

Impact of the Increased State Pension Age

Aisling Kennedy

Increased State Pension Age



Year	State Pension Age	Year of birth
2014	66	1949 - 1954
2021	67	1955 - 1960
2028	68	1961 or later



State Pension Age - History

- Was age 70 until 1973
- New government planned to reduce it gradually to age 65
- Ran out of money at age 66
- State Transition Pension currently paid between ages 65 and 66 to persons not in employment



Irish life expectancy (cohort)



	2007 (age 65)	2014 (age 66)	2021 (age 67)	2028 (age 68)
Men	21	21	22	22
Women	23	23	23	23

Increasing the Pension Age is not popular



25 September 2003

Older Retirement Age Most Effective Way to Reduce Cost of State Pensions

“The Society’s Population Studies Working Group has looked at the impact of (a) increasing the retirement age gradually until it reaches age 70 by 2025 and (b) continuing to increase the retirement age to reach age 75 in 2050. The retirement age would need to be increased to at least age 70 to have a significant impact on future costs.”

“No plans to raise retirement age, says Government.”

The idea of raising the retirement age is described as 'harebrained'.

The Star: *“Is that the very best that they can do – solve the pensions crisis by not paying it?”*

Increasing the Pension Age is not popular



International context



Australia	from 65 to 67	between 2017 and 2023
Denmark	from 65 to 67	between 2024 and 2027 linked to life expectancy thereafter
Germany	from 65 to 67	by 2030
Netherlands	from 65 to 67	between 2020 and 2025
Norway	already 67	
Spain	from 65 to 67	between 2013 and 2027
UK	from 65 to 68	starting in 2020
US	currently 66	increasing to 67 in 2022
Canada	currently 65	potential change being debated

Average effective age of retirement

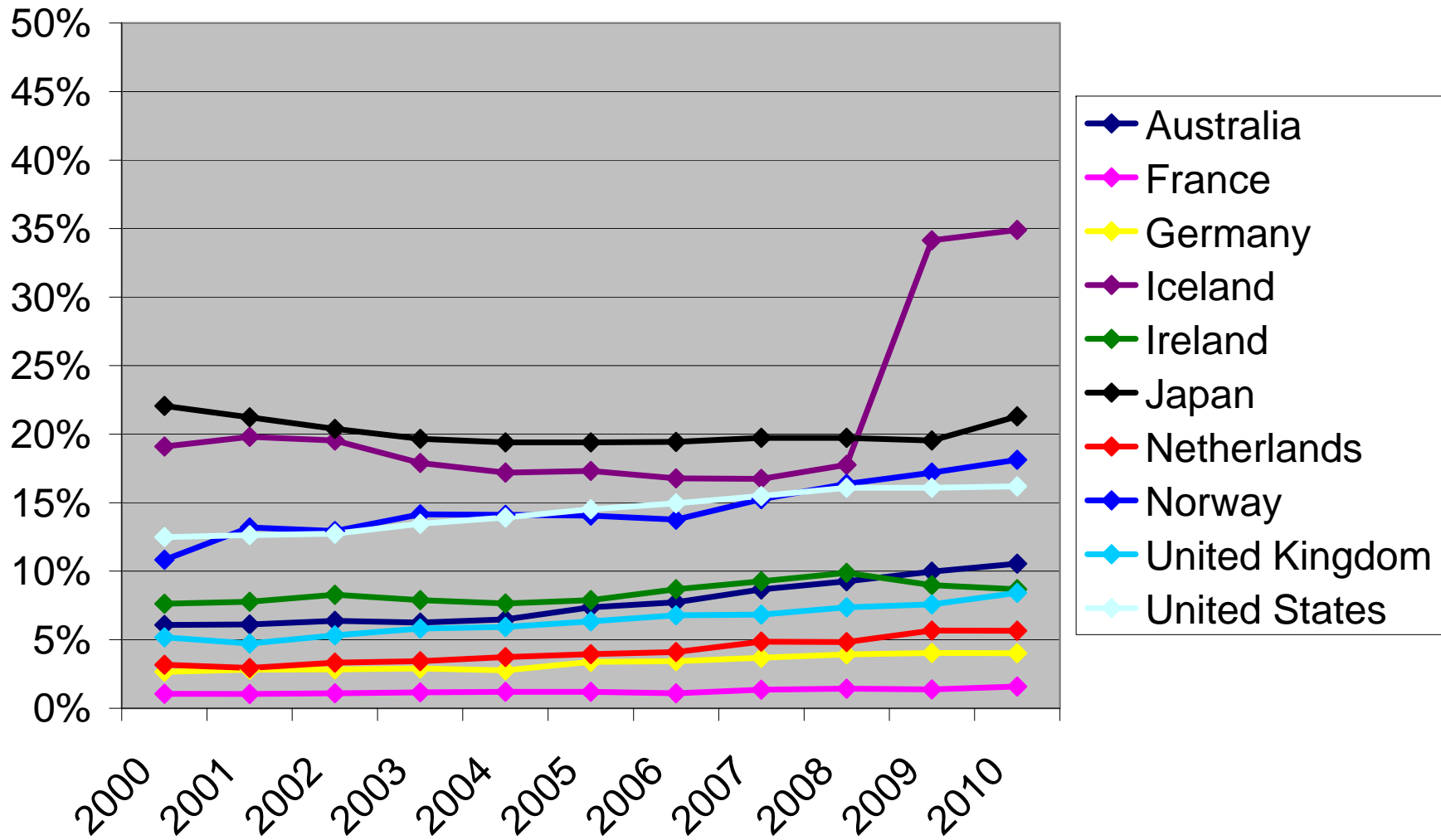


Men

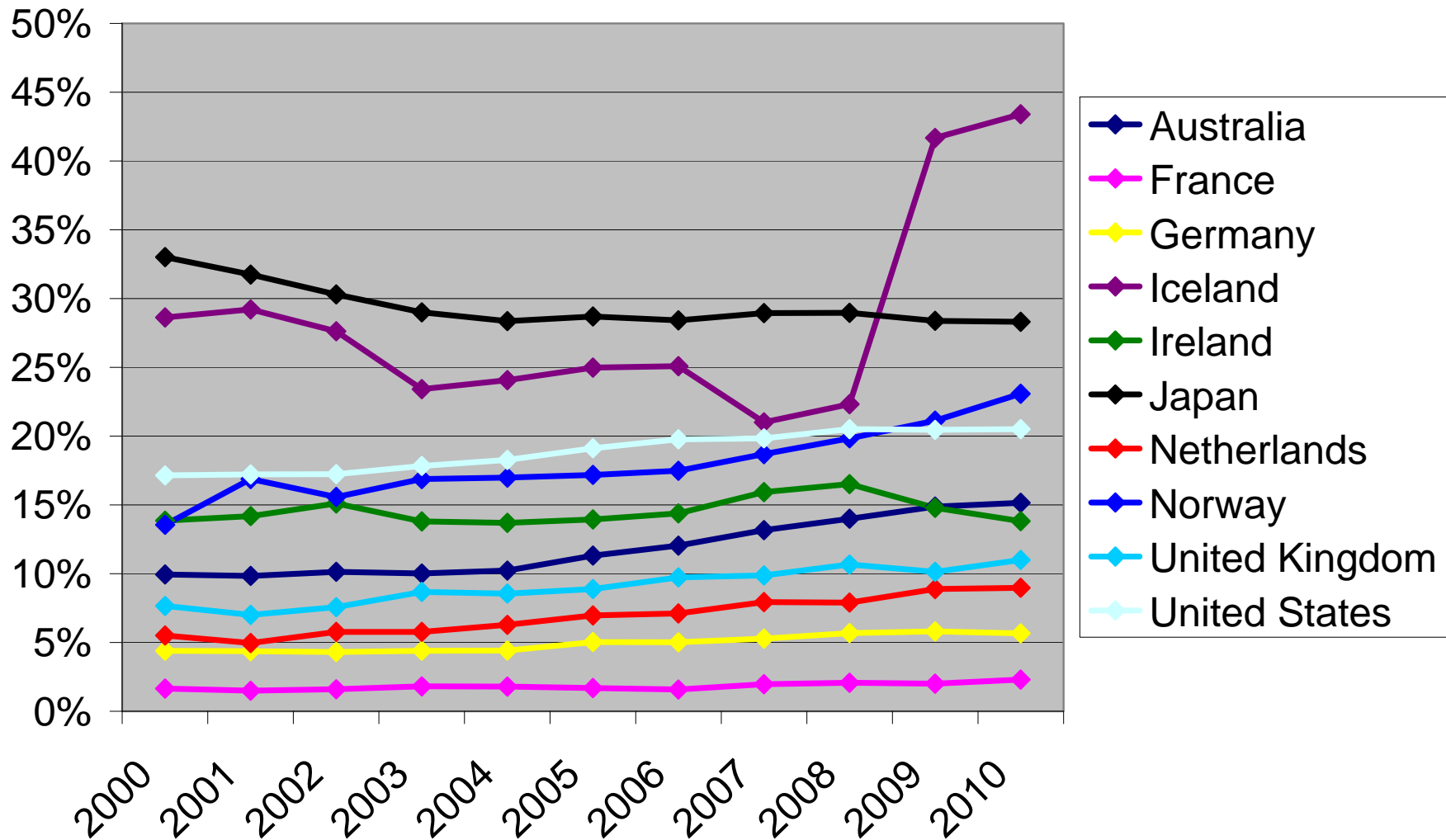
Women



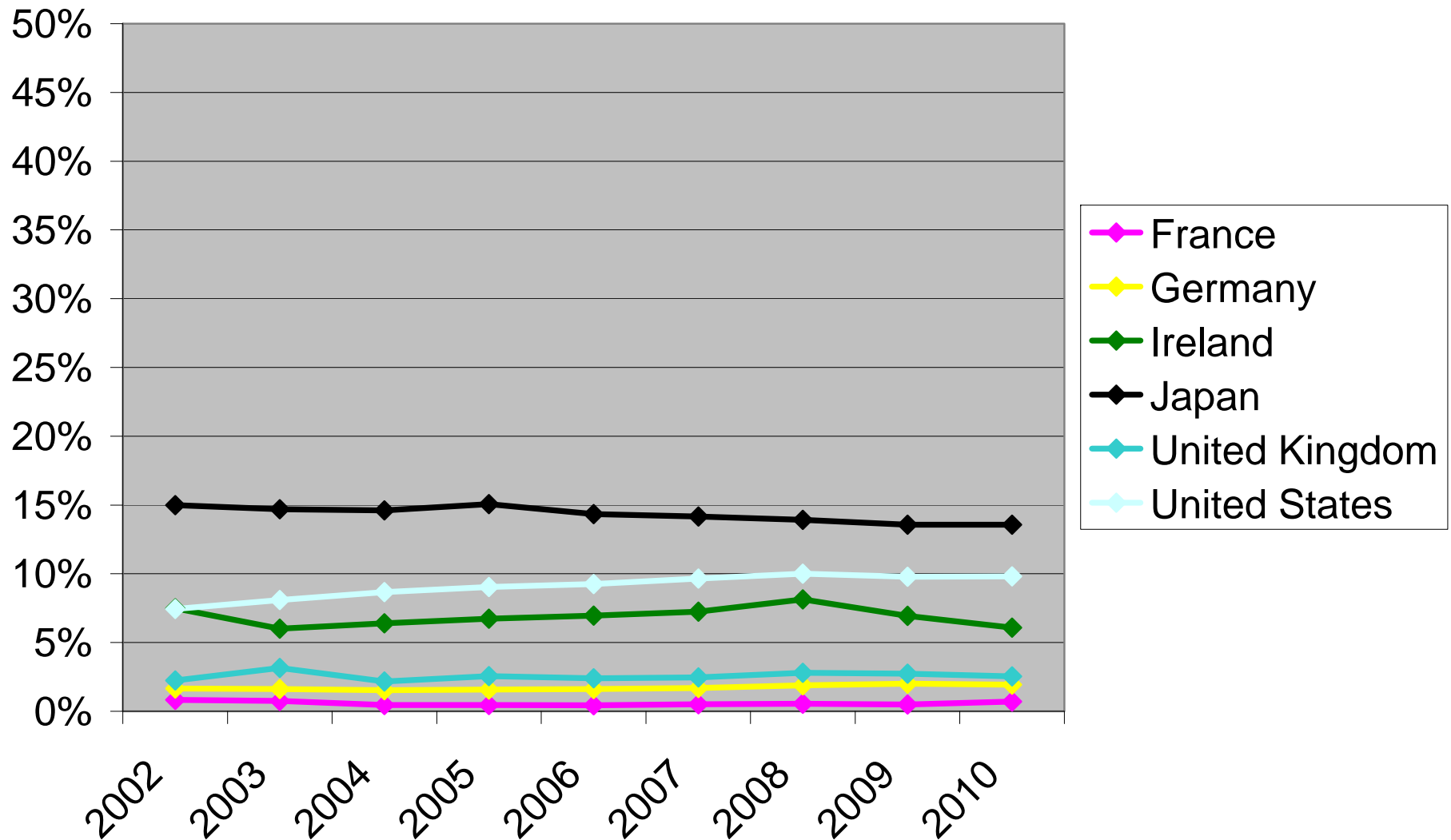
Labour force participation, age 65+

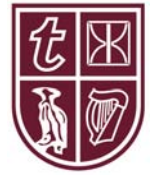


Labour force participation, age 65+, males



Labour force participation, age 75+, males





In 2010, total employment in Britain went up by 218,000 – of which 104,000 went to the over-65s

Some older workers...



Some older workers...



Some older workers...



1 March 2010

Oldest Practising Doctor - world record set by Dr Walter Watson

Dr Walter Watson has delivered 18,000 babies in his 100 years of life and still comes into the clinic regularly to see his patients.

6 December 1937

Last week Dr. William Moore Guilford celebrated his 105th birthday. He began practice in 1852 and is now the oldest U. S. doctor in point of service as well as of age.

Some older workers...



Sidney Prior retired from his job at B&Q at age 97 in November 2011. According to Mr. Prior: *“Working with people of all ages gives youngsters the chance to learn a little from an old timer like myself, and they help to keep me young at heart!”*

Employment law



- EU Framework Directive on Equal Treatment, 2000:
 - allows different treatment of workers based on age only so long as that treatment is *“objectively and reasonably justified by a legitimate aim and the means of achieving that aim are appropriate and necessary”*
 - Note ECJ rulings:
 - Rosenblatt, October 2010
 - Fuchs v Land Hessen, July 2011
- The Employment Equality Act 1998:
 - provides that Irish employers may set a compulsory retirement age of their choosing for their employees
 - No discussion to date of any change to require employers to allow employees to continue to work until the age at which they qualify for a state pension

International context



- UK:
 - Default Retirement Age abolished on 1 October 2011
 - Employment relations minister Ed Davey said it was important to remember that about two-thirds of employers already operated without fixed retirement ages – and many with retirement ages already offered flexibility for workers to work longer
 - Seldon v Clarkson, Wright and Jakes to be heard by the UK Supreme Court in 2012
- US
 - was one of the first countries to outlaw mandatory retirement (in 1986)
- Canada:
 - mandatory retirement abolished, province by province, between 1973 and 2009
- Australia:
 - mandatory retirement became illegal in 2004
- Sweden:
 - mandatory retirement before the age of 67 is illegal



Productivity and age

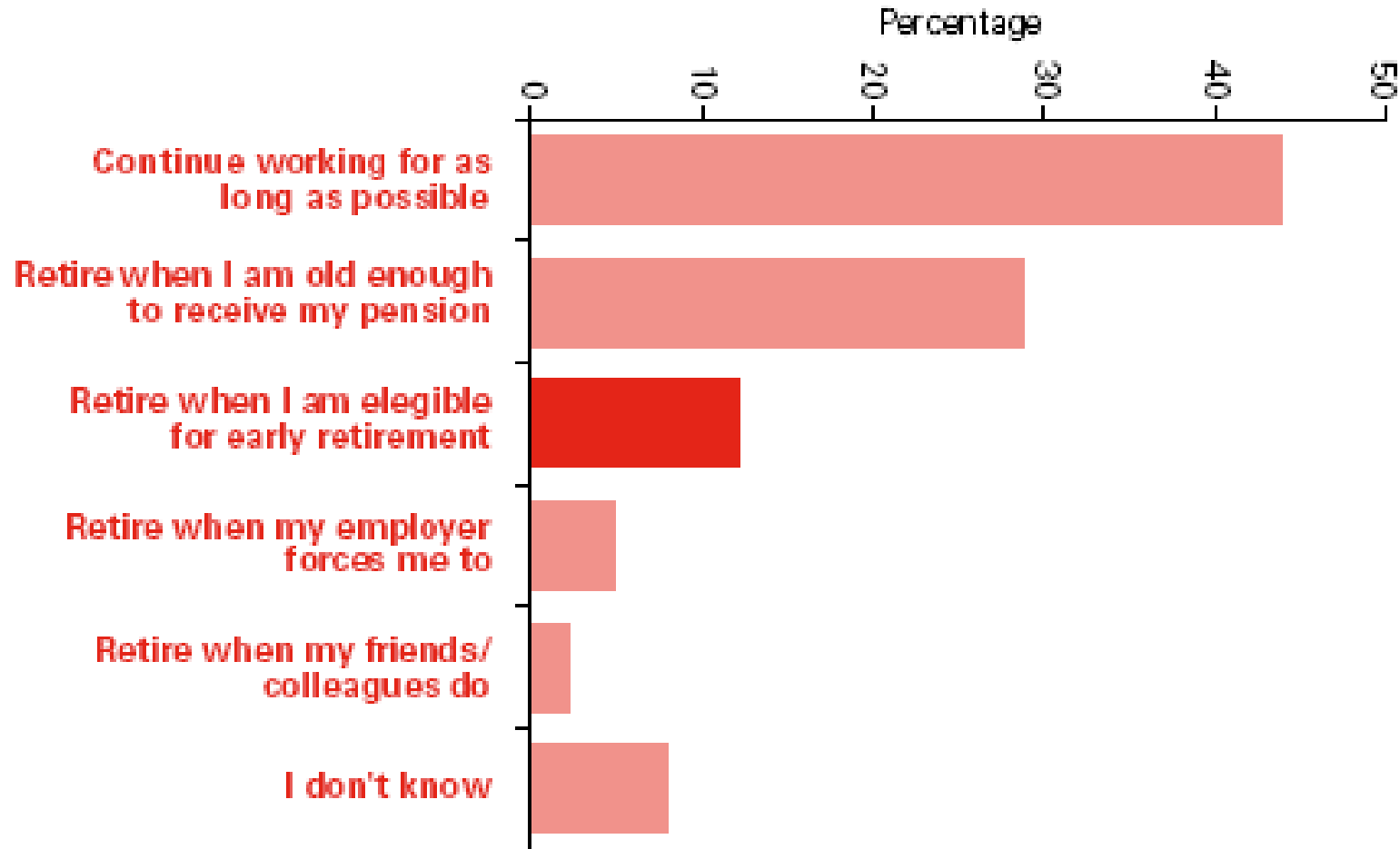
- A 2006 Finnish study found reduced productivity for plants with higher average seniority and experience, but only in the high-tech sector
- A 2006 Singapore-based study found higher levels of employee commitment and superior financial performance for firms with older workforces
- A recent University of Mannheim study found that older employees were more productive than their younger counterparts on a Mercedes assembly line:
 - *“Even in a work environment requiring substantial physical strength, [productivity's] decline with age is compensated by characteristics that appear to increase with age and are hard to measure directly, such as experience and the ability to operate well in a team when tense situations occur, typically when things go wrong and there is little time to fix them,”* the researchers noted.

Age and sickness



- Older workers may experience higher levels of occupational injury
- Older workers may experience higher levels of sickness absence than younger workers...but the data is mixed
- In mature economies, three-quarters of people in their 60s and two-thirds of people in their 70s feel in good or very good health (HSBC, 2007)
- Health care costs may be less for older workers, because most no longer have children as dependants
- A 2009 study by the Sloan Center on Aging and Work found older workers were more likely to be resilient and coped better than younger colleagues during economic downturns

What workers expect



HSBC Global study, 2007, workers currently aged 40-59



What workers expect and want

- Eurobarometer survey, published January 2012
 - A third of EU citizens want to continue working after they reach pensionable age
 - 65% of citizens would like to work part-time after reaching pensionable age
 - The average expected age of retirement is 62 (but 66 for those who are 55+ and 57 for those currently under 25)
 - 42% of citizens expect to be capable of working beyond age 65
 - Employees aged 55+ are perceived to be experienced and reliable, but less likely to be seen to be open to new ideas or up to date with new technology
- Mercer / Millward Browne survey, Ireland, 2010
 - 20% of respondents expected to retire later than age 65
 - Younger people wanted to retire at an earlier age than those who are getting closer to retirement (ideal age for those aged 35 – 44 is 57 on average, and for those aged 55 – 64 is age 63 on average)

The employer perspective



- 40% of employers worry that an ageing workforce will have a negative or very negative impact on their business (Sloan Centre on Ageing and Work)
- Only 14% of managers think their workplaces are prepared to cope with an ageing workforce
- *“Most companies are remarkably ill-prepared...the management literature on older workers is a mere molehill compared with the mountain devoted to recruiting and retaining the young.”* (The Economist, 7/4/2011)

Case studies: B&Q



- Focused its recruitment drive on the older generation in the late 1980s
- Reasoning that people aged 50 and over had valuable life skills and DIY experience
- In 1989, as an experiment, B&Q opened a store in Macclesfield staffed entirely by the over 50s
- An independent survey by Warwick University published two years later showed that the Macclesfield store's staff outperformed other stores in relation to customer service, short-term absenteeism, staff turnover and sales measures

Case studies: ASDA



WANTED

**ASDA is
looking for
workers in the
50-plus age
group**

Business benefits:

- Mirrors the business's customer base more closely, thus providing better customer service
- Professional and life experience shared with colleagues
- Continuity of staff and experience
- Extra flexibility
- Improved customer satisfaction survey results and staff satisfaction.

Options for older workers:

- One week unpaid leave for grandparent or carer duties
- 'Benidorm Leave' – up to three months unpaid leave
- 'Seasonal squad' – choose to work only during 10 busiest weeks of the year (Christmas, Easter)

Absenteeism has reduced to levels that are a third lower than the national average for this industry.

“Older Workers, Health and Employment”, Dame Carol Black, Department of Work and Pensions, 22/11/2011



Case studies: BMW

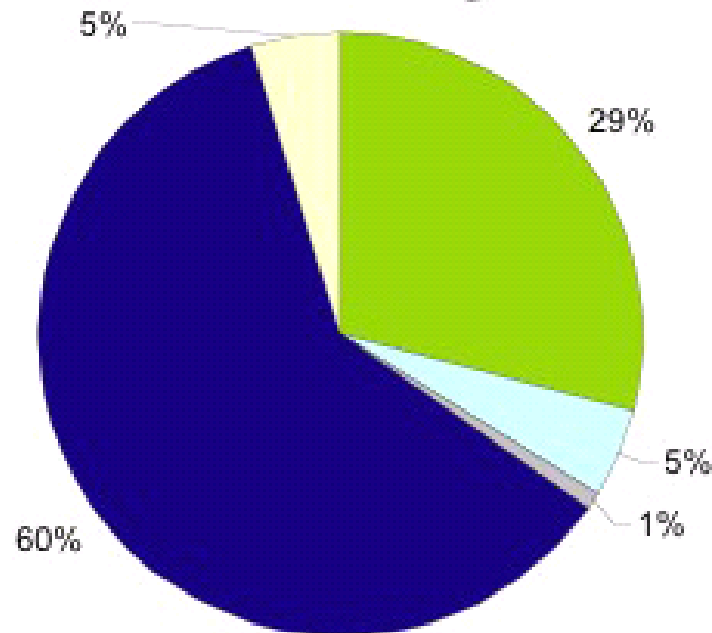
- A production line at a plant in Dingolfing has been adapted specifically with older workers in mind
- Facilities include ergonomic back supports, mobile tool-trolleys and enhanced lighting
- BMW plans to expand this model to 4,000 workers in different factory locations



Mercer survey, October 2011



Employer Response to Increases in State Retirement Age



- Will retain current contractual age at which employment terminates
- Will increase contractual age to match State Pension Age
- Have already amended new starter contracts to match future State Pension Age
- Have not yet considered this
- Other

Occupational pension schemes



- **Defined benefit schemes:**
 - Most defined benefit schemes are integrated with the state pension i.e. pensionable salary is salary less an offset in respect of the state pension.
 - Between the scheme's NRA and the new state pension age, members will receive only their company pension
 - Employers may come under pressure to provide a temporary supplement until the state pension comes into effect
 - Existing "bridging pension" arrangements need to be checked
 - Many employers are considering changes to defined benefit pension schemes in the context of current funding deficits: NRA could be increased to match the State Pension Age
- **Defined contribution schemes** have greater inherent flexibility
 - Research (Mercer, OECD) suggests that annuity purchase should be deferred until late life (age 80+)

The last word(s)...



“What, today, is retirement with a pension for? Is it a reward for past service; a much-anticipated long holiday for which one has saved; or a way of nudging those deemed “past it” out of mainstream life?

Most of us would agree that the essential ingredients of retirement on a pension are, first, to spare those who are made infirm by age the necessity to work; and, second, to provide a reasonable measure of security and comfort during the later stages of life. But businesses...see retirement as a management tool.

Pensions and working patterns need to be designed with much greater flexibility.... It is time to break free from the straitjacket of a fixed retirement age. ..simply scrapping it will raise challenges and require further changes. Bring them on.”

Tom Kirkwood, director of the Institute for Ageing and Health at Newcastle University & honorary actuary

3 August 2010

The last word(s)...



“There is no reason why people should not continue to work longer. And they should, otherwise the system will break down because there will be insufficient resources to look after people when they need it later on.”

4 March 2011