Pension Policies – Pensionable Age and Life Expectancy

Increasing life expectancy is generally praised because people live longer and healthier lives. For pension systems, however, a longer life expectancy constitutes a serious economic and political challenge.

As life expectancy increases, people spend more time in retirement if the pensionable age, the age at which people can cease work and receive full benefits, is left unchanged. The longer duration of retirement leads to increasing costs of pension systems. The OECD (2011) draws attention to this problem by giving an overview of the development of pensionable age and life expectancy over time in the OECD countries and presenting how governments deal with longer retirement durations.

Some key indicators are summarised in Table 1. The first six columns show the pensionable age for men and women in 1958 and 2010, respectively, as well as a forecast for the pensionable age in 2050.[1]

In most countries the pensionable age is set out explicitly. In others, however, the eligibility to draw a pension does not depend on age but on years of contribution (e.g., 37 years in Greece or 25 years for male

[1] A more detailed presentation of the development over time is provided in the OECD (2011) report.

Table 1

Pensionable age and life expectancy

	Pensionable age						Life expectancy after pensionable age					
	Men			Women			Men			Women		
	1958	2010	2050	1958	2010	2050	1958	2010	2050	1958	2010	2050
Australia	65	65	67	60	62	67	12.5	18.6	19.7	19.4	24.3	23.3
Austria	65	65	65	60	60	65	12	17.5	21.1	18.6	25.1	24.5
Belgium	60	60	60	60	60	60	15.3	21.1	24.8	18.5	25.8	29.8
Canada	69	65	65	69	65	65		18.3	21.4		21.4	24.8
Czech Republic	60	61	65	60	58.7	65	15.4	17	18.1	18.5	23.8	22.5
Denmark	65	65	67	60	65	67	13.7	16.4	17.2	19.3	19.8	21
Finland	65	65	65	65	65	65	11.5	16.8	19.8	13.7	21	24,7
France	65	60.5	61	65	60.5	61	12.5	21.7	24.8	15.6	26.5	29.5
Germany	63	65	65	60	65	65	14.2	17	20.3	18.1	20.7	24.4
Greece	57	57	60	57	57	60	19.9	24	24.1	21.5	27.1	28.3
Hungary	60	60	65	55	59	65	15.6	16.5	16.3	22.6	22.6	21.1
Iceland	67	67	67	67	67	67		16.8	19.8		19.2	22.9
Ireland	70	65	65	70	65	65	7.6	16.9	20	9.4	20.6	24.3
Italy	60	59	65	55	59	65		22.8	20.9		27.4	25.5
Japan	60	64	65	55	62	65	14.8	19.8	21.6	22.8	26.7	27.7
Korea		60	65		60	65		20.2	19.3		25.2	24.5
Luxembourg	65	60	60	65	60	60	12.5	20.8	24.6	14.5	24.9	28.6
Mexico	65	65	65	65	65	65	14.2	17.2	18.9	14.6	19.4	21.9
Netherlands	65	65	65	65	65	65	13.9	17.3	20.6	15.3	20.4	23.5
New Zealand	60	65	65	60	65	65		18.1	21.2		20.9	24.3
Norway	70	67	67	70	67	67	9.5	15.7	18.9	11.1	18.9	22.5
Poland	60	65	65	60	60	60	15.9	14.4	17.2	18.7	23.1	26.6
Portugal	65	65	65	65	65	65	12.4	16.3	19.2	14.5	20.2	23.6
Slovak Republic	60	62	62	60	57	62	16.6	14.9	18.6	18.4	24.9	23.9
Spain	65	65	65	65	65	65	13.1	17.9	21.4	15.3	21.8	25.1
Sweden	67	65	65	67	65	65	11.7	17.9	21.1	13.3	21.1	24.2
Switzerland	65	65	65	60	63	64	12.9	18.9	22.4	19	24.1	26.6
Turkey		44.9	62.3		41	60.8		31.1	22.5		36.9	23.2
United Kingdom	65	65	68	60	60	68	11.9	16.9	16.9	18.9	24.5	21.9
United States	65	66	67	65	66	67	12.8	16.8	17.7	15.8	19.3	21.9
Average	63.9	62.9	64.6	62.3	61.8	64.4	13.4	18.5	20.3	17	23.3	24.6

Note: Germany refers to West Germany for 1958. Czechoslovakian data are used for the Czech and Slovak Republics where appropriate. Where there is more than one value per calendar year, these have been averaged. The recent change in pensionable age in the UK is not reflected in the Table.
Life-expectancy is calculated using data from 1960 for the pensionable age in 1958.

Source: OECD (2011, 25–26, 29–30).

workers in Turkey). For the sake of comparison, it is assumed that each individual started to work at the age of 20 and works uninterruptedly until retirement (e.g., leading to a pensionable age of 57 in Greece and 45 in Turkey). Although there are different pension programmes for different groups of workers, the OECD (2011) focuses on private-sector workers. Earlier retirement ages for workers in public sectors or hazardous and arduous occupations are not taken into account.

The cross-time view shows that for 14 countries men's pensionable age in 2010 is the same as in 1958, seven countries have a lower and seven countries have a higher pensionable age for male workers. The average pensionable age for men was lowered from 64.3 to 62.9 years between 1958 and 2010. A more detailed picture of the development between 1958 and 2010 shows that following an average low point of 62.4 years in 1993, the majority of countries increased the pensionable age up to 2010 or set up reforms to do so in the future.

The 2050 forecast predicts that 18 countries will keep pensionable age for men at the level of year 2010, either because they already increased it (e.g., Germany) or because pensionable age was considered to be high enough without a reform (e.g., Austria). Meanwhile, twelve countries will experience an increase in pensionable age from 2010 up to 2050. There is no OECD country planning to lower the pensionable age for men facing further increases in life expectancy.

The trend indicates that governments aim to equalise the retirement ages of men and women by increasing women's pensionable age faster than men's. The difference in average was 1.6 years in 1958, but decreased to 1.1 years in 2010. It is forecasted to be only 0.2 years in 2050 when Poland, Switzerland and Turkey are projected to be the only countries with pensionable age lower for women than for men. In 2010, gender differences could still be found in eleven countries.

A key question is whether increases in pensionable age can keep up with the increase in life expectancy. An indicator is the life expectancy after pensionable age presented in the second half of Table 1.

Between 1958 and 2010, no country compensated the increasing life expectancy by setting up a higher pensionable age. Therefore, life expectancy at pensionable age increased in all OECD countries. The average duration of retirement rose from 13.4 years in 1958 to 18.5 years in 2010 for men and similarly from 17 to 23.3 years for women. Obviously, higher life expectancy caused people to spend more time at the receiving end, heaping cost pressure on the pension systems. Future changes in pensionable age, described above, have to cover future increases in life expectancy and perhaps even compensate for the past increases in retirement duration.

Based on the OECD (2011) forecast drawn from current reform plans, men's retirement duration will increase on average by another 1.8 years up to 20.3 years in 2050 while women in 2050 will spend 24.6 years on average in retirement, indicating an increase of only 1.3 years against 2010. Current and future reforms in many OECD countries will compensate for larger parts of the future increase in life expectancy in contrast to the pension system changes in the second half of the 20th century.

In Hungary, Italy, Korea and Turkey the retirement age will be increased by an amount that will even overcompensate higher life expectancy and therefore reduce the time in retirement for both men and women.[2] Australia, Austria, the Czech Republic, the Slovak Republic and the UK will reduce years of retirement for women, but not for men. All other countries will still face higher retirement duration, but generally to a smaller extent than in the past. Therefore, reforms in many countries appear to be promising, but changing the pensionable age is not the magic bullet for pension systems under increasing life expectancy.

Besides the explicit setup of pensionable age, governments have developed ways to link pension systems' parameters directly to life expectancy. According to Table 2, seven countries have introduced a mandatory defined-contribution plan. Under this scheme, contributions and investment returns accumulated during work life are converted into a regular pension payment ("annuity"). This annuity depends on the retirees' life expectancy at the time of retirement. Under notional-accounts schemes accumulated contributions and notional interest are also converted into a regular benefit payment. Here, the conversion rate is linked directly to life expectancy.

In this manner pension benefits are linked directly to life expectancy. Under defined-contribution plans, which was most common in the 20th century, bene-

[2] These reforms should be viewed, however, in light of the fact that Turkey, Italy and Greece had the lowest pensionable age and the longest average retirement duration in 2010.

Table 2

Ways to link pensions to life expectancy

	Mandatory defined-contribu–tion plan	Notional accounts scheme	Benefits linked to life expectancy	Qualifying conditions linked to life expectancy	DB-to-DC shift in voluntary private provision
Australia	x				
Austria					
Belgium					
Canada					x
Czech Republic					
Denmark				x	
Finland			x		
France				x	
Germany			x		x
Greece					
Hungary	x				
Iceland					
Ireland					x
Italy		x			
Japan					
Korea					
Luxembourg					
Mexico	x				
Netherlands					
New Zealand					
Norway	x	x			
Poland	x	x			
Portugal			x		
Slovak Republic	x				
Spain					
Sweden	x	x			x
Switzerland					
Turkey					
United Kingdom					x
United States					x

DB=Defined-benefit. – DC= Defined-contribution.

Source: OECD (2011, 84).

fits depended on contribution years and level of earnings, but life expectancy was not taken into account.

As can be seen in Table 2, Germany and the Slovak Republic have linked benefits to life expectancy in more complex ways, and Denmark and France did so for retirement qualifying conditions. Other countries shifted from a defined-benefit to a defined-contribution scheme in a voluntary private provision.

In order to reduce the duration of retirement, governments can also reduce the incentives to retire early (i.e., tighter qualification conditions and higher decrements for early retirement) and set better incentives to stay in work even when people have reached the age at which they could cease work and receive full benefits.[3]

[3] The role of incentives in retirement decisions are covered in Chapter 3 of the OECD (2011) report.

It is obvious that most OECD countries have noticed the pressure which increasing life expectancy exerts on pension expenditures and established reforms to solve the financial problems arising. Increasing the pensionable age is one important factor, but many countries have also linked pension systems parameters directly to life expectancy.

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Reference

OECD (2011), Pensions at a Glance 2011: Retirement-Income Systems in OECD and G20 Countries (www.oecd.org/els/social/pensions/PAG).