Pension Reforms: 67 – or Higher – is Becoming the New 65

Working longer as people live longer improves the financial sustainability of pension systems and it ensures a fairer distribution of the costs of ageing across generations (OECD 2012). How are countries adjusting to this challenge? The latest OECD Pension Outlook (2012) analyses pension reform measures in OECD countries since the beginning of the crisis in September 2007. Although highly controversially debated, the most obvious changes are increases in pension age. Looking at the pensionable age under long-term rules "67 – or higher – is becoming the new 65" concludes the latest outlook (OECD 2012, 26). Indeed, as can be seen in Figure 1, most OECD countries have already increased pensionable ages, or plan to do so in the near future. By 2050, one third of the OECD countries will have increased their pensionable age to at least 67. Moreover, in five countries, both men and women are expected to retire at 68 (Czech Republic, Ireland and United Kingdom) or at 69 (Denmark and Italy).

On the other hand, there are only a few countries left with pension ages below 65, and this is mostly the case for females. In France, for example, the deciding factor is generally the number of years of contribution, rather than the pensionable age (62 from 2017 on). For people with an incomplete contribution history, the pension age for a full rate pension will be 67 from 2022 onwards.

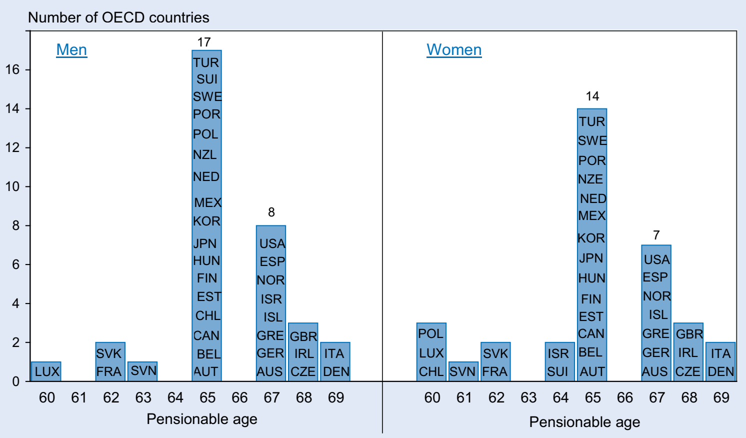
However, other less visible measures to encourage people to work longer, such as tighter conditions for early retirement, linking pensionable age to life expectancy or greater rewards for continuing after the normal pension age, were also implemented in 14 countries (Table 1). Australia and France, for example, have improved incentives for people to continue working after the normal pension age. Sweden provides an in-work tax credit to individuals aged 65+ at a higher level than for under the 65s. Both Sweden and Portugal have exempted older workers from employee social security contributions. The conditions for receiving early pensions have been tightened in Austria, the Czech Republic, France, Greece, Hungary, Italy, Denmark and Spain. Finland has tightened the conditions for the part-time pension and unemployment pathways into retirement, and Poland plans to remove early-retirement privileges for large groups of workers. France and Ireland have taken steps within public-sector pension arrangements to encourage people to work longer (Table 1).

However, bearing in mind the historical perspective, future increases in the pensionable age look far less impressive: in 1950, the average pension age in OECD countries was 64.5 for men and just over 63 for women. Then, over four decades, the average pensionable age fell to 62.5 for men and 61.1 for women. The average pension age is not expected to return to the same level as in 1950 until 2030 (for men) and 2020 (for women) (OECD 2012).

Moreover, whilst the pensionable age fell by two years in the decades following 1950, between 1958 and 2010, life expectancy after retirement grew by 4.3 years for men and by 5.7 years for women (OECD average). Looking forward, life expectancy is expected to continue to rise, and thus to outstrip increases in pension ages. Despite many OECD countries having already legislated for phased increases in the pension age (Figure 1 and Table 1), by 2050, on average, men are expected to enjoy 20 years in retirement, and women are projected to live for 23.7 years after leaving work.

Figure 1

Pensionable Age Under Long-Term Rules, by Sex



Source: OECD (2012).

Given current pension reform measures, it is therefore likely that the pension age will be able to keep pace with improvements in life expectancy in just a few countries (OECD 2012): the Czech Republic, Greece, Hungary, Italy, Korea and Turkey. In Austria, Estonia, the Slovak Republic and the United Kingdom, pension age increases exceed the projected growth in life expectancy for women, but not for men.

S.R.

Reference

OECD (2012), *OECD Pensions Outlook* 2012, OECD Publishing, Paris.

Table 1

Details of pension-reform measures – work incentives[1]

Austria	Access to early retirement tightened: higher minimum age, stricter rules on "substituted insurance periods" (*Ersatzzeiten*), abolition of buying retrospective insurance (for periods in full-time education) and 4.2% actuarial decrement to be applied for early retirement on this basis from 2014.
Belgium	Increase in employer contn to early-retirement benefits (April 2010).
Czech Republic	Pension age 63 ↑ 65 for men, 59-63 ↑ 62-65 for women depending on number of children from 2028; requirement for full benefit 20 ↑ 35 yrs by 2019.
Denmark	Voluntary early retirement scheme (eferlon) scaled back: increase in eligibility age 60 ↑ 64 during 2014–23 reducing pay-out period 5 ↓ 3 yrs; during 2012, choice between early retirement benefits and a tax-free lump sum at eligibility age of DKK 143,300.
Estonia	Pension age 63 ↑ 65 for men, 60.5 ↑ 65 for women 2017–2026.
Finland	Possibility of putting pension on hold while working (max. 2 years) extended to earnings related pensions from private sector. Currently, temporary legislation covering 2010–2014 (Jan. 2010). Eligibility age for part-time pensions increased to 60 for cohort 1953+ and the old-age pension after part-time pension slightly decreased. Eligibility age for unemployment pathway to pensions increased for cohort 1955+ to 60.
France	Minimum pension age (subject to contn conditions) 60 ↑ 62 by 2017; age for full rate pension 65 ↑ 67 (Nov. 2011); increment for late retirement 3-4% ↑ 5% from 2009; employers must have an action plan for employing workers aged 50+ by Jan. 2010 or face penalty social security contns. Actuarial reduction for early retirement from July 2008.
Germany	Increase in normal pension age 65 ↑ 67 for cohort 1964+.
Greece	Pension age linked to life expectancy from 2020; minimum age 60 for early retirement from 2011; contn yrs for full benefit 37 ↑ 40 yrs by 2015. Actuarial reduction of 6% per year of early retirement (July 2010).
Hungary	Pension age 62 ↑ 65 in 2012-17; tighter conditions for early retirement.
Ireland	Pension age 65 ↑ 66 from 2014 and ↑ 67 from 2021 and ↑ 68 from 2028. Pension decrement for early retirement of public-sector workers.
Italy	Pension age for women 60 ↑ 65 to match that of men; pension age for both sexes 65 ↑ 67 by 2021; pension age for women working in the public sector 61 ↑ 65 in 2012. Early retirement through seniority pensions (based on contribution yrs) limited.
Netherlands	Pension age 65 ↑ 66 from 2020 and 67 from 2025 before parliament.
Poland	Restrictions on occupations that can retire early, cutting eligible numbers by 80%, and then eliminating the scheme (Jan. 2009).
Portugal	Lower social security contn rate for workers aged 65+. (Sept. 2009).
Slovenia	Proposal to increase normal pension age 63 ↑ 65 men, 61 ↑ 63 women 2021–2024; eligibility for early retirement on full pension 40 ↑ 43 yrs men, 37.25 ↑ 41 yrs women was rejected by referendum in June 2011.
Spain	Normal pension age 65 ↑ 67 between 2013 and 2027 but full benefit at 65 with 38.5 yrs contn; sustainability adjustment after 2027; early pension age 61 ↑ 63 (but 61 in times of economic crisis); contn for full benefit 35 ↑ 37 yrs; contn for early retirement 30 ↑ 33 yrs.
Sweden	In-work tax credit introduced in 2007: higher level for over 65s. Credit for older workers enhanced in 2008 and 2009. In 2011, maximum credit for under 65s of SEK 21 249 (at average municipal tax rate) compared with SEK 30 000 for over 65s. Employee payroll taxes and abolished for over 65s in 2008-9; employer taxes (except for 10.21% pension contn for cohorts 1938+) also abolished. Note that full social security contribution is 31.42% for cohorts 1938+.
United Kingdom	Bring forward pension age increase 65 ↑ 66 to 2020, 6 yrs earlier than planned (Oct. 2010) and 66 ↑ 67 to 2026–28, 10 yrs earlier than planned (Nov. 2011).
Norway	Flexible retirement age 62–75 with adjustments to benefit levels.
Turkey	Pension age 60 ↑ 65 for men and 58 ↑ 65 for women by 2048.
Australia	Pension age for public scheme 65 ↑ 67 2017–23; earliest access age for private schemes 55 ↑ 60 by 2025; tax penalty on access to private pensions before age 60. Work bonus: concession in the income test that enables public pensioners to earn up to AUD 6 500 a year (single) and AUD 13,000 (couples). This is in addition to the income test free area of AUD 3,744 in the year 2010.
Contn = contribution; yrs = years.	

[1] For a detailed summary by primary objective (Coverage, Adequacy, Financial and Fiscal Sustainability, Administrative Efficiency, Diversification / Security and Other Aspects see: DICE Database / Social Policy / Pension / System Characteristics, *"Pension-Reform Measures September 2007 – February 2012"*.

Source: OECD (2012).