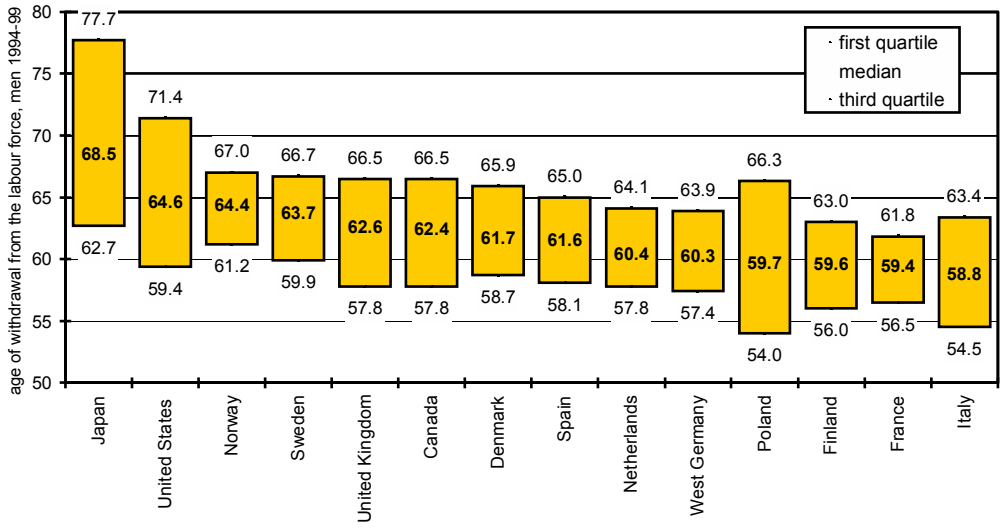


Source: SSPTW; Scherer (2002); own calculations.

Graph 4 shows the difference between statutory pension age and age at the actual transition into retirement. With hardly any exception, median effective retirement ages are lower than statutory pension ages, notably in Finland, Denmark, Poland, Italy (men), West Germany, the Netherlands and Canada (women). Only British women and Japanese men display median effective retirement ages higher than statutory pension ages. However, special regulations render the determination of the statutory pension age for women often ambiguous, so the results in Graph 4 do not always exactly reflect the legal situation for women.

The median age of retirement reported in the previous graphs masks the large scope of variation in the transition from work into retirement. The following graphs do not only show the median age, but also the retirement ages at the first and third quartile. In other words, they show the distribution of retirement age for the "mid" 50 per cent of the workforce.

Graph 5: Distribution of the effective age of retirement for men, 1994-99

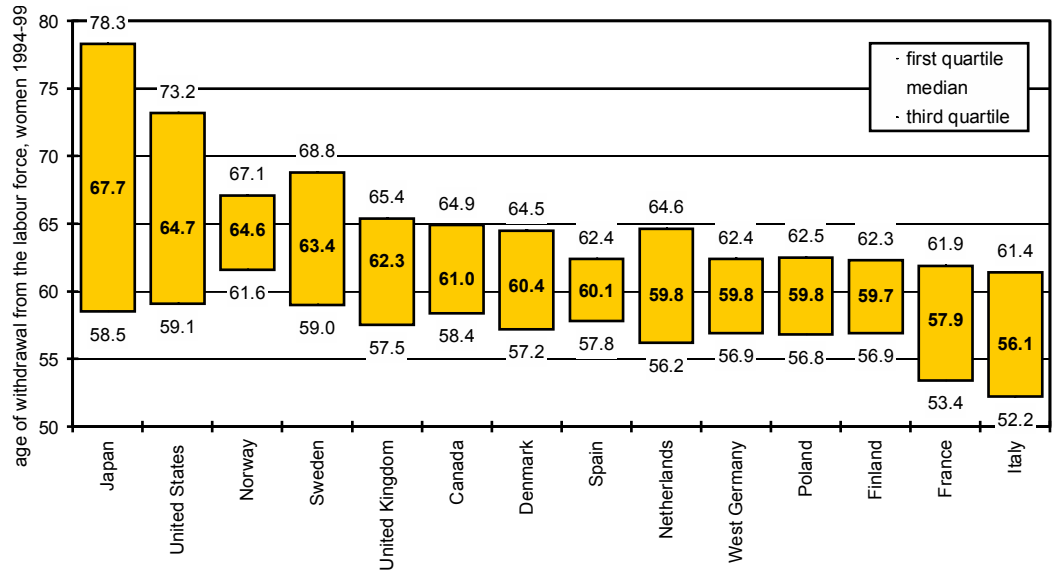


Source: Scherer (2002).

Graph 5 shows the large disparities in the transition from work into retirement for men. In particular, in the two countries with the highest median effective age of retirement – Japan and the United States – retirement age is spread widely. One quarter of workers in Japan have left the labour market already at the age of 62.7, a further quarter retire before the age of 68.5, another quarter moves into retirement during the following ten years, and many in the last quarter seem to work until well into their eighties.[8] It is also interesting to note that two of the countries with the lowest median retirement ages – Poland and Italy – also display a large disparity of effective retirement age. In the other continental European countries, as well as in Canada, retirement age is much less unevenly spread.

[8] At this point it should be remembered that the definition of employment used here also includes marginal forms of participation in the labour market and that employment may be accompanied by the receipt of an old-age pension.

Graph 6: Distribution of the effective age of retirement for women, 1994-99



Source: Scherer (2002).

Women follow a similar pattern, though with some notable differences. In contrast to men, pension age for women is not as widely spread in the United States or Poland, but more so in Norway and France.

Special challenges for Central and Eastern European countries

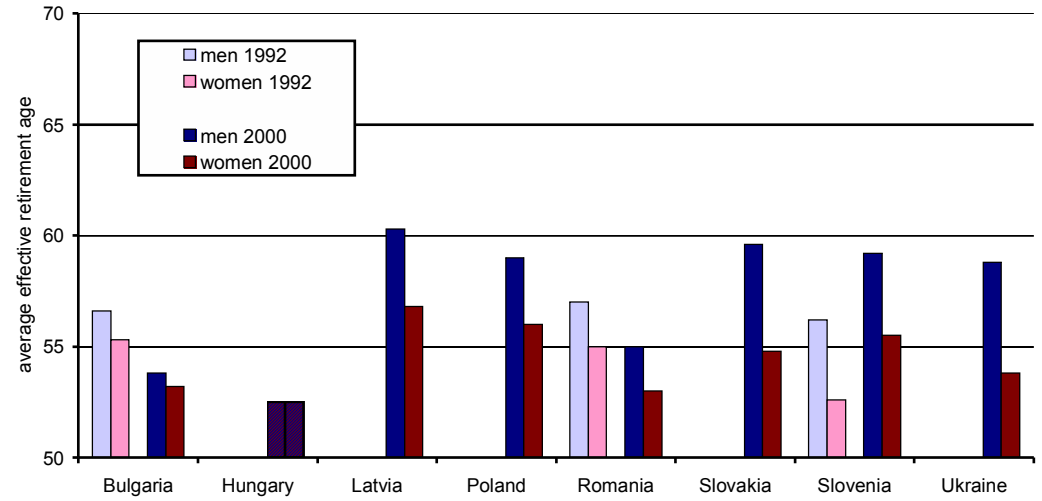
The Central and Eastern European countries face particular challenges that deserve special discussion. The empirical evidence stems from a recent comparable study on labour market policies for older workers conducted by the ILO.[9] It should be noted, however, that the country data are not always fully comparable because of diverging definitions used in the national reports.[10]

While the statutory retirement age in many Central and East European countries is lower than in most OECD countries, effective pension age dropped considerably during the transition period, as the dim labour market situation lead to widespread early exit from the labour force.

[9] Cf. Mariàngels Fortuny, Alena Nesporova and Natalia Popova (2002): *Employment Promotion Policies for Older Workers in the EU Accession Countries, the Russian Federation and Ukraine*, Draft report prepared for the Regional Tripartite Conference on Social Dialogue and Ageing, Budapest, 25-26 November 2002, Geneva: ILO.

[10] This concerns in particular the inclusion of invalidity pension in the calculation of effective pension ages.

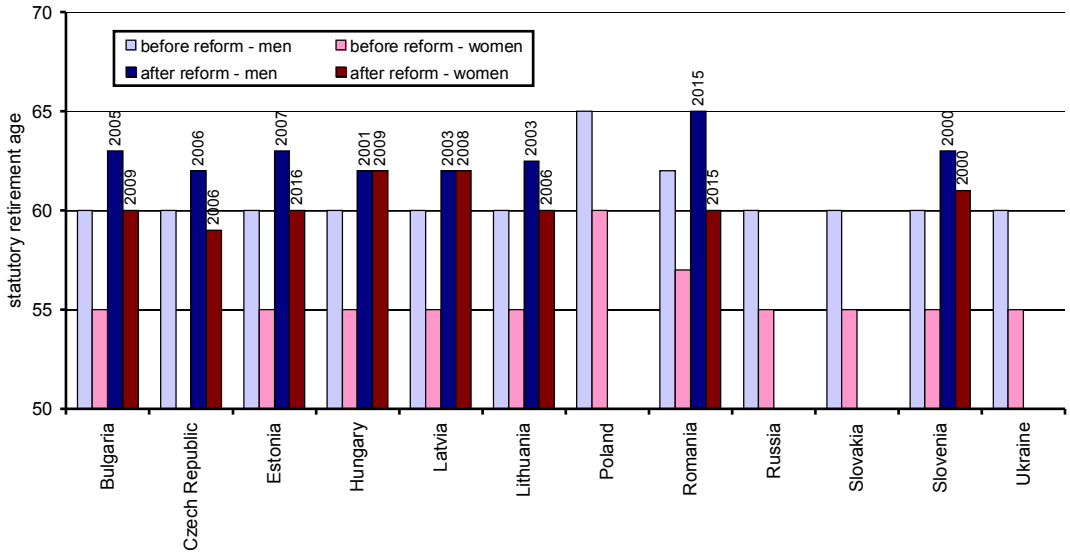
Graph 7: Effective retirement age in Central and Eastern Europe



Notes: Hungary: data not broken down by sex. Romania: disability pension not included; otherwise, the effective pension age for women would be down to 53 for men and 50 for women in 2000. Slowakia 1996: average for period 1997-1999.
Source: ILO survey: Fortuny, Nesporova and Popova (2002).

In some of the Central and Eastern European countries, average effective retirement is markedly lower than 55, as is notably the case in Bulgaria and Hungary. Among those countries for which data are also available for the early 1990s, only Slovenia managed to increase effective retirement age, whereas workers in Bulgaria and Hungary tend to leave the labour market much earlier than in the early 1990s.

Graph 8: Reforms of statutory retirement ages in Central and Eastern Europe



Source: ILO survey: Fortuny, Nesporova and Popova (2002).

A number of Central and East European countries have already decided to increase statutory pension age over the next few years. Whether effective pension age will follow this trend, remains to be seen.

Increasing effective retirement age as a solution for ageing societies?

The demographic ageing of the population exerts a double pressure on the development of effective retirement age: On the one hand, the financial problems of pension and other social security schemes prohibit a continued trend towards early retirement, while on the other hand, the demographic shrinking of the population in working age calls for a careful reassessment of policies aiming at facilitating early exits from the labour market.

Key to the future stability of ageing societies is the question of whether it will be possible to (re-)increase the labour market participation of older workers. Given that each pensioner generation has to be supported out of the national income produced by the active generation – irrespectively of whether the pension scheme is fully funded or based on PAYG – this factor is of vital importance.

Model calculations by the ILO have shown that the old-age dependency ratio of a typical European country with a rapidly ageing population – such as the Netherlands – would only marginally surpass today's level in the year 2030 if effective retirement age could be increased to 67 and if the labour market participation of women could be lifted to the current Swedish level.[11] Although this scenario may seem out of reach for countries with massive labour market problems today, there is not much of an alternative. The demographically induced shrinking of the working age population will support this change. However, it would be shortsighted to hope for a quasi-automatic solution of employment problems through demographic change. Instead, this process requires a broad bundle of policy measures, ranging from the improvement of education and training, including lifelong learning, over improving the effectiveness of rehabilitation and the prevention of age discrimination in the labour market to the reconciliation of employment with caring responsibilities.

Increasing the effective retirement age can therefore not be achieved by reforms in the pension system alone. Removing incentives to early retirement remains futile if these measures are not supported and strengthened by the promotion of employment for older workers.[12] This includes not only measures that facilitate the retention of older workers, such as training and life-long learning, but should also aim at removing obstacles that

[11] In this scenario, the old-age dependency ratio would rise from 62 pensioners per 100 employed to 68 in 2030. Under unchanged conditions, it would rise to 80 pensioners per 100 employed. Cf. ILO (2001): *Social Security: Issues, Challenges and Prospects*, Report VI, 89th Session of the International Labour Conference, Geneva: ILO; ILO (2000): *World Labour Report 2000*, Geneva: ILO.

[12] For an overview on policies towards older workers in the EU, see Maria Jepsen, David Foden and Martin Hutsebaut (eds.) (2002): *Active Strategies for Older Workers in the European Union*, Brussels: European Trade Union Institute.

hamper hiring older workers into new jobs.[13] Which society can afford that people are considered no longer employable at the age of 50?

Reversing the trend towards early retirement should therefore not only aim at adapting legislation, but also requires a change in perceptions among employers and employees. In many societies, individuals consider early retirement has become a desirable objective, even in the absence of health problems or disability, as shown in a recent survey in the United Kingdom.[14] Nevertheless, many of those who left the labour market early miss the exchange with their colleagues, intellectual stimulation and self-esteem generated by employment. Surveys have shown that only a small proportion of people in the age of 50-64 prefer a life without work; between 2 per cent in Sweden, 6-8 per cent in Italy, Germany and Japan, and up to 10-13 per cent in Canada, the United States, the Netherlands and the United Kingdom.[15] The desire to retire earlier is closely associated with dissatisfaction in the workplace, as well as negative attitudes towards older workers and age discrimination. In addition, many older workers suffer from health problems – partly as a consequence of adverse working conditions – and require adequate treatment and rehabilitation, but also the right to social security benefits if they can no longer participate in working life.

The belief that older workers generally are less productive and flexible is not supported by conclusive evidence.[16] In addition, higher life expectancy is associated with a longer healthier life span. We can therefore expect that today's and tomorrow's older persons are more active and productive in the second half of their life than were their predecessors.[17] The employment of older workers therefore is not just an economic necessity, but is also desirable for social cohesion.

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[13] Cf. ILO (2002): *An Inclusive Society for an Ageing Population*, Paper contributed to the Second World Assembly on Ageing, Madrid, 8-12 April 2002, Geneva: ILO; Lucy apRoberts (2000): Retirement age: Public policy and employer policies in Europe and the United States, pp. 35-41 in *Pensions in the European Union: Adapting to Economic and Social Change*, edited by Gerard Hughes and Jim Stewart, Den Haag: Kluwer.

[14] Cf. BUPA (2002): *Fit Willing and Able? Is Britain Ready for 2020? New MORI Research Says Not*, www.bupa.co.uk.

[15] It is also remarkable that a large proportion of those over the age of 65 express their desire to continue working: 10-20 per cent in Italy, Sweden and Germany, and 30-40 per cent in Japan, the Netherlands, the United States, Canada and the United Kingdom. A large proportion of people in this age group would even prefer to work full-time, between 20 per cent in Canada and 56 per cent in Germany. Data from the International Social Survey Programme, 1997; cf. Peter Hicks (2001): *Public Support for Retirement Income Reform*, OECD Labour Market and Social Policy Occasional Papers No. 55, Paris: OECD: 12.

[16] Cf. Peter Auer and Mariàngels Fortuny (2000): *Ageing and the Labour Force in OECD Countries: Economic and Social Consequences*, Geneva: ILO.

[17] Cf. Alan Walker (2002): A Strategy for Active Ageing, *International Social Security Review* 55 (1): 121-140.