

The Transition to Retirement

Just as the propensity to work at older ages varies considerably from country to country, so too do patterns of retirement and the concept of retirement itself. In predominantly rural and agricultural societies, many elderly persons work of necessity; retirement may be a luxury largely reserved for urban elites. During periods of economic contraction in highly industrialized nations, on the other hand, governments may actively encourage older workers to cease active employment at relatively young ages.

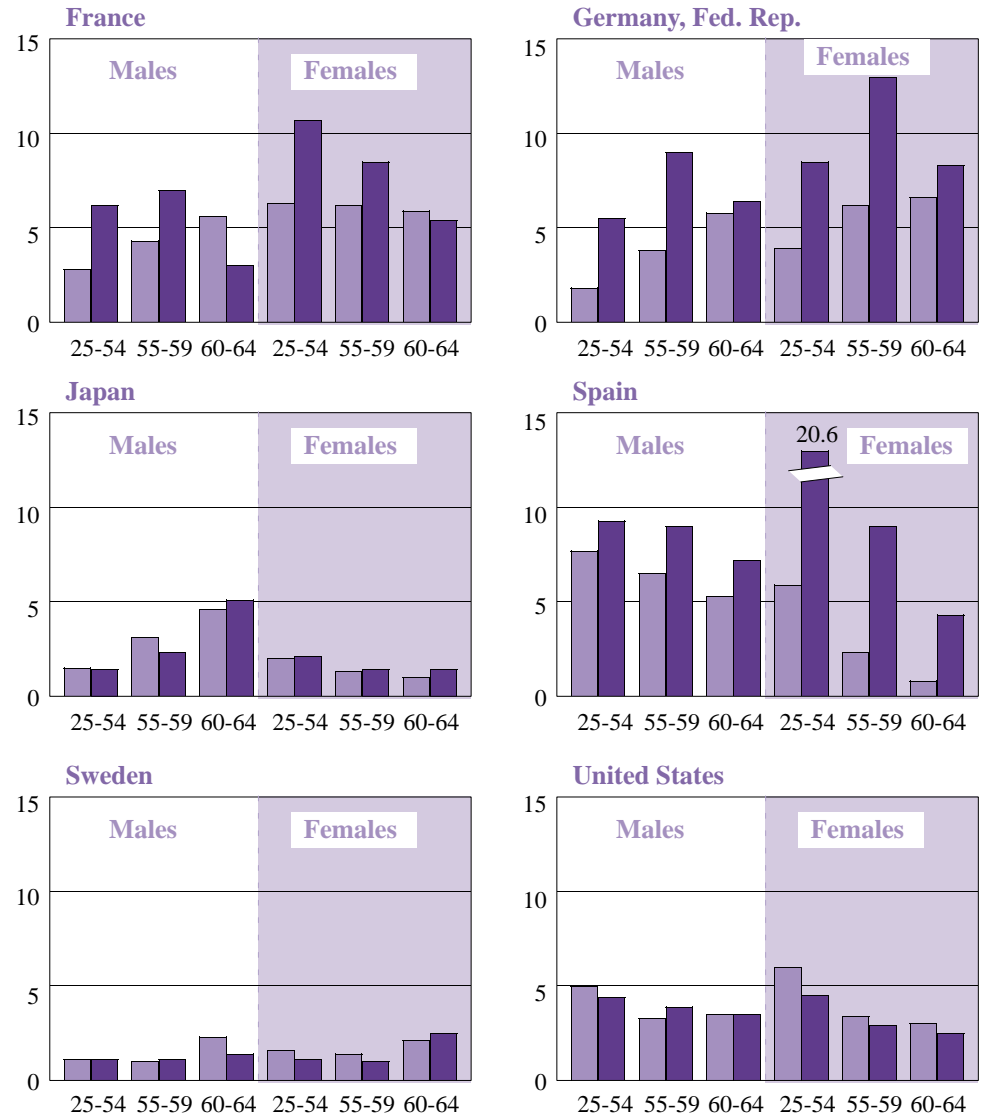
Many countries have witnessed major changes in the work and retirement patterns of their older citizens during the last 3 decades (Jacobs, Kohli and Rein, 1991). Until the 1950's in developed countries, retirement from the workforce was an event that occurred almost exclusively at a regulated age, with little possibility of receiving a pension prior to that age (Tracy, 1979). Since then, countries have adopted a wide range of approaches to providing old age security, and different potential routes have emerged for persons making the transition from labor force participation to retirement. Changes regarding part-time work, unemployment, disability pensions, and early retirement have hastened withdrawal from the labor force, and increased the average number of years an individual spends outside of formal economic activity (Torrey, 1982). More recently, policy planners and legislators have begun to question the wisdom of many of these changes, and have begun to nudge the pendulum in the other direction. Concurrently, there is growing interest among researchers and gerontologists (Johnson and Falkingham, 1992; Gustman, Mitchell and Steinmeier, 1994; Marshall, 1995) in the timing and dynamics of retirement decisions, the nature and meaning of work itself, and the importance of work experience within a life course perspective.

Unemployment rates for older workers higher in 1990 than in 1980

Establishing a clear time trend in unemployment rates of older persons is hampered by several factors, including data availability, the nature of the business cycle, and differences in definition across countries. One comparison of 16 industrialized countries (OECD, 1992) showed that, with the exception of Japan, unemployment rates for men aged 55 to 59 were higher in 1990 than in 1980. Rates for women aged 55 to 59 also tended to be higher. Differences among workers aged 60 to 64 generally were smaller and less consistent.

In a majority of the 16 nations, unemployment rates at ages 55 to 59 were higher than at ages 60 to 64 in 1990, for both sexes. Except in Spain, Sweden and the United States, unemployment among men 55 to 59 was higher than among prime-age (25 to 54) workers; the opposite was true for women in a majority of countries.

Figure 3.1
Unemployment for 3 Age Groups: 1980 and 1990
(Percent of labor force unemployed)



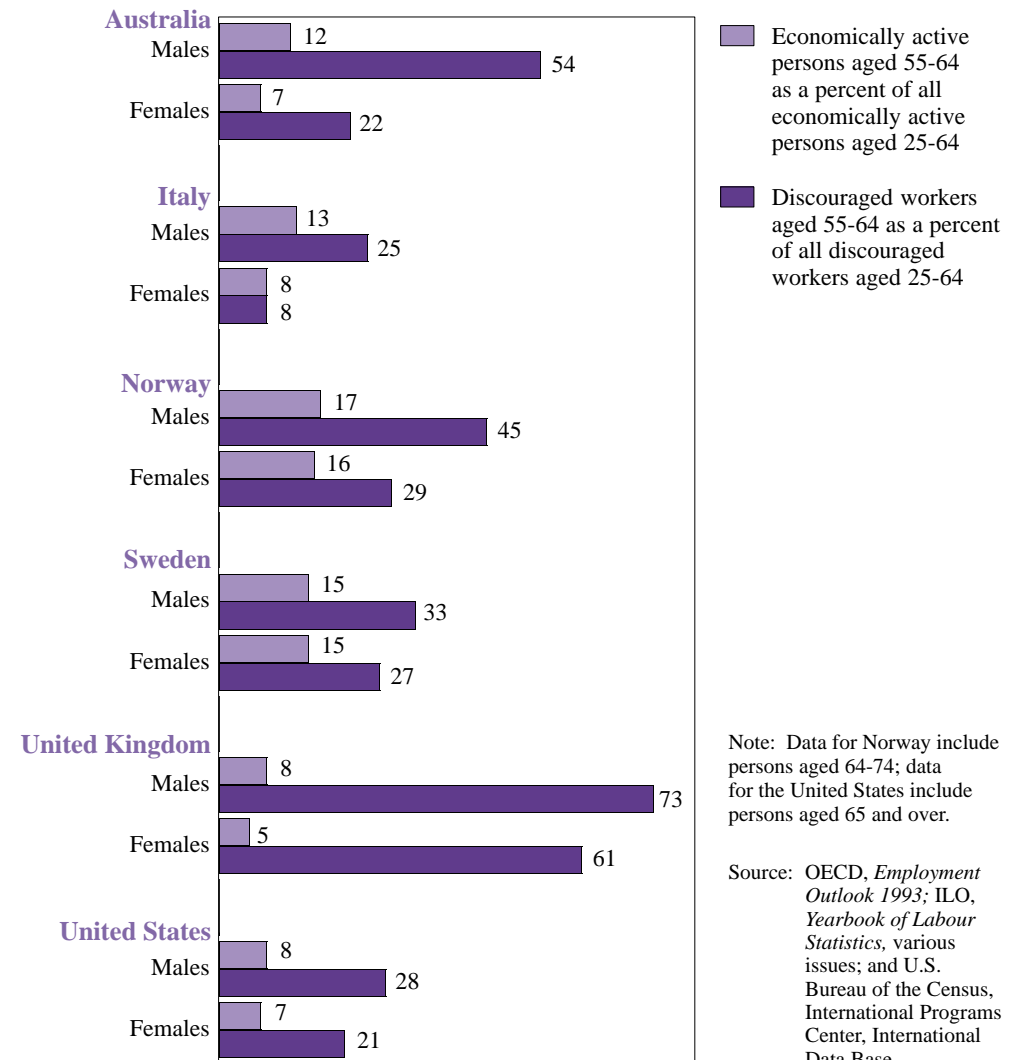
Source: OECD, *Employment Outlook 1992*

Discouragement reduces the ranks of older workers

Unemployment figures do not account for former and potential workers who have become discouraged from actively seeking work. Although the definition of discouraged workers differs from country to country, the basic concept refers to those persons who are not looking for employment because they either believe no work is available or do not know where to look. Such discouragement in industrialized nations often is attributed to changing occupational structures and the need for specialized education which favors younger over older workers.

Available data for 6 nations indicate that discouragement is more pervasive among older (55-64) workers than among younger (25-54) workers, particularly in the United Kingdom. For countries with data over time, there were proportionally more older workers in discouragement in 1991 than in 1983 (OECD, 1993). Furthermore, discouragement tends to be of a more permanent nature for older workers, who are much less likely to return to the labor force than discouraged workers of younger age (OECD, 1992).

Figure 3.2
Older Share of Economically Active Population and Discouraged Worker Population: 1991
(In percent)

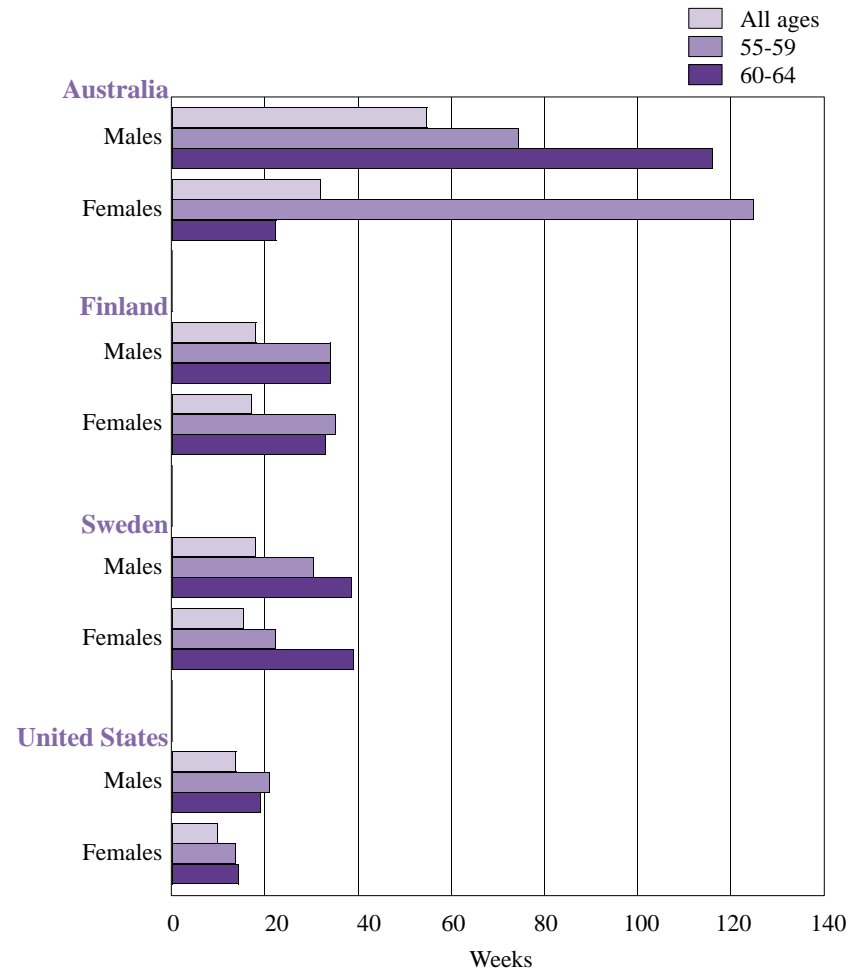


Duration of unemployment higher at older ages

The formidable barriers that older persons sometimes face in finding work are reflected in data on duration of unemployment, which typically is longer for older than for younger workers. Available data from developed countries suggest that the average duration of unemployment in most nations is greater for older men than for older women.

When comparing data on unemployment crossnationally, it bears repeating that the meaning of unemployment of older workers may vary. Some European countries do not require older workers to register as unemployed in order to receive unemployment benefits. Some countries make full unemployment benefits available for older workers for long periods of time; for example, two and one-half years for older men in Germany, and five years for older men in France. In such cases, unemployment reasonably may be viewed as a socially-sanctioned step in the transition to retirement, and as a pathway to early retirement (Jacobs and Rein, 1994).

Figure 3.3
Average Duration of Unemployment for
All Workers and for Older Workers: 1989

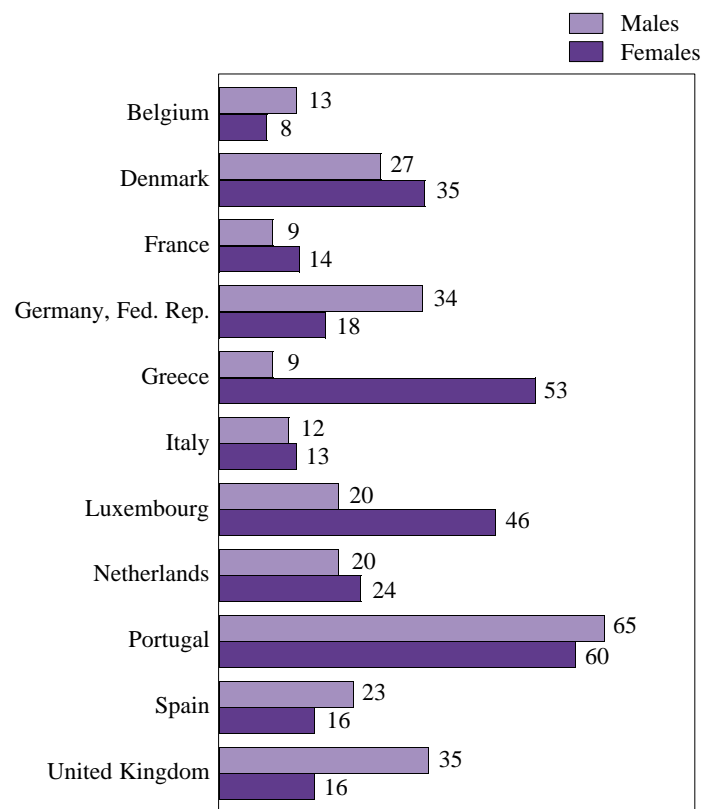


Source: OECD, *Employment Outlook 1992*

Illness and disability important precursors of retirement

The existence of public and private pensions allows most older workers to move directly into retirement at a predetermined age. During the last 25 years, however, the “normal” path to retirement branched in several directions. Especially in Europe, periods of recession and high overall unemployment led some governments to encourage retirement via public measures such as long-term sickness benefits, disability schemes, and early retirement plans. Among recently inactive older workers in 1990, proportions who report that they left work due to illness exceeded 25 percent in several countries.

Figure 3.4
Percent of Recently Inactive Older Workers Who Left Last Job Due to Illness: 1990



Note: Data refer to persons aged 55-64 who had worked during the period 1987-1990.

Source: OECD, *Employment Outlook 1992*

Disability transfers to workers rise steeply with age

The extent to which the data in the preceding figure represent actual poor health as opposed to broad operational definitions of “illness” is a subject of current research. Because the likelihood of ill health increases with age, one might expect disability payments to workers to likewise rise with age, as shown here for 4 countries.

Research suggests, however, that health-related changes are unlikely to explain either the magnitude of difference in disability transfer rates among countries or the changes within countries over time (Levine and Mitchell, 1993). Some studies argue that policy changes in the definition and compensation of disability have led persons to exaggerate health problems. Such inferences imply that government policies aimed at ameliorating income loss associated with poor health may have unintended effects on labor force participation (Quinn and Burkhauser, 1994).

Table 3.1
Disability Transfer Recipients per 1,000 Active Labor Force Members in 3 Age Groups: 1970-1989

| Age and Country | 1970 | 1975 | 1980 | 1985 | 1989 ¹ |
|----------------------|------|------|-------|-------|-------------------|
| 15-44 | | | | | |
| Netherlands | 14 | 28 | 49 | 50 | 53 |
| United States | 11 | 17 | 16 | 20 | 23 |
| Sweden | 18 | 20 | 19 | 20 | 21 |
| Germany ² | 7 | 6 | 7 | 8 | 5 |
| 45-59 | | | | | |
| Netherlands | 102 | 164 | 269 | 279 | 317 |
| United States | 33 | 68 | 83 | 71 | 72 |
| Sweden | 66 | 95 | 99 | 108 | 116 |
| Germany ² | 75 | 64 | 84 | 103 | 75 |
| 60-64 | | | | | |
| Netherlands | 274 | 410 | 989 | 1,249 | 1,932 |
| United States | 154 | 265 | 285 | 254 | 250 |
| Sweden | 229 | 382 | 382 | 512 | 577 |
| Germany ² | 419 | 688 | 1,348 | 1,291 | 1,109 |

¹Data for the Netherlands refer to 1990.

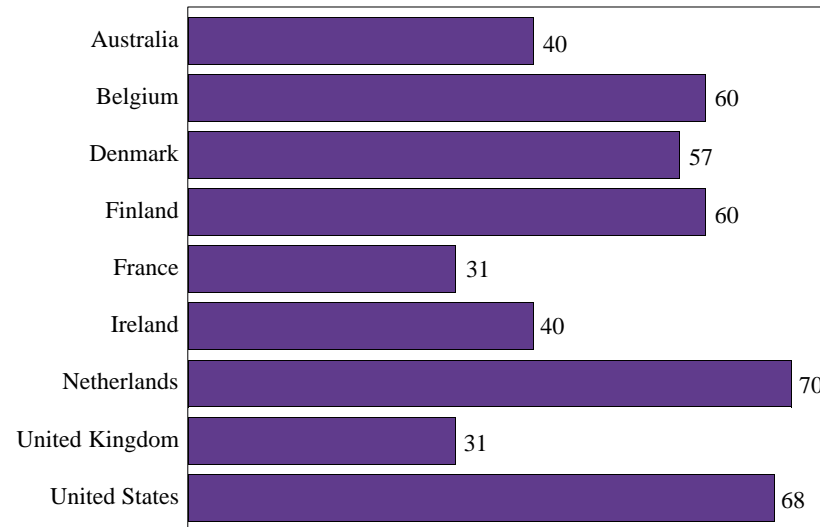
²Data for Germany refer to the former Federal Republic.

Source: Aarts, Burkhauser and de Jong, 1992, cited in Quinn and Burkhauser, 1994

Many OECD nations have liberal invalidity benefits

Disability pension programs expanded in the 1970's and 1980's in numerous developed countries, in terms of benefit amounts as well as the ability to qualify for programs as a result of relaxed definitions. In Hungary, the number of new disability pensions each year jumped from around 45 per 10,000 workers in the early 1970's to 145 in a little over two decades. The number of beneficiaries also rose in most OECD countries during the two decades, with increases more likely among older men than older women (OECD, 1992). Income provision under such programs is relatively high in the Netherlands and the United States, replacing about 70 percent of the gross and average earnings, respectively, of a production worker in the manufacturing sector.

Figure 3.5
Income Replacement Rates Under Invalidity Benefits: 1990
(Percent of gross earnings replaced)



Note: Based on gross earnings of production workers in manufacturing, except for the U.S. where average earnings are used. Figure for the U.K. assumes no complementary pension. See source for additional details.

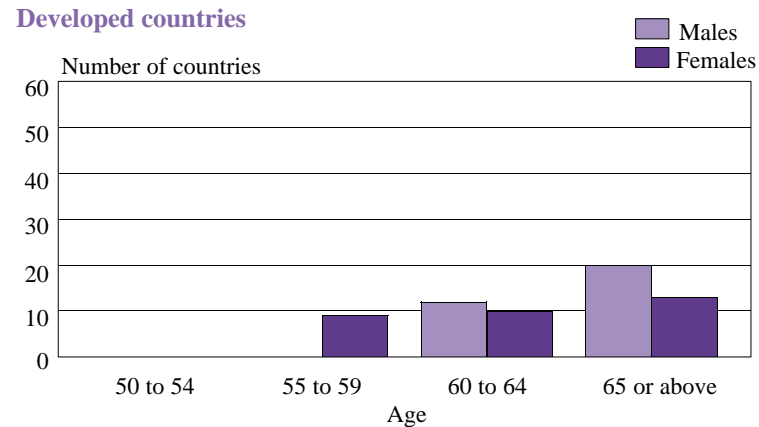
Source: OECD, *Employment Outlook 1992*

Standard retirement age lower in developing than in developed countries

Information for 32 developed countries indicates that men become eligible for full social security benefits prior to age 65 (usually age 60) in 12 nations, at age 65 in 16, and at age 66 or 67 in another 4. While age 65 also is the most common standard retirement point for women in these countries, several nations allow women to retire earlier than men in spite of the female advantage in average life expectancy. In 19 countries, the standard female retirement age is between 55 and 62.

Standard retirement age in developing countries often is lower than in the more industrialized world, most commonly at age 60 for men and age 55 for women. One reason for the regional difference may be average life expectancy, which has usually been lower in developing countries. Another reason may involve large numbers of young persons in need of jobs. And in many developing countries, formal retirement with pension benefits is an option limited to certain classes of workers (often higher-income workers), as opposed to being a society-wide program. Hence, political influence may have played a role in the setting (and maintaining) of relatively low retirement ages in some countries (World Bank, 1994).

Figure 3.6
Age of Eligibility for National Old-Age Pension: Circa 1993



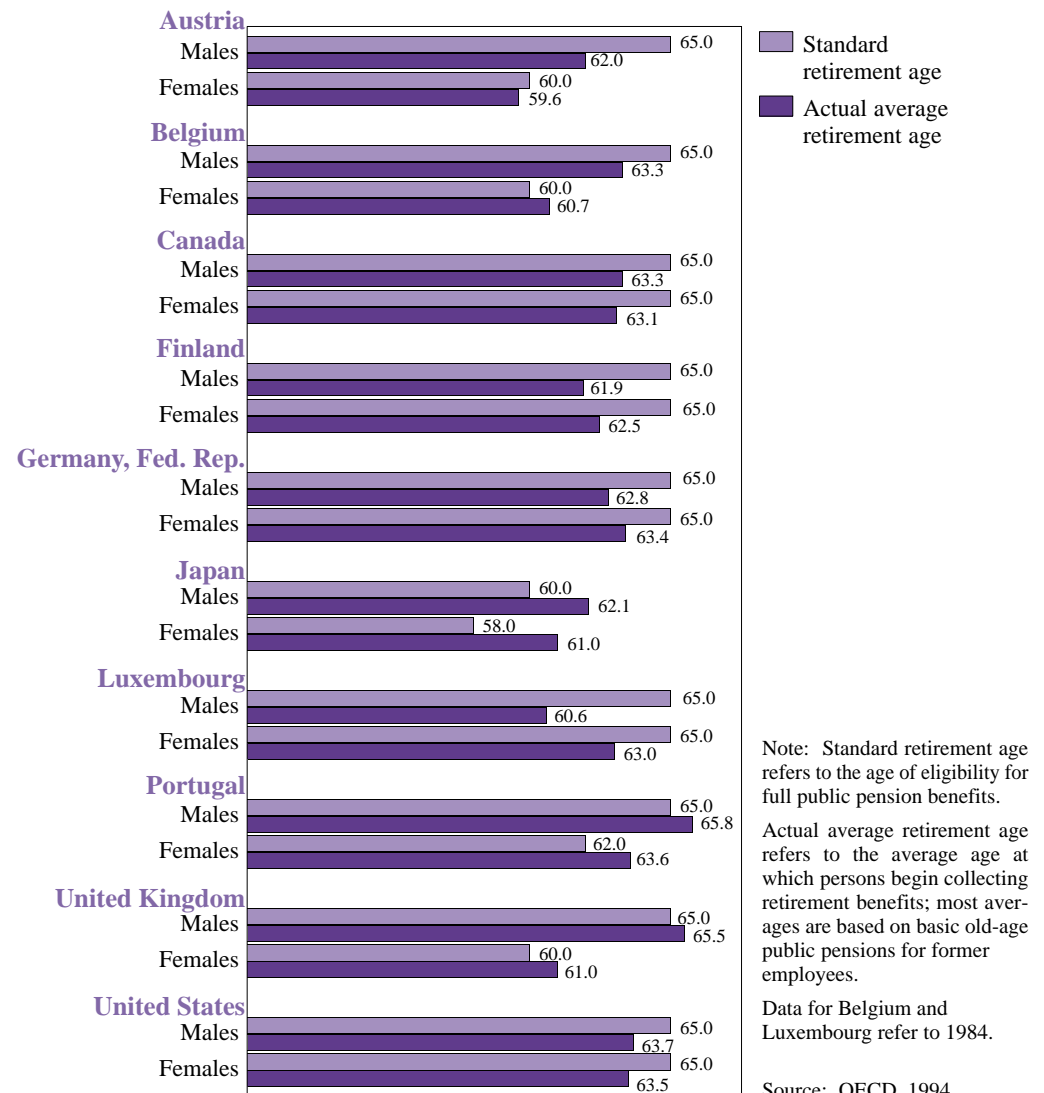
Source: USSSA, 1994

Actual retirement age often lower than standard retirement age

At some point in preceding decades, many industrialized nations lowered the standard age at which persons become fully entitled to public pension benefits. These reductions were propelled by a combination of factors including general economic conditions, changes in welfare philosophy, and private-pension trends.

One important issue for policymakers is the relationship between standard retirement age and “actual” retirement age, the average age at which retirement benefits are awarded. In spite of the lowering of standard retirement ages in developed countries, the actual average age of retirement (as calculated by the OECD, 1994) tends to be lower than the standard age. The proliferation of early retirement schemes has increased the number and usually the proportion of older workers who avail themselves of such programs (Tracy and Adams, 1989).

Figure 3.7
Standard and Actual Average Retirement Age: Circa 1990

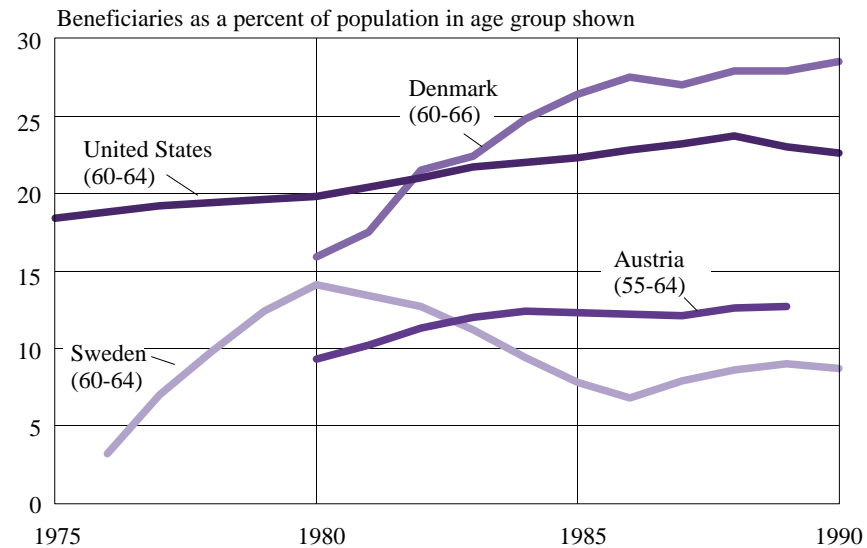


Early retirement gained prominence in the 1970's and 1980's

The downward shift in the standard age at retirement during the 1970's and 1980's was accompanied by an increase in the number of public early retirement programs and a corresponding increase in the number of retirees leaving the labor force prior to the standard age. Available OECD data show that the incidence of early retirement (i.e., numbers of retirees as a percentage of population in pre-retirement age groups) also tended to rise during the 1980's, although declines are seen in certain national programs in the latter part of the decade. Some countries promoted early retirement as a means of offsetting persistently high levels of unemployment. In Denmark, for example, a voluntary early retirement scheme was constructed to encourage older workers to leave the labor market (Petersen, 1991).

Mandatory retirement practices and worsening health of older workers were two factors said to have increased early retirement. More recent research, however, discounts the importance of these factors (Levine and Mitchell, 1993; Mitchell, 1994) and points instead to changes in social security/private pension provisions as well as to improved economic status of older workers and increases in wealth overall. As Ruggles (1992) has noted in the context of the United States, comparisons of today's elderly with the elderly in previous decades suggest great increases in economic status—the reasons are that persons entering the ranks of the elderly have higher educational attainment, higher-paid employment histories, and higher average income than did earlier cohorts of elderly.

Figure 3.8
Participation in Selected Early Retirement Pension Schemes



Pension schemes:
Austria—long-service pension
Denmark—early retirement pay
Sweden—part-time pension
United States—Social Security early retirement

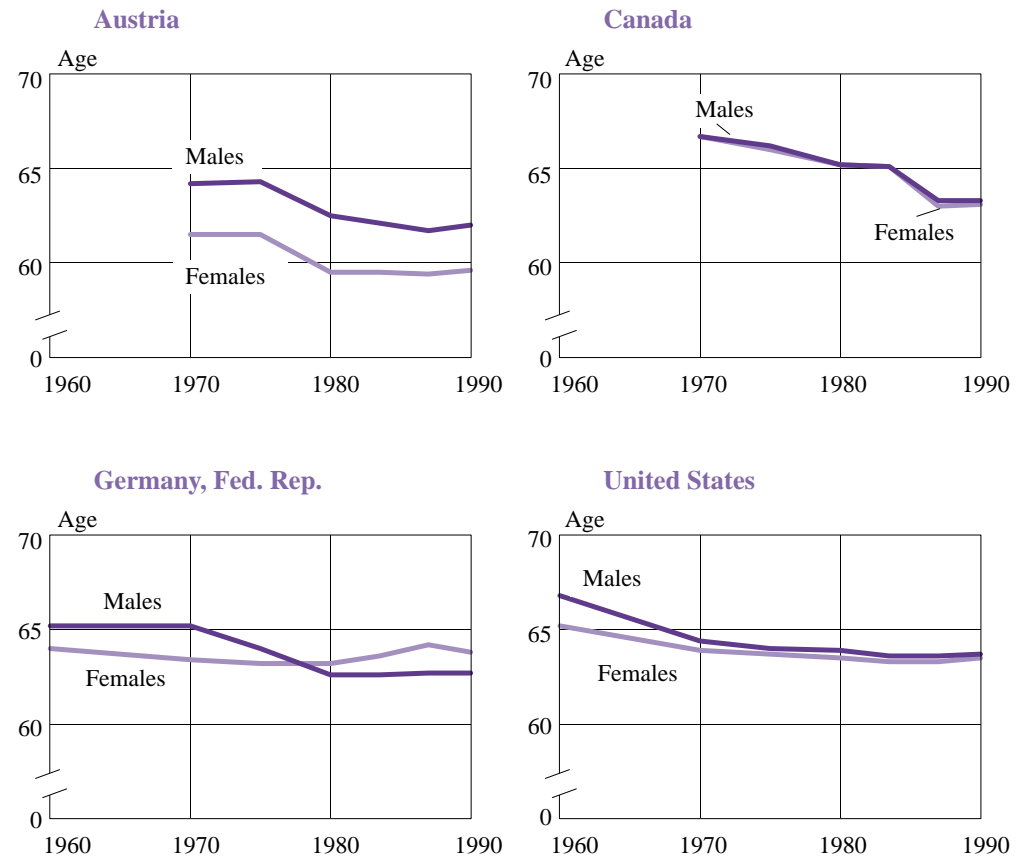
Source: OECD, *Employment Outlook 1992*

Decline in average retirement age may be reversing

Declines over time in labor force participation at older ages have corresponded to declines in average retirement age, at least through the mid-1980's. As pension systems mature over time, more workers become eligible for benefits (i.e., have worked for a sufficient number of years) at the minimum or standard retirement age (OECD, 1992). And as noted earlier, the liberalization of disability and early retirement schemes (which perhaps reflect general social preferences) have contributed to older workers' exits from the labor force.

For 9 OECD countries with data on average retirement age spanning more than a decade, the trend has been downward in all except the United Kingdom, where the average retirement age for Category A pensions was practically the same in 1988 as in 1975 for both men and women. The steepest declines have been recorded in Portugal, where the average retirement age for male employees dropped 3.3 years (69.1 to 65.8) from 1975 to 1990, with an even steeper drop of 6.9 years (70.5 to 63.6) for female employees. The overall decline may be abating, however; more often than not, there was no change or even a slight increase in average retirement age during the 1984-1990 period. This development would be consistent with a stagnation or slight increase in labor force participation rates at older ages.

Figure 3.9
Average Retirement Age for Employees Covered by Public Pension Schemes

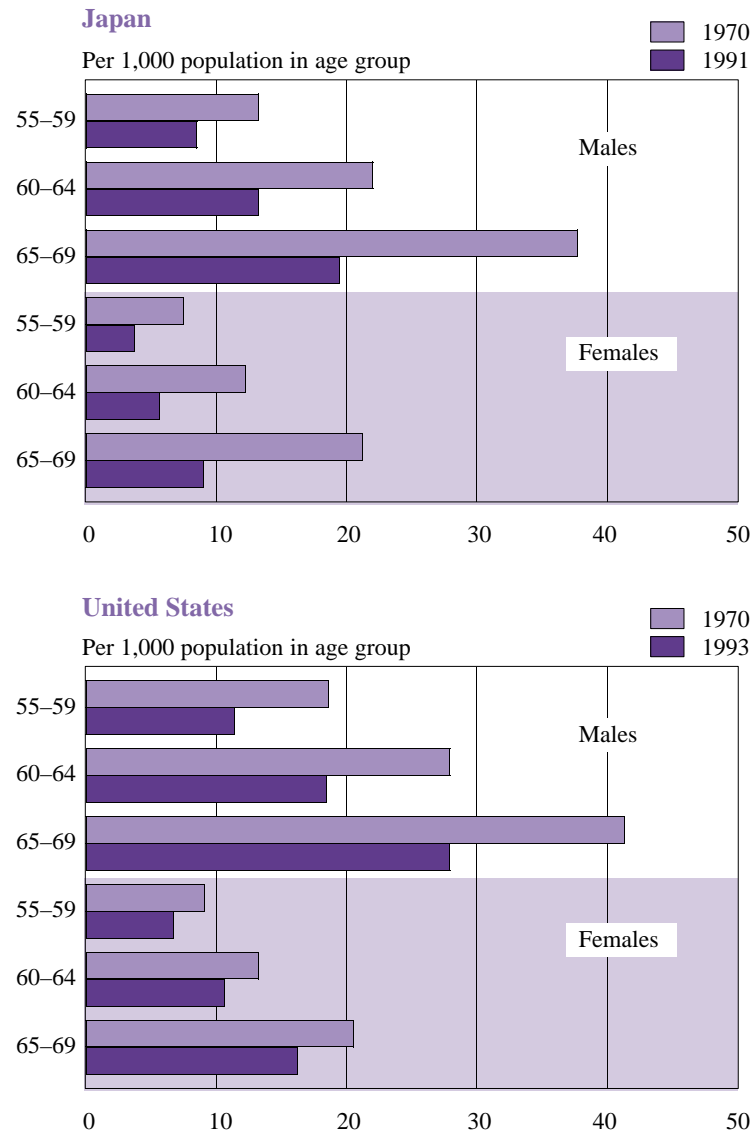


Source: OECD, 1994

Declining mortality rates accompany declining retirement ages

Age-specific adult mortality rates have been falling in most developed countries since the mid-1970's. This is reflected in increased life expectancy both at birth and at older ages, as described in Chapter 1. Proportionally greater percentages of successive cohorts are living to and beyond retirement age, and the decline in mortality at older ages shows no sign of abating. Improvements in survival have been verified even at the oldest ages (i.e., between 80 and 100), such that the number of centenarians in developed countries has doubled each decade since 1950 (Vaupel and Jeune, 1994).

Figure 3.10
Mortality Rates at/around Retirement Age in Japan and the United States: 1970 and Early 1990's

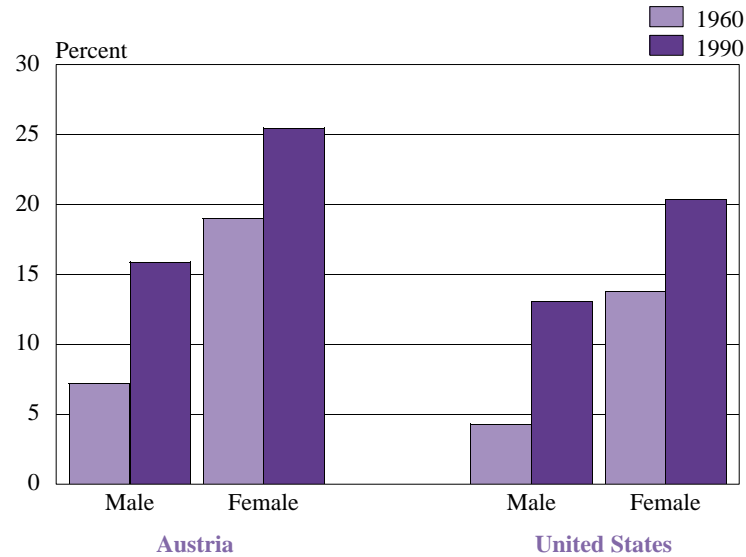


Source: Country sources

Adults now spend a greater portion of their lives in retirement

Gains in life expectancy during the 20th century have intersected with declining retirement ages to produce an increase in the proportion of an individual's life spent in retirement. Figure 3.11 is based on life expectancy at age 20 and average retirement age at two points in time. In the United States, for example, life expectancy for males at age 20 increased from 49.8 years in 1960 to 53.3 years in 1990, while the average age at retirement dropped from 66.8 to 63.7 years. Assuming men began their work life at age 20, the average years in employment declined from 46.8 to 43.7, while years spent in retirement (relative to life expectancy at age 20) increased from 3 years to 9.6 years.

Figure 3.11
Percent of Adult Life Spent in Retirement in
Austria and the United States: 1960 and 1990

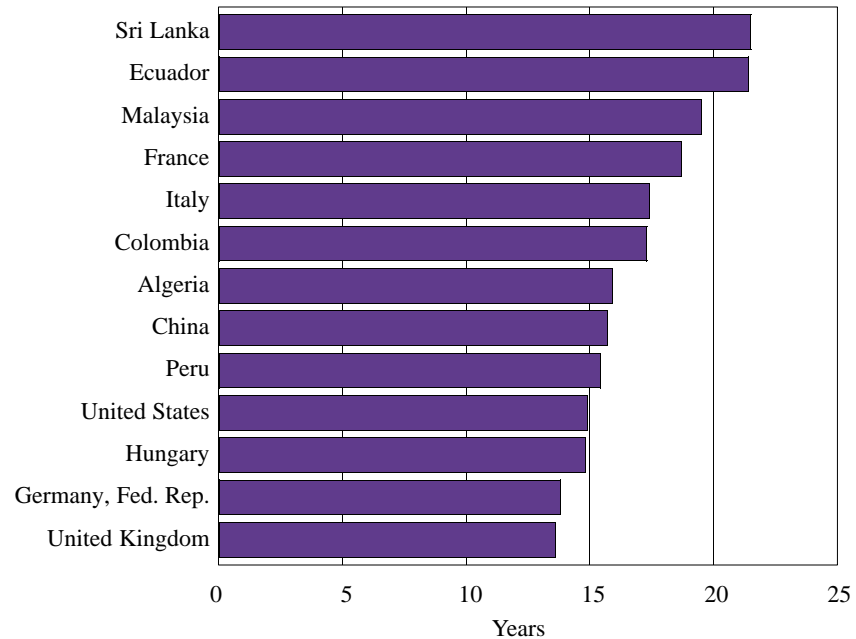


Source: OECD, 1994; and U.S. Bureau of the Census,
International Programs Center, International Data Base

Longer retirements in some developing than developed countries

Data on actual retirement ages and changes thereof in developing countries generally are unavailable. However, the World Bank (1994) has published an interesting observation regarding the duration of retirement in developed versus developing countries. In part because of differences in standard retirement ages shown in figure 3.6, persons who reach the standard age of retirement in some developing countries can expect to live longer in retirement than retirees in developed countries. The difference in average length of retirement between male retirees in Sri Lanka and Ecuador on the one hand, and male retirees in Germany and the United Kingdom on the other, is on the order of 8 years. Of course, the proportion of the population eligible for formal retirement with pension benefits in Sri Lanka and Ecuador is much lower than in the European countries.

Figure 3.12
Expected Duration of Retirement for
Men at Standard Retirement Age: 1980's



Note: Data refer to average male life expectancy at the standard retirement age for receipt of full public pension benefits.

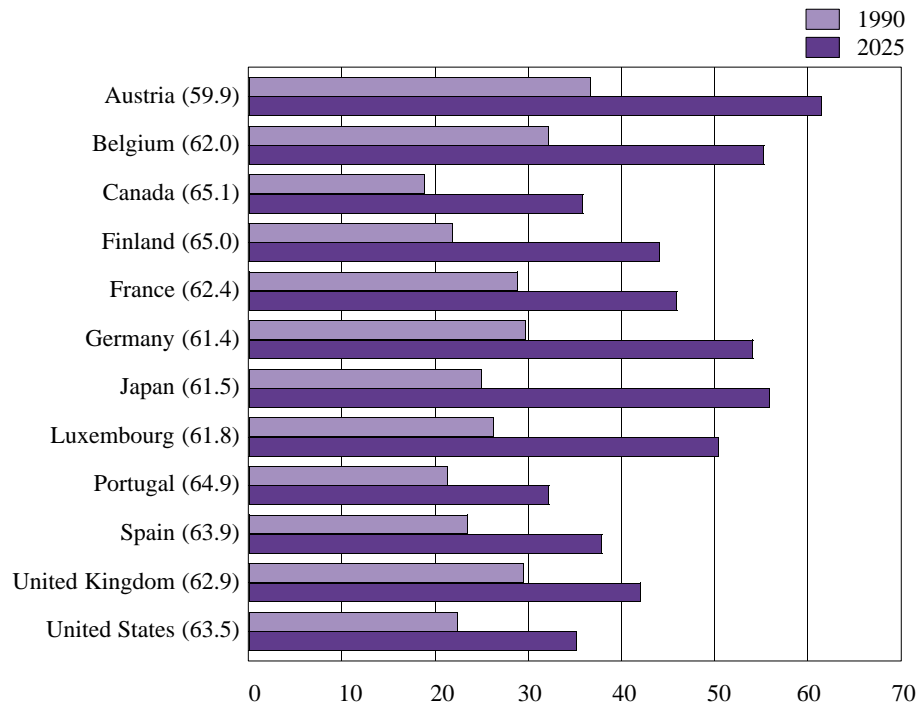
Source: World Bank, 1994

Demographic change alone may double the ratio of retirement-age population to working-age population

The potential effect of demographic change on future retired population/worker ratios, holding other factors constant, may be approximated in various ways. As noted in Chapter 1, the most commonly-used indicator is an elderly support ratio which contrasts one population segment (persons 65 and over) to another (persons aged 20 to 64). One variation on this theme, shown in figure 3.13 for 12 developed countries, allows for national differences in average retirement age. This example is based on average ages of retirement for employees in 1984 as reported by the OECD (1988b), weighted for gender differences in retirement age and labor force participation, and population age/sex structures for 1990 and 2025 as estimated and projected by the U.S. Bureau of the Census.

The ratio numerator comprises all persons at or over the average age of retirement in each country, and the denominator all persons between the age of 20 and the average retirement age. The dark bar for each country represents this ratio in 1990, and the lighter bar indicates the projected ratio for 2025 assuming that there is no change in the average age of retirement between 1990 and 2025. The ratio increases notably in all cases, and more than doubles in Finland and Japan.

Figure 3.13
Ratio of Retirement-Age to Working-Age Population: 1990 and 2025



Note: Ratios represent the number of persons at or above average retirement age per 100 persons between the ages of 20 and average retirement age in 1984. Each national average retirement age is shown in parentheses after the country name.

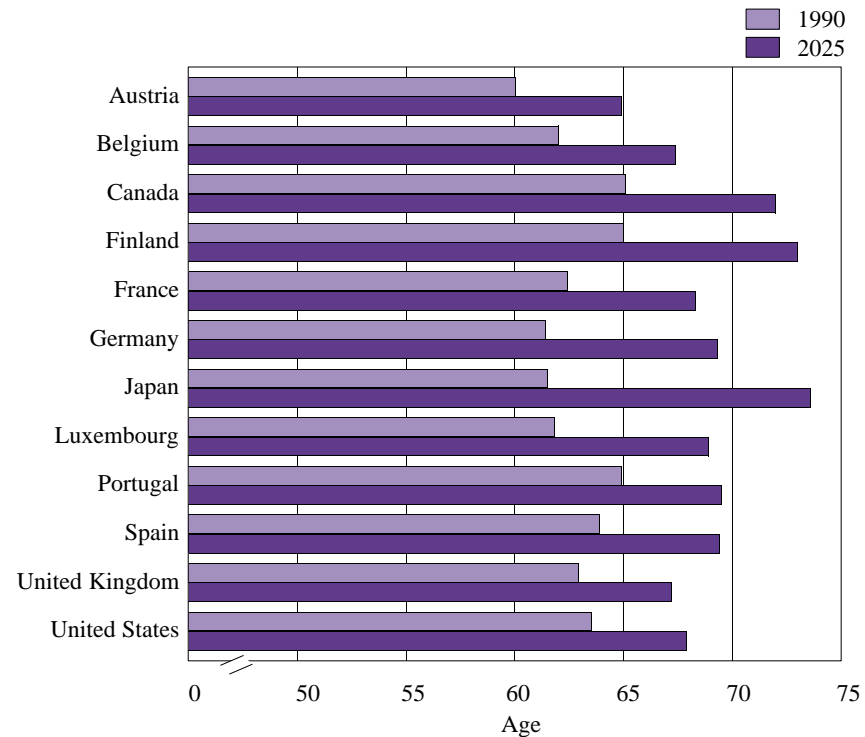
Source: OECD, 1988c; and U.S. Bureau of the Census, International Programs Center, International Data Base

Demography may alter standard retirement ages

Another way to consider the change suggested by figure 3.13 is to ask “How would average retirement ages have to change in the future in order to maintain the 1990 ratio of retirement-age population to working age-population?” Based on projected age/sex distributions for the year 2025, figure 3.14 indicates the level of retirement age in 2025 necessary to keep the same population ratio as calculated for 1990. The steepest change would be required in Japan, which reflects the especially-rapid aging of the Japanese population.

Retirement-age increases of the magnitude suggested by these data seem unlikely from a practical political point of view. Nevertheless, several nations—Australia, Japan, France, New Zealand, the United Kingdom, and the United States—have considered or implemented increases in standard retirement age as a response to changing demographic and fiscal realities (Moore, Tilson and Whitting, 1994). In the United States, for example, the Social Security system was revised in 1983 to establish higher normal retirement ages for persons born after 1937 (i.e., who reach age 65 after the year 2002). An individual’s normal retirement age is linked to her/his year of birth; beginning in the year 2003, the “normal” retirement age of 65 will edge higher in small increments until reaching 67 in 2025 (Robertson, 1992). Germany’s 1992 Pension Act also provides for a progressive increase in pensionable age beginning at the turn of the century.

Figure 3.14
Retirement Age in 2025 Needed to Maintain 1990 Retirement Ratio



Note: Based on actual average retirement age in 1984 and ratios in figure 3.13.

Source: OECD, 1988c; and U.S. Bureau of the Census, International Programs Center, International Data Base

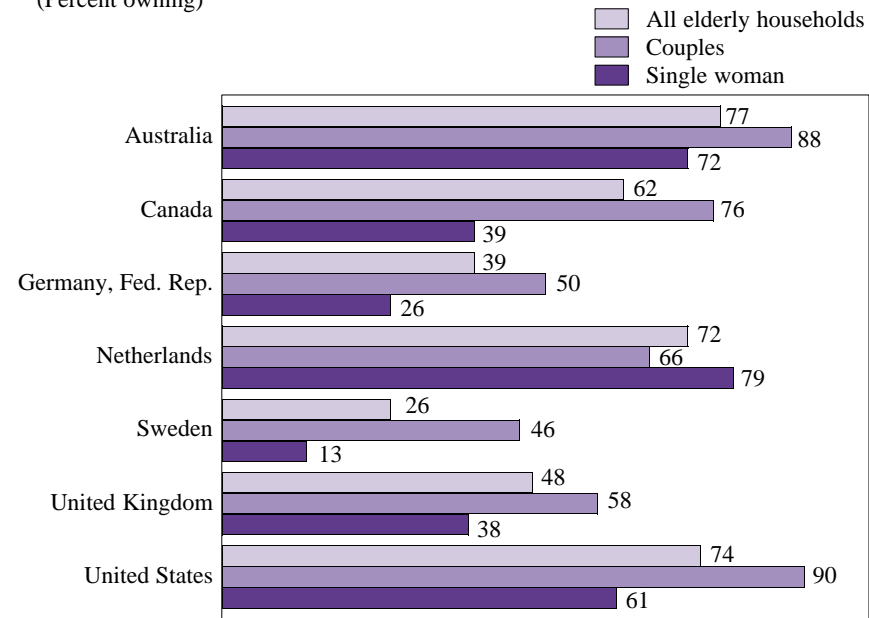
Role of wealth in retirement decisions difficult to gauge

Wealth accumulated over a lifetime certainly has a bearing on retirement decisions, although the effects are difficult to quantify. Burkhauser and Quinn (1989; cited in Levine and Mitchell 1993) assert that, in the United States at least, post-World War II economic growth has allowed workers to earn more (in real terms) and accumulate more assets than their parents' cohorts, thereby permitting workers to reach retirement age with greater financial resources than in the past.

There are few international comparisons of wealth among older populations, due mainly to difficulties in collecting such data and to definitions that differ among countries. One aspect of wealth is home ownership. On the basis of comparable data for 7 nations from the Luxembourg Income Study, Quinn and Smeeding (1993) report a wide range of ownership rates for elderly households (defined as households in which the household head is aged 65 or over). Three-fourths or more of elderly households owned their dwelling in Australia and the United States, compared with only one-fourth in Sweden. The relatively low ownership rates in Sweden, West Germany and the United Kingdom likely are related to high rates of subsidy for rental housing for the elderly in general and for special housing for the frail elderly. As might be expected, elderly-couple households are much more likely to be owner-occupied than are households headed by a single elderly woman (except in the Netherlands).

Figure 3.15
Home Ownership for Elderly Households: Mid-1980's

(Percent owning)



Note: An elderly household is one in which the household head is aged 65 or above.

Source: Quinn and Smeeding, 1993