

Editorial

Flexibility or the comeback of early retirement?

Few reforms are as contested as raising the retirement age. It is a key marker of when a society finds it normal to stop working and acceptable to draw a pension; it also signals when workers can expect to retire; and it is a threshold for many employers that indicates when their workers are expected to leave their company.

Population ageing and financial sustainability concerns have created pressures on policy makers to raise the retirement age, even if most people do not like this. Employment opportunities for older workers are increasing and people are living longer and healthier lives and thus could spend more years in retirement. Nevertheless, there is still strong resistance to higher pension ages in many countries.

Why is it so unpopular to work longer even among people with longer life expectancy and in good health? Is the proposition of retirement and leisure so much more attractive than work, even if working longer is rewarded with higher pensions? Does it perhaps make no economic sense to work longer? Or are people being pushed out of work by their employers who do not see the benefits of keeping older workers on board?

The answer is likely a mix of all of these factors. Older workers are a diverse group; people have different preferences on how and when to move from work to retirement. Some are able and motivated to work for longer, perhaps for the income, or the social interactions that work brings, or simply because they like their job. Others want to stop working earlier because of health issues, to pursue other interests or, as is increasingly the case, to care for elderly relatives or grandchildren.

It is thus not surprising that calls for more *flexible* retirement rules are re-surfacing in the public debate, often with a different connotation than in the past. Now many people are asking for some form of combining pensions and work, for example drawing a partial pension and continuing to work on a reduced schedule. A recent survey, for example, suggests that almost two-thirds of EU citizens say it appeals more to them to combine a part-time job and partial pension than to fully retire. Often, people want to work beyond what is considered the “normal” pension age. But flexibility can also mean retiring earlier, with reduced pension benefits supplemented by earnings from work.

From a government perspective, flexible retirement is a two-edged sword. On the one hand, it can increase people’s well-being by allowing them to combine work and a partial pension if they wish and it may entice some people to work longer. This, in turn, can help increase workers’ future pensions. Working longer will also contribute to greater economic growth and higher tax revenues, especially in countries faced with rapid population ageing. On the other hand, introducing flexible retirement carries risks, as individuals may underestimate their financial needs in retirement and thus choose to leave early with reduced benefits and find themselves later at risk of old-age poverty. And there are equity

considerations as well: early retirement might not be a feasible option for those with lower pensions, unlike the better-off, who may be able to retire early and spread their pension over a longer period.

As the analysis in this edition of *Pensions at a Glance* shows, there are many factors that enter the retirement decision: the set-up of pension systems, how much is paid at which age, and whether it pays off to work longer. Our findings suggest, however, that in many OECD countries, pension rules are such that flexible retirement is possible and not discouraged.

So why has individual uptake of flexible retirement been so low? The answer is that there are other barriers outside the pension system that limit people's autonomy in deciding when to retire. Age discrimination among employers is still widespread, due to prejudice about older workers' productivity and ability to adapt to new challenges or to age-related wage mechanisms that increase the costs of keeping older workers. Part-time work at older ages is still rare and often mandatory retirement rules enable employers to terminate contracts at a certain age.

To give workers true choice over their future in work and retirement, pension policy measures should be complemented with wider labour market policies. People need clear and honest information on the benefits they can expect to receive under each scenario to make informed choices. Early retirement can carry risks and these need to be fully understood. Employers should be encouraged to provide more flexible work solutions to workers wishing to prolong their career at older ages. In the context of population ageing and looming labour shortages in some countries this need is urgent. Only under such conditions can pension policy respond to demands for flexibility without jeopardising people's economic security in old age.



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