Retirement Age

An ILC Global Alliance Circular

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About the ILC Global Alliance

The International Longevity Centre Global Alliance (ILC Global Alliance) is a multinational consortium consisting of member organizations. The mission of the ILC Global Alliance is to help societies to address longevity and population ageing in positive and productive ways, typically using a life course approach, highlighting older people's productivity and contributions to family and society as a whole. The Alliance partners carry out the mission through developing ideas, undertaking research and creating fora for debate and action, in which older people are key stakeholders. The ILC Alliance currently includes centres in the United States of America, Japan, the United Kingdom, France, the Dominican Republic, India, South Africa, Argentina, The Netherlands, Israel, Singapore and Czech Republic. These centres work both autonomously and collaboratively to study how greater life expectancy and increased proportions of older people impact nations around the world and seek offer solutions to effects of the impact.

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Introduction

In response to population ageing, exacerbated by long-term budget deficits in many countries, governments around the world are seeking to raise retirement ages, or that age at which state pension payments are available to citizens. These reforms have been justified by most governments on the basis that increasing life expectancy (one of the main causes of population ageing) means more people will enjoy retirement for longer, and therefore should work for longer in order to fund their retirement.

The International Longevity Centre Global Alliance is unique in that it has member organisations throughout the world, including both developed and developing countries. This paper therefore presents insights from several Alliance members on the process of reforming retirement ages in their countries.

It is edited by the International Longevity Centre-UK (ILC-UK). We asked our partner organisations to prepare briefs that answered the following questions:

- What are the rules on eligibility age for state pensions in your country?
- Are there different rules for men and women?
- Are there different rules for different aspects of the state pension?
- Is there a 'retirement age' at which employers can legally retire their staff, and is this linked to the eligibility age for state pensions?
- Does the state also set retirement ages for public sector pension schemes?
- Are any of these rules undergoing reform, and how have policy-makers justified reform?
- What has public reaction been to reform proposals?

1. The United Kingdom

For men, the state pension age (SPA) is currently 65. Female SPA is rising from 60 to 65 between 2010 and 2018. The previous government implemented measures to increase SPA to 68 by 2046; the current government has decided to accelerate the pace at which SPA will reach 66 for both men and women to 2020 rather than 2026, as part of its deficit reduction plan. It is likely that plans to raise SPA to 70, over a much shorter period of time, will be announced in the near future. The affordability of state pensions has been challenged not only by increasing longevity, but also by the previous government's decision to widen access to state pensions by relaxing rules on National Insurance contributions.

Public sector pension schemes have also been deemed unsustainable in the context of fiscal tightening. Most of the largest schemes (for teachers, the National Health Service, the police, etc.) have a 'normal retirement age' of 60, but a recent independent review led by former Labour minister John Hutton has recommended that this is raised to 65.

Policy-makers have justified these changes using various rationales. Increasing life expectancy is the backdrop to reform; there is general consensus among the public that it is fair to increase SPA in line with longevity, although some disquiet among stakeholders that life expectancy is uneven across the population, influenced by geography and wealth. Furthermore, the notion that SPA should rise in order to help fund more generous and more accessible state pensions has enjoyed cross-party consensus in recent years. However, more recent decisions to accelerate reforms to SPA seem to have been taken purely for financial reasons, in order to reduce the fiscal deficit, and as such there is scepticism about the fairness of reforms. Trade unions have been particularly vocal in their opposition to reforms to public sector pensions.

State pension age in the UK is often confused with 'default retirement age' (DRA), that is, the age at which employers can legally retire workers. DRA, which is currently 65, was brought in by the previous government in 2006 alongside tougher laws on age discrimination, but the current government has decided to phase it out from 2011. Older people's groups had argued that the law was discriminatory, and of course out-of-step with efforts to increase the age at which people can access state pensions.

ILC-UK

2. Argentina

In Argentina, the eligibility for an old age pension requires individuals to have 30 years of pensionable service, to receive benefits in full, and have reached the age of 60 (for women) or 65 (for men). The age requirement may be lower for people that perform dangerous tasks, or jobs that cause ill-health disproportionately. Examples include coal mines and power plants. For the self-employed, the retirement benefit is calculated as in the general scheme, with some peculiarities; self-employed individuals cannot retire before age 65, with a required minimum contribution period of 15 years, of which at least 2 must be within the last 8 years.

Women can choose to stay in the labor market until they turn 65, in return for an improvement in the final retirement benefits, although the increase is not significant. In the regime for self-employed people, there are no gender differences. It should be noted that there are some special laws in relation to professions such as teaching, the judiciary, the military, etc. There are also a hundred provincial pension schemes. Municipal and professional schemes coexist, and combine with or complement each other within a system of reciprocity.

Employers have the power to give employees above the pension age a year's notice regarding the termination of their employment. If after a year of the notice, the employee has not retired, he or she can be fired without compensation. However, many employees, especially in highly-paid positions, are reluctant to retire. Some employees may continue working, benefiting from a salary plus retirement benefits.

Traditionally, the system was handled by the public and the national government. There was some criticism that the system was used for political purposes. In 1994, a new pension scheme was created, leading to a part-privatisation of pensions in Argentina. Workers could choose whether to join the public or private systems. The private system was an investment regime of pension contributions. High fees were charged by fund managers. However, each member had their own system of contributions which would capitalise on the income obtained from investments that were made.

In 2008, the private system was abolished, and the Argentinean Integrated Retirement System created. The substance of the reform was the re-nationalisation of the private aspect of the post-1994 system. In general, the removal of the Pension Fund Administrators (AFJP) was well received by the public because the private pension system had performed poorly.

As yet, there are no plans to raise the retirement age in Argentina. Current criticism of the system focuses on the calculation of minimum pension payments. However, ILC-Argentina believes it is necessary to implement a more comprehensive structural reform of the pension system in Argentina.

ILC-Argentina

3. Czech Republic

The Czech pay-as-you-go (PAYG) pension system provides compensation not only in the case of old age, but also disability and upon the death of the breadwinner (survivors' pensions). In 1995, the Czech Republic adopted parametric changes to its PAYG pension system and introduced a gradual increase in state pension age (SPA) and a minimum insurance period. These changes were amended in 2003 and 2008 to ensure continuation of parametric changes, and to enable further increases in minimum insurance period and SPA.

As a result of these changes at the present there is no fixed and universal pension age in the Czech Republic. SPA differs for people born between 1936 and 1968 and for people born after 1968. The SPA formula for those born between 1936 and 1968 is extremely complicated; its calculation is based on year of birth and incremental increase by two months for men and four months for women in SPA for each succeeding cohort. After a 'transition period' (when people born after 1968 start entering into retirement) SPA for men and women with one or fewer children will be 65 (64 for women who raised 2 children, 63 for women who raised 3 children, 62 for women who raised 4 and more children).

At the present SPA for childless women is nearly 2 years lower than SPA for men. According to current legislation SPA for childless women and men will reach the same level of 64 in 2023, when people born in 1959 will retire. In future, SPA will differ only for men and women with 2 and more children. In the context of fiscal reforms which are among the key priorities for the current centre-right government, further reforms have been proposed, and further parametric as well as paradigmatic changes are expected. It is probable that there will be further parametric changes proposed into the Czech pension system, including further increase of SPA. A stepwise way of increasing SPA should, according to government, allow the public to better adapt to the changes and new conditions. Gradual increase in SPA is also probably more acceptable for the public.

As concerns "paradigmatic" changes, the Czech PAYG pension system is generally considered to be overly liable to demographic risk factors (i.e. the age structure resulting from low fertility and rising life expectancy). There are proposals to 'diversify' the public pension scheme by strengthening or establishing funded pillars. There is no consensus at the moment on what proportion of the current insurance premium paid to PAYG should be possible to opt-out for funded pensions, nor how future deficit and costs of reform will be financed. Pension and health reforms continue to be among the most controversial topics in Czech politics and public life.

ILC-Czech Republic

4. France

The French pension system is based on the pay-as-you-go principle and its financing is mainly ensured by contributions from workers and employers. It has been reformed several times to reflect shifts in the structure of the contributing and retired populations. French governments have been trying to make changes in the system to adjust it to demography and economy, through a very painful process, causing huge strikes. Reforms include increasing the number of working years required for a full state pension for the private sector from 37.5 to 40 (in 1993). The government tried in vain to extend this reform to the public sector in 1995. As of 2003, the rule will finally be applied universally, but introduced gradually. According to a 2008 law, a later retirement (until age 70) is now allowed if the worker is willing to work longer. However, there are special retirement plans for employees of some government-owned corporations who can retire as early as 55 or even 50. Women gain two working years per child. In October 2010, in spite of huge strikes, the system was changed again, as will be outlined below.

The pension system in France means that for all salaried workers and civil servants, a national system grants 50-55 % of the income (if one has worked for 40 years, or soon 42 years). The benefit includes a 'social security pension' and a system of 'complementary pensions'. Everybody is entitled to the former, which is based on the concept of 'repartition', rather than 'capitalisation'. The French pension system embodies a preference for a social redistributing mechanism more than for an economic investing process: it is based on the idea that the money collected from active people is not invested but immediately redistributed to retired people. The complementary pension concerns mostly people with high salaries; in addition, corporate plans or personal plans (close to the American system) exist depending on the company. Overall, the system is insured against inflation and stockmarket fluctuations. But the pay-as-you-go system means that the system is vulnerable to the deteriorating ratio of workers to retired individuals.

In reforms passed in October 2010, the legal retirement age (i.e. the age at which pension benefits become available, albeit not in full) will be increased gradually from 60 to 62 for those born after 1955. As a consequence, after 2017 it will not be possible to retire before age 62. Moreover, the eligibility age for a full social security pension, irrespective of contributing years, will increase from 65 to 67. However, those with harmful jobs will be able to access a full pension from 60.

In France, employees of some government-owned corporations (e.g. the military, the police, energy companies, public transport workers, opera workers, parliamentarians) enjoy a special retirement plan – which have lower retirement ages, and require fewer working years for full benefits. These plans have much more alarming support ratios than the private sector schemes, and thus require significant taxpayer funding.

ILC-France

5. India

The vast majority of individuals in India currently have no pension provision. The main exceptions are government employees, although the government is introducing a new voluntary scheme for all Indian citizens.

The eligibility age for pensions for central government employees is 60, recently increased from 58, although it remains 58 for various state governments. There are no gender differences. There are, however, different rules for the superannuation pension, family pension, invalidity pension, and disability pension - the various different pensions available to state employees. Public sector pension schemes generally have retirement ages of 60 years. However, employees can obtain voluntary retirement after 15 years of service (recently reduced from 20 years).

After a decade of discussion and controversy, the Indian government launched in 2009 the National Pension Scheme, which all Indian citizens aged 18 to 55 can join voluntarily. It is a system where individuals fund, during their working life, their financial security for old age. Those who join will receive a Permanent Retirement Account (PRA), which can be accessed online and through so-called points of presence (PoPs). Account holders may benefit from equities investment return - the first scheme of its kind supported by the Indian government.

Crucially, subscribers can retain their PRAs when they change jobs or residence, and even change fund managers and the allocation of investments among different asset classes (although exposure to equity has been capped at 50%). The minimum contribution to a PRA is Rs 500, to be paid at least four times a year. The maximum that can be contributed per year is Rs 6000.

There are complex rules around retirement age and the National Pension Scheme. If a subscriber exits before the age of 60, he or she may keep one-fifth of accumulated savings, and use the remaining funds to purchase an annuity. Subscribers who exit between the ages of 60 and 70 must use at least 40% of the fund to buy an annuity, but take the remaining fund as a lump sum, which can be payable in instalments. Survivors of subscribers receive the entire fund as a lump sum.

ILC-India

6. Japan

The Japanese public pension system is a multi-tiered system. The first-tier is the basic pension, which provides a universal coverage. Participation in this scheme is mandatory to all residents between the ages of 20 and 60, and a monthly premium per participant is a flat rate of 15,000 yen. The system provides an individual benefit proportional to the number of years of contributions, and the benefit for those with 40 years of participation is 66 thousand yen per month per person. In order to help finance the first-tier pension, tax revenues, equivalent to a half of the actual benefit expenditure, are transferred to this scheme by the central government.

The Employees' Pension Insurance (EPI) covers most employees in the private sector, although it does not cover part-time workers. The contribution to the EPI is 16.06% of annual earnings, shared equally between employees and employers. This second-tier contribution includes the premium of the first-tier for both employees and dependent spouses of employees. The second-tier earning-related pension benefits are proportional both to the number of years of contributions and the average level of earnings, and benefits accrue at the rate of 0.7125% of earnings per year. The amount of old age pension received by most retired employees is the sum of the basic pension, plus the earnings-related insurance payment.

Normal pension age was increased from 60 to 65 years old for the basic pension in 1994. It will be implemented gradually between 2001 and 2013 for men, and five years later for women. The normal pension age for the earnings-related part of the EPI was altered in 2000. It will increase gradually from 60 to 65 years old over the period 2013-2025 for men, and five years later for women.

Most large companies have a retirement age between age 60 and 65 (for third-tier, occupational pensions), and the government has been making much efforts to encourage companies to raise it to 65. More importantly, however, a number of reforms are necessary to improve the equity of the system. The tax treatment of pensions should be aligned with that of income from employment, and the public pension system should be more oriented to helping families and reducing the cost to women of working and having families. One option may be to raise the eligibility age beyond 65 in accordance with the increase in longevity – yet this is not being widely discussed in Japan today.

ILC-Japan

7. The Netherlands

In the Netherlands, pension systems are significantly different from most pension systems in the world. There is a state pension (AOW), which is funded by a pay-as-you-go system, and an additional occupational system that is based on a capital reserve fund. In general, individual pensions are composed of 50% from the former, and 50% from the latter. However, there are huge individual differences, as the AOW system is fed by income-related contributions with an upper income limit. Above that limit, individuals pay only for the funded, occupational system. It follows that the lower-income part of the population gets little pension from the funded system, while for the higher incomes the funded pension is the most significant part of the total pension.

The size of the AOW benefit depends on one's length of residency in the Netherlands (50 years are required for a full pension). Given the fact that there has been significant immigration during recent decades, most immigrants will not get the 100% AOW benefit. In practice, however, this may be mitigated by eligibility for social assistance.

Individuals are eligible for the AOW from the age of 65 (both men and women). For occupational pensions, the retirement age for workers varies considerably. There are workers who retire (or are forced to retire) at 55, while others stay in work until 65. The formal retirement age varies over occupations and industrial sectors as well, but in practice there are numerous possibilities for 'early' retirement. However, given the cost to employers of such arrangements, there is a strong trend towards withdrawing possibilities for early retirement.

At the moment there is a public discussion in the Netherlands on the retirement age, because of increasing longevity and improved health conditions. Currently, the AOW eligibility age will increase from 65 to 66 in the year 2020. Following this, there is now also a fierce discussion on increasing the retirement age for most occupational pensions to 66 or higher. It seems likely that the pension age will go up to around 70 in the decades to come.

As an employer itself, the state itself has a formal retirement age of 65, except for army personnel, the police, etc., who have a much lower retirement age. Recently, the state has opened the possibility to continue working with pay after 65 on a voluntary basis, but this possibility is not widely known and not much used yet.

Alongside reforms to retirement age, there are also debates about whether to move from defined benefit to defined contribution pensions in both AOW and occupational pensions. Across both reforms, the public has understandably reacted negatively – but this is unlikely to prevent change.

ILC-Netherlands

8. South Africa

A means-tested social pension (officially referred to as a social grant) is payable to the poorest individuals at age 60. Until 2007, the age of eligibility for a social pension was 65 years for men and 60 years for women (even though retirement age in the government sector was 60 years for both). The male eligibility age was lowered on the grounds of gender equality between 2006 and 2009.

The amount of the pension, which is non-contributory and is paid monthly, is 1080.00 South African rand in 2010/2011 (approximately £98 and US$ 156). The amount, which is roughly equivalent to a minimum monthly wage, is viewed as particularly generous by developing country standards – on par with that of Brazil. The take-up rate of the social pension in South Africa is high: about 90 per cent of black Africans are eligible for the pension, about two-thirds of whom are women. Married couples are entitled to two pensions.

The pension serves widely as a major source of income for poor households in which a beneficiary resides, which households are typically multigenerational, often with unemployed adult children and numerous young children. Up to six children under 18 years per family can receive a child support grant (an amount of R250 a month per child). Female social pension beneficiaries, in particular, are widely known to share their pension income with household members (to feed and school grandchildren, for instance) – and do not benefit from the full income themselves.

Occupational pensions are also available. But the majority of South Africa's citizens who are not white were disadvantaged under apartheid, and few who were in the formal workforce enjoyed membership of an employee retirement savings scheme. The situation has changed radically since then, but the majority of the present cohort of older persons lack a private pension – hence, the large number eligible for a social pension.

Two 'retirement ages' exist in the formal workforce at present: 60 years and 65 years. Retirement is mandatory (at one or other of these ages) for employees of the government and several semi-statutory institutions. In the corporate sector, both ages also apply, but retirement may not be mandated. Justification of a (mandatory) retirement age in the country is widely based on a particularly high unemployment rate. The government and other sectors argue that senior personnel must vacate positions to make way for younger workers. However, moves towards a full mandatory system may be challenged legally.

ILC-South Africa

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