

PART I
Chapter 2

Trends in Retirement and in Working at Older Ages

This chapter examines labour-market behaviour of older workers, their pattern across countries and over time. There was a strong trend to early retirement throughout the 1970s and 1980s. However, this came to an end in the mid 1990s, and during the 2000s, the proportion of 50-64 years olds participating in the labour market has started to creep up.

A detailed analysis of pathways into retirement suggest that at least half of men use routes such as unemployment, sickness or disability benefits in half of countries. Women also often leave the labour market to care for family members.

Older workers appear to have fared relatively well in the economic downturn that followed the global financial crisis in most OECD countries. This contrasts with previous recessions, where older workers were often the first to lose their jobs and found it hardest to find new employment.

A decomposition of governments' long-term projections of the finance of the pension system shows that these are highly dependent on further increases in participation rates at older ages and effective retirement ages.

Increasing the age at which people retire has been a major objective of many recent pension reforms. This has been driven by the greying of the population in OECD countries, a well-known phenomenon that has been going on for six decades. In 1950, there were more than seven people of working age for every one of pension age. By 2047, there will be just two workers per pensioner.¹ As a result, public spending on old-age pensions and survivors' benefits has grown more rapidly than national income for at least 20 years, and this trend is expected to continue in nearly all countries over the next five decades.²

In the face of rapid population ageing, the long-run fall in effective retirement ages in most OECD countries needs to be reversed. There are some positive signs that this is beginning to happen, but how optimistic can we be that this will continue? What is the impact on older workers of the economic downturn in the wake of the global financial crisis?

This special chapter examines labour-force participation rates and their pattern across countries, age groups and time (Section 2.1). Sections 2.2 and 2.3 look in more detail at retirement behaviour, examining the effective of age of labour market exit and the different pathways people take into retirement. Section 2.4 takes a look at long-term projections of pension expenditure. Not only are governments seeking to reduce the growing burden on taxpayers and contributors to pay for pensions, but their forecasts are predicated on the assumption that people will work longer in the future. A brief summary is provided in Section 2.5.

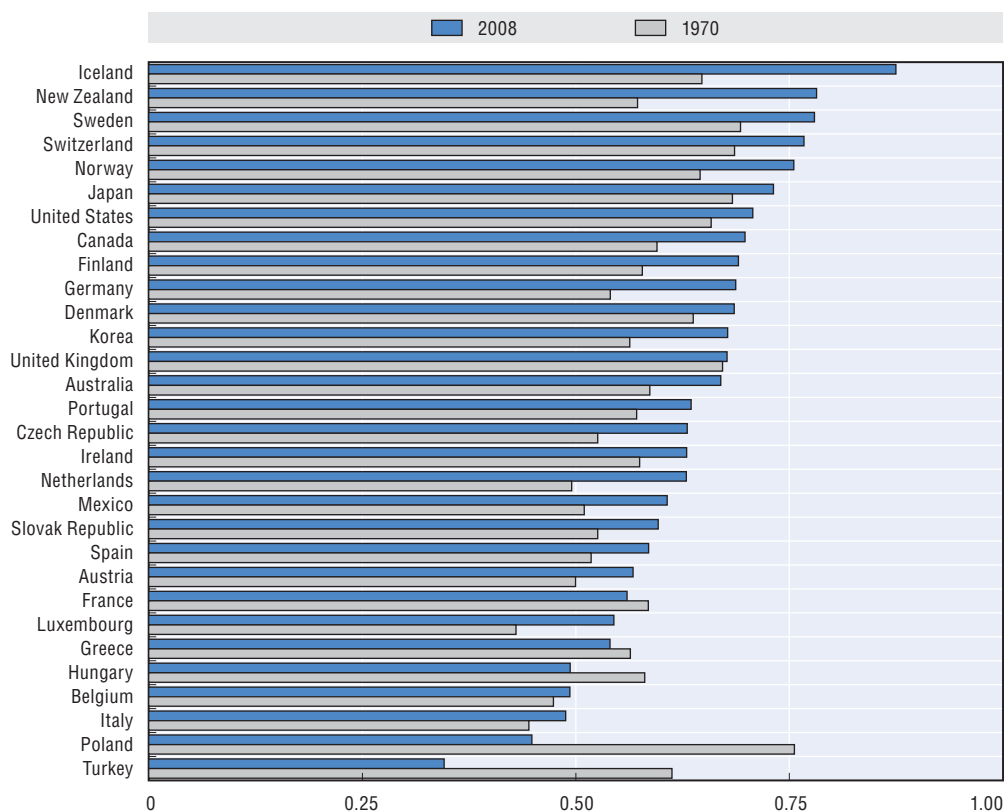
2.1. Older workers: Labour-market participation

Older workers are less likely to be in employment than their prime aged counterparts (aged 25-50). Participation rates of older workers (age 50-64) in OECD countries averaged 63% in 2008, while those of prime aged workers averaged 75% in the same year. These averages hide large cross-country differences (Figure 2.1). Participation rates for older workers exceed 70% in seven countries, including Japan and the United States. At the other end of the spectrum, Belgium, Hungary, Italy, Poland and Turkey all have less than half of older workers active in the labour market.

Participation rates of older workers in most OECD countries were higher in 2008 than they were in 1970. In many cases, participation rates declined during the early part of the period 1970-2008, a trend that was later reversed, typically in the last decade or so. Germany, Iceland, the Netherlands and New Zealand saw the largest increases. In only five countries – France, Greece, Hungary, Poland and Turkey – were participation rates lower in 2008 than they were in 1970.

The main reason that the share of 50-64 year-olds that are active in the labour market has increased is growing labour-force participation of women. Between 1995 and 2008, for example, the participation rate for women aged 50-64 in OECD countries increased by around 11 percentage points on average, compared with just 4 points for men. Nevertheless, there

Figure 2.1. Participation rates of 50-64 year-olds in 1970 and 2008



Source: D'Addio et al. (2010) based on OECD Employment Database.

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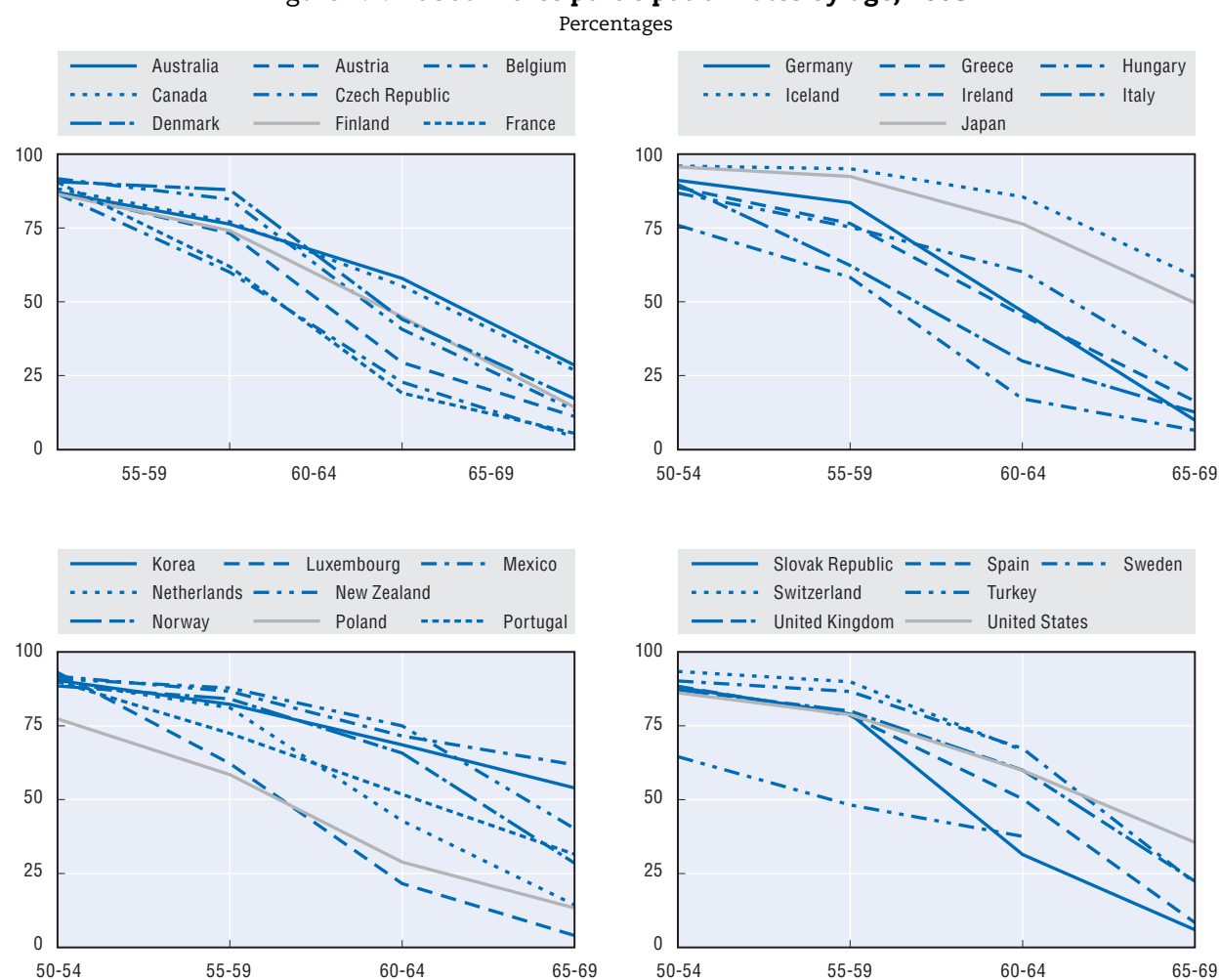
remains a large difference between the sexes. On average in OECD countries, about 75% of older men were economically active in 2008, compared with just over 50% of women. The gap is particularly large in Greece, Ireland, Italy, Japan, Korea, Mexico, Poland, Spain and Turkey.

Differences in participation rates between OECD countries widen as people get older (Figure 2.2). For example, more than a half of 65-69 year-olds were still working in Iceland, Korea and Mexico; and between a quarter and a half of all persons in the same group were still working in Australia, Canada, Ireland, Japan, New Zealand, Norway, Portugal and the United States. But these proportions fall to less than one in ten in many European countries, such as Belgium, France, Germany, Hungary, Luxembourg, the Slovak Republic and Spain.


2.2. Retirement and labour-market exit

Most workers in most OECD countries leave the labour market before the standard pension eligibility age; in some cases, much earlier. Figure 2.3 shows the recent average effective age of withdrawal from the labour market, as well as pensionable, age in OECD countries for men and women.³ Countries are ranked by men's effective age of labour-market exit. To mitigate the impact of cyclical variations, the exit age is measured here by taking the average age of exit from the labour force over a five-year period (2004-09).

In a limited number of OECD countries – such as Ireland, New Zealand and Sweden – labour-market exit occurs, on average, close to the pensionable age. But there are large differences elsewhere. Men leave the labour market, on average, later than the pensionable

Figure 2.2. **Labour-force participation rates by age, 2008**

Source: D'Addio et al. (2010) based on OECD Employment Database.

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age in 12 of the 30 countries shown. For women, late retirement is the norm in ten countries. People leave the labour market significantly earlier than normal pensionable age in Austria, Belgium, Finland, the Netherlands, Poland and Spain. In these countries, men retire on average 3-6 years earlier than the pensionable age.

Figure 2.4 shows how the effective retirement age for men and women in the OECD changed over time. The charts cover the period from 1965 to 2007, and show both the average figure and the range of observations for OECD countries. In almost all OECD countries, the effective retirement age has declined substantially since 1970. However, this has been reversed more recently. Over the past decade, the average flattened out followed by a small upturn. Nevertheless, the effective retirement age remains well below the levels of the 1960s and 1970s in OECD countries (except in Japan and Korea). For men, the average effective retirement age fell from 68.6 in the late 1960s to 63.5 in the five years to 2009. The average age of labour-market exit for women dropped from 66.7 to 62.3 over the same period.

Figure 2.3. Average effective age of labour-market exit and normal pensionable age

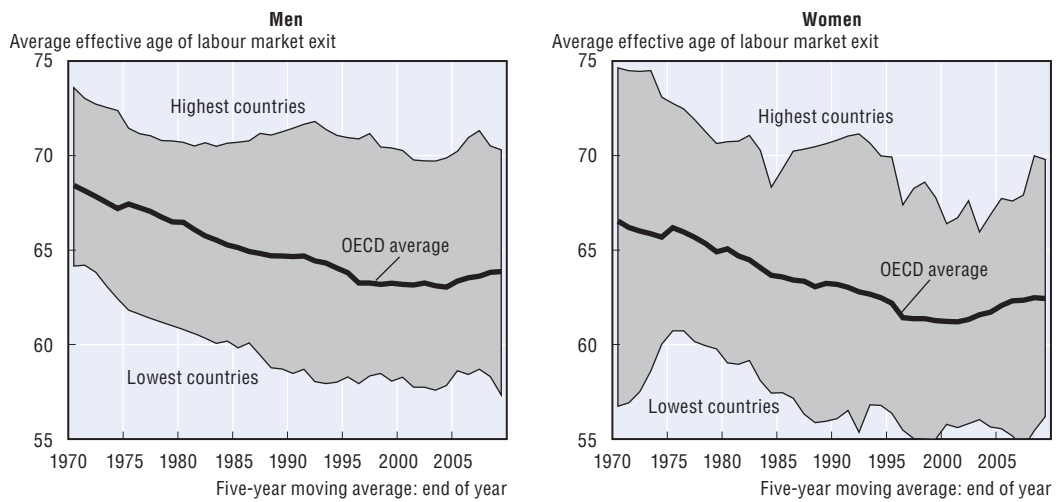


Note: Effective retirement age shown is for five-year period 2004-09; pensionable age is shown for 2010.

Source: OECD, updated from OECD (2006).

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Figure 2.4. Average labour market exit age in OECD countries, 1965-2007



Source: OECD, updated from OECD (2006).

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Iceland, Japan, Korea and Mexico have been amongst countries with the highest effective retirement ages. Countries that have tended to have the lowest effective retirement ages for much of the period analysed include Belgium, France, Hungary and the Slovak Republic.

Changes in the effective retirement age have mostly occurred in parallel for both men and women, despite the trend increase in female labour-force participation rates and larger increases in normal pension age for women than for men (see Chapter 1 in Part I on “Pensionable age and life expectancy, 1950-2050”).

2.3. Pathways into retirement

Detailed analysis of the ways in which people leave the labour market (Figure 2.5) reveals that more than half of men use pathways other than retirement in 11 of the 20 countries for which data are available. The data comprise all people aged 50-64 who lost a job in the previous year. The three main pathways out of employment considered are retirement, disability or unemployment benefits.

Retirement accounts for more than half of labour-market exit for men in nine countries that either have relatively low pension ages or a range of early-retirement options (Belgium, the Czech Republic, France, Greece, Hungary, Italy) or have occupational early-retirement programmes outside the main old-age pension provision (the Netherlands and Norway). In contrast, more than half of older workers leave jobs through either unemployment or disability in five countries: Finland, the Slovak Republic, Spain, Sweden and the United Kingdom.

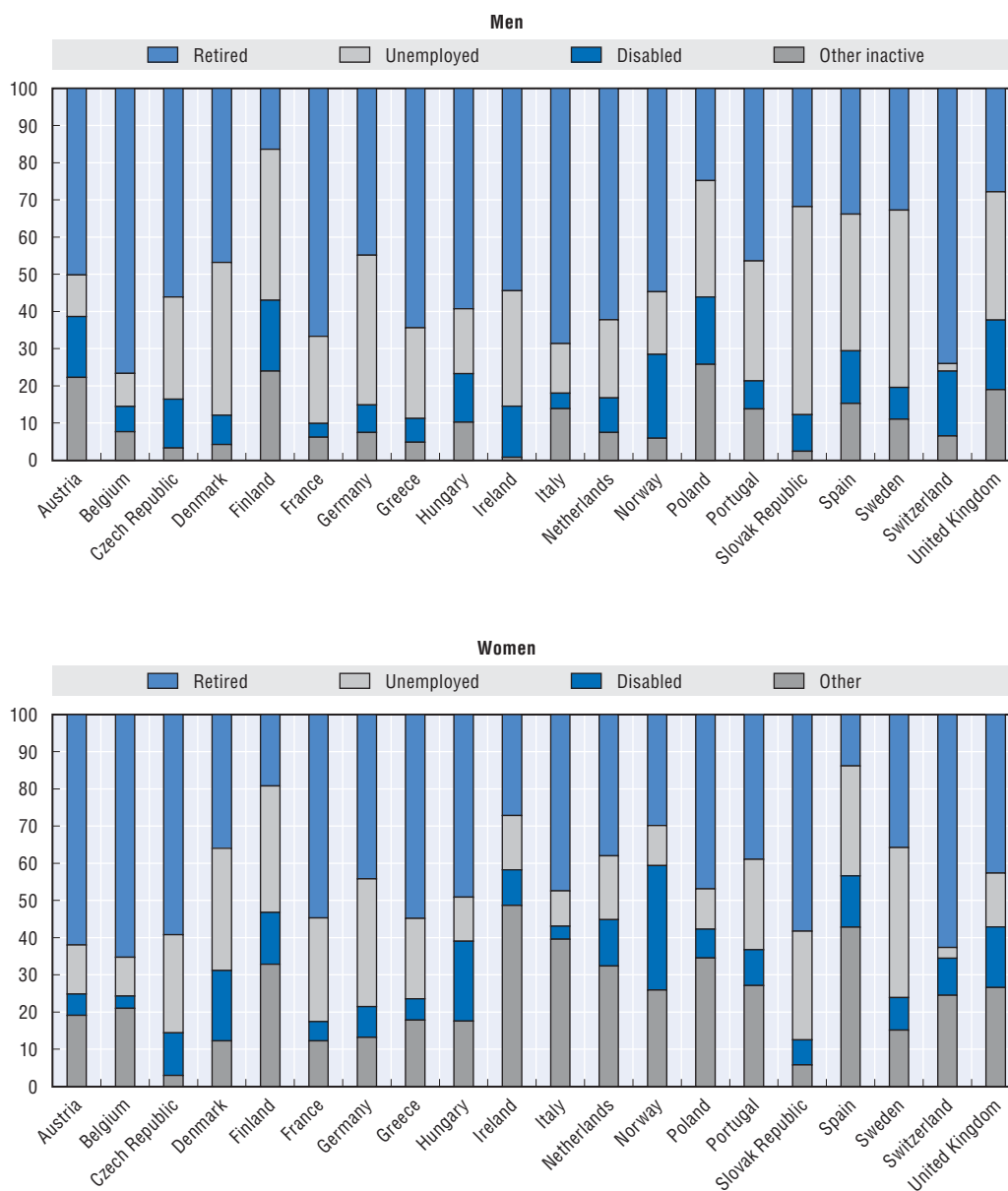
For women, the retirement route out of the labour market accounts for the majority of labour-market exit in just five out of 20 countries. The most striking difference with the pattern for men is the prevalence of those moving out of work into the “other inactive” category. This is most probably an indication of women ceasing paid work to care for other family members.

2.4. Fiscal imperatives and retirement in the future


Public expenditure on pensions is expected to continue growing faster than national income over the next 40 years in most of the OECD countries for which data are available. In only two of them is spending projected to fall as a proportion of gross domestic product (GDP), although in another five countries, it will remain broadly stable. (See the indicator on “Long-term projections of public pension expenditure” in Part II.4 for more details.)

For 23 OECD countries, it is possible to decompose the projected change in spending into a number of different factors. The results of the analysis are shown in Figure 2.6, which gives forecasts for pension spending in 2060. The sum of the different bars shows what would happen as a result of demographic change alone, with everything else (the pension system, retirement behaviour, etc.) remaining the same. On average for the 23 countries, pension spending is expected to increase from 9.2% of GDP in 2007 to 18.0% of GDP in 2060 as a result of population ageing. (Demographic change is measured by the change in the dependency ratio, that is, the population aged 65 and over relative to the population aged 15-64.) However, the actual forecasts show a much slower increase in public pension spending: from 9.2% of GDP in 2007 to 12.7% of GDP in 2060. These projections are shown by the black bars in Figure 2.6.

Figure 2.5. Pathways out of employment for older workers



Source: OECD (2006), Figure 2.12.


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The bars decompose the different factors affecting projected spending. Of greatest relevance here is the impact of assumptions of longer working lives. This combines two elements. The first of these is termed the “coverage-ratio” effect in European Commission (2009). The coverage ratio is the number of pension recipients divided by the population aged 65 and over. The second, called the “employment-rate” effect is measured by the relationship between the number of working people aged 15-64 and the population of that age. Longer working lives would improve both of these measures.

Figure 2.6. **Decomposition of different effects on projected pension expenditure in 2060**



Note: Luxembourg alone reports increased spending as a result of the coverage-ratio and employment-rate effects. Greece, Ireland, Luxembourg and the United Kingdom report increased spending result from the benefit-ratio effect. Source: OECD calculations based on European Commission (2009) and information provided by the Office of the Chief Actuary, Office of the Superintendent of Financial Institutions, Canada.

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The savings in pension spending from longer working lives is shown by the lighter grey bars in Figure 2.6. The chart ranks countries: those with the greatest reliance on longer working lives to offset demographic pressures are towards the top. In absolute terms, longer working lives are expected to save 5% of GDP’s worth of public expenditure or more in Denmark, Hungary and Poland, with figures of between 4% and 5% in the Czech and Slovak Republics and Finland.

Longer working lives deliver one-half of the projected savings in pension expenditure in 2060. The remainder, shown by the darker blue bars as “other savings” in Figure 2.6, comes principally from lower benefits relative to earnings, known as the “benefit-ratio” effect. There is also a residual term reflecting the interaction between the different effects.

The changes in retirement behaviour that are assumed are, in many cases, very large. For example, labour-force participation of 55-64 year-olds is projected to increase by more than 25 percentage points between 2007 and 2060 in two countries: from 35% to 64% in Italy and 48% to 74% in Spain.⁴ Large increases in participation rates – of between 15 and 20 percentage points – are also assumed in Austria, the Czech Republic, Germany and Hungary. The average assumption for the EU27 countries is a 10 point increase in economic activity among people aged 55-64.

2.5. Summary and conclusions

The long-term trend to earlier retirement came to an end for men in the mid-1990s and for women, slightly later. The average age of labour-market exit was broadly constant for a few years, but there has been a noticeable trend to later retirement in recent years. Older workers have not fared too badly during the economic downturn experienced in most OECD countries after the global financial crisis. The proportion of 55-64 year-olds in employment was constant between 2007 and 2009, compared with a decline of 1.7 percentage points in the share of 25-54 year-olds with jobs and 3.6 points for 20-24 year-olds. The proportion of 65-69 year-olds in employment in fact increased a little, from 21.1% in 2007 to 22.0% in 2009.

Governments' long-term projections for public expenditure on pensions are heavily reliant on the assumption that people will retire later in the future. But it is important to bear in mind the scale of the challenge in realising such a change. The average age of labour-market exit for men in OECD countries is 63.5 on the latest estimates and for women, it is 62.3. If life expectancy continues to increase, as most forecasts show, then significant increases in the effective retirement age are required to maintain control of the cost of pensions. In 2050, only an effective retirement age of 66.6 for men and 65.8 for women would leave the duration of retirement at the same level as it is now (based on the United Nations population projections).

The policies that governments can pursue to extend working lives are the subject of the next two special chapters of *Pensions at a Glance 2011*. The first looks at the "supply side", presenting information on incentives to work and retire embedded in pension system. The second looks at the "demand side", examining ways of ensuring that there are jobs for older workers.

Notes

1. See the indicator of "Old-age support ratios" in Part II.5.
2. See the indicator of "Long-term projections of public pension expenditure" in Part II.4.
3. The average effective age of exit from the labour market is derived from labour-force-survey data. It is the weighted average of the exit age of each five-year age cohort, starting with ages 40-44, and using absolute five-year changes in the labour force participation rate of each cohort as weights. The average exit for each cohort is assumed to be the mid-point between age groups: for example, the exit age for the cohort aged 55-59 in 2004 and 60-64 in 2009 is taken to be 60. The five-year change in participation rates is simply the difference between the rate for each age group (say, 55-59) at the beginning of the period minus the rate for the corresponding age group that is five years older (60-64) at the end of the period.
4. European Commission (2009), Table A31.

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