Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

June 2013

This issue contains an occasional feature that provides a more in-depth look at recent changes to pension systems abroad. This month, the focus is on early retirement in Europe.

Recent Trends in Early Retirement in Europe

As rapid population aging is putting financial pressure on public pension systems, many European Union (EU) countries are introducing measures to encourage workers to remain in the labor force. Among the most widely adopted measures in the region are those that raise the normal retirement age, increase the required number of years of contributions, introduce incentives for workers to remain in the labor force beyond the normal retirement age, and discourage or eliminate early retirement. These policies reverse the long-term trend in many countries of encouraging early retirement and other methods of exiting the labor force early (such as through long-term unemployment and disability benefits) in an attempt to help lower high unemployment rates and allow younger workers to enter the labor force. This article discusses demographic changes occurring across the EU, and then examines the specific reforms of early retirement programs adopted by selected countries over the past few years.

Demographics

According to EU projections, populations are rapidly aging across the region. On average, among all EU countries from 2010 to 2060—

- The ratio of working-age people to those aged 65 or older will fall from 4:1 to 2:1.
- The percentage of the population aged 65 or older will nearly double and triple for people aged 80 or older.
- The percentage of the population aged 15–64 will decline by 14 percent.
- Life expectancy at age 65 will reach 22.4 years (men) and 25.6 (women), an increase of 5.2 years and 4.9 years, respectively.
- Public pension expenditures as a percentage of gross domestic product for pensioners aged 75 or older will nearly double, compared with a small increase for those aged 65–74 and a reduction for those aged 64 or younger.

Table 1 shows figures for the labor force participation rate of older workers (aged 55–64 and aged 65–69) in 2001 and 2011 in a number of EU countries. As of 2011, Germany had the highest percentage of workers aged 55–64 and Poland had the lowest. For the older group (aged 65–69), Portugal had the highest percentage and Belgium had the lowest. However, Portugal is the only country where the percentage of workers in both age groups has declined. On the other hand, Germany had the highest increase of workers in the younger group and Finland in the older group during the same period.

Table 1.
Older workers in the labor force in selected European Union countries, as a percentage of their age group, 2001 and 2011

Country	Aged 55–64		Aged 65–69	
	2001	2011	2001	2011
Belgium	25.2	38.7	2.4	3.5
Czech Republic	37.1	47.6	7.6	9.3
Denmark	56.5	59.5	12.2	13.5
Finland	45.9	57.0	5.3	11.8
France	30.7	41.4	2.1	5.3
Germany	37.9	59.9	5.4	10.1
Greece	38.0	39.4	10.3	8.6
Ireland	46.9	50.8	14.8	16.8
Netherlands	37.3	56.1	5.6	11.4
Poland	29.0	36.9	10.8	9.4
Portugal	50.2	47.9	27.8	21.9
Spain	39.2	44.5	3.9	4.5

SOURCE: "Older Workers Scorecard, 2001, 2005, and 2011," OECD, 2011.

Changes to Early Retirement Programs in Europe

Although the median effective retirement age (age of exit from the labor force) among EU member countries has increased over time, it still remains below the normal retirement age (the age at which a worker is entitled to a full retirement pension). To help raise the effective retirement age, over the past several years many countries have introduced or are in the process of introducing measures to discourage early retirement including raising the age and/or number of contribution years (often in conjunction with increases for normal retirement); increasing the penalty for retiring early; and eliminating, restricting access to, or suspending early retirement programs.

Table 2 summarizes early retirement changes in a number of EU countries. Of the eight countries in the table that have increased the early retirement age, four (Belgium, the Czech Republic, France, and Spain) have also increased the required number of contribution years. In addition, Ireland and Finland have eliminated early retirement programs, Portugal has suspended its program, and Hungary and Poland have limited the number of groups of workers with access to their programs. Also, while France and Spain have introduced separate rules for work under unhealthy or arduous conditions (Denmark will introduce a new program in 2014), Hungary maintained its existing rules, as Greece eliminated its program.

Not included in the table are countries that have changed the qualifying conditions for length-of-service pensions (longer careers) for people who began working at an early age and have met the contribution requirement for a retirement benefit. In France, workers who entered the labor force at age 20 (up from age 17) may retire at age 60. In addition, Spain is gradually raising the required number of contribution years from 35 to 38.5 for a length-of-service pension at age 65.

More details about recent early retirement measures are provided for the following countries:

Belgium. Since January 1, 2013, the qualifying conditions for early retirement are changing. The minimum retirement age is rising by 6 months from age 60 to 62, and the required number of contribution years is rising from 35 to 40 by 2016. In 2012, the age of eligibility for certain unemployment-related benefits for older workers increased from age 50 to 55.

Table 2.
Recent changes to early retirement programs in selected European Union countries

Country	Increased early retirement age	Increased required number of contribution years	Increased penalty/reduced benefits for early retirement	Eliminated, suspended, or restricted access to early retirement programs	Introduced separate rules for work under arduous or unhealthy conditions
Belgium	x	x			
Czech Republic	x	x	x		
Denmark	x		x		a
Finland	b			b	
France	x	x			x
Germany			x		
Greece	x		x		
Hungary				x	
Ireland				x	
Netherlands	x		x		
Poland				x	
Portugal				x	
Spain	x	x			x

SOURCES: *International Update,* various issues, US Social Security Administration, August 2004–May 2013; *Social Security Programs Throughout the World, Europe,* US Social Security Administration, 2008–2012; “Reform of the Spanish Pension System,” Ministry of Economy and Finance, June 2011; *An Agenda for Adequate, Safe and Sustainable Pensions,* European Union, February 16, 2012; *IBIS News,* various issues, April 2012–March 2013; *Pension Adequacy in the European Union, 2010–2050,* European Union, 23 May 2012; *Pensions Outlook 2012* , OECD, July 11, 2012.

a. In January 2014, Denmark will introduce a new "senior disability benefit" for workers in physically demanding jobs with work-related health problems.

b. In Finland, the early retirement age was raised for the universal old-age pension. Early retirement under the earnings-related program was eliminated.

Denmark. A December 2011 law gradually scales down the government-subsidized voluntary early retirement program (VERP or *efterlon*). The eligibility age for VERP will increase from age 60 to 64, from 2014 through 2023. In addition, the number of years the VERP benefit is paid will gradually decrease from the current 5 years to 3 years, from 2018 through 2023. From April 2012 through October 2012, workers could have (1) opted out of the program and withdrawn their contributions as a tax-free lump sum or (2) remained in the program until the age of eligibility and chosen between a lower tax-free lump sum and a reduced VERP benefit. (The full retirement age was already scheduled to gradually increase by 2 years to age 67, from 2024 to 2027.) Beginning January 1, 2014, the government will also introduce a new "senior" disability benefit program (*Seniorfortidspension*) for those workers less than 5 years younger than the normal retirement age who are employed in physically demanding jobs with work-related health problems and are unable to continue working.

Finland. Effective January 1, 2013, changes were made to the early retirement benefit under both the universal old-age, income-tested program (KELA) and the earnings-related program (TyEL). Early retirement was eliminated under TyEL for workers born after 1952. However, for KELA, the early retirement age has been raised from age 62 to 63, and the benefit is reduced by 0.4 percent for each month that the insured person is younger than age 65 when the benefit is awarded. Also, the unemployment pension program is being gradually phased out by 2014 and replaced with additional unemployment benefit days for older unemployed workers until they reach the age of 65.

France. The earliest age to receive a reduced public pension is rising gradually from age 60 to 62 by 2017. (A previous law gradually increased the number of quarters of contributions from 162 to 168.) The age for a full benefit is also rising from age 65 to 67. In addition, the 2010 pension reform law introduced a provision for retirement at age 60 for workers whose disability is directly related to dangerous conditions in the workplace. The amount of the benefit will not be subject to an actuarial reduction regardless of the number of years of contributions to the old-age insurance program.

Greece. A 2010 law limited early retirement to age 60, including workers in arduous occupations. (Recently, the normal retirement age for women was raised to age 65, the same as that for men.) Previously, workers in arduous occupations could retire as early as age 55. The law also increased the penalty for workers who retire between ages 60 and 65 with less than 40 years of contributions. The penalty was increased to 6 percent (from close to 4.5 percent) a year for each year the worker is below the normal retirement age.

Netherlands. A law passed in 2012 will introduce penalties for early retirement beginning in 2020. Workers who retire before the normal retirement age (but no sooner than age 65) will receive a 6.5 percent reduction in the benefit for each year before the normal retirement age that they claim benefits. (The normal retirement age will rise from age 65 to 66 in 2020.)

Portugal. In April 2012, the government suspended early retirement for employed workers covered by the public pension system until the end of 2014. However, the suspended rules allow employed workers at age 55 with 30 years of contributions to retire early, as well as the long-term unemployed and older workers receiving unemployment benefits. Insured people who are first unemployed at age 57 or older are eligible for an old-age pension at age 62. Other unemployed people are eligible for a reduced pension at age 57, or at age 52 with at least 22 years of contributions.

Spain. Laws enacted in 2013 gradually increase the qualifying conditions for early retirement by 2017 as part of a major pension reform. (At the same time, the normal retirement age is increasing from age 65 to 67 and the contribution years for a full benefit are rising from 35 years to 38.5.) The laws define two types of early retirement: (1) voluntary, and (2) involuntary—for workers who have been unemployed for at least 6 months and whose unemployment was the result of restructuring or the closing of a business because of economic conditions or the death, retirement, or disability of a business owner. Benefits for both types of early retirement are reduced for each year the benefit is awarded according to the number of years of contributions below the number required for a full benefit. The requirements for early retirement are changing gradually. By 2027—

- "Involuntary early retirement" will rise from age 61 to 63 and from 31 to 33 years of contributions
- "Voluntary early retirement" will rise from age 63 to 65 and from 33 to 35 years of contributions.

The pension reform also allows workers in arduous occupations to retire before the normal retirement age.

Sources: "Older Workers Scorecard, 2001, 2005, and 2011," OECD, 2011; *International Update*, various issues, US Social Security Administration, August 2004–May 2013; "The Transition of Women and Men from Work to Retirement," Eurostat, July 2007; *Social Security Programs Throughout the World, Europe,* various issues, US Social Security Administration, 2008–2012; "Reform of the Spanish Pension System," Ministry of Economy and Finance, June 2011; *The 2012 Ageing Report: Economic and Budgetary Projections for the EU27 Member States (2010–2060)*, European Commission, February 2012; *An Agenda for Adequate, Safe and Sustainable Pensions,* European Union, February 16, 2012; *IBIS News,* various issues, April 2012–March 2013; *Pension Adequacy in the European Union, 2010–2050*, European Union, May 23, 2012; *Pensions Outlook 2012*, OECD, July 11, 2012.

The Americas

Guyana

On June 1, contribution rates under Guyana's pay-as-you-go (PAYG) social insurance program increased by 1 percentage point: from 5.2 percent to 6.2 percent of covered earnings for employed workers and from 11.5 percent to 12.5 percent of declared income for self-employed workers. (Employers continue to contribute 7.8 percent of covered monthly payroll.) However, to protect lower-income workers, the government will subsidize the 1 percent increase for those workers with monthly earnings less than G$50,000 (US$243). The government expects that the increase in contribution rates will boost revenues for the PAYG program by approximately G$890 million (US$4.3 million) a year, while the subsidies for low-income workers will cost approximately G$215 million (US$1 million) a year and will benefit around 58,300 workers (out of a labor force of approximately 313,000 workers). According to the government, increasing contribution rates is a necessary step in reducing the financial burden of a rapidly aging population. The United Nations projects an increase in the number of workers aged 65 or older as a percentage of workers aged 20–64 from 8.3 percent in 2010 to 33.4 percent in 2060.

Guyana's PAYG program covers all public- and private-sector employees and self-employed people aged 16–59. Workers are eligible for the old-age pension at age 60, with at least 750 weeks of contributions; workers aged 50 or older who are ineligible for the old-age pension but have at least 50 weeks of contributions before age 60 may receive a lump-sum, old-age grant. Contributions finance old-age, disability, and survivors pensions, as well as cash sickness, maternity, and work injury benefits.

Sources: *World Population Prospects: The 2010 Revision*, United Nations, 2010; *Social Security Programs Throughout the World: The Americas, 2011*, US Social Security Administration, February 2012; "Guyana," *The World Factbook*, US Central Intelligence Agency, 2013; *Budget 2013: Overcoming Challenges Together, Accelerating Gains for Guyana*, Ministry of Finance, March 25, 2013; "Guyana to Raise National Insurance Rates," *Mercer*, May 2, 2013.

Asia and the Pacific

Malaysia

On July 1, the minimum retirement age for most private-sector workers will be set at age 60 under the Minimum Retirement Age Act 2012. Until now, no statutory minimum age existed, but in practice most employers set it at age 55 for their employees. The government anticipates that in the next 5 years, approximately 500,000 workers (out of a labor force estimated at nearly 12 million) will be affected by the extension, which should enable many companies to retain skilled workers, as well as allow workers more time to save toward retirement. In contrast to a gradual rise in the retirement age, the dramatic one-time increase reflects the urgency on the part of government to cope with an aging population and bring the retirement age in line with other countries in the region. Official sources project the share of the population aged 60 or older to more than double from 7 percent (currently) to 15 percent by 2030. At the same time, life expectancy is expected to increase from 72.6 years (men) and 77.5 years (women) to 74.2 years and 79.1 years, respectively.

The new law will impose a fine of 10,000 ringgits (US$3,230) on any employer (out of 600,000 registered companies) found guilty of requiring an employee to retire prior to age 60. However, the legislation does not prevent employees from choosing to retire earlier than age 60 if the service contract or collective agreement that applies to their job permits an earlier retirement date. Initially, employers could request a temporary exemption from the new retirement age (through December 31, 2013), provided they filed a request by April 30, 2013.

Malaysia's public pension system includes the mandatory Employee Provident Fund (EPF) for private-sector workers, which provides lump-sum old-age, survivors, and disability benefits; EPF members may withdraw funds at age 55 and continue working until age 75. (The government announced that there are no immediate plans to raise the EPF withdrawal age to 60.) A voluntary social insurance system for low earners provides disability and work injury benefits.

Sources: "Malaysia Prepares for Ageing Nation as World Population Reaches Seven Billion," malaysia-today.net, August 25, 2011; "Retirement at 60: But Many Just Continue Working," BorneoPost Online, December 15, 2012; "Minimum Retirement Age Effective 1 July 2013," IBIS e-Visor Compliance Alert, February 28, 2013; *Social Security Programs Throughout the World: Asia and the Pacific, 2012*, US Social Security Administration, March 2013; "Malaysia: Minimum Retirement Age Increases to 60," *Global News Briefs*, April 23, 2013.

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