

## **RAISING RETIREMENT AGE: HOW MUCH OF A SOLUTION TO RISING SUPPORT BURDENS IN THE DEVELOPED WORLD?**

### **Introduction**

The populations of many developed countries are both aging and declining in number. With more people living well into old age, governments are grappling with the problem of fewer workers paying for the pensions and health care of growing numbers of men and women spending ever more years in retirement. In many countries, the projected aged or retirement support ratio will drop by almost half or more under what appear to be the most likely demographic assumptions.

The United States is aging along with the rest of the developed world, but its population is actually projected to increase over the next five decades. As a result, its projected aged support ratio will remain more favorable than that of many countries. Even so, the number of potential Social Security contributors per beneficiary is projected to fall. Calls to reform the Social Security system inevitably mention the aged support ratio.

While a number of developments, among them increased fertility or immigration, would shore up aged support ratios, many policymakers in the United States and elsewhere view raising retirement age as an attractive option to slow the rate of growth in demand on public pension systems. A higher retirement age holds appeal in part because increases can be phased in over a longer period of time, thus holding harmless workers in or close to retirement. Other options to restore long-range solvency to the Social Security system, such as reducing cost-of-living adjustments or raising the tax on Social Security benefits, would likely affect persons already, or soon to become, retired.

Americans have not been very receptive to proposals to increase the age of eligibility for full Social Security benefits (or the normal retirement age), which is referred to subsequently as “raising the retirement age.”<sup>1</sup>

Nevertheless, a higher retirement age will undoubtedly be part of Congressional debate on proposals to restore long-term solvency to the Social Security system. This Data Digest focuses on what could be required in the way of a higher retirement age in the United States and selected other more developed countries if that were the sole option chosen by governments to stabilize aged or retirement support ratios at current levels.

### **Ageing Populations and Population Decline**

In a recent report, *Replacement Migration: Is It a Solution to Declining and Ageing Populations?*,<sup>2</sup> the Population Division of the United Nations (UN) turned to the issue of aging and declining populations in several parts of the world, including France, Germany, Italy, Japan, the Russian Federation, the United Kingdom, the United States, the European Union (EU),<sup>3</sup> and Europe as a whole.<sup>4</sup> The report finds population losses over the next half century in almost all of these countries, as well as in the EU and Europe.

The population declines projected by the United Nations under its medium variant assumptions will be sharp in some cases. For example, Italy’s population of 57 million could fall to 41 million, or by 28 percent, by 2050, Japan’s from 127 million to 105 million (17 percent), and Germany’s from 82 million to 73 million (11 percent). All else being equal, the European Union might lose 12 percent of its population and Europe 14 percent over the next five decades. The United States, in contrast, is projected to increase in size, from 278 million to 349 million, or by just over 25 percent. At the same time, however, America, along with the countries highlighted in Table 1, will age.

Over the next five decades, the median age of these countries and the European Union will rise by some six to almost 13 years. The increase should be especially pronounced in

Italy, which may “grow older” by more than 10 years between 2000 and 2025 alone.

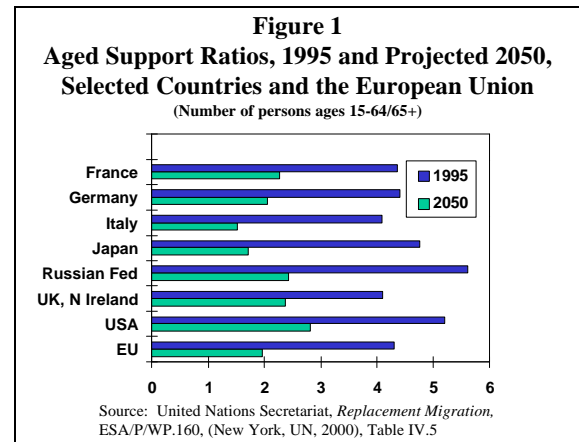
**Table 1**  
**Median Age and Percent Aged 65 and Over, Selected Countries and the European Union, 2000, 2025, and 2050\***

Median Age (years)	2000	2025	2050
France	37.6	43.0	43.9
Germany	40.0	47.3	48.4
Italy	40.6	50.9	53.2
Japan	41.2	48.4	49.0
Russian Fed.	36.7	42.4	46.1
UK/ N. Ireland	38.2	43.1	44.5
USA	35.8	39.7	42.1
European Union	38.9	46.4	47.9
<b>Percent 65 and Over</b>			
France	15.9	21.7	25.5
Germany	16.4	23.4	28.4
Italy	18.2	26.1	34.9
Japan	17.1	26.7	31.8
Russian Fed.	12.5	18.1	25.0
UK/ N. Ireland	16.0	21.2	24.9
USA	12.5	18.8	21.7
European Union	16.4	23.0	28.9

\*Medium variant projections

Source: United Nations Secretariat, *Replacement Migration*, ESA/P/WP.160, (New York: UN, 2000), Tables A10-A19

Over those decades, the proportion of the population aged 65 and older will continue to increase as well. By 2025, nearly one-fifth or more of the residents of the countries in Table 1 will be at least 65, a figure projected to jump to one-third in Italy and Japan by 2050. As measured by median age and percent 65-plus, the United States will remain the youngest of these countries. Even so, its median age will climb to over 42 years and the proportion 65-plus to nearly 22 percent. The impact of these demographic developments on aged support ratios can be seen in Figure 1.



### Toward Higher Retirement Ages

The 1983 amendments to the Social Security Act raised the age of eligibility for full Social Security benefits in the United States from 65 to 67. However, workers were given ample time to prepare for the change; the increase would be phased in over a 27-year-period beginning with workers turning 62 in 2000. Japan has taken a more drastic step with regard to attempting to prolong the working life. Starting in 2001, legislation enacted in 1994 will increase in stages the age of eligibility for full pensions from 60 to 65. Full pension age will reach 65 by 2013 for men and by 2018 for women.

Proponents of raising the retirement age argue that increases in life expectancy and improvements in health status, along with changes in the nature of work, make a longer work life both justifiable and feasible. American workers who retired at age 65 when the Social Security system was established could expect to live for about 12 more years, on average. Today, those who survive to 65 can expect to receive Social Security benefits for nearly 18 more years, though chances are good that they will have already retired.

With the exception of the Russian Federation, life expectancy has improved greatly over the last half century in the countries examined by the United Nations (e.g., Japan has experienced a 16-year increase at birth); further increases, typically in the

neighborhood of about four years, are projected by 2050.

While there is disagreement about how many, if any, of the added years should be spent in paid work, proposals to raise the retirement age in the United States tend to include relatively few of them. Some would raise the retirement age from the eventual 67 to 68 or 69 over several additional decades. Age 70 and, more rarely 72, have been proposed, as has indexing future retirement ages to life expectancy improvements.

Although the United States has experienced a leveling off in the trend toward ever earlier retirement since the mid-1980s, early retirement remains the norm in the U.S., as it does in Europe. Especially generous public pensions coupled with high unemployment in many European countries have heightened the appeal of early retirement as a means of expanding employment opportunities for younger workers. But the wisdom of policies promoting early retirement is being questioned in light of growing concern about supporting aging populations.

As its title suggests, the UN's *Replacement Migration* deals mainly with international migration's potential contribution to offsetting population decline. However, it also looks at the role of retirement age in easing the burden of retirement support. Of particular interest are the estimates of the retirement ages that would be required to maintain constant potential support ratios, which the UN defines as the number of persons between the ages of 15 and 64—workers and potential workers—per potential retiree, who is anyone aged 65 or older.<sup>5</sup> (Obviously, such ratios are only rough approximations of support “burdens,” as many potential workers are not in the labor force or work little if they are; so-called “retirees” may remain at work.)

As portrayed in Figure 1 above, the potential aged support ratios in 1995 ranged from 4.08 in Italy and 4.09 in the United Kingdom to 5.62 in the Russian Federation.

Table 2 provides the estimated retirement ages that would be required to keep these ratios stable through 2050. These ages are far above the normal retirement ages of these countries, which typically range from 60 to 65, depending on years of service.

**Table 2**  
**Retirement Age Required to Maintain 1995 Aged Support Ratios,\* Selected Countries and the European Union**

Country/Region	Required Age
France	73.9
Germany	77.2
Italy	77.3
Japan	77.0
Russian Federation	72.7
United Kingdom/ Northern Ireland	72.3
United States	74.3
European Union	75.7

\*In 1995, this was the ratio of persons aged 15-64/65+. Source: United Nations Secretariat, *Replacement Migration*, ESA/P/WP.160, (New York: UN, 2000), Table IV-10

Japan, which as noted is only now beginning to raise the pension age by five years, would have to add another 12 years to that age over the following three decades and increase the mandatory retirement age as well.<sup>6</sup> At present, relatively few Japanese remain in the labor force after age 70. That is the case for even fewer people in other developed countries.

In the United States, fewer than one in five persons between the ages of 65 and 74 are in the labor force, which underscores the dramatic change that would be required to reach the retirement age of 74.3 years estimated by the UN for this country. Indeed, more Americans begin to collect Social Security at age 62 than wait until 65.

While boomers in the United States have been maintaining that they want or will need to

work in retirement, they have also reported that they would like to stop working for pay altogether at an average age of 59.7.<sup>7</sup> Furthermore, they say they actually expect to do that at an average age of 63.9, close to the average age at which U.S. workers have been awarded retired worker benefits in recent years. The trend toward ever earlier retirement may have come to a halt, but there is little evidence yet of a substantial uptick in the actual age of retirement.

This is not to say that the average retirement age will not rise in the developed world in coming decades. It undoubtedly will, in part because workers themselves will opt for some lengthening of the worklife, given improvements in health, longevity, and education. In the United States at least, employer demand may lead to greater incentives to get older workers to remain on the job. However, voluntary efforts to prolong the work life might not be enough.

In all countries, the establishment of an appropriate retirement age must be examined in light of such issues as the nature of available work, projections of job growth, employer attitudes toward older workers and their ability to find alternate workers, worker attitudes about delaying retirement, productivity at upper ages, technological change, and the cost and availability of skills training and retraining, to say nothing of increases in healthy life expectancy.

Few advocates of raising retirement age suggest anything close to the estimates in Table 2. But even modest increases may prove difficult in countries that lack legal protections against age discrimination in employment, must cope with stubbornly high unemployment rates, have very costly statutory employee benefits, and have long promoted retiring older workers in order to hire younger ones.

Still, absent (1) sizable increases in fertility, which seem unlikely given the changing roles of and expectations for women; (2) mortality increases, which most people

would find objectionable; and/or (3) large increases in international migration, which for many countries would be fraught with problems, higher retirement ages seem inevitable in most of the developed world, however unpopular they now appear to be. How much “relief” they provide aging populations will obviously depend on the retirement age, the availability of early retirement benefits, and the number of people actually working until the new higher retirement age.

---

## Notes

<sup>1</sup> For a review of public attitudes about raising retirement age, see Sara E. Rix, “Social Security Reform: Rethinking Retirement-Age Policy—A Look At Raising Social Security’s Retirement Age,” *PPI Issue Brief No. 40* (Washington, DC: AARP, 1999).

<sup>2</sup> United Nations Secretariat, Department of Economic and Social Affairs, Population Division, *Replacement Migration: Is It a Solution to Declining and Ageing Populations?*, ESA/P/WP.160 (New York: United Nations, 2000).

<sup>3</sup> The European Union includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

<sup>4</sup> The UN report also singles out Korea for detailed analyses. However, because this Data Digest is focusing on the more developed world, and Korea is still considered a developing nation, it is not included here.

<sup>5</sup> These estimates are based on the medium variant projections of the UN’s *World Population Prospects: 1998 Revision*. Fertility and/or mortality developments that deviate from the assumptions used in these projections could yield very different results.

<sup>6</sup> Pension age in Japan is different from the mandatory retirement age, which as of early 2000 was 60 in most large firms.

<sup>7</sup> AARP, *Boomers Look Toward Retirement* (Washington, DC: AARP, 1998).

***Written by Sara E. Rix, Economics Team,  
AARP Public Policy Institute, June 2000***

Reprinting with permission only.  
AARP, 601 E Street, NW, Washington, DC  
20049 (www.aarp.org).