The Retirement Test: An International Study

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In a survey of more than 100 countries, it was found that over 80 percent of the social security systems have retirement test provisions. The number has been increasing.

Most of the more advanced countries permit some limited amount of earnings. A number of the older and more mature systems often have no earnings limitations for old-age pensioners. These systems also provide some of the highest replacement rates in the world so that they actually encourage the worker to withdraw from the labor force at the earliest possible age. Total withdrawal from covered or paid employment is required for receipt of a pension in most developing countries that have agricultural economies and relatively new pension systems or provident funds. Whether the country has a retirement test or not, the general pattern appears to be one of decreasing labor-force participation by those of retirement age.

THE SOCIAL SECURITY SYSTEM of the United States has had a retirement test since the Social Security Act was passed in 1935.[1] Continuing liberalization of the program over the years has increased the amount that retired pensioners are permitted to earn without reduction or suspension of their benefits.

Many proposals have been made in the last decade calling for further liberalization and in many cases for the abolition of the retirement test. It is estimated, however, that if the retirement test had been removed it would have cost the old-age and survivors insurance trust fund an additional $4 billion in 1973.

Since foreign developments in the social insurance field often provide a perspective for alternative solutions to domestic problems, research interest has turned to the international scene—particularly to the European countries with their mature social security systems.

This study was undertaken to provide background information on how foreign countries handle the question of concurrent receipt of earnings and a retirement benefit. Do foreign social insurance systems similar to ours also have retirement tests? Is the trend toward increased or decreased use of such tests? What are the patterns and rationales in the application of retirement tests, particularly in the industrial countries with advanced systems?

PREVALENCE OF RETIREMENT TESTS

In compiling information for this study, the social security provisions of more than 100 countries were examined. Generally speaking, there are four types of systems:

(1) *Social insurance systems* are financed by compulsory employer/employee/government contributions and pay earnings-related pensions to qualifying (by age and length of service) participants;

(2) *universal pension systems* are financed through general revenues and pay a basic flat-rate pension to all residents at a given age;

(3) *provident funds* are financed by compulsory matching contributions from employers and employees and pay a lump sum (the contributions plus accrued interest) upon retirement; and

(4) *social assistance systems* are financed by general revenues and pay means-tested pensions to persons meeting age and residency requirements.[2]

Some form of retirement test exists in more than 80 percent of the countries studied. The extent of withdrawal from the labor force that is required as a condition for receipt of a pension generally lessens with the age of the country's system and the degree of the economy's development. By and large, the developing countries with primarily agricultural economies and relatively new pension systems or provident funds require total withdrawal from covered employment. Most of the more advanced countries permit some limited amount of earnings. A number of the

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[1] The original legislation did not set a specific dollar amount for the retirement test but stated that monthly benefits were not payable for any month in which a worker received covered wages from "regular employment." In 1939—before the first benefits became payable in 1940—Congress amended the old-age program to permit limited monthly earnings ($14.99 or less) in covered employment. For a further discussion, see Wilbur J. Cohen, *Retirement Policies Under Social Security* (University of California Press, Berkeley), 1957.

[2] Social assistance systems are found in Australia, Maritius, Nauru, and the Republic of South Africa. These countries have been excluded from the analysis because their old-age pensions are strictly means-tested.

oldest and most advanced systems have no retirement test at all.

This pattern was not what was expected. It was anticipated that the retirement test would be more liberal in countries with relatively new social security systems paying low benefits because pensioners in these countries would need additional income merely to subsist. These countries, however, cannot afford the cost of paying pensions to people in the labor force.

At the other end of the scale, countries whose pensions provide the highest replacement rates in the world often have no limitations on earnings for old-age pensioners. There the pressures have been toward permitting the worker to withdraw from the labor force at the earliest age possible, not toward encouraging him to continue working (even though some of these countries suffer from labor shortages). In addition, new social insurance systems generally cover only a small percentage of the working population. Job opportunities for the retired worker, therefore, exist outside covered employment. In more mature systems virtually no employment is not covered.

Examination of foreign practices shows that there are three basic approaches to the extent to which earnings are permitted without some loss of benefits: The retirement test may permit full-time work or part-time work or require complete withdrawal from covered employment. Most social insurance systems that are financed through payroll contributions place some form of limitation on the earnings of a retiree. The universal benefit systems and a few of the social insurance systems usually allow full earnings. Many less developed countries, particularly those with provident funds, require full withdrawal from covered employment.

Even though they are permitted to work full time, the majority of pensioners under liberal social insurance systems choose not to do so, often because their retirement benefits are adequate. However, many retire early under programs that limit regular employment; others are affected by conditions for retirement found in their private pension plans.

PARTIAL LIMITATIONS ON RETIREMENT

Among the social insurance systems of the developed countries, the most common practice is to require substantial but not total retirement from covered employment. Retirement for this purpose is usually defined by a limitation on the amount of work that can be performed by the old-age pensioner without the loss of benefits. Chart 1 describes retirement test provisions found in social insurance systems requiring partial withdrawal from covered employment.

Originally, most old-age insurance systems paid benefits without reference to continued employment.[3] The earliest social insurance systems were an outgrowth of voluntary insurance companies and mutual aid and friendly societies.[4] Resting in part upon analogies with private insurance annuities, the old-age pension was regarded as a right earned through the payment of premiums, either by the insured or on his behalf. Since the benefits tended to be small, the worker often needed other sources of income. In practice, however, many workers were not able to continue on the job while receiving a pension because the retirement age was usually higher than it is today and life and work expectancies were lower.

The Czechoslovakian insurance program for wage earners was the only major European scheme before the mid-1930's in which old-age benefits were subject to a retirement test.[5] Pensions originally were paid only to those who no longer engaged in an insured occupation. Later the retirement test provision was modified and pensions were paid to those who, if they continued in their regular insured employment, were not earning more than one-half of their usual wage.

As the older European social insurance systems have evolved and as new social insurance programs have been implemented, a retirement test is increasingly used as a condition for receipt of an old-age pension. Although there does not appear to be any one underlying reason for incorporating a retirement test into pension legislation, a variety of factors—both philosophic and economic—have led to the imposition of restrictions on postretirement employment. Several countries subscribe to the theory that an old-age pension is intended to replace lost wages. The retirement test is used, therefore, to determine

[3] Margaret Grant, *Old-Age Security: Social and Financial Trends* (Committee on Social Security, Social Science Research Council, Washington), 1939.

[4] *Introduction to Social Security* (International Labor Office, Geneva), 1970.

[5] Margaret Grant, *op cit.*

whether or not the pensioner is retired—that is, whether or not there has been a loss of wages. This approach typifies the underlying philosophy of the social insurance programs of the United Kingdom (since the Beveridge Report of 1942) and the United States.

In some cases, the retirement test has been imposed for manpower reasons. During periods of unemployment, it has been contended that old-age benefits should be conditioned upon cessation of work and that older workers would thus be encouraged to leave the labor force to make room for younger workers. In the United States, for example, the problems of unemployment during

CHART 1.—Social insurance systems requiring partial withdrawal from covered employment, 1973

Country	Normal retirement age [1]	Conditions of retirement test
Albania	60(55)	Pension reduced by 60% if no retirement
Argentina	60(55)	Pension reduced to a maximum of 250 pesos a month if pensioner continues in gainful employment.
Austria	65(60)	Pension reduced by amount of concurrent wages above 2,500 schillings a month Unlimited income without reduction if 540 credited months of employment.
Belgium	65(60)	Benefit suspended if specified earnings or hours are exceeded For blue-collar workers, up to 270 hours a quarter are disregarded, for white-collar workers, up to 13,300 francs a month are disregarded Special exemptions for owners of small farms and those in casual employment.
Bolivia	55(50)	Pension suspended until age 65 for men or age 62 for women if earnings are above twice the minimum wage and reduced in part if earnings are between half and twice the minimum wage Unlimited earnings after age 65
Bulgaria	60(55)	Pension reduced by excess of current wages plus pension above 300 leva a month.
Colombia	60(55)	Pension reduced by amount that current earnings plus pension exceeds previous earnings
Czechoslovakia	60(53-57) [2]	Pension suspended if earnings exceed 1,000 crowns per month No retirement test for pensioners over age 65 (age 60 for women, miners, and aviators) Special exemptions for manual work in production, certain services and specified occupations, and casual and seasonal employment
Greece	62(57)	Pension suspended if earnings exceed 35 times the average daily wage of unskilled male workers
Hungary	60(55)	Hourly workers maximum of 840 hours a year before reduction in pension Employees paid by the job maximum of 9,000 forints before suspension of pension. Manual workers on agricultural collectives no limit on earnings Self-employed any employment results in suspension of pension.
Israel	65(60)	Income cannot exceed £6,000 per year for a single person or £8,000 for a couple No conditions after age 70 for men, age 65 for women
Italy	60(55)	Pensioners receiving minimum monthly pension may have earnings up to 100,000 lire a month without loss of pension Pensioners entitled to more than the minimum pension receive half the pension for earnings up to 100,000 lire. Pension is suspended for earnings above that amount
Jamaica	65(60)	Substantial retirement necessary between age 65 and age 70 for men (age 60 and age 65 for women). No retirement test after age 70 for men, age 65 for women.
Japan (employees' pension insurance) [3]	60(55)	Pension reduced by 20% if no retirement No retirement test after age 65 for men, age 60 for women.
Mexico	65	Pension plus earnings must equal less than earnings before retirement.
New Zealand (age pension) [4]	60	Income-tested benefit.
Philippines	60	Pension suspended if monthly earnings exceed 250 pesos No retirement test after age 65
Poland	65(60)	Limited earnings permitted. Exemptions made for various occupations and for casual and seasonal work.
Romania	60(55)	Pension suspended if no retirement Full pension plus salary payable in certain specified occupations, for half-time work, and for work lasting 4 or fewer months per year.
Syria	60	Pension reduced by amount that earnings plus pension exceeds previous earnings.
Union of Soviet Socialist Republics	60(55)	Pension suspended if concurrent earnings exceed 100 rubles per month No reduction for mining, agriculture, industrial labor, or certain service occupations Partial reduction for other occupations or in certain geographic areas In no case can pension plus wages exceed 300 rubles
United Kingdom	65(60)	Pension reduced by earnings above £9 50 per week, 5 pence for every 10 pence earned between £9 50 and £13 50, and 5 pence for every 5 pence earned above £13 50 No retirement test after age 70 for men, age 65 for women.
United States	65	Pension reduced by $1 for every $2 earned above $2,400 Pension payable regardless of annual earnings for any month earnings are less than $200 or nonsubstantial services were rendered in self-employment No retirement test after age 72

[1] If statutory retirement age for women differs from that for men, women's age is shown in parenthesis.
[2] Depends on number of children the woman has borne.
[3] See chart 2 for provision in national pension program
[4] See chart 2 for provision in superannuation program.

the depression of the 1930's were taken into consideration in formulating the retirement test provisions of the Social Security Act of 1935. Italy removed its retirement test from 1965 to 1967. In 1968 it was reimposed—partly for financial reasons, but also because in the years without a retirement test unemployment increased significantly among younger workers as older workers were reluctant to relinquish the economic advantage of having both a job and a pension.

Financial considerations may also be taken into account in implementing as well as in retaining a retirement test. As pension coverage becomes more universal and as benefits become higher, the social insurance funds can save substantial amounts by restricting or eliminating the payment of old-age pensions to workers who remain in full-time employment.

Retirement test legislation involves technical definitions of the nature of the retirement test itself and of the situations in which it applies or does not apply. These definitions spell out the amount of earnings or hours permitted before the retirement benefit is reduced or suspended. They specify what cash or in-kind remuneration is computed as income. They define the normal age at which the pension is granted and also provide for the application of the retirement test for those who claim a pension before that age. In many cases the retirement test is removed altogether for those who reach a specified advanced age.

Earnings Defined

Earnings for the purpose of the retirement test are defined as remuneration or profit from a gainful occupation. Income from nonwork sources such as savings, investments, insurance, or private pensions are, of course, not earnings and do not ordinarily affect benefit rights.

Earnings received in the form of tips or payments in kind may count toward the earnings ceiling. Remuneration in kind from employment arises mainly as free meals, free food, or produce. It can also include tools and uniforms, utilities, and the use of land. This type of remuneration is normally made to domestic workers, hotel employees, and agricultural laborers. Difficulties arise in attaching a value to such payments and in obtaining accurate details of the amounts from pensioners who may well regard the payments as a gift rather than remuneration.

The policy in the United Kingdom is to disregard payments-in-kind for the purpose of the retirement test to the extent that they have been disregarded for income-tax purposes. In some countries, a specified percentage of gross earnings can be calculated as remuneration in kind. In Belgium, for example, when total resources are calculated, remuneration in kind cannot exceed one-fifth of the total earnings or two-fifths if the employee is provided with a house or an apartment. The excess of payment in kind is then disregarded. For domestic workers and caretakers who are provided with full room and board in the employer's house, the value of the remuneration in kind cannot exceed the amount of cash remuneration.

Gross earnings rather than net earnings are usually used in the retirement test—that is, earnings are computed before taxes and include wages and generally overtime, bonuses, sick leave, and vacation pay. This is the situation in Canada, the Federal Republic of Germany (for the "flexible" old-age pension discussed below), and the United States. In Belgium, however, gross earnings do not include remuneration for sick leave or vacation pay. In the Soviet Union, gross pay excludes remuneration for overtime or special bonuses for overfulfillment of work norms.

The most noteworthy exception to the use of gross pay is the United Kingdom, where earnings are computed as net earnings. Gross earnings include wages, overtime, commissions, bonuses (other than Christmas bonuses up to £10—as of May 30, 1974, £1 equals $2.43), and any other remuneration from employment whether payment has been received or not. To arrive at net earnings, specified statutory deductions as well as reasonable expenses related to the job are deducted from gross earnings. The U.S. retirement test for self-employed persons also uses net earnings, defined as total gross income, as computed under the Federal income-tax law, less the deductions attributable to business expenses that have been allowed in computing the Federal income tax.

A separate earnings ceiling is usually applied to a dependent's benefit. Thus, only that part of the pension to which the dependent is entitled is affected by his earnings—the remaining basic pension of the insured is not affected. When the earnings of a dependent exceed the amount of the dependent's benefit, that benefit is usually suspended.

Limitations on Earnings

An earnings ceiling, in one form or another, is found in all social insurance systems that require partial withdrawal from the labor force for receipt of benefits. By and large, the earnings test aims at providing a ceiling on work income that is high enough to encourage the pensioner to supplement his old-age benefit but not so high that his work income and pension combined exceed the average wage of those still in the labor force.

Two basic techniques are used to establish the amount that an old-age pensioner may earn—the first relates to a pensioner's past earnings and the second establishes a fixed ceiling for all pensioners. A number of social insurance systems, primarily those in the developing countries, use the former. They stipulate that the earnings plus the retirement pension cannot exceed a stated percentage of preretirement earnings—usually 80 percent or 100 percent. In Colombia and Syria, for example, the pension plus earnings cannot exceed preretirement income. In other words, the beneficiary's income must be equitable with respect to the pay of a full-time employee who is still active in a similar job. This method permits an almost infinite variety of ceilings because the limit for each worker is different.

One of the more interesting examples of the use of percentages of former wages to determine the earnings limit has recently been implemented in Norway. The pension and earnings combined may not exceed 80 percent of past earnings. The individual, however, may determine the percentage of his pension that he wishes to receive, thereby giving him greater flexibility in determining how much he can earn without loss of the old-age pension. Between age 67 and age 70, the insured person can choose to draw a full pension, 75 percent, 50 percent, or 25 percent. Pension increments are then payable on that part of the pension not drawn until age 70 when the retirement test is no longer applicable.[6]

[6] See Leif Haanes-Olsen, "Lower Pensionable Age in Norway," *Social Security Bulletin*, January 1974.

The second method establishes a general ceiling for all beneficiaries. The amount earned below this ceiling is disregarded and has no influence on the size of the pension—that is, the worker can earn up to that amount and still receive the full old-age benefit. The actual ceiling varies so much from country to country that no meaningful comparison of levels can be made. Countries with earnings ceilings include Belgium, Canada, Italy, the United Kingdom, and the United States.

In addition to these two techniques for determining the amount of disregarded earnings, a variety of methods are used either to suspend or reduce the pension when the earnings exceed the specified limit. Earnings above the specified amount may result in the cancellation of the entire benefit in some countries—Belgium, Ireland, Israel, Italy, Norway, and the Soviet Union, for example. In such systems, the potential financial loss resulting from cancellation of the pension is so great that it tends to discourage earnings that are not far above the ceiling. It is to the pensioner's advantage to work only when his earnings are insignificant or else when they are so large—in effect from working full time—that the loss of the entire pension is not of importance.

The United States dealt with excess earnings in this manner between 1939 and 1960. Beneficiaries were permitted to earn up to a specified monthly amount in covered employment without any reduction in their pensions. If earnings exceeded this amount during any month, the entire benefit for that month was withheld.

In some countries, excessive earnings may result not in cancellation but in the reduction of the old-age pension. Two distinct types of reduction are possible: The pension is reduced by the amount that the pension and earnings exceed an established limit, or the pension is reduced by graduated steps on earnings that exceed the limit. In the first case, the amount of income available to the old-age pensioner obviously remains at a fixed level (although the individual components may differ). Such a system is applied to all pensioners regardless of the size of their benefit.

The second technique for limiting the earnings of working pensioners is to apply a graduated formula. Earnings up to a specified amount are allowed in full; earnings above this amount result in a graduated reduction of the pension—either one-step or two-step. Both the United States and the United Kingdom have set a ceiling on the amount of earnings not affecting the size of the old-age benefit. Both countries also provide for graduated reductions when earnings exceed the established ceiling. In the United Kingdom it is a two-step reduction and in the United States, since 1973, it is a one-step reduction.

In the United Kingdom net earnings in the preceding week[7] of up to £9.50 are exempt from the earnings test. Earnings higher than this amount reduce the retirement pension as follows: 5 pence for each complete 10 pence earned between £9.50 and £13.50; and 5 pence for each complete 5 pence over £13.50. This second adjustment is equal to the whole of the excess—one shilling of pension is withheld for each shilling earned.

In the United States, annual earnings up to $2,400 are exempt from the retirement test. A beneficiary who earns more than $2,400 in a year loses $1 in benefits for each $2 in earnings above the exempt amount.[8]

Time Limitations

In some countries—such as Belgium, Czechoslovakia, West Germany (Federal Republic), Hungary, Romania, and the United States—a limited but specified number of hours or days of work does not bar the payment of a full pension. In theory, the amount of income earned is not considered; in practice, however, unusually high earnings may lead to a reduction in benefits.

Using the amount of time spent working as a determinant of retirement came about because in some areas of economic activity it is not possible to measure retirement in terms of income. This is true for casual and temporary work, agriculture, and self-employment. In such activities it is difficult to keep records and the amount of pay received does not always provide an effective measure of the degree of retirement.

In the United States, a time test applies to self-employed pensioners and to beneficiaries who work outside the United States in noncovered employment. The self-employed generally receive full benefits if they spend less than 45 hours a month on business. Specifically, less than 15 hours a month is never considered substantial employment; between 15 and 45 hours a month is generally not considered substantial employment unless the retiree performs highly valuable services; and more than 45 hours a month is considered substantial employment unless it can be proved that the services performed were not substantial despite the amount of time spent. A beneficiary who works outside the United States in noncovered employment is presumed retired if he works 6 or fewer days in a month. He receives no benefits for any months in which he works 7 or more days.

In West Germany, an hourly limit on work has been made an alternate condition for receiving a flexible old-age pension at age 63 or 64.[9] The old-age benefit is normally received at age 65, and no retirement conditions are attached to its receipt at that age. Under the flexible old-age pension program, effective January 1, 1973, an insured person with 35 years of contributions who chooses to draw his old-age pension at either age 63 or 64 can continue in employment only to a limited extent without loss of his benefit. Employment or gainful activity is permitted up to a maximum of 3 months or 75 working days in any single year. When employment exceeds this limit, the old-age pension is suspended.

Age As A Factor

The age of the retiree can enter into the retirement test in a number of ways: (1) the retirement test may be removed entirely for beneficiaries who are above some specified age; (2) the retirement test may be added in the process of lowering the statutory retirement age; (3) workers with unusually long work histories in covered employment may be exempt from the

[7] A monthly earnings ceiling has been proposed but not adopted. This type of ceiling would favor such occupational groups as entertainers, authors, and consultants who often receive their annual earnings in one or two payments.

[8] Benefits are payable regardless of annual earnings for any month in which the beneficiary earns $200 or less in wages and does not render substantial services in self-employment. This type of provision appears to be unique to the United States.

[9] The earnings limitation is 30 percent of the contribution base. In 1973 it was DM 690 a month (as of May 30, 1974, 1 DM equals 40 cents). See Gisela C. Wang, "Flexible Retirement Feature of German Pension Reform," *Social Security Bulletin*, July 1973.

conditions of the retirement test altogether; and (4) the retirement test provisions for early retirees may differ from those for "regular age" retirees.

Advanced age.—Although earnings and employment limitations generally apply from the award of the pension throughout the duration of its payment, a number of programs lift the retirement test when the beneficiary has reached an advanced age—usually 5 years after the statutory retirement age, although it may be 2–10 years later. In effect, then, the old-age retirement benefit that is subject to the conditions of a retirement test becomes an annuity at the specified advanced age with no conditions attached to its receipt. Some of the countries that eliminate the retirement test after a certain age are shown below.

Country	Normal retirement age	Retirement test eliminated at age—
Bolivia	55(50)	65 (62)
Canada	65	70
Czechoslovakia	60 (53–57[2])	65 (60)
Dominican Republic	60	65
Ireland	65	70
Israel	65(60)	70(65)
Jamaica	65(60)	70(65)
Japan (employees' pension insurance)	60(55)	65(60)
Nicaragua	60	65
Philippines	60	65
Portugal	65(62)	70
United Kingdom	65(60)	70(65)
United States	65	72

[1] If statutory retirement age for women differs from that for men, women's age is shown in parenthesis

[2] Depends on number of children the woman has borne

By and large, comparatively few persons continue to work regularly at substantial wages when they reach an advanced age. Without this provision, however, certain people might never get any benefits even though they had paid contributions longer than most beneficiaries. The removal of earnings limitations has particular significance for the self-employed and for others engaged in occupations in which retirement is customarily deferred to an advanced age.

Lowering of the statutory retirement age.—If a country lowers the retirement age, it is likely to impose new restrictions on earnings and employment. In Ireland, for example, the statutory retirement age for a full pension used to be age 70. No limitations were placed on the pension at that age. The retirement age was unusually high and few persons were willing or able to continue in the labor force until age 70. In 1971 the normal retirement age was lowered to age 65. In order to receive a pension, a person now must withdraw from insured employment between age 65 and age 70. An insured person can still receive his pension at age 70 without stipulations on earnings or employment—as before—but, if he wants to retire at an earlier age, he must withdraw from the labor force.

In Norway, both the universal pension and the earnings-related supplementary pension have been payable at age 70 and retirement has been unnecessary. Effective January 1973, the Norwegian statutory retirement age was lowered to 67 and a retirement test was imposed between age 67 and age 70. Norway was the last of the Scandinavian countries to retain the relatively high retirement age of 70. Denmark and Sweden had already instituted a statutory retirement age of 67 with no retirement test. Finland permits retirement at age 65 with a retirement test for the social insurance pension but with none for the universal pension.

Long work histories.—In 1972, Austria eliminated the retirement test for those with long work histories in covered employment. Insured persons with 45 years of contributions are now entitled to pensions and are permitted unlimited earnings at the normal retirement age of 65. Since Austria includes time spent in unemployment, higher education, apprenticeship, and wartime service as periods of contribution, it seems likely that most wage and salary workers who choose to retire at age 65 will be able to fulfill the 45-years-of-contribution requirement. As a consequence, the retirement test has been eliminated for virtually all workers. It still remains, however, for those who retire with at least 35 years of contributions at either age 65 with a full benefit or at age 60 with a reduced benefit.

Early retirement.—Retirement test provisions for early retirement with a reduced pension may be the same or they may be more strict than those regulations limiting earnings at the statutory retirement age. In Canada (under the social insurance pension) and in the United States, the amount of earnings permitted an old-age pensioner at age 60 and age 62, respectively, is the same as is permitted at age 65, even though the benefit is actuarially reduced. In Austria, however, the earnings ceiling for those seeking early retirement between age 60 and age 65 is considerably more restrictive. The early retirement pensioner is permitted to earn up to 900 schillings a month (as of May 30, 1974, 1 schilling equals 6½ cents)—less than half the 2,500 schillings a month that can be earned by an old-age pensioner at age 65. Before 1972, an insured person drawing a reduced pension between age 60 and age 65 lost his pension if he became gainfully employed.

NO LIMITATIONS ON RETIREMENT

As indicated earlier, the great majority of social insurance systems do have a retirement test. A few social insurance systems, however, as well as most of the universal pension systems, do not. Chart 2 shows a listing of social insurance systems with no retirement test. An examination of several of the important exceptions can serve to explain the reasons for the absence of a work limitation and to show the circumstances that, in practice, complicate the right of old-age beneficiaries to work.

Social Insurance in France and West Germany

Under the social insurance systems of West Germany and France, a beneficiary of a regular old-age pension is permited to continue working regardless of the number of hours or the amount of earnings without a loss or reduction of his benefit. In France, the original social insurance benefit was small. The present system, set up in 1930, required 30 years to mature. For most of these years it was not possible to receive a full pension. Since a reduced pension was not adequate to the retirement needs of beneficiaries, no restrictions were placed on the earnings of old-age pensioners.

German culture has always emphasized the virtue of long labor. This focus is reflected in a benefit formula that is based in part on the number of years worked—each additional year of contributions adds an increment to the amount of the pension. In line with this encouragement to work, the pension is not reduced because of earnings if the pensioner remains in the labor force.

The old-age pension in West Germany has recently been improved, and the amount of the benefit is now considered to be more equitable in relation to former earnings and the financial needs of the recipients. In France, a very substantial percentage of retirees are being given an additional means-tested benefit to supplement their old-age pension. In neither country has the increase in old-age benefits brought about a movement to impose a retirement test.

CHART 2.—Social insurance systems with no retirement test, 1973

Country	Normal retirement age [1]
Algeria	60
Brazil	65(60)
Burundi	55
Chile (wage earners)[2]	65(55)
Cyprus	65
Ecuador	65[3]
France	60[4]
Germany, Democratic Republic of	65(60)
Germany, Federal Republic of	65(60)[5]
Guyana	65
Japan (national pension program)[6]	65
Luxembourg	65(60)[7]
Malta	65(60)
Netherlands	65
New Zealand (superannuation pension)[8]	65
Panama	60(55)
Paraguay	60
Switzerland	65(62)
Venezuela	60(55)

[1] If statutory retirement age for women differs from that for men, women's age is shown in parenthesis

[2] See chart 4 for provision in salaried employees' program.

[3] Age 55 with 30 years of contributions, age 60 with 25 years, age 65 with 15 years, and age 70 with 10 years

[4] Retirement at age 60 permitted with 34 years of coverage.

[5] For flexible old-age pension payable at age 63–65, partial withdrawal from the labor force required.

[6] See chart 1 for provision in employees' pension insurance

[7] Full retirement is necessary for men if pension is drawn before age 65

[8] See chart 1 for provision in old-age pension program

Complicating Programs

Early retirement programs.—Although there is no retirement test to discourage working past the statutory retirement age, workers in West Germany and France not only withdraw from the labor force as soon as legally possible but they have been actively seeking an earlier, more flexible retirement age. Early retirement programs in both countries require partial or total withdrawal from the labor force.

Surveys and various debates in these and other developed countries show that many persons choose to stop work at an earlier age because of an inability to cope with increasing job requirements, ill health, disability, or an increased desire for leisure, or because they have already been working for perhaps 40 years or more. In particular, the early retirement of many older workers appears to stem from their inability to keep up with the technological advance of modern industrial society. Displaced from their regular trades, many have become unemployed or have had to shift to jobs with lower pay or status.

From the point of view of social security, the older unemployed worker falls between two programs—unemployment compensation and old-age pensions—and may be eligible for neither. The regular unemployment insurance program usually limits the duration of compensation to some specific period, such as 6 or 12 months. Once these payments expire, the worker cannot yet collect a retirement benefit in most countries unless special provisions are made for him. Such special provisions occur in a number of systems and may take the form of extending unemployment benefits until age 65, converting them to old-age pensions after a certain number of months of unemployment beyond age 60, or simply permitting early retirement with a reduction in benefits. Under these special provisions, however, regular employment is no longer permitted.

For example, unemployment insurance in France, as it applies to workers aged 60–65, has come to be considered as an early retirement plan. Regular unemployment benefits are payable for 9 months, but benefits can be paid to unemployed older workers up to 5 years—that is, until age 65 when the benefit is converted into an old-age pension. Although technically it is possible to receive an old-age pension at age 60, the amount is relatively small and most people prefer to put off retirement until age 65.

In West Germany a "premature" old-age pension is also payable to insured unemployed persons between age 60 and age 65 if they have been unemployed for a period of at least 52 weeks within the past 18 months. This long-term unemployment benefit is calculated as if it were an old-age pension. Unlike the regular old-age pension, the benefit is discontinued if the beneficiary returns to regular work. The beneficiary may, however, do part-time or casual work. (In 1973 a beneficiary was considered unemployed if his income was less than DM 257.60 a month or if casual work did not exceed 3 months or 75 days a year.)

The retirement test is involved in a complicated way in a second type of early retirement program in West Germany—the "flexible" old-age pension. The new pension provision, effective in 1973, gives a worker with 35 years of contributions the option of retiring at age 65—with the regular old-age pension[10] and unlimited earnings—or retiring between age 63 and age 65—if his earnings are below DM 690 per month.[11] The original legislation did not provide for an earnings limitation for early retirement. So many eligible persons applied for the pension, however, that financial considerations forced the law to be amended in March 1973. Like the regular old-age pension payable at age 65, the amount of the flexible old-age pension is based on a complex formula that takes into consideration the number and the size of the contributions paid.

In spite of the employment restrictions on early retirement and in spite of built-in incentives for able workers to remain on the job until age 65 and beyond, German planners have estimated that approximately two-thirds of those who become eligible for retirement at age 63 (about 335,000 in 1973, by 1985 about 1.7 million) will claim their pension. It is not expected that these pensioners would return to the labor force at age 65 when a full pension and wages can be held concurrently after an absence of 2 years from regular employment.

Disability is one of the main causes of early retirement in some countries. Disability provisions, however, limit the employment income of beneficiaries.[12] In France an estimated one-third of those retiring before age 65 do so for disability reasons. Although the disability pension is converted to an old-age pension at age 60,[13] those whose pension was originally attributed to disability are subject to a retirement test until the customary retirement age of 65. It is highly unlikely that these pensioners, who originally left the labor force for reasons of ill health and who have been permitted only limited earnings

[10] The regular old-age pension payable at age 65 requires only 15 years of contributions.

[11] Severely disabled persons with 35 years of insurance can claim the flexible old-age pension at age 62. Recipients of the "premature" old-age pension can convert to the flexible old-age pension at age 63 if they have the required 35 years of coverage.

[12] A comparative analysis of retirement test provisions as they relate to disability pensions has not been undertaken for this study, but mentioning them is helpful in understanding the operation of the retirement test and the regular old-age pension.

[13] The amount of the disability pension received at age 60 is based on the amount of work incapacity, but it is generally higher than the old-age pension received at that age since the incapacity pension is calculated as if the beneficiary were aged 65 rather than 60.

for a 5-year period, would be able to return to work or would even be able to find suitable employment at age 65.

In summary, then, countries with no retirement test in their regular pension program often restrict the earnings of beneficiaries who are drawing an early retirement benefit under one program or another. This restriction has significance when a large percentage of the labor force retires before the normal retirement age.

Private pension plans.—The provisions of private pension programs can also limit the amount a pensioner may earn—even in countries where there are no restrictions on the receipt of the regular old-age pension. In France, for example, the mandatory[14] retirement provisions of private pension plans discourage older workers from continuing labor-force participation. France has a broad system of private pension coverage that encompasses about 80 percent of the wage and salary earners in the private sector. These plans, unlike the social security system, are restrictive and do not permit a pensioner to continue working full-time within the same private pension system. Since these plans tend to insure the majority of workers in a given occupation rather than in a specific factory, the pensioner has virtually no job opportunities in his occupational field that would not result in the loss of his pension.

Similarly, in Sweden wage and salary earners are covered by national collective agreements on private pensions. A worker must retire to receive a private pension, even though there is no retirement test for either the universal pension or the earnings-related pension.

In Switzerland, a compulsory private pension plan goes into effect after 1975. The payment of private pension benefits will depend on retirement even though the social insurance pension does not.

Universal Pension Systems

The universal systems—those providing benefits to all qualified residents—do not usually limit earnings of beneficiaries. These programs ordinarily provide flat-rate benefits to all who fulfill

CHART 3.—Conditions of retirement in countries with universal pension systems, 1973

Country	Normal retirement age[1]	Conditions of retirement test
Canada	65	Universal pension No retirement test.
	65	Social insurance pension. Pension reduced by earnings above $960 a year ($80 a month); 50 cents for each $1 between $960 and $1,600, $1 for each $1 above $1,600 No retirement test after age 70
Denmark	67(62)	Universal pension· No retirement test
	67	Social insurance pension No retirement test.
Finland	65	Universal pension No retirement test, but means-tested pension components decrease when earnings exceed given limit
	65	Social insurance pension Retirement necessary
Iceland	67	Universal pension: No retirement test.
Norway	67	Universal pension and social insurance pension Combination of pensions and earnings cannot exceed 80% of past earnings Insured persons can choose to draw full, 75%, 50%, or 25% pension with increments payable on that part of the pension not drawn No retirement test after age 70
Sweden	67	Universal pension No retirement test.
	67	Social insurance pension. No retirement test.

[1] If statutory retirement age for women differs from that for men, women's age is shown in parenthesis.

the age and residency requirements. Canada, Denmark, Finland, Iceland, Norway, and Sweden have universal pension systems along with social insurance pensions. Chart 3 gives detailed information on the retirement provisions in these countries.

In the past, most of the countries with universal flat-rate pensions found that the pension was inadequate for the poor and represented little return for the average worker. They introduced, therefore, an earnings-related social insurance pension on top of the universal system. These second layers in some cases had no retirement tests, since the basic philosophy carried over from the universal system. In the Scandinavian countries, where universal systems are generally found, the retirement age used to be higher than in the rest of Europe—often age 70, compared with age 65. When workers reached that age, few continued to work and the need for any limitation was therefore academic.

SYSTEMS REQUIRING TOTAL RETIREMENT

Total withdrawal from covered employment as a condition for receiving an old-age benefit is most commonly found in the social security systems of the developing countries, where the philosophy is that the old-age benefit is intended to

[14] Although these pension plans are negotiated privately, they are imposed by law for all workers in a given occupation. The normal retirement age under French private pension plans is 65.

replace lost wages.[15] In addition, a major concern in these systems is the additional financial burden of paying an annuity to workers who continue in employment. Some of the social insurance systems requiring total withdrawal from employment are shown in chart 4.

Those countries that require total withdrawal from covered employment have primarily agrarian economies with extensive unemployment and underemployment. By and large, their social insurance systems cover a relatively small percentage of the labor force—usually concentrated in the industrial and commercial sectors. Because the number of jobs in covered employment is so small, the pensioner has ample opportunity for employment in the rest of the economy without a reduction or suspension of his pension.

[15] A number of social insurance systems specify that the worker must withdraw from "paid" employment as contrasted with "covered" employment. This requirement is difficult to administer (especially in developing countries where the social security systems may lack the financial resources as well as the manpower to enforce it) and, as a consequence, it may not be a very effective condition.

CHART 4.—Social insurance systems requiring total withdrawal from covered or paid employment, 1973

Country	Normal retirement age [1]
Barbados	65
Cameroon	60
Central African Republic	55 (50)
Chile (salaried employees)[2]	65 (55)
China, People's Republic of	60 (50–55)[3]
Congo (Brazzaville)	55
Costa Rica	65 [4]
Cuba	60 (55)
Dahomey	55
Dominican Republic	60 [5]
Egypt	60
El Salvador	65 (60)
Gabon	55
Guatemala	65 [6]
Guinea	55
Haiti	55
Honduras	65 (60)
Iran	60 (55)
Iraq	60 (55)
Ireland	65 [7]
Ivory Coast	55
Libya	60
Malagasy Republic	60 (55)
Mali	55
Mauritania	60 (55)
Morocco	60
Nicaragua	60 [5]
Niger	60
Peru	60 (55)
Portugal	65 (62) [7]
Rwandi	55
Saudi Arabia	60
Spain	65
Togo	55
Trinidad and Tobago	65
Tunisia	60
Turkey	55 (50)
Upper Volta	55
Uruguay	50 [8]
Vietnam, North	60 (55)
Yugoslavia	60 (55)
Zaire	56

[1] If statutory retirement age for women differs from that for men, women's age is shown in parenthesis.
[2] See chart 2 for provision in wage earners' program.
[3] Salaried women, age 55; other women, age 50.
[4] Age 65 with 120 credited months or age 60 with 300 credited months.
[5] No retirement test after age 65.
[6] Coverage currently limited to employees of the Social Security Institute.
[7] No retirement test after age 70
[8] Men need 30 years of contributions; women need 25 years.

Several countries have separate retirement systems for special groups of workers. These retirement plans usually cover a relatively small percentage of the labor force so that many other jobs are open to the pensioner. Civil servants are the most common group of workers to be covered by special retirement plans in the developing as well as the developed countries. Special systems also exist for farmers, teachers, military personnel, miners, railway employees, the liberal professions, and rural workers.

A significant number of provident funds or lump-sum benefit systems have been established in the English-speaking developing countries. With few exceptions, they require retirement from covered employment as a condition for receiving the old-age pension (chart 5). The effect of this regulation on the actual withdrawal of the worker from the labor force, however, is not very easily determined. No legal or administrative impediments prohibit the worker from quitting his job, collecting his lump-sum payment, and returning to work. Since many countries do not require the payment of contributions for workers who have passed the statutory retirement age, one might assume that employers would not hesitate in hiring older workers (especially those with skills) as their labor costs would be lower.

POLICY CONSIDERATIONS AND MANPOWER NEEDS

The administration of a retirement test has ramifications beyond the purely social insurance considerations already discussed. Policymakers have to consider the effect that establishing, maintaining, or abolishing the retirement test will have on other programs and, conversely, the effect that other programs will have on the retirement test. One such policy consideration bears further examination—the extent to which the retirement test is used as an instrument of manpower policy, either to increase or reduce the number of older workers employed in specified occupations or economic sectors.

CHART 5.—Conditions of retirement in provident funds and lump-sum benefit systems, 1973

Country	Normal retirement age [1]	Conditions of retirement test
China, Republic of.	60	Retirement from covered employment.
Fiji	55	Retirement from covered employment or permanent emigration.
Ghana	55(50)	Retirement from covered employment or permanent emigration
India	55	Retirement from covered employment, permanent emigration, or out of covered employment 1 year (full employer contribution payable in latter case if 15 years of contributions)
Kenya	60	Substantial retirement from regular employment or permanent emigration Early retirement at age 55 if out of insured employment 1 year
Lebanon [2]	60(55)	Retirement necessary. Pension payable to any age with 20 years of employment. Pension payable to women who leave employment to marry.
Malaysia	55	Retirement from employment or permanent emigration
Nigeria	55	Retirement from regular employment or permanent emigration
Singapore	55	Retirement from employment or permanent emigration.
Sri Lanka	55(50)	Retirement from covered employment or permanent emigration Pension payable to women who leave employment to marry.
Tanzania	55	Retirement from regular employment or permanent emigration. Pension payable to women who leave employment to marry or bear a child.
Uganda	50	Retirement from full-time insured employment Pension payable at age 45 if out of insured employment 1 year, or at any age if permanent emigration
Zambia	45	Retirement from regular employment Pension payable at age 50 without retirement or at any age if permanent emigration.

[1] If statutory retirement age for women differs from that for men, women's age is shown in parenthesis

[2] Employer contributes only to the lump-sum benefit system

Regardless of whether a social insurance system requires total or partial withdrawal of pensioners from the labor force or imposes no limitations on work, the effect of the pensioner's labor-force participation on the economy as a whole is often taken into consideration in formulating a retirement test. In a number of countries, the original retirement test has later been modified to be used purely as a tool of economic planning—a manpower tool—to regulate the supply of labor in certain economic sectors. From this point of view, retirement tests have been amended with two purposes in mind: To provide incentives to old-age pensioners to continue in or to enter certain occupations with labor shortages, or to encourage workers of retirement age to leave a particular occupation or industry with labor surpluses.

Manpower Shortages

During manpower shortages, the conditions under which a job and a pension can be combined may be relaxed. Countries with planned economies—the Communist countries in particular—have amended their retirement tests to encourage pensioners to return to the labor force.[16] Under the social insurance systems of the Communist countries, as under many in the West, the pension is not payable in principle to a person who continues in regular employment. In practice, however, varying amounts of work are permitted: (1) A limited amount of earnings is disregarded for all pensioners (partial withdrawal), (2) exemptions may be given to pensioners who perform seasonal work, and (3) larger amounts of earnings are disregarded for pensioners who work in specified economic sectors, occupations, or geographic areas experiencing manpower shortages. This third provision appears to be unique to the Communist countries.

In the first case, the Soviet Union, Bulgaria, Poland, and Czechoslovakia disregard a specified amount of monthly earnings. Earnings above these amounts may result in suspension or reduction of the old-age pension, depending on the particular legislation of the country. In this respect the application of the retirement test and its underlying philosophy are identical for the Communist countries and the West.

Both types of systems also provide special exemptions for pensioners employed in casual or temporary work. These exemptions are time limitations rather than earnings limitations. In countries with manpower shortages, old-age pensioners often fill peak seasonal labor demands that were formerly met by the pool of unemployed and underemployed. In Czechoslovakia, for example, old-age pensioners are entitled to their full benefits if they are employed in casual or seasonal work: casual work is liberally defined as work up to 180 days (120 in administrative work) per year provided that 14 days have elapsed between the

[16] See Paul Fisher, "Developments and Trends in Social Security, 1967–69," *International Social Security Review*, No. 1, 1971.

last employment and the temporary or casual work.

In addition, the Communist countries have a higher earnings ceiling for pensioners who are willing to work in occupations with skill shortages or in less desirable geographic areas. The amount of the wages permitted depends on the need for that particular skill. For occupations where shortages are the most critical, pensioners can usually keep their entire pension, subject to a relatively high ceiling. Occupations with critical shortages usually include agriculture and industrial (blue-collar) jobs, and they often take in the medical and teaching professions as well. Needless to say, the exemption is a rather large economic incentive, as a pensioner in full-time employment can earn significantly more than his younger, nonretired counterpart.

In other occupations, where the shortages are less acute, pensioners can retain a specified percentage of their pension regardless of the amount of earnings. In the Soviet Union, where no reduction is made in the old-age benefit if the pensioner is employed in mining, agriculture, or industrial labor or in specified service occupations (medical and educational), a 50-percent reduction is made for other specified occupations. A 25-percent reduction is made for pensioners who work in the Urals, Siberia, or the Far East.

The occupations favored by exemptions to the retirement test tend to change as the needs of the economy change. In Czechoslovakia, for instance, special exemptions have been made in the past for those who worked in agriculture, forestry, certain specified jobs in the building industry, and civil engineering. In 1971, industrial workers, factory policemen, and maintenance men were encouraged to return to the labor force after retirement.

By and large in the Communist countries, old-age pensioners who perform managerial work or who are proprietors are specifically excluded from these exemptions. They lose their pensions if their income exceeds the relatively low earnings ceiling available to all pensioners.

Although these liberalizations appear to have encouraged pensioners to return to the labor force, official statistics on their labor-force participation rates are not readily available. According to Soviet sources, periodic liberalizations of the retirement test have left virtually no one in the country subject to the relatively strict regulations that prevailed before 1964.[17] The percentage of working old-age pensioners has increased from an estimated 9 percent in 1963 to 12 percent in 1969. This proportion does not include pensioners working in the private agricultural sector, who would raise it significantly.

Czechoslovakian sources indicate, however, that pensioners are reluctant to enter the more demanding industrial jobs that involve a greater physical and emotional commitment. They prefer temporary and casual work even though the legal provisions[18] have been designed to encourage them to enter specified occupations with manpower shortages.

Manpower Surpluses

The retirement test approach has also been used to discourage continued employment in a specified economic sector. In agriculture, for example, the goal has been to promote greater efficiency and reduce the number of agricultural workers. This goal has been reached, partly through retirement provisions of farmers' pension plans that may require a farmer either to give up his land or to cease full-time activity as a farmer in order to receive an old-age pension. In some cases, the pension is a special supplemental pension; in others, it is the basic old-age pension.[19]

The basic objective of these plans is to induce the farmer to stop working at the pensionable age and hand over the running of his farm to a younger person. The uniform requirement in these countries is the cessation of farming—either by surrendering all or part of the land, or by withdrawing from active labor-force participation as a farmer. Essentially both these devices encourage the farmer to step out of the labor force. This

[17] Murray Feshbach, *Manpower Trends in the U.S.S.R.: 1950–1980* (Foreign Demographic Analysis Division, Bureau of the Census, U.S. Department of Commerce), May 1971.

[18] A full pension (subject to a maximum of 1,000 crowns a month—as of March 31, 1974, $1 equals 12.34 crowns) is payable to pensioners employed in specified occupations. A pension reduced by 50 percent is payable to employees who decrease their working hours and consequently their remuneration by one-third.

[19] See Dalmer D. Hoskins, "Special Retirement Programs for Farmers: New Japanese Law," *Social Security Bulletin*, October 1971.

use of the retirement test—or more properly retirement inducement—to improve the productive efficiency of farming by discouraging small-scale farming is found in several of the European countries and Japan. In France, Poland, and Japan, for example, eligibility for the pension depends on selling or transferring the land (to the state in France and Poland and to private purchasers in Japan). In Austria, Finland, and West Germany, on the other hand, the farmer is only required to retire from active participation in farm management to receive his benefit.

The importance of this benefit to the farmer may vary, depending on whether or not other pensions are available to him. These farmers' pension plans are the basic form of old-age security available to the farmer in Austria and West Germany. In Poland, it is the only retirement program payable to independent farmers. In France, Finland, and Japan, it is a supplemental program payable with a basic old-age pension when the farmer surrenders his land or withdraws from the labor force.

Techniques for determining the amount of the farmer's benefit vary. It may depend on the size of the property that has been sold (France); the amount of annual income (Austria), the number of contributions paid (Japan), or it may be a flat-rate pension (West Germany).

The farmers' pension programs are primarily financed from general revenues. Although in some cases the farmer is required to make contributions to achieve eligibility, this source of income represents a small part of the total cost of the programs. Contributions are required in Austria, West Germany, and Japan. In Finland, France, and Poland, entitlement does not depend on having made contributions.

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