

The politics of age

Policy responses to increasing longevity - and their dilemmas and trade offs

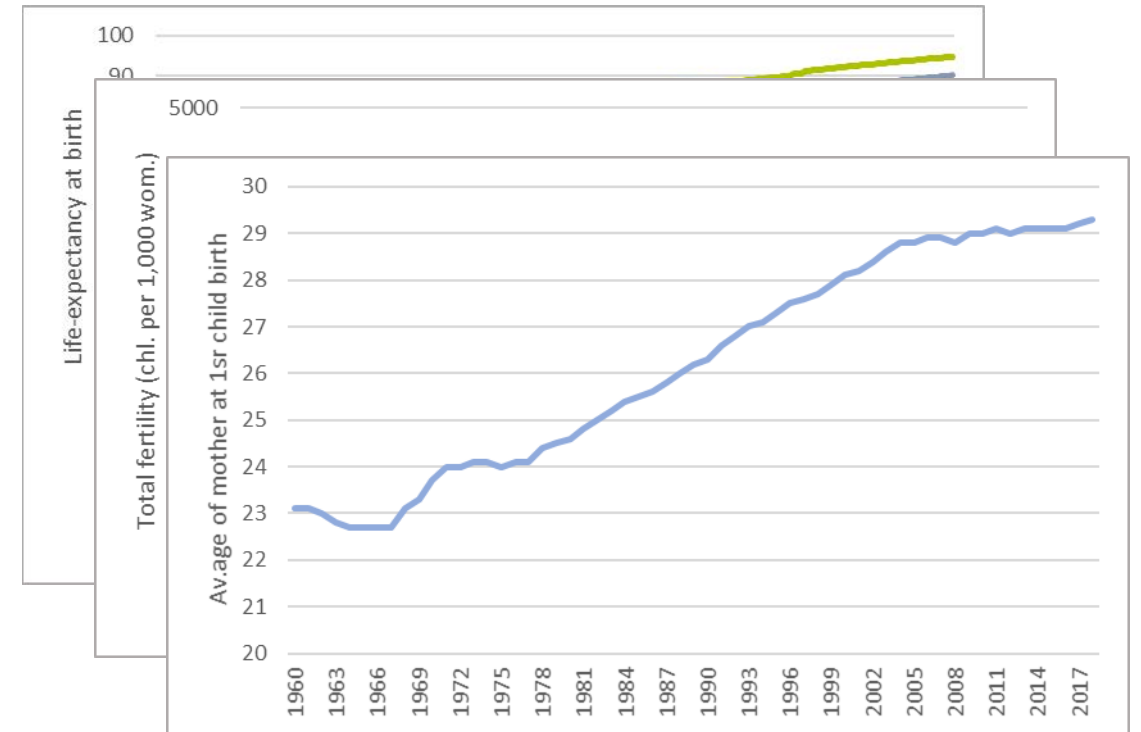
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Longer lives and fewer children,....

- Life expectancy has increased...
- ...and the trend will continue
- Birth rates have decreased,...
- ...and planning plays a key role in modern families
- Good news have many mothers:
 - Health care, nutrition, education, housing, modernity, better work lives, a stronger middle class....

Denmark as an example

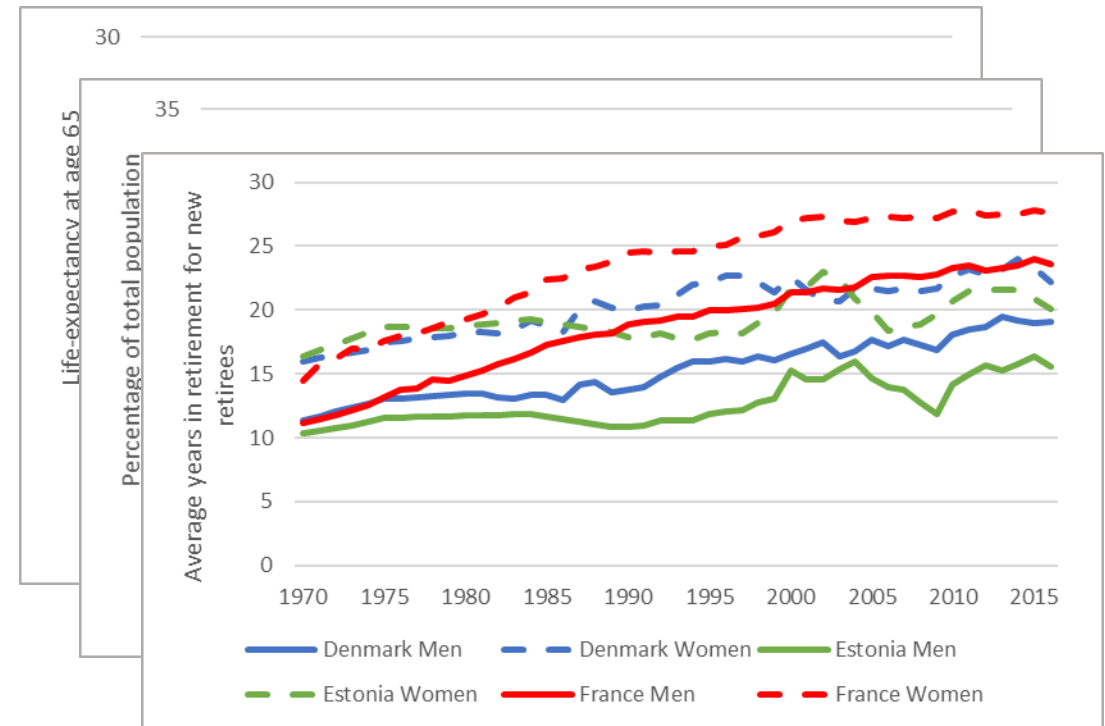


Source: ATP and Statistics Denmark 2019.

...and challenging demographic outlooks...

- Life expectancy at age 65 has increased dramatically,...
- ...and the trend will continue...
- ...causing elderly as well as very elderly fractions to increase
- Again, good news,....
- ...but it comes with a price tag...
- ...as the duration of retirement increases too

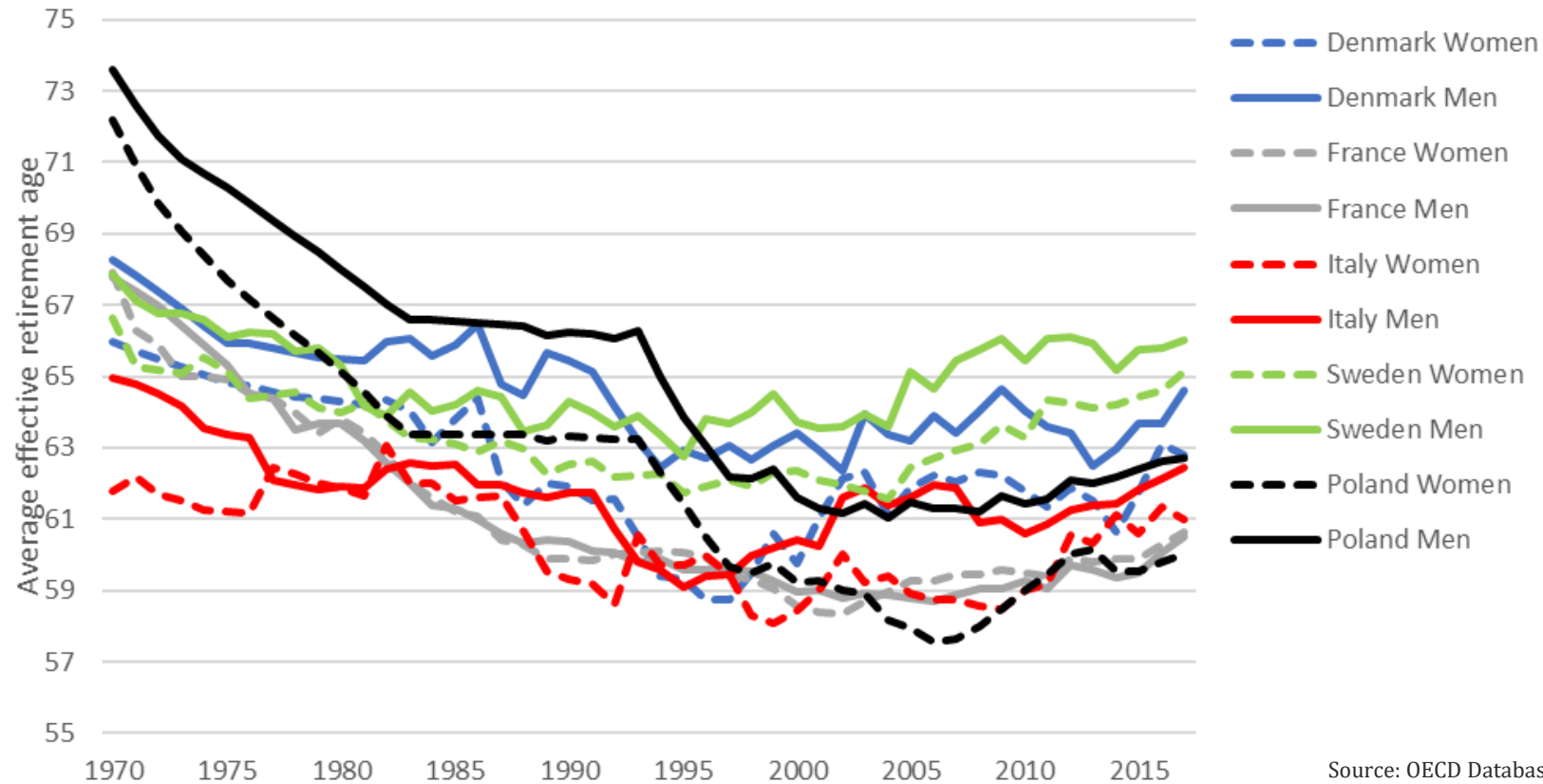
EU27 2016-2070



Source: European Commission. Ageing Report 2018.

...only exacerbated by still earlier retirement

Average effective retirement ages in selected EU member states 1970-2017



Source: OECD Database 2019.



The paradox of the 90'ies

- Throughout the 70'ies, 80'ies and 90'ies real-retirement ages decreased...
-throughout Europe and in many other countries
- Early retirement and numerous informal exit routes...
- ...lowered labour market participation among the elderly and added to the growth of the demographic burden
- Paradox approaching the turn of the millenium:
 - The most well educated and most healthy generations ever retired earlier than anyone before them



Some policy examples...

- Early retirement through unemployment insurance systems:
 - Voluntary exits, benefits in relation to restructuring, relaxed activation requirements, prolonged benefit periods for unemployed older workers...
- Early retirement through relaxed access to disability pensions:
 - Relaxed access to disability pensions for older workers in general, and for older workers with low employment opportunities in particular
- Early retirement through lower pension ages and privileges:
 - Lower pension ages in general or for workers in particular industries and occupations – armed forces, police, judicial system, arduous and hazardous occupations...

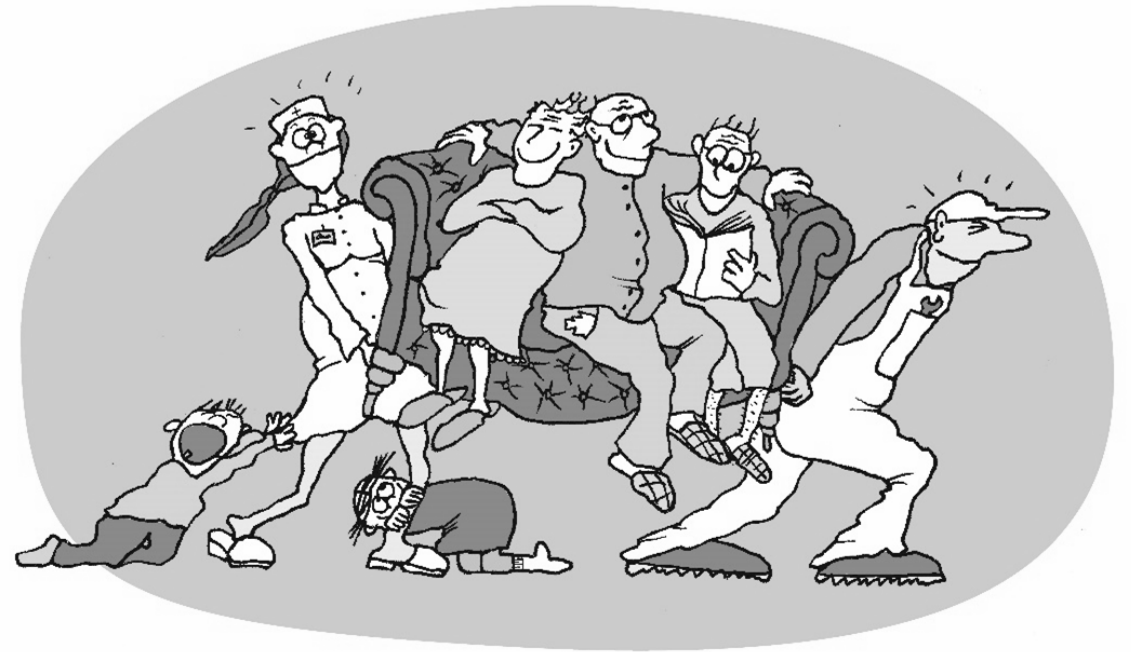


...and some hard learned policy experiences

- We retire early mainly because we can
- Access to early retirement shape our work lives and our daily lives
- Early retirement does not benefit the employment of younger workers
- Retirement options structure formal as well as informal age policies among employers and in work place cultures
- Early retirement privileges an special rights through public schemes collectivise work place risks and reduce incentives
- Early retirement impedes growth and increases financial challenges

Policy conclusion at the turn of the millenium

- Three key policy criteria:
 - Adequacy
 - Sustainability
 - Equitability
- ...and a simple message:
 - When we live longer, we need to work longer!





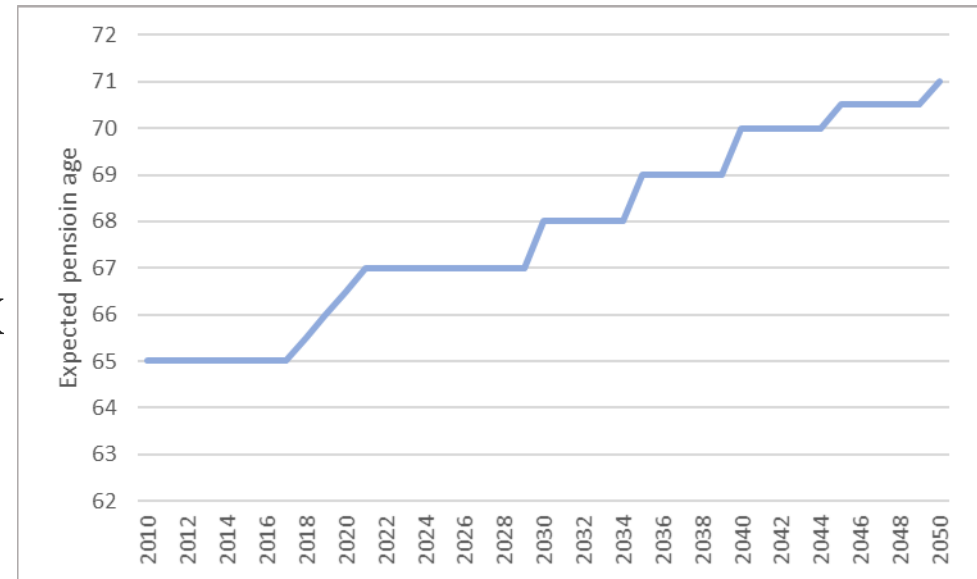
Sobering up after the turn of the millenium

- Pension reform have ranked high on the European policy agenda
- The policy tool box includes among other things:
 - Higher pension ages
 - Equal pension ages for men and women and for all groups
 - Measures to ensure the financial sustainability of public pensions
 - Strengthened adequacy through stronger emphasis on private (occupational) arrangements...
 - ...and improved coverage
 - Curtailed early retirement
 - Shift from privileges to standardized occupational arrangements and transitional arrangements
 - Stronger incentives to defer retirement
 - Promotion of flexible retirement
 - Stronger focus on employer incentives to accommodate longer work-lives
 - Stronger incentives for employers to focus on work safety and environment
 - Active labour market measures
 - Communication

Pension age policies...

- Most EU27 states increase the pension age
- Linking the pension age to longevity
 - ~half of EU27 – e.g. BLG, DK, FI, SVK and NL
- Linking benefits to longevity
 - PTG an SWE
- Parametric reforms are frequent

Denmark as an example

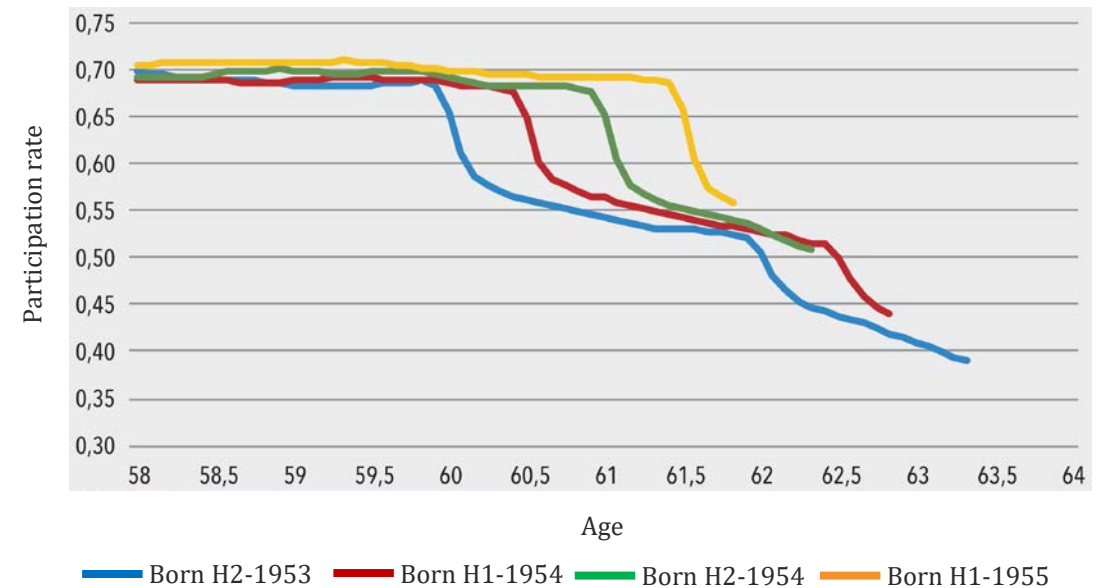


Source: Own calculations.

...we retire early mainly because we can

- Most EU27 states have curtailed early retirement...
- ...through a range of different measures – e.g.
 - higher minimum ages
 - stricter eligibility criteria
 - lower benefits
 - tougher penalties
- Labour market participation has increased

Denmark as an example



Source: Courtesy J.R. Skaksen, 2019 (forthcoming).

Pension age policies

Statutory retirement and early retirement ages in selected EU member states 2016-2070

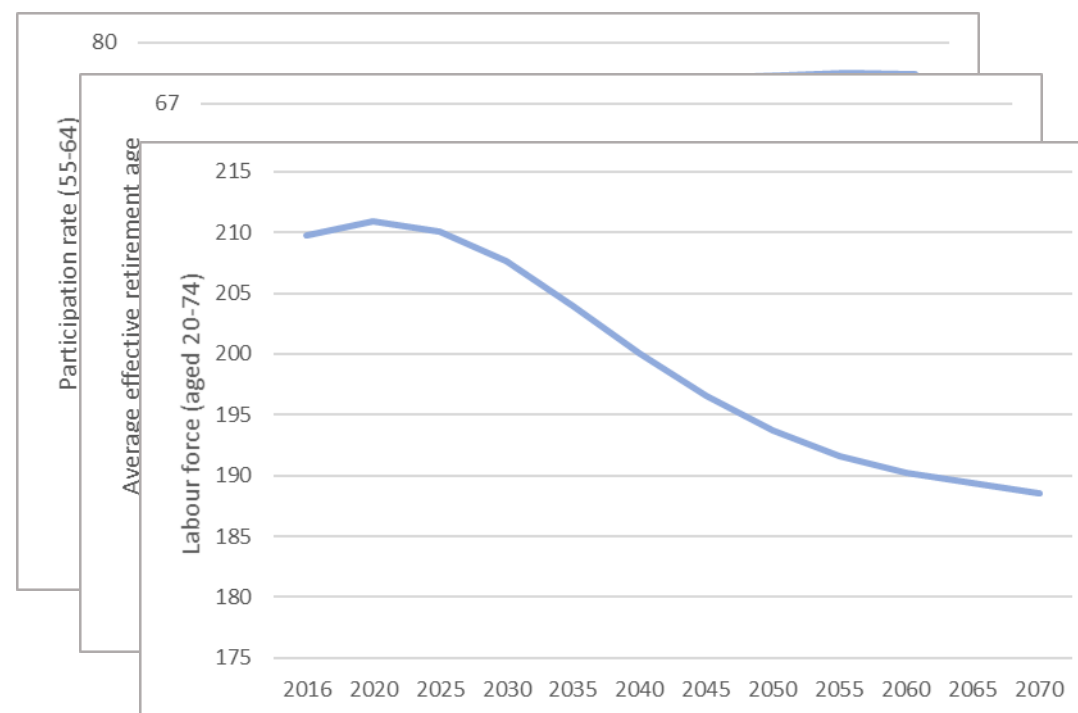
	Men				Women			
	2016	2030	2050	2070	2016	2030	2050	2070
Denmark	65 (61.5)	68 (65)	71.5 (68.5)	74 (71)	65 (61.5)	68 (65)	71.5 (68.5)	74 (71)
Germany	65.5 (63)	67 (63)	67 (63)	67 (63)	65.5 (63)	67 (63)	67 (63)	67 (63)
France	66.3 (61.3)	67 (62)	67 (62)	67 (62)	66.3 (61.3)	67 (62)	67 (62)	67 (62)
Hungary	65 (60)	65 (60)	67 (62)	67 (62)	61.5 (56.5)	65 (60)	67 (62)	67 (62)
Italy	66.6 (63.6)	66.9 (63.9)	69.6 (66.6)	71.1 (68.1)	66.6 (63.6)	66.9 (63.9)	69.6 (66.6)	71.1 (68.1)
Poland	65 (65)	65 (65)	65 (65)	65 (65)	60 (60)	60 (60)	60 (60)	60 (60)
Portugal	66.2 (60)	67.2 (60)	68.4 (60)	69.6 (60)	66.2 (60)	67.2 (60)	68.4 (60)	69.6 (60)
Romania	64.8 (59.8)	65 (60)	65 (60)	65 (60)	60.4 (55.4)	63 (58)	63 (58)	63 (58)
Finland	66 (63)	67.1 (64.1)	69.2 (66.2)	71 (68)	66 (63)	67.1 (64.1)	69.2 (66.2)	71 (68)
Sweden	67 (61)	67 (61)	67 (61)	67 (61)	67 (61)	67 (61)	67 (61)	67 (61)

Source: European Commission. Ageing Report 2018.

A glimpse at expected results so far

- Participation rates are on the increase...
- ...and so are average effective retirement ages...
- ...but even so, labour supply will decrease
- Reform needs may still not be satisfied...
- ...and some member states are still to catch up

EU27 2016-2070



Source: European Commission 2018.



A closer look: Denmark and Sweden

- Two of the strongest pension systems in the world

Denmark: A universal flat, income tested, non-contributory basic pension complemented by quasi-mandatory occupational pensions

Sweden: An earnings-related, contributory basic pension complemented by quasi-mandatory occupational pensions

- Both were facing challenges from early retirement during the 80'ies and 90'ies,...
- ...and both are now seeing high and increasing participation rates among older workers and increasing real retirement ages



Key elements in the Danish reform approach

- Reforms around 1990 ensured quasi-universal and quasi-mandatory occupational DC-insurance based pension coverage
- Major welfare reforms based on extensive research led among other things to:
 - Linking the retirement age to longevity
 - Curtailing – effectively abolishing - early retirement
 - Disability reforms focusing benefits on remaining work capacity
 - Linking the minimum pay-out age in private pensions to longevity
 - Strong focus on work environment and safety at work



Key elements in the Swedish reform approach

- Reforms in the mid-90'ies shifted the public pension to an NDC approach and introduced an additional DC element
- Major reforms based on extensive research led among other things to:
 - Abolishing early retirement through unemployment benefits and disability benefits
 - Disability reforms focusing benefits on remaining work capacity
 - Introduction of actuarial fairness as the basic principles in public pensions
 - Removing the statutory retirement age and replacing it with a window – effectively seeking to let retirement decisions driven by financial consideration
 - Gradually moving from DB to DC in the occupational pensions
 - Strong focus on work environment and safety at work



Results and dynamics...

- Clear policy signals to individuals as well as the social partners>
 - “When we live longer, we need to work longer!”
- Focus areas:
 - Training and retaining of workers to strengthen employability
 - Central and local policies to retain older workers is strengthened
 - New formats for flexible retirement
- The early retirement narrative is to a large extent replaced by an employment narrative,...
 - ...and labour market participation among the elderly is increasing



...pension policy, and other policies

- Pension policy provides the framework for retirement decisions, ...
 - ...and as such it carries the key message
- The support of other policies are needed to bring the message to life
 - Some policies are in the hands of government such as strengthening incentives and increase focus on older workers and the accommodation of longer work lives, ...
 - ...but much rely on the ability to mobilise the social partner and the individual work place...
 - ...and bring individuals on board
- The adaptability of the labour market to changing conditions and circumstances is significant!



Increasing the pension age – some challenges

- Longevity is increasing – ...
 - ...but so are social disparities in longevity and health in old-age
- We need to work longer -
 - ...but our opportunities to do so varies greatly
- How should pension systems address these aspects??
 - ...and should they??
 - ...and if so through social right or through generalized welfare rights??
- Should privileges and special arrangements persist??
 - ...despite their dead weight effects, negative incentive effects and poor targeting?



Current issues in Denmark...

- Should early retirement be brought back as a general social right?...
 - ...or should easier access to disability benefits be offered to older worn out workers?
- Should social differences in life expectancy translate into a variable pension age?
 - ...work life duration – French style – has been proposed, but it is a poor targeting measure...
 - ...with significant dead weight costs
 - Social differences in life expectancy are not strongly work related
 - ...and to the extent it is: Should exposure be rewarded, or should realized risk be compensated?



... and in Sweden

- The NDC model relates public pensions closely to labour market career and income...
 - 25 years into the reform strong gender differences materialize - incentives has not led women to follow male work life patterns
 - Better indexation of the minimum pension, joint annuitization or account sharing in the public system...?
- Occupational pensions are to a large extent paid out before retirement or very early
 - Expectation that the minimum pay-out age will be synchronized with the minimum pension age in the public system

Live longer - work longer!

