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Illustration: Michael Morgenstern

# Debt for retirement

**HOW AND WHEN WILL PEOPLE RETIRE  
IN THE FUTURE? BY ANNA RAPPAPORT**



The last 150 years have seen dramatic changes in the demographic makeup of populations throughout the world and in the lives of older persons. The combination of people living longer and lower fertility rates (plus in some countries immigration) has meant a very different population age mix. Retirement has become an accepted part of the life cycle in many countries. This is the result of people living much longer than in earlier centuries and the development of public and private retirement systems in many countries. Retirement timing is usually described as a fixed age, and not based on the time until expected end of life. Since the start of retirement programs, retirement ages decreased a great deal and then increased a little; retirement periods have increased dramatically and continue to increase.

There are huge differences in when people retire and in the retirement expectations of different population subgroups. In the United States, police officers and firemen retire very, very early; teachers retire early; and employees of major companies tend to retire in their 60s—while judges, symphony conductors and members of Congress often work into their 80s. Work is increasingly seen as a part of retirement, and many people include some work as part of their retirement plan. Some businesses have programs to support older worker employment, but they are very much the exception. “Phased retirement” is the term commonly used for making a gradual exit from the labor force.

There has been a lot of discussion about retirement systems and many changes, with much of the change focused on the shift from defined benefit (DB) to defined contribution (DC). There has not been enough discussion of the question: How and when

# findings

will people retire? There has been inadequate focus on the policy and program changes needed to drive retirement patterns that are sensible in light of the emerging demographic and societal patterns. This article focuses on this question, how people decide to retire, programs that help people phase into retirement and related policy issues. I hope that the article will encourage actuaries to contemplate these issues, take an active role in thinking about what changes are needed to adjust to emerging demographics and advocate for important changes in policy. It is important for actuaries to take leadership positions in these areas of public discussion, as many people prefer the politically popular route of not touching retirement ages.

## RETIREMENT AGE TRENDS

The Organisation for Economic Co-operation and Development (OECD) publishes data on labor market exit, indicating retirement age trends in more than 30 countries. Retirement ages vary significantly by country. In almost all OECD countries, the effective retirement age has declined substantially since 1970, but this has been reversed more recently. Over the past decade, the average retirement age flattened out and was followed by a small increase. Nevertheless, the effective retirement age remains well below the levels of the 1960s and 1970s in most OECD countries (exceptions are Japan and South Korea).

For men, the average effective retirement age fell from **68.6** in the late 1960s to **63.5** in the five years prior to 2009. For women, the average age of labor market exit dropped from **66.7** to **62.3** over the same period.

## Melbourne Mercer Study

**THE MELBOURNE MERCER GLOBAL PENSION INDEX** grades retirement benefit systems around the world focusing on three major types of factors: adequacy, sustainability and integrity. For each country, the total system, including social benefits and private pensions, is considered, along with legislative requirements.

This work builds on demographic realities and includes labor market participation at older ages as well as benefits. It also includes areas for improvement, both generally and by country. The 2014 report lists six common challenges. The first two are:

*“The need to increase the state pension age and/or retirement age to reflect increasing life expectancy, both now and into the future, and thereby reduce the level of costs of the publicly financed pension benefits.”*

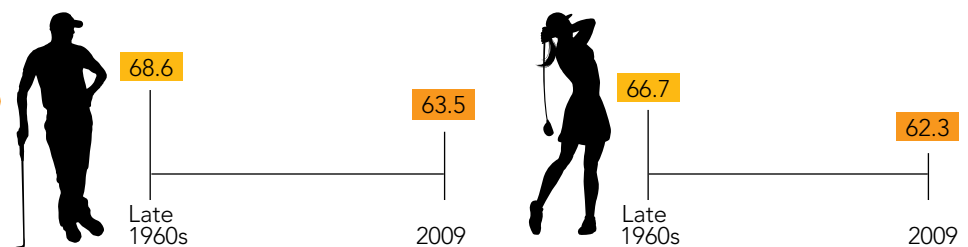
*“The need to promote higher labour force participation at older ages, which will increase the savings available for retirement and also limit the continuing increase in the length of retirement.”*

Several factors related to retirement ages are considered in the sustainability section of the analysis. The question is asked: “What is the current gap between life expectancy at birth and the state pension age?” The answers provide an indication of the average period of pension payment. Their analysis for 2014 shows a range from -2.9 in South Africa and -7.3 in India to 19.7 in France and 21.4 in South Korea.

The study also examines the question: “What is the labour force participation rate for those ages 55–64?” The percentages ranged from 40.1 percent in South Africa and 42.0 percent in Poland to 72.6 percent in Switzerland and 76.8 percent in Sweden. They point out the importance of increasing labor force participation.

Other questions deal with phased retirement and accruing and accessing benefits while working part time. More information can be found at [globalpensionindex.com](http://globalpensionindex.com).

The falling average effective retirement age



## EVALUATING INTERNATIONAL PRACTICE—A COMPARISON OF EIGHT COUNTRIES

The Department of Work and Pensions in the United Kingdom commissioned a variety of studies to look at population aging and retirement. One of the papers compared mandatory retirement practices in eight countries. Of the eight, four prohibited mandatory retirement generally, three permitted it after a minimum age, and one permitted it with no age requirement. The exhibit below offers some selected data from this report, which includes a much more complete

analysis. Some of my conclusions after looking at these reports are:

- The demographic issues across countries have many common threads, although some countries are aging much more rapidly.
- Older worker employment and longer retirement are important elements of addressing aging population issues. There are both similarities and differences in how they are addressed in different countries.
- Social insurance program provisions are generally important, as are

employee benefit plan provisions when employer-sponsored programs are a significant part of the retirement security package.

- Employment at older ages is also important, and there is no agreed-upon way to address facilitating older worker employment.
- Public policy has a big influence on the solution, and it is complex and interwoven.
- It is difficult to raise retirement ages.

MANDATORY RETIREMENT	COUNTRY	STATE PENSION AGE	MINIMUM MANDATORY RETIREMENT AGE	AVERAGE AGE AT WHICH PEOPLE LEAVE LABOR FORCE (2002–2007)
Prohibited at any age	Canada	65 (from 60 to 70 with adjustments)	NA	63
	New Zealand	65, can't be taken earlier	NA	65
	United States	66 (from 62 to 70 with adjustments)	NA	64
	Australia	65 for men and 63 for women	NA	63
Permitted with a minimum required retirement age	Sweden	67 (from 61 to any age with adjustments)	67	64
	France	60 (benefit available at 56 under certain circumstances, increased for later retirement)	65	59
	United Kingdom	65 for men and 60 for women (deferral possible with increases)	65	63
Permitted, no minimum required age	Ireland	65 for basic and 66 for contributory	No limit	65

Source: *A Comparative Review of International Approaches to Mandatory Retirement*. Tables 2.1 and 2.3. Department of Work and Pensions Research Report Number 674, 2010. Underlying data from OECD and various other sources.

The countries in this analysis have average ages of labor force exit ranging from 59 to 65. It is 68 in Japan, which is not on the exhibit. Most of the countries have a range at which social benefits can start. Except for France, this age is always 60 or later.

# key points

## DEFINITION OF RETIREMENT, WORKING IN RETIREMENT AND RETIREMENT AGES

### *Underlying demographics*

It should be remembered that increases in life span vary by economic status, education and other factors. One of the troublesome aspects of this issue is that the situation for middle class professionals is very different from that of laborers.

The demographic issues are a blend of mortality rates, life spans and fertility rates. As we think about the future of retirement and the economy, dependency ratios—the balance between those working and those not—are an important issue. The demographic balance has changed in most countries, and while European countries and Japan have some of the oldest populations, some developing countries have experienced more rapid change.

### *Definition of retirement*

There is no uniform definition of retirement. It can be viewed as age of receipt of benefits, leaving a long-term job, leaving full-time employment or total exit from the labor force. The appropriate definition will seem different to different stakeholders and the definition is evolving. Retirement today often includes some work, usually on a reduced basis.

### *Retirement ages and expectations*

There are vast differences in retirement age and expectations about retirement by country and by occupational group. Social security system provisions will be important factors in retirement ages in most countries, as well as any regulation about mandatory retirement. Many social insurance systems have increased retirement ages, but periods in retirement are still increasing. Retirement

age provisions in employer-sponsored DB plans can also be major contributors. DC plans are much less likely to include provisions that have driven retirement ages.

Research has repeatedly shown that people expect to retire later than they actually do. For example, the 2013 Society of Actuaries (SOA) Retirement Risk Survey showed that the median retiree age for those surveyed was 58, whereas the median expected retirement age of pre-retirees was 65.

In the United States, both involuntary and “pushed” retirement are important factors in retirement decisions. SOA focus groups (in conjunction with the survey mentioned above) indicated that much “voluntary” retirement is “pushed.” Reasons people are pushed into retirement include unpleasant job circumstances, family needs and health problems.

There are many policy issues connected to retirement timing and the options that employers offer. Factors influencing retirement decisions include social security systems, pension and other benefit plans, having enough money to retire (although this is not always an issue), family decisions (when a spouse retires), the need to provide care and help to other family members, health issues, problems at work and pursuing dreams.

### *The path to retirement, phased retirement and working in retirement*

Bridge jobs are jobs between career long-term jobs and total exit from the labor force. Economists have studied bridge jobs and found them a part of the process of exiting the labor force since about 1990. Some people would view bridge jobs as a form of phased retirement.

Phased retirement and working in retirement are issues of growing importance. Most

phased retirement today is not the result of a formal program. Rather, most phased retirement is informal, and consists of people retiring from something and working on some other basis later. Individuals are inventing their own paths. The reasons often given for working in retirement are split between the need for money and benefits, and staying engaged. In the United States, access to health insurance has been a major factor.

Formal phased retirement programs need more attention. In the United States, a new program for federal workers has encouraged more focus on this topic. Phased retirement means very different things to different people, and there are many issues involved in designing such a program. In 2008, phased retirement was a topic for a major study by the U.S. Department of Labor’s ERISA Advisory Council. The report included some principles for phased retirement that should be helpful in seeking to develop sensible structures and policies.

It should be noted that some older persons are very employable and others are not. Factors contributing to the employability of older persons include flexibility, attitude, skills and keeping them up-to-date, familiarity with technology, ability to work with individuals of all generations, health, and physical capability versus job requirements. It has been pointed out that while some older persons are very flexible and great workers, others are inflexible, cranky and act entitled.

### *Building a life portfolio*

It is important to have both a financial portfolio and a life portfolio. The life portfolio consists of the activities and interests that one has. Ideally, the life portfolio will be driven by passions. It may consist of activities that started before or after retirement, and may include volunteer work, board service, some



paid work, family time, artistic endeavors, hobbies, sports, travel, time with friends and/or learning something new. I often discuss with people what leads to “success” in retirement. Financial matters are vital, but once they are in order, the life portfolio is also very important. I believe that every individual has an internal set of values that defines what is important to him or her. My measure with regard to success and the life portfolio is that every year the retiree can say that he or she accomplished something of value based on that personal value system. The stronger an individual’s personal passions are, the more likely it is that he or she can accomplish something related to his or her passions.

**The reasons often given for working in retirement are split between the need for money and benefits, and staying engaged.**



#### **LINK BETWEEN RETIREMENT AGES AND PLAN DESIGN**

Indexing retirement ages to increased longevity is viewed as a logical step, but it is rarely done in public or private retirement systems. Also, thinking about retirement ages in terms of the expected period in retirement versus the age at retirement makes sense but is rarely done.

Traditional DB plans encourage retirement at a particular age or range of ages. Incentives for retirement are part of DB plan design, and many DB plan sponsors historically used early retirement windows.

DC does not encourage retirement at any particular time. With DC primary plans, many people are reluctant to retire, and some employers are finding that this is creating workforce management challenges. This may be partly due to inadequate funds.

#### **POLICY AND SOCIETAL ISSUES AND RETIREMENT OF THE FUTURE**

Public policy is an important contributor to retirement decisions. This is an area where actuaries can make major contributions to discussions and can offer leadership in encouraging desirable change. There are a number of areas of policy that are linked

to options for working longer, older worker employment and phased retirement. Policy can either enable or create barriers for innovation in older worker employment.

Social benefit retirement ages, benefit structures and benefit adjustments based on claiming age should be reviewed. These define when retirement and disability social benefits can be claimed and how benefits are adjusted based on claiming ages. This is a major factor in many retirement decisions and in the possibility of claiming disability benefits.



# Over the last 50 years, periods of retirement have lengthened dramatically. Recent increases in retirement age have not offset the increases in life span.

Employment legislation should also be reviewed, including age discrimination and mandatory retirement provisions. Some of the provisions designed to protect workers may make creative options during retirement more difficult.

Of course, any policy review should include employee benefit regulation. This includes the types of entities that can sponsor plans, what provisions are required and possible support for phased retirement. Benefit plan law and regulations may include provisions with regard to normal retirement age, payment of benefits while still working, suspension of benefits if someone returns to work, etc.

In any country where there is work to expand options, a comprehensive review of all of these regulations and how they support or deter innovative options for older workers would be most helpful. A multidisciplinary group representing diverse stakeholders (including actuarial input) will be needed to effectively address a long list of practical and philosophical questions, and the group will need to understand that compromise will be necessary.

## CONCLUSIONS AND OPINIONS

Societal aging is a global trend affecting many countries. Over the last 50 years, periods of retirement have lengthened dramatically. Recent increases in retirement age have not offset the increases in life span. If retirement systems are to be sustainable, further increases to retirement ages are vital.

However, this can only happen in a way that works well for individuals if there are reasonable opportunities to make longer work feasible. Flexible work options and phased retirement support longer work, but there are few formal programs available today. I believe it is important to actively address these issues.

Raising retirement ages and social benefit eligibility has both pros and cons. Critics of proposals to raise retirement eligibility point to the big differences in life spans by socioeconomic groups, with lower-paid groups having considerably shorter life spans. It is much more difficult for people in occupations requiring heavy physical labor to work longer. Some critics view such increases as discriminatory against such groups. Raising retirement ages also will lead to some increases in disability, and will require that disability benefits also be adjusted so that the disability and retirement programs work well together.

Another criticism of potential increases in retirement ages is that older people have a great deal of difficulty securing employment, and often there are not suitable employment options. Flexible employment can help where it is available. Age discrimination is a subject of government regulation in many places, but that does not necessarily eliminate the problems. The private sector has largely avoided dealing with this issue directly, in part by shifting from DB to DC plans. DB plans make very explicit what they expect about retirement age, but DC

plans do not. Some organizations have dealt directly with creating employment options, but many have not.

I believe that we should reframe the way we think about retirement eligibility in terms of periods in retirement, with a fundamental goal to keep periods in retirement fairly stable. If we are to do this, we need to be much more aggressive in enabling employer options for older workers. I also believe that we need to consider disability benefits in the design of programs going forward.

Public policy affects retirement ages and work opportunities for older persons in many ways. The policy may be part of multiple laws that are not necessarily well coordinated. It is important for policymakers and the private sector to work to address these issues holistically. In so doing, disability policy also should not be forgotten.

My experience is that many professionals who have studied these issues understand the importance of addressing them. However, many in policy communities prefer not to address them, or take a position of supporting no change. This is an opportunity for actuaries to get more involved with policy. **A**

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