Flexible Retirement Features Abroad

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In the past decade the trend toward flexible retirement provisions under old-age insurance programs has been accelerating, particularly in industrialized countries A survey of seven nations shows that this trend is primarily a result of efforts to provide older workers with more options in electing to reduce or stop work at an age suited to personal needs and circumstances In the late sixties, periods of economic growth and full employment led to a degree of flexibility through provisions aimed at inducing workers to continue in employment by promising higher benefit amounts for deferred retirement More recently, economic slowdowns, high unemployment rates among younger workers, and changing demographic patterns have generated other special benefit provisions to encourage workers nearing retirement age to leave the labor force, with the intent of creating job vacancies

UNTIL RECENTLY, retirement from the workforce was regarded as a change that took place at a predetermined age, fixed by law or regulation There usually was no choice as to the age of retirement, and early withdrawal from the workforce usually meant a sharp reduction in income or even, in extreme cases, a total loss of pension benefits In recent years, however, many industrial countries have incorporated in their social security systems options of flexibility that give older workers some choice in determining the age and circumstances under which they may retire These features of flexible retirement have become a particularly important consideration for certain older workers who by reason of health or partial disability, working conditions, unemployment, or long years of service find that they wish to withdraw partially or totally from full-time employment

The survey of seven countries in this report shows that the first steps toward lowering the retirement age were usually taken in response to political and social pressures aimed at bringing some relief to workers in special occupations identified as particularly arduous or hazardous Legislation in the 1960's allowed older workers with long periods of service and contributions, usually 30–40 years, to retire early and receive a full pension before the normal pensionable wage

At the same time, it was recognized that workers at a specified age and with specified years of service should be given the choice of either retiring or continuing in the labor force, depending on individual circumstances and capabilities As a result a new concept of flexibility was introduced that (1) permits workers approaching retirement age to withdraw from the labor force 1 or 2 years in advance and receive a benefit commensurate with that payable on reaching the normal retirement age and (2) provides pension increments to those who elect to remain in the labor force and work beyond the normal pensionable age

With the growing unemployment in the recession years after 1972, new emphasis was placed on flexibility of retirement as a means of encouraging older workers to quit the labor force and accept early retirement and thus make room for younger workers Various parallel schemes were adopted to induce an early retirement decision—that is, to encourage workers to accept part-time employment and, at the same time, become eligible for a partial pension

Such policies have attempted to solve the problem of relating retirement age to individual workers and of reducing unemployment by making room in the labormarket for younger workers They have also, however, tended to create new fiscal problems by adding to the pensionable population and at the same time reducing the revenue base for social security contributions As a result of the growth of early retirement provisions, along with changing demographic and economic conditions, the social security systems of many industrial nations are faced with raising additional funds to maintain and improve cash benefits for a larger proportion of the population The seven countries studied in detail were chosen because of their different types of approaches to

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social security and for the variety of flexible retirement options they offer

BACKGROUND

According to contemporary accounts of legislation, a primary consideration in establishing the retirement age in the first old-age pension programs around the turn of the century was the relationship between age and cost Benefits paid to workers who retired at age 70 cost considerably less, of course, than did those paid at age 60 A critical factor in determining the amount of expenditures was to limit pension payments to a specific age group

Early planners of social security programs, were at odds, however, over the extent to which a particular retirement age would keep expenditures within a specified limit The debates over program costs relating to retirement at age 60, 65, or 70 were complicated by the fact that no reliable method existed to determine the number of potential beneficiaries in each age group Although some census data were available on the make-up of persons in various age groups and on life expectancy, the number of workers in each group that could be expected to quit work and elect a pension—if given the choice—could not be estimated Since the cost could not be specifically ascertained for a given retirement age, the amount of revenue required from contributions to fund the system was also difficult to estimate

Planners in many countries were thus understandably reluctant to establish a low retirement age when pensions were introduced, reasoning that the higher the retirement age, the fewer potential beneficiaries and the lower the risks of underfinancing It was generally felt, moreover, that, if an initial high retirement age would be accepted by most workers, it could be lowered as social security funds were built up, retirement patterns determined, and expenditure requirements established

On the other hand, the early designers of old-age pension programs in the industrial countries usually sought a retirement age low enough to offer economic protection for a significant number of workers who had spent their adult life of 35–40 years working As the old-age pension programs began, many people were not yet convinced of their value Proponents of the program believed that one way to gain support was to make sure that the initial benefits reached a large enough segment of the population to demonstrate the usefulness of pension payments in reducing poverty among the aged

Some industrial countries that established old-age pension programs around the turn of the century therefore began with a retirement age of 65, and others began more conservatively at age 70 The higher age proved to be a temporary measure in most cases, as retirement ages were generally reduced to age 65 within a few years of the program's inception The lower age proved feasible once the program funds had accumulated sufficient amounts and retirement patterns had been established

Those industrial countries that did not introduce old-age pensions until the third or fourth decade of the 20th century tended to begin benefit payments at age 65 These countries, of course, had had the opportunity to gain from the experience of earlier systems in determining retirement patterns and program costs Age 65 was not automatically accepted, however, as often it was justified only after years of debate Consideration was given to the age at which (1) workers tend to lose the ability to keep up with the technological advances of industrial society, (2) workers are frequently subject to ill health or disability, (3) productivity tends to decline among older workers because work conditions are difficult, and (4) most people desire more leisure time after working for 35–40 years It was generally concluded that the majority of workers would fall in one or more of these categories at or about age 65

As table 1 shows, by the late 1940's the industrial countries had converged on age 65 as the normal retirement age for men [1] Women are sometimes allowed to retire up to 5 years earlier for various reasons ranging from an effort to ensure that both husband and wife can retire at the same time—men tend to marry women younger than themselves—to a form of compen-

[1] "Normal retirement age" is the earliest age at which a full old-age pension becomes payable after a regular qualifying period See Alvin M David, "Problems of Retirement Age and Related Conditions for the Receipt of Old Age Benefits," Report IX of the Fifteenth General Assembly, *Bulletin of the International Social Security Association*, February–April 1965, pages 97–109

TABLE 1—Normal retirement age for men and women from the beginning of the old-age insurance program to 1977, 13 countries

Country	Year of first law	Retirement age							
		Under initial provision		1949		1961		1977	
		Men	Women	Men	Women	Men	Women	Men	Women
Austria	1906	65	60	65	60	65	60	65	60
Belgium	1924	65	[1] 65	65	65	65	60	65	60
Denmark	1922	65	65	65	60	67	62	67	62
Federal Republic of Germany	1889	70	70	65	65	65	65	65	65
France	1910	65	65	[2] 65	[2] 65	[2] 65	[2] 65	[2] 65	[2] 65
Italy	1919	65	65	60	55	60	55	60	55
Japan	1941	55	55	55	55	[3] 60	[3] 55	60	55
Netherlands	1913	65	65	65	65	65	65	65	60
Norway	1936	70	70	70	70	70	70	67	67
Spain	1919	65	65	65	65	65	65	65	65
Sweden	1913	67	67	67	67	67	67	65	65
Switzerland	1946	65	65	65	[4] 65	65	63	65	62
United Kingdom	1908	70	70	65	60	65	60	65	60

[1] Age 60 for salaried women
[2] Statutory retirement age is 60 with increments for deferred retirement paid up to age 70 Most workers do not retire until age 65 because the benefit at age 60 is low
[3] Age 65 under the national pension program
[4] Age 60 for married women
Source Selected issues of *Social Security Programs Throughout the World*, Office of Research and Statistics, Social Security Administration, and various national publications

sation for women for having performed the dual role of raising a family and being a wage earner Since the late 1940's, the normal retirement age has changed little Rather, the slowly developing tendency has been to implement provisions allowing retirement under special conditions before the normal age

Development of Special Early Retirement Provisions

As early as the late 1940's, but particularly in the 1950's, it was generally recognized that age 65 was not necessarily suitable for meeting the needs of certain categories of workers, particularly those who worked in arduous occupations or who, for any reason, suffered from ill health Although ill health leading to a disability is usually covered separately under invalidity insurance, many workers suffer from ill health sufficient to impede their work performance but not enough to enable them to qualify for invalidity benefits

To provide special compensation for such workers, many countries adopted measures to pay old-age pensions below the normal retirement age Also adopted were provisions to make full benefits payable to workers employed for a specified minimum period in an especially arduous, unhealthy, or dangerous occupation or suffering from premature physical exhaustion while close to pensionable age but not meeting the definition of disability

Other categories of workers were rewarded for long periods of service and contributions to the pension system by providing benefit payments a few years before the normal retirement age Some programs were also aimed at helping workers who had not achieved the regular qualifying period at the normal retirement age by allowing them to earn credits and qualify for benefits at a specified age above the normal age

Special concessions were often made for workers who wanted to quit work before the normal age but did not fall in one of the designated categories Such workers were allowed to choose early retirement with the provision that the benefits payable would be actuarially reduced below the amount that would otherwise accrue to the individual when he reached the normal pensionable age

Thus, the retirement age was not lowered for the average worker in normal circumstances but rather through special provisions These measures have tended to relate retirement age to the worker's occupation, health, or employment possibilities [2]

Divergence from age 65—Many special provisions had been implemented throughout the post-World War II period that allowed designated groups of workers to retire before the normal retirement age Until the 1960's, however, retire-

[2] See Thomas Staples, *Trends in Definitions of Risk for Old-Age and Invalidity* (Monograph prepared for the Permanent Committee on Old-Age, Invalidity, and Survivors Insurance), International Social Security Association, June 1975

ment before age 65 was the exception rather than the rule [3]

Table 2 shows that labor-force participation rates for workers aged 55–64 from 1950 to 1960 either showed small increases (the Federal Republic of Germany, France, Japan, Sweden, Switzerland, and the United Kingdom) or declined only slightly (Austria, Belgium, Denmark, and Norway) These rates reflect the fact that provisions for early retirement in the 1950's were few In addition, because of labor shortages, efforts were being made at the time to keep workers on the job, particularly skilled workers, whose input was needed to maintain a high level of production During this time, many governments actively sought to improve the image of older workers as valuable employees and to encourage their retention in the work force [4] Moreover, many workers could not afford to stop work as old-age benefit levels were often inadequate

Throughout the 1960's the labor-force participation rate of those aged 55–64 went down at a slightly faster rate A contributing factor to this small acceleration in the decline in the participation rate was the provision of higher benefit amounts [5] Measures were taken in this period to raise the levels of both new benefits and of benefits in force by tying them to changes in the consumer price index or movements in wages [6]

Other efforts to raise benefit levels included changing the benefit formula to reflect earnings in more recent years, which were usually higher In addition, programs that complement and reinforce the value of cash benefits were expanded and developed Improved health care protection, for example, continued to reduce the need for retirees to spend part of their pension on medical care

Such tangible changes in greater financial security at retirement made it possible for persons with a personal dissatisfaction toward work or with a desire for more leisure time to take advantage of the first opportunity to retire when they became eligible for a pension

TABLE 2 —Actual and projected percentage change in labor-force participation of men and women, by age group, 10 countries, 1950–90

Country and age	Percentage change			
	1950–60	1960–70	1970–80	1980–90
Austria				
55–64	−1 2	−19 1	−1 8	5 1
65 and over	−50 1	−50 1	−13 0	−10 8
Belgium				
55–64	−1 7	−3 3	0	− 6
65 and over	−32 3	−38 8	−9 0	−7 0
Denmark				
55–64	−3 3	2 9	− 2	− 2
65 and over	−6 8	−32 2	−14 9	−10 5
Federal Republic of Germany				
55–64	1 3	−3 5	−1 0	8 1
65 and over	−17 1	−31 2	−11 7	−8 6
France				
55–64	7	− 5	5	1 1
65 and over	−30 6	−45 6	−12 5	−8 6
Japan				
55–64	1 3	5 2	−1 0	2 7
65 and over	3	−1 9	−15 5	−12 1
Norway				
55–64	−2 2	− 4	− 7	0
65 and over	−10 2	−31 7	−14 7	−9 9
Sweden				
55–64	6 2	3 4	− 3	− 2
65 and over	−29 0	−31 3	−12 5	−10 7
Switzerland				
55–64	2 8	7 4	1 2	1 5
65 and over	−16 0	−20 4	−9 5	−7 5
United Kingdom				
55–64	9 1	10 6	3	7
65 and over	−18 5	−14 4	−8 7	−7 4

Source Based on data from *Labor Force Estimates and Projections, 1950–2000* International Labor Office, Geneva, 1977

Since the beginning of the 1970's, however, a definite decline in the participation rate of male workers between ages 55 and 64 has been apparent This decline reflects, at least in part, the effect of numerous early retirement options made available in the 1960's but not fully felt until the 1970's It is also a result of early retirement policies that came out of the worsening economic conditions of the second half of the 1960's when rapidly rising unemployment created a need to try to encourage older workers to leave the labor market At this time, labor market conditions had a particularly adverse effect on the ability of older workers to maintain or find jobs It was in this atmosphere that many new programs were developed that not only increased the earnings-replacement rate through higher social security benefits but also allowed persons nearing normal retirement age to receive pensions early These actions tended not only to provide some economic security for the unemployed older persons but also served to induce many to leave the labor force

[3] Alvin M David, *op cit* See also Juanita M Kreps, *Lifetime Allocation of Work and Leisure* (Research Report No 22), Office of Research and Statistics, Social Security Administration, 1968

[4] International Labor Organization, *Older People Work and Retirement*, paper from 46th Session, 1962

[5] Paul Fisher, "Labor Force Participation of the Aged and the Social Security System in Nine Countries," *Industrial Gerontology*, Winter 1975, pages 1–13 See also Organization for Economic Cooperation and Development, *Old-Age Pension Schemes*, 1977

[6] Martin B Tracy, "Maintaining the Value of Social Security Benefits During Inflation Foreign Experience," *Social Security Bulletin*, November 1976, pages 33–42

Unemployment remains relatively high in the industrial countries in the 1970's, but the relatively slow rate of decline in the labor-force participation rate of older workers in this period is largely the result of two factors First, the effect of the new retirement provisions that took care of many of the eligible persons as soon as the provisions were implemented has now leveled off Second—and possibly more important—is the fact that a considerable number of women aged 55–64 have stayed in the labor force and thus offset some of the declines caused by unemployment and early retirement provisions Women in this age group are projected to increase their labor-force participation within a range of 6 4–6 7 percent from 1970 to 1980 in Belgium, the Federal Republic of Germany, France, Norway, Sweden, and the United Kingdom During the same period, the participation rate for men is expected to decline by a range of 2 9–3 5 percent The projections for 1980–90 are similar

Labor-Force Participation of Aged Persons

The retirement-age patterns shown in table 2 for those aged 65 and over indicate a significant decline in the participation rate in most countries since the 1950's In the 1950's, only Denmark, Japan, and Norway show declines of less than 15 percent for this age group By the 1960's the rate of decline had accelerated substantially in Denmark, the Federal Republic of Germany, France, and Norway High rates of decline continued in the other countries Projections for the 1970's and 1980's, however, show that participation rates will continue to drop but not as sharply as in the 1950's and 1960's Currently, the labor-force participation rate for persons aged 65 and over is only 6 or 7 percent and probably will not go much below this level

The declining proportion of working persons aged 65 and over has occurred at the same time that populations have been aging This situation is of major concern in many countries faced with the prospect of placing an increasing burden on the working population to finance pensions for the elderly [7]

[7] P Paillat, *Implication for Social Security of Research on Aging and Retirement* (Studies and Research, No 9), International Social Security Association, 1977

FLEXIBLE RETIREMENT OPTIONS

Nonworking persons are beginning to represent an increasingly higher proportion of the population At the same time, retirement options are being developed and adopted that enable more persons to retire early Many of these features are aimed at providing workers with more retirement flexibility—that is, a worker may retire or reduce work activity at an age determined by individual circumstances such as work conditions, health, and length of service Currently, few countries offer more than two or three such options, but efforts are being made to expand coverage to additional groups

Many new flexible retirement features being implemented also give workers who do not want to retire early or at the normal retirement age an opportunity to continue in employment Without this option, workers are faced with retirement at a preestablished, chronologically fixed age and must quit work if they want to draw a pension at that age In addition, industries frequently require compulsory retirement at the age that social security benefits begin In many cases, this sudden and permanent break in the work routine means not only leaving employment but also breaking with friends, social contacts, and achievement opportunity—as well as adjusting to a reduced income

In some countries, a complete break from full-time employment is encouraged by the imposition of a retirement test that often limits income to a minimal amount In other countries, the absence of a retirement test allows workers, who chose to do so, to keep active in the labor force but frequently outside the work in which they have spent their careers and usually in a part-time capacity [8]

Retirement Age

In theory, a truly flexible retirement age system would let all workers choose a retirement age based on individual circumstances by providing options to either continue employment after the normal retirement age or elect full or partial pen-

[8] See Elizabeth Kreitler Kirkpatrick, "The Retirement Test An International Study," *Social Security Bulletin*, July 1974

sion payments before The degree of flexibility actually provided under old-age programs varies, of course, among countries according to the particular circumstances

In general, most current systems with flexible features tend to limit the degree of individual choice to groups of workers who meet specified qualifying conditions such as long service, arduous occupations, partial disability, or unemployment In addition, persons who are willing to accept an actuarially reduced benefit can, in some cases, elect early retirement Of these conditions, the length-of-service and early retirement features offer the most viable choices for persons who are physically capable of continuing to work in less than arduous occupations

The first flexible retirement features that were implemented were designed to increase the options available to workers In recent years the primary intent behind their development has been to encourage or assist older workers to leave the labor market before the normal retirement age

Types of Provisions

Many industrial countries now have one or more flexible retirement features Of the countries shown in table 3, Austria, Belgium, the Federal Republic of Germany, Norway, and Sweden offer the most varied options for retirement before the normal age The other countries have fewer flexible features (Switzerland has none)

Arduous occupations—One of the oldest flexible retirement provisions in developing countries is the payment of benefits before the normal retirement age to workers in arduous or hazardous occupations[9] As table 3 shows, this type of provision has also been adopted in several industrial nations including Belgium, France, and Japan In France and Japan, persons in designated occupations can retire up to 5 years before the normal retirement age, in Belgium, 1 year before the normal age To qualify for an early pension in Belgium and France, the worker must also have a minimum number of years of contribution

Long service—The most widespread flexible retirement feature is the option for retirement offered to workers with a specified number of years of employment That is, an ordinary worker is not required to wait until a fixed age but may stop work several years earlier The number of years before the normal age varies from a low of 1 in Belgium to no limit in Italy The number of workyears required to qualify for this option does not differ greatly, ranging from 35 years to 40 years, except for a shorter qualifying period for women in the Federal Republic of Germany

Partial disability—Early retirement specifically for reasons of health or prolonged illness resulting in partial disability has also been written into an increasing number of social security programs in industrial countries (more than half of those shown in table 3) The deterioration of a worker's health may not necessarily arise from hazards of his occupation or work, but failing health and partial disability may prevent him from performing the job requirement of his normal or customary occupation Austria, France, and Sweden therefore provide for a full benefit payment for up to 5 years before the normal retirement age In Norway, full benefits are paid for up to 3 years before normal retirement age if the worker has had at least 40 years of contribution, he receives a reduced benefit amount for fewer years of contribution Denmark awards its universal benefit up to 7 years earlier for men who are partially disabled, up to 2 years earlier for women

Reduced benefit—A long-standing option offered to workers in some countries has been the actuarially reduced benefit for early retirement Under this provision, the worker who meets minimum qualifying conditions has the option of electing an early benefit payment at a lower amount than he would have received if he waited to retire at the normal age Presently, this option is available in Belgium, France, and Sweden (among the countries shown in table 3) for up to 5 years early

Recent Developments

Except for chronic unemployment and partial pensions, most of the conditions for retirement before the normal age have been part of many

[9] A lower retirement age under programs for certain arduous occupations is not optional and thus not really flexible Miners, for example, are usually covered by special programs not included here

TABLE 3 —Flexible retirement provisions, by type, 11 countries, 1977

Country and sex	Normal retirement age	Number of years before normal retirement for—					Increment for deferred retirement [4]	
		Arduous occupation [1]	Long service [1]	Partial disability [2]	Reduced benefit	Unemployment [3]	Annual percent	Years accumulated
Austria								
Men	65		5(35)	5		5	[5] 3	5
Women	60		5(35)	5		5	[5] 2	5
Belgium								
Men	65	1(5)	[1] 1(45)		5	5	None	
Women	60				5	5	None	
Denmark								
Men	67			[6] 7			10	3
Women	[6] 62			[6] 2			10	3
Federal Republic of Germany								
Men	65		2(35)	3		5	7 2	2
Women	65		[8] 5(10)	3		5	7 2	2
France								
Men	[7] 65	5(42)		5	5	5(10)	5	no limit
Women	65	5(30)		5	5	5(10)	5	no limit
Italy								
Men	60		any age (35)				None	
Women	55		any age(35)				None	
Japan [9]								
Men	60	5					None	
Women	55	5					None	
Norway [10]								
Men	67			[11] 3			9	3
Women	67			[11] 3			9	3
Sweden								
Men	65			5	5	5	7 2	3
Women	65			5	5	5	7 2	3
Switzerland								
Men	65						None	
Women	62						None	
United Kingdom								
Men	65					[12] 1	6 5	5
Women	60					[12] 1	6 5	5

[1] Figures in parentheses represent required years of contribution for full benefit In Austria, for example, a worker can retire 5 years early (at age 60 instead of 65), after 35 years of coverage

[2] Full benefits payable to those who are in failing health, handicapped, unable to work, prematurely aged ,but not qualified for invalidity payments

[3] Full benefits payable to older workers unemployed for designated period of time at specified age For explanation of figures in parenthesis, see foot note 1 above

[4] Annual increment awarded for each year employee continues to work beyond the normal retirement age

[5] Five percent per year for those employed after age 71 up to a maximum of 79 5 percent of covered earnings

[6] Applies to universal pension only

[7] Statutory retirement age is 60, with increments for deferred retirement paid up to age 70 Most workers do not retire until age 65 because the benefit at age 60 is low

[8] Ten years of contribution in last 20

[9] Employees' (earnings-related) pension program

[10] Earnings related pension program

[11] Benefit reduced if contributions for less than 40 years benefit level subject to 80 percent of former earnings

[12] Benefits payable at substantially higher rate if vacancy is filled by an unemployed person

Source *Social Security Programs Throughout the World 1975* and *1977* (forthcoming)

old-age programs for several years It was during the economic expansion and high employment of the early 1960's that most countries initiated policies designed to permit earlier retirement either by lowering the retirement age itself or by introducing flexible retirement features The emphasis in this period was not so much an effort to encourage older workers to leave the labor force as it was a result of being able to afford the higher cost of flexibility with increased revenue from favorable economic conditions

The number of flexible retirement provisions continued to multiply in the 1970's, even though the dual effects of the recession and inflation of the late 1960's and the oil crisis of the early 1970's put a great strain on the ability of social security funds to keep up with the growing proportion of retired workers This tendency to continue adding provisions that ultimately became a burden on the system can be explained in part by the frequent lapse of time required for the legislative process to put such provisions into effect Most proposals of this nature are subjected to lengthy reviews, time-consuming negotiations between Government, labor, management, and political parties, as well as lengthy deliberations in the legislature Thus, measures developed in a particular economic period may be put into effect only after economic conditions have changed [10]

The continued adoption of flexible retirement features during the recessions of recent years can also be partly explained by the fact that such provisions are thought desirable to make room for younger workers by giving older employees an opportunity to quit work before the normal

[10] See Paul Fisher, *Worldwide Social Security Trends The Challenge of the Late Seventies*, paper presented at the Brookdale Institute of Gerontology and Adult Human Development and the National Insurance Institute of Israel, Jerusalem, March 1977

retirement age The high unemployment rates during the recession may thus be alleviated

Unemployment—The rise of unemployment led to the introduction of a new flexible retirement provision to allow early retirement for persons who are approaching retirement age and who have been unemployed for a specified period of time Austria, Belgium, the Federal Republic of Germany, France, Sweden, and the United Kingdom have now adopted a provision of this type

Under these provisions, unemployed workers who are within 1–5 years of the normal retirement age and have made a minimum number of contributions to the system can become eligible for a full pension payment Even if such persons are only temporarily unemployed, they compete for jobs with younger workers Giving them permanent pension status a few years early removes this competition

In addition, the countries that have introduced such provisions argue, in developing the rationale for the program, that older workers close to retirement age who are forced out of their regular employment find it increasingly difficult to become employed because of their age, health, or physical exhaustion

Partial pension—Another recently developed flexible feature is the "partial" program designed to let workers reduce their work activity at or before retirement age by supplementing part-time earnings with a pension That is, the worker can choose to go from full-time to part-time employment without making a significant financial sacrifice, since the pension helps make up for lost wages

Norway and Sweden have adopted somewhat similar provisions that allow workers with a specified length of service to elect to receive a pension while continuing to work part time Under the Swedish provision, introduced to assist individuals in preparing for full retirement, a worker may choose to receive 50 percent of the payable pension up to 5 years before the normal retirement age of 65 if he is working part time (about 50 percent of former working hours a week for most employees)

Norway also pays a partial pension to part-time employees to help those reaching retirement age adjust to life without working full time A worker reaching the normal retirement age of 67 may choose from one-fourth to three-fourths of the payable pension and continue to work on a part-time basis if the total combined income of pension and wages does not exceed 80 percent of former earnings

Inducements To Continue To Work

Deferred retirement—At the same time that the provisions for early retirement were beginning to proliferate, most countries also initiated a means to reward persons capable of continuing to work and willing to do so The feature developed toward this end provides an increment to the benefit amount that accrues over the period that retirement is deferred beyond the normal age [11] This increment ranges from 1 percent a year to 9 percent for a period of 2 years to no limit in eight of the 12 countries shown in table 3 Besides raising the benefit level of workers who elect to remain in the labor force, this type of provision was also designed to reduce expenditures from social security funds The reduction is achieved through the decline in the number of retirees and the extension of the revenue base by additional contributions from wages earned past the normal retirement age The effect of such inducements has not been established, but it is generally felt to be minimal One important factor is that workers are often obliged to leave their full-time job because of the mandatory retirement practices of many private industries

FEATURES IN SEVEN COUNTRIES

Belgium

Retirement age provisions—The program provides for

Normal retirement age Age 65 (men), 60 (women) No increment for deferred retirement beyond the normal age Retirement necessary to receive payment

Flexible retirement features (1) Actuarially reduced benefit payable up to 5 years before normal retirement age, (2) full benefit payable up to 1 year

[11] H E Liebing, *The Influence of Early Pensions, of Deferred Pensions, and of Continuation of Work on the Old-Age Pension*, International Social Security Association, 1976

early for long service (men), (3) full benefit payable up to 1 year early for employees in arduous occupations (men), (4) special benefits payable up to 5 years before age 65 for men and age 60 for women, if unemployed

The present normal retirement age was established in 1924 when the old-age pension program was first implemented At that time, no provisions existed for benefit payment before the normal retirement age Following World War II, the social security system underwent several major revisions, including a shift in the fixed retirement age policy with the introduction of a significant flexible feature in the early 1950's

Reduced benefit option—The first provision adopted to provide early retirement permitted workers to choose between (1) quitting work before the normal retirement age and receiving an actuarially reduced benefit amount or (2) continuing in employment until age 65 (men) or 60 (women) and becoming entitled to a full benefit Reduced benefits are payable up to 5 years early for both men and women

No new retirement features were added until the 1970's when considerable public debate was generated over the normal retirement age These discussions tended to focus both on the desirability of providing more individual options in choosing a retirement age and, recently, on the need for opening up additional job opportunities for young workers by encouraging the retirement of older workers [12]

In connection with additional options, the essential argument against existing policy was that the electing of a reduced benefit at an earlier age by itself constitutes an inadequate choice for most workers It was suggested that workers subjected to the rigors of a lifetime of employment and possibilities of premature aging ought to be able to elect full benefits at an earlier age as a compensation

Long-service retirement—In response to such objections, legislation in 1976 allows men to retire at age 64 with full benefits if they have been employed for 45 years with at least 185 days' work in each year, for at least 4 hours each day, in every year since 1945

Arduous occupations—It was also argued that additional compensation should be made for workers employed in arduous, dangerous, or unhealthy occupations It was pointed out that early retirement provisions for those employed in such occupations already existed in the Belgian mining industry and in numerous industries of other countries Legislation in 1976 authorized the payment of a full benefit amount to all covered men 1 year before the normal retirement age if they were employed in an arduous occupation during 5 of the last 15 years preceding the 64th birthday or during any 12 years of the total working career

Early retirement for the unemployed—The combination of growing pressures for retirement age reform and a worsening employment situation led to legislation in 1975 that provided for special benefits to unemployed older workers who lose their jobs A benefit made up of an unemployment benefit of 60 percent of the worker's earnings plus a supplemental amount equal to 50 percent of the difference between the unemployment benefit and the worker's gross salary is payable up to 5 years before the normal retirement age

To promote the employment of younger workers, a new feature was adopted in 1976, specifically aimed at encouraging workers nearing retirement age to voluntarily withdraw from the labor market Special benefits slightly lower than those paid to dismissed employees are awarded to workers replaced by a worker under age 30 The new worker does not have to perform the same job Initially, men who elected benefits were paid up to 3 years before age 65 and women up to 2 years before age 60 The period of early retirement has subsequently been increased to up to 5 years for both

The unemployment and the supplemental benefit amounts are both adjusted to changes in the price index on a regular basis and revised yearly to account for changes in the wage index Benefits are payable until retirement age

Federal Republic of Germany

Retirement age provisions—The program provides for

Normal retirement age age 65 Pension amount increased by 7 2 percent (0 6 percent a month) each year that retirement is deferred from age 65 to age 67 A retirement test applies up to age 65

[12] Lois S Copeland, "New Retirement-Age Features in Belgium," *Social Security Bulletin*, July 1977, pages 46–49

Flexible retirement features Full pension payable up to (1) 2 years before normal retirement age for persons with long service, (2) 3 years early for persons whose capacity for work has been reduced by at least half, (3) 5 years early for unemployed older workers, (4) 5 years early for older women recently in the labor force

Instituted in 1889, the German old-age insurance program—the oldest program in Europe—began with a retirement age of 70 Objections to this age were made at the time as being excessively high, particularly among the working classes where the average longevity was well below age 70 In addition, the general population as a whole viewed the pension program with some skepticism To win public support, full benefit payments were made available to workers at age 70 in 1891, only 2 years after the program began, with at least 40 years of work It was hoped that the beneficial results of a full pension amount would win interest and support If the retirement age had been set at a lower age, payments might have been delayed by several years while sufficient funds were being accumulated to cover the additional expenditures By 1916, the income flow was sufficient to permit a reduction of the retirement age to 65

The policy of a fixed retirement age of 65 continued until the late 1960's and early 1970's when favorable economic conditions, combined with social objectives for more options regarding retirement age, permitted the formulation of the flexible retirement concept Flexible retirement, as previously discussed, is intended as a means of giving workers greater latitude in choosing a retirement age based on individual rather than chronological circumstances In Germany, it was felt that workers who had performed a "full working life," defined as one of 35 years or more in the labor force, deserved the option of electing full benefits before the normal retirement age. The strong economy of the late 1960's helped make this possible through the strengthening of the social security revenue base to pay for the projected increase in expenditures for the new benefit

Early retirement for long service—The provision for retirement before the normal retirement age of 65, put into effect January 1, 1973, allows older workers to draw a full retirement pension at age 63 To qualify, the worker must have 35 years of contributions or insurance credit and must neither be disabled nor have been unemployed for a long time An entitled person may, without affecting the amount of the pension, elect to continue employment on a part-time basis, defined as either (1) up to 3 months (75 workdays) in each year without earnings limit or (2) regular work with earnings up to 30 percent of the contribution base (in 1977 this ceiling amount was 37,200 DM a year) [13] Under existing legislation, these limitations are lifted entirely when the worker reaches age 65

Alternatively, a worker who is eligible for retirement at age 63 may defer claiming his pension and continue to work full time Because the worker continues to make contributions to the social security program, the benefit payable to him at the normal retirement age of 65 will be higher Periodic adjustments to wage scales and other economic factors also have an upward effect on the deferred pension level If the worker should choose to work beyond age 65, an additional increment of 0 6 percent is granted for each month of work up to age 67

Provisions for partial disability and for unemployment—A strong economy had stimulated the long-service retirement provisions, but an economic downturn led to the development of additional flexible retirement programs As the recession took hold and unemployment began to rise, it became necessary to seek provisions that would allow and encourage workers who did not qualify for early retirement based on long-service to leave the labor force and make room for younger workers

In response to these conditions, 1973 legislation inaugurated payment of a full pension amount up to 3 years before the normal retirement age for disabled persons who did not qualify for regular disability benefits To be entitled, a worker's capacity to perform his job must have been reduced by 50 percent or more

A measure for unemployed older workers established in 1972 provides full pensions at age 60 to persons who have been unemployed for at least 18 months Recipients of pensions under this provision may engage in some paid work with no reduction if their annual earnings do not exceed one-eighth of the contribution base

[13] One deutsche mark equaled 2.392 U S cents as of March 30, 1977

Early retirement for women with recent service—The number of older women in the labor force has grown considerably in recent years To provide an opportunity for some of these women to quit work before the normal retirement age, a provision implemented in 1972 pays a full pension at age 60 to women with at least 15 years of insurance credits, 10 of which were earned during the last 20 years before retirement To take advantage of the early-retirement option a woman must give up substantial gainful employment [14]

France

Retirement age provisions—The program provides for

Normal retirement age Any time from age 60 to age 70 but customarily at age 65 Pension amount increased by 5 percent of earnings for each year retirement is deferred beyond age 60 No retirement test

Flexible retirement features (1) Reduced benefit paid up to 5 years before normal retirement age, (2) special payment to unemployed workers aged 60–65, (3) full pension payable up to 5 years early for long term workers in certain hazardous occupations and for working mothers with at least three children and 30 years of contribution, (4) full pension payable up to 5 years early for at least 50-percent disability

Contributory old-age pension coverage for most workers in commerce and industry began under the general system (régime général) in 1945 [15] A minimum retirement age was set at 60, primarily because that was the prevalent age for private pensions in industry at the time Though retirement was permitted at age 60, a severe decrement was imposed on the benefit amount that reduced the payment by half of that payable at age 65 Thus, a worker got 20 percent of average earnings in the last 10 years at age 60, instead of the 40 percent payable at age 65 The benefit level at age 60 was thus so low that most workers waited until age 65 to claim benefits In addition, most workers receive their private pension payments under the mandatory retirement policies in private industry at age 65, and they thus have another reason for waiting

Over the years, for workers covered by the general system, retirement at age 65 in order to receive full benefits has been increasingly challenged, both because age 65 was considered too high and because the benefit payable at age 60 was considered inadequate Attention has also been drawn to the fact that other groups of workers—including agricultural workers, seamen, miners, primary teachers, government employees, and the self-employed covered under separate national insurance programs—were eligible for full benefits at age 55

These points were first seriously questioned by the Laroque Report,[16] a 1960 Government-sponsored inquiry into the problems of the aged This study acknowledged the inadequacy of the existing pension levels under the general system and the difficulties confronting retired workers Similar conclusions were drawn from a more recent report of the Commission on Social Benefits for the Sixth Plan submitted in 1971

Reduced pension—The inadequacy of benefit levels and the unfavorable retirement age described in the Commission's 1971 report gave impetus to a strong movement by the French trade unions to press for major pension changes, including the start of full benefit payments at age 60 instead of 65 This proposal was rejected by the Government on the grounds that such liberalization would jeopardize the financial security of the social security fund, already running at an operating deficit Instead of lowering the retirement age, the Government took legislative action in 1972 to increase (progressively over a 3-year period) the basic pension amount payable at age 60 from 20 percent of average earnings to 25 percent for workers with long service (37 5 years of contribution) and to raise the annual increment for deferring retirement from 4 percent a year to 5 percent. By 1975, workers who retired at age 60 became entitled to 25 percent of average earnings in his last 10 years of employment, 50

[14] See Robert Weise, "Housewives and Pensions Foreign Experience," *Social Security Bulletin*, September 1976, pages 37–44

[15] The régime général replaced a number of social insurance funds in existence since 1930 It presently covers about three-fourths of the full- and part time employees in the work force—mainly workers in industry and commerce Special systems cover workers in agriculture, transportation, mining, government service, self employment, and other fields

[16] Pierre Laroque, *Politique de la Vieillesse*, Documentation Francaise, Paris, 1962

percent at age 65, 75 percent at age 70, and so on until work stopped[17]

Despite the increase in the benefit level under the 1972 legislation, the amount payable before age 65 was still considered inadequate To be assured of an adequate retirement pension, most workers found it necessary to continue in employment until age 65 Often, however, because of poor health or because they could not keep pace with technological changes in their jobs, many workers left their career occupations to accept work on a part-time basis or full time at a lower pay rate until they became eligible for full benefits at age 65 The likelihood that older workers could change jobs in this manner virtually disappeared in the 1974 recession as the availability of even part-time or unskilled positions became quite scarce The effect of this situation was that workers who might have otherwise reduced their employment activity stayed at their jobs

Arduous work—In response to the unemployment condition, a law was passed, effective July 1, 1976, to assist certain older workers to retire early and make more room in the labor force for younger workers The legislation enabled manual workers with 42 years of employment—with 5 of the 15 years before retirement performed in strenuous labor—to retire at age 60 and receive a pension equal to that usually payable at age 65 The lower retirement age also applies to women who have three children, have engaged in blue-collar work for at least 5 of the 15 years before retirement, and have at least 30 years of contributions

Manual workers are the first group to be affected by the new provision, but the legislation is also intended to cover all groups of workers by 1980 Because of cost considerations, however, a similar program for other segments of the working population will be introduced gradually

The Government, by according priority to manual laborers, hopes to correct some inequities in the other retirement provisions Most blue-collar workers engaged in arduous work, for example, have contributed more than the 37 5 years used to compute old-age benefits under the formula These workers have not received additional credits to compensate them for their additional years of contribution into the pension system It was also felt that, when many of these workers retire at age 65, they are physically and mentally exhausted and have little hope for a comfortable retirement

Early retirement for the unemployed—Another provision in the 1972 legislation was also prompted by the high unemployment rates among older persons Dismissed unemployed workers aged 60–65 may receive a special benefit if they have at least 15 years of contributions The benefit is actually paid under the unemployment insurance program until the worker reaches age 65, but the recipient is removed from competition with younger workers in looking for employment and is, for all practical purposes, retired There is clearly an inducement for older workers to elect this benefit since the level of payment is more than twice that of regular unemployment benefits

In July 1977, an agreement between employers and the trade unions was reached to allow benefits to be paid at age 60 to unemployed workers who have quit or have been dismissed with 10 years of contributions and at least 1 year of work in the last 5 years

Early retirement for partial disability—An early-retirement provision in effect for many years covers workers who do not qualify for invalidity benefits (total disability) but cannot perform their normal work or are incapacitated, by 50 percent or more, to perform any work Disabled workers can retire at age 60 and receive the full benefit amount—a maximum of 50 percent of average base salary This provision affects a significant number of workers Almost half of the pensions granted at age 60 since 1963 have been for disability

Japan

Retirement age provisions—The program provides for

Normal retirement age Under employees' pension program (for workers in industry and commerce)—age 60 (men), 55 (women), under national pension program (for others)—age 65 No increment for deferred retirement under either program Under employees' pension program, pensions subject to an earnings test up to age 65 for both men and women No retirement test under national pension program

[17] See Robert Weise, "Higher Old-Age Pensions in France," *Social Security Bulletin*, May 1972, pages 30–32

Flexible retirement features (1) For miners, full pension payable for retirement up to 5 years before the normal retirement age

Japan has two major national programs for old-age, survivors, and disability insurance The main system is the employees' pension program, financed primarily by employee-employer contributions, that covers workers in most industry and commerce The other system is the national pension program, financed from general revenue, that covers all adult citizens not protected by any other pension system The focus here is on the employees' pension program

The dominant feature with respect to retirement age is that in 74 percent of all large business firms (67 percent in firms with less than 100 employees) workers are compulsorily retired up to 5 years (usually at age 55) before they become eligible to receive a social security pension Thus, the concept of voluntary retirement as it is used in some other countries does not exist in Japan Every employee expects and is expected to continue in his lifetime career until he reaches the established age limit At the time of compulsory retirement, workers are given a lump-sum separation payment The amount of this payment, however, is generally not enough to allow for self-sufficiency before age 60 As a result, most workers continue employment at lower paid jobs, often in the same firms in which they spent their careers, until age 62 or 63

The practice of compulsory retirement is one that began in Japan in large industrial firms in the 1920's Essentially, it is an outgrowth of the seniority-based wage system, the life-time commitment to one firm common in Japanese industry, the traditional family support of the aged, and the reliance of workers on private savings for old age Since every employee works in his chosen career employment until retirement age, the company guarantees to increase his wage solely on the basis of longevity Because the wages of all older workers go up, it is in the company's interest to terminate employment when the wage begins to become a financial burden—generally at age 55 The turnover then allows the company to hire young workers at much lower pay

This process of compulsory retirement spread to smaller industrial firms and businesses after World War II as increasing labor shortages led to the introduction of seniority-based wages In addition, the continued development of highly technical equipment at all industrial levels made obsolete the skills of many older workers and provided the employers with justification for terminating careers as early as feasible

Since the mid-1950's the concept of compulsory retirement before age 60 has come under increasing criticism, particularly from the trade unions The arguments against a compulsory retirement age revolve around the idea that a worker must be able to continue to work at full wages because he no longer can rely on traditional family support to carry him through an increased life expectancy The points are also made that reemployment at even part-time or reduced-wage positions is becoming more difficult and that the social security benefits payable at age 60 are too small because of the low earnings-replacement rate and the imposition of a retirement test up to age 65

Labor unions have increasingly sought the raising of the retirement age in industry to coincide with that of the employees' pension program, but the recent recession has made business firms more reluctant By hiring younger workers and letting older employees go as early as possible, businesses are often able to offset some of the loss of profits due to the recession Smaller firms, however, have been more willing to raise the retirement age because of their difficulty in recruiting younger workers, who tend to seek career positions with the larger enterprises Against this background, with the emphasis on raising the compulsory retirement age in industry rather than on lowering the pensionable age under the national program, it is not surprising that Japan has not introduced measures to provide for early retirement

It is interesting to note, however, that under the unique compulsory retirement-age process, an element of flexibility exists Compulsory retirement before pensionable age usually compels a worker to choose a second career more compatible with aging, such as a part-time and less physically or emotionally demanding position Instead of an abrupt end to work, there is time to adjust to a life without the social and economic rewards of full-time employment The system lacks true flexibility, of course, because no provisions permit the worker to retire according to his individual circumstances, needs, and choices

Norway

Retirement age provisions—The program provides for

> Normal retirement age Age 67 Pension amount increased by 9 percent (0 75 percent a month) for each year that retirement is deferred from age 67 to 70 Retirement test until age 70
>
> Flexible retirement features (1) Partial pension for those who want to continue in part-time employment, (2) partial disability benefit payable up to 3 years earlier than normal retirement

The old-age pensions established in 1963 came late to Norway, in comparison with other European and Scandanavian countries Norway's slower development reflected the fact that, in earlier years, most elderly were cared for by their families and that, later, severe economic stagnation was experienced from World War I to the middle of the 1930's As longevity increased, however, the burden of supporting elderly relatives gradually became too heavy for many families to bear by themselves This factor, coupled with an improving economy after the depression years, led to a national old-age pension program funded entirely by general revenues

The commitment of the Government to provide cash benefits to the elderly was, however, modified by cost considerations To keep expenditures down, the initial old-age pension program paid only a small benefit amount and restricted payment to persons with limited means In addition, the retirement age was set at 70 to keep down the number of beneficiaries

Cost considerations continued to be a major factor in keeping the retirement age at 70 until 1973, despite efforts to lower it Some benefit reform measures were taken, however, that removed the means test for universal benefits (1957) and added an earnings-related benefit layer financed by employee-employer contributions (1967)

In 1973 the retirement age was lowered from 70 to 67, and an unusual retirement option was introduced that allows fully insured workers to receive a pension while continuing in part-time employment The lower retirement age is intended to meet the criticism that the program did not have sufficient provisions for retirement before the normal age and that the retirement age of 70 was higher than that of most other industrial nations The provision also aims at giving workers approaching old age the opportunity to slow down work activity gradually in anticipation of complete retirement That is, it is designed to help soften the social and economic shock of abrupt withdrawal from the work force At the same time, new provisions will benefit the employment situation by opening up full-time positions to younger workers

Under the 1973 legislation a worker has available three options at age 67 He may retire with a full pension, continue full-time work and thus earn a higher pension amount payable at age 70, or elect to receive a combined pension and part-time salary [18]

Partial pension—Under the reform provision that permits the worker to choose a partial pension while he continues to work, the amount of the pension payable varies inversely with the level of wages or salary Thus, at age 67, a worker may draw one-fourth, one-half, or three-fourths of the regular pension amount, as long as the combined total does not exceed 80 percent of "former earnings" [19]

Several regulations affect the pension of an individual who elects to work beyond age 67 These apply to both elements of Norway's two-tier system, which consists of a basic pension payable to all residents and an earnings-related supplement The worker must continue to contribute to the social insurance system if he continues to work, whether or not he is already covered for a full basic pension If he has full coverage of 40 years' contributions, the additional contributions will not result in a higher basic benefit amount On the other hand, the earnings-related supplementary pension—computed on the highest 20 years of earnings—may be increased if the individual's income after age 67 is substantial enough to be included in the highest 20-year average

In addition, the worker is entitled to a deferred pension supplement for every month after reaching age 67 that retirement is postponed This monthly increment amounts to 0 75 percent of

[18] See Leif Haanes-Olsen, "Lower Pensionable Age in Norway," *Social Security Bulletin*, January 1974, pages 34–37

[19] "Former earnings" are the pensioner's average earnings from his 61st year through his 65th year, or from the 63rd through the 65th year if these years provide a higher average Within these limits, years without earnings are included

the total basic and earnings-related supplementary pension computed at age 67 The increment therefore raises the pension by 9 percent of the initial amount each year—or 27 percent if the pension is delayed until age 70 If part of the pension is claimed between ages 67 and 70, the increment is reduced accordingly

Partial disability—Norway has for some time provided benefits payable before the normal retirement age to partly disabled workers Before 1973, a worker could retire at age 67 instead of 70 because of "premature aging" (defined as a reduction in work capacity of at least 50 percent) The pension amount was reduced by 0 5 percent for each month before age 70 that the pension was paid Under 1973 legislation, full benefits are paid for partial disability up to 3 years before age 67 In addition, the definition of disability has been liberalized in considering the availability of jobs the worker can still perform

Sweden

Retirement age provisions—The program provides for.

Normal retirement age Age 65 Pension is increased by 7 2 percent (0 6 percent a month) for each year that retirement is deferred before age 70 No retirement test

Flexible retirement features (1) Partial pension payable up to 5 years before age 65 to those who want to continue in part-time employment, (2) actuarially reduced benefit payable up to 5 years before age 65, (3) full benefit paid to partially disabled or prematurely aged workers up to 5 years before age 65, and (4) full benefit paid to long-term unemployed workers up to 5 years before age 65

In July 1976, Sweden lowered its retirement age for workers in commerce and industry from 67 to 65 and liberalized provisions for early and deferred retirement The original legislation had established a retirement age of 67, based primarily on the retirement age for civil servants at that time The new retirement age represented a compromise with a variety of parliamentary committee reports that had recommended retirement ages ranging from 60 to 70

Later efforts to lower the normal retirement age under social security failed until 1976, although the civil service retirement age was lowered to 65 The main factor preventing a lower retirement age for workers in commerce and industry was cost A retirement age of 65 would call for additional revenue to finance the larger number of beneficiaries at the same time that the proportion of workers whose taxes pay for the program would be reduced It was felt that the situation would worsen in the future and that lowering the retirement age would only compound the problems Although the retirement age of 67 was not lowered until 1976, two provisions for earlier retirement were introduced in 1960 when, under a major revision of the social security program, an earnings-related layer was added to the universal flat-rate benefit

Reduced benefit option—The 1960 reforms gave workers the option of retiring up to 4 years before the normal retirement age with the benefit amount actuarially reduced by 0 6 percent for each month before age 67 Workers were also given the option of receiving an increment of 0 6 percent for each month worked beyond age 67 to age 70

In 1976, to liberalize the early retirement provision and make withdrawing from the labor force easier for those near the end of their working careers, the period during which a reduced benefit can be drawn was extended to 5 years before the newly implemented normal retirement age of 65 The decrement for electing an early pension was also modified from 0 6 percent to 0 5 percent per month before age 65 In addition, workers were given the added option of choosing either a full or half pension to which the decrement is applied

Early retirement for partial disability and unemployment—The reform of 1960 had also included a provision to pay a full benefit up to 4 years before the normal retirement age of 67 to persons unable to cope with job requirements—that is, those partially physically disabled, prematurely aged, or mentally unable to continue in their regular employment

Under the 1976 law, this provision was expanded to allow early retirement up to 5 years before the normal retirement age In addition, coverage was extended to include persons unemployed for some time and with no real prospect of finding a job

Discussions of lowering the normal retirement age itself had broadened by the mid-1960's to include the question of more flexibility The Confederation of Trade Unions was particularly interested in part pensions before the normal retirement age as an opportunity to provide workers with more leisure time and a smooth transition to full retirement by scaling down productive activities during the final phases of working life The trade unions also continued to argue for a lower retirement age, pointing out that the private pension system, established through labor management agreements and affecting most workers, had set retirement at age 65 and that age 65 was in widespread use in other countries

By the 1970's, two major factors weakened the basis for previous Government objections to the cost of introducing more flexibility and lowering the retirement age First, the amount of surplus money in the social security trust fund had accumulated to such an extent that an increase in the number of beneficiaries would increase payroll taxes only nominally Second, an influx of young foreign workers greatly reduced the demographic imbalance in the proportion of workers to retired persons

The combined effect of pressure from the trade unions, the availability of funds, and the improving demographic patterns influenced the Government to establish a Commission on Pensionable Age in 1970 to investigate the social and economic effects of a lower retirement age On the basis of reports made in 1974–75 by this Commission, the Government proposed lowering the retirement age to 65 and to provide more flexibility through modifications of the early retirement provisions and the introduction of a variable-pension program These measures were implemented in July 1976 [20]

Partial pension—The flexible retirement age feature introduced in 1976 under the Partial Pension Insurance Act of 1975 is designed to encourage a reduction in work activity by providing a partial pension to replace part of the income loss The provision is unusual in two respects

First, it promises, for those aged 60–64, to replace 65 percent of income lost as a result of a shift to part-time employment without reducing the size of the regular pension available at age 65 Workers become eligible with 10 years of covered income (the income above the base amount that counts toward a supplementary pension) after age 45

Second, each participant must maintain a weekly schedule of at least 17 hours of paid employment in order to fulfill the minimum requirements for other social benefits such as unemployment insurance benefits To the average worker in manufacturing, this schedule means a reduction in working hours by approximately one-half For a worker earning 36,000 kronor per year on a full-time basis, the new pension would replace 65 percent of the 18,000 kronor reduction in income, or nearly 12,000 kronor [21]

The variable-pension benefit, coupled with part-time earnings, can provide a worker with an income that is about 85–90 percent of his previous earnings [22] In comparison, the benefit of a fully retired pensioner who has earned an average income throughout his working life approximates 65–70 percent of his former earnings The variable-pension program thus provides a twofold advantage for those preparing for full retirement—a gradual transition toward less physical exertion and a lower income level

United Kingdom

Retirement age provisions—The program provides for

Normal retirement age 65 (men), 60 (women) Pension amount is increased by 6.5 percent for each year (0 125 percent a week) that retirement is deferred before age 70 (men) or 65 (women) Retirement test until age 70 (men) or 65 (women)

Flexible retirement feature Benefit payable up to 1 year before the normal retirement age at substantially higher rate if vacancy left by retiree is filled by an unemployed person

When old-age pensions were first implemented in the United Kingdom in 1908, benefits were payable at age 70 The benefits were means-tested, flat-rate payments entirely financed by general revenue Although age 70 was established as the

[20] See Leif Haanes-Olsen, "New Retirement Options in Sweden," *Social Security Bulletin*, March 1976, pages 31–34

[21] One Swedish krona equaled 24 U S cents as of March 31, 1977

[22] See L A Astrom, *Gradual Transition from Full-Time Work to Retirement, with Income Deriving in Part from Work and in Part from a Reduced Pension*, International Social Security Association, 1977

age for first eligibility for benefits, it was generally recognized that age 65 was more likely to reduce the high number of aged persons living in poverty Cost estimates, however, indicated that the earlier age would increase Government expenditures by more than 60 percent in the first year of operation

Interestingly, a cost analysis used at the time did not include a consideration of the effect a lower retirement age would have on the expenditures necessary to maintain a growing proportion of elderly in the population [23] As noted elsewhere, this was a significant factor in the retirement age determinations of several other industrial countries

The problem of financing a retirement age of 65 was the major obstacle to lowering the age until 1928, when compulsory employee and employer flat-rate contributions (begun in 1926) provided a sufficient source of additional revenue The new system of combining general revenue with contributions made it possible to lower the retirement age to 65 and to eliminate the means test

As noted, the primary objective of establishing age 65 as the age of eligibility for means-tested benefits was to raise the income of as many needy, aged persons as was economically feasible Age 65 was also viewed as the most desirable retirement age because it was believed that at that age the average person's physical and mental capabilities could be expected to decline The retirement age was thus related to the average person's ability to continue work in much the same way that flat-rate benefit payments had been adopted to meet average rather than individual income needs At the same time, it was recognized that many people were capable of and desirous of working after age 65 For these reasons, age 65 was viewed as a minimum retirement age beyond which many workers were expected to continue to work if their health permitted

Later changes in the retirement age were related to the circumstances of families where the wife was younger than the husband and thus not eligible at the same time for a pension in her own right Legislation enacted in 1940 lowered the retirement age for women to 60 to make it possible for working women up to 5 years younger than their spouse to be entitled to their own pension at the time of their husband's retirement For men, the retirement age remained at 65

Debates in 1946 discussed the restoration of parity in the retirement ages of men and women This notion was rejected, however, on the basis that no appreciable savings on pension expenditures would result and because it was thought that employed women who had run their households after working hours should have the opportunity of retiring as soon as possible [24]

Deferred retirement—Some degree of flexibility (in addition to the provision for spouses) was introduced in 1948 with respect to benefit increments for work beyond age 65 Before 1948, when a worker reached age 65 he received the flat-rate benefit, regardless of income or work status Legislation implemented in 1948, on the basis of recommendations in the Beveridge Report, emphasized age 65 as a minimum instead of a normal retirement age Under the National Insurance Act of 1946, effective 1948, the benefit payment was made contingent on an earnings test

Because it was expected that most employees in good health desired to continue working, the earnings test served more to restrict the costs of benefits paid to workers whose income exceeded a specified amount than as a deterrent to working In fact, an increment was added to the benefit amount for each year of work beyond age 65 up to age 70 (60 and 65 for women) to provide an additional incentive to continue in employment

Since the inception of these measures, however, studies of retirement trends show that age 65 has been generally employed as the normal age of retirement and that legislative incentives to remain active to age 70 have had little effect on the age at which a worker retires This situation has been attributed, in part at least, to the high degree of job security enjoyed by employed persons in Great Britain, as well as to the preference of employers to reduce their workforce through statutory retirement and attrition rather than to lay off the older workers and to recruit younger persons

[23] Hugh T Heclo, *Modern Social Politics in Britain and Sweden From Relief to Income Maintenance*, Yale University Press, 1974

[24] Victor George, *Social Security Beveridge and After*, Routledge and Kegan Paul, 1968

Early retirement for unemployment—Except for a proposed increase in the retirement age to 63 for women and 68 for men submitted in 1954 by a Government-appointed task group, no serious suggestions to change the retirement age were put forth until 1976 As in several other nations, the current high rate of unemployment, however, led to a new special benefit, implemented in 1976, for workers who retire 1 year early if their job is filled by an unemployed person This benefit is designed primarily to enable unemployed youths to step into low-income jobs held by employees who are within a year of retirement age.

FUTURE DEVELOPMENTS AND PROPOSALS

The main factors that will continue to exert pressure to adjust the retirement age either upwards or downwards are both economic and social Frequently, the one pulls against the other

In France, for example, a lower retirement age, along with reduced work hours, is preferred by the Government as an inducement to get young workers into jobs in industry This action is considered necessary if production is to increase enough to support adequately the development of a growing economy A lower retirement age is also desired by employers in certain industries because they prefer better-educated young workers to older employees less adept at adjusting to new technology Workers themselves share in the objective of a retirement age of 60 with full benefit amounts because of the opportunity provided for easing into retirement and a more varied life

Attractive as early retirement may appear, however, social security planners have warned that early retirement may turn out to be an increasingly expensive burden In most industrial countries, the increase in the inactive retired is outpacing the growth of the labor force, thereby placing new strains on the national economies of these countries Some sources predict a slowing down in the trend toward lowering the retirement age in the next few years because of unfavorable demographic conditions [25] According to a recent study of the Organization for Economic Development, if the fertility rate continues to drop as it has done over the last 10 years, the financial burden for pensions will be spread over a smaller number of working people and the active labor force will have to pay higher taxes to support the increase in the number of pensioners Systematically lowering the retirement age, therefore, will aggravate the problem of financing, particularly if unemployment increases and if demographic changes continue to reduce the revenue base

The Federal Republic of Germany has already felt the economic burden of funding a liberalized retirement age policy. The unanticipated high proportion (85 percent of those eligible in 1975) of persons electing to receive a full pension up to 2 years before the normal age reflects the effect of only one of four flexible retirement age provisions in that country placing added fiscal strains on the system

Nonetheless, discussions of flexibility in this area are becoming more widespread One school of thought in the Federal Republic of Germany would gradually reduce the retirement age in that country from 63 for men with 35 years of service to 60 in slow steps, but with actuarial reductions in benefits The gradual nature of the reduction would be expected to ease the extra financial burden on the economically active population Opponents feel, however, that the fiscal burden of lowering the retirement age would be too great, at least until the 1980's when the demographic conditions in Germany are expected to be more favorable

For the United Kingdom, proposals have been made for early retirement with reduced benefit amounts as under provisions in Belgium, Sweden, and the United States [26] In this case, the full benefit would be actuarially reduced for the period of entitlement before the normal retirement age For an early retirement of 5 years, the reduction would be about one-third of the benefit amount. The primary objection to this suggestion is that too many beneficiaries would become entitled to reduced benefit amounts below the level of means-tested supplementary benefit payments

A further alternative to the fixed retirement

[25] Pierre Laroque, "L'age de la Retraite Ses Aspects Economiques et Sociaux," in *Vie Sociale*, April 22, 1975, pages 489–491

[26] See Michael P Fogarty, *Pensions—Where Next?*, Center for Studies in Social Policy, 1977

age proposed in the United Kingdom is the payment of a partial pension Under this approach, a less-than-full benefit would be paid, as in Norway, for a number of specified years before the worker reaches the normal retirement age, when he would receive the full benefit amount Eligibility would be restricted to those continuing to work on a part-time basis and continuing to make payroll contributions This approach has the advantage of providing for a gradual preparation for living under the economic and social changes accompanying full retirement The main difficulties seen are the lack of availability of part-time positions and the potentially high costs involved if a large number of workers elected to receive the benefit

In the United Kingdom, the Government has responded negatively to proposals to reduce the retirement age to 60 for men because of the considerable costs involved The Government argues that lowering the retirement age to 60 for men would mean a very large increase (£2,000 million a year)[27] in costs for services and benefits to new beneficiaries and increase the tax burden on those remaining in the work force because the ratio of working population to pensioners would decline A possible lowering of the gross national product because of the loss of experienced workers is also feared It is noted, in addition, that since private plans tend to adopt the retirement age in the national program, these plans would also suffer from a necessary increase in expenditures

[27] One pound equaled $1 71 (U S), as of March 31, 1977

Except for Japan, few serious proposals for raising the retirement age have been made Even under the unique Japanese situation calling for retirement up to 5 years before pension payments begin, proposals for eliminating or raising the compulsory retirement age in industry have, for the most part, been met with resistance from employers They feel it would place an undue financial burden on them unless they did away with the popular seniority-based wage system In response to continued social and government pressure to raise the retirement age by one or two years, however, a few companies have introduced new wage systems based on a worker's ability and position, as well as programs designed to retrain older employees for less demanding full-time jobs In addition, as of October 1976, the Government requires that at least 6 percent of the employees of all private concerns must be aged 55 or older

Proposals have also been made by the Japanese Government to change the compulsory retirement age to 60 through the payment of a Federal subsidy to businesses that would raise the retirement age The subsidy would enable employers to retain older workers by covering the additional expenses involved in keeping them on the payroll, while at the same time promoting new job opportunities for younger workers