

# Notes and Brief Reports

## Social Security Abroad

### European Attitudes Toward Retirement\*

A 1978 survey of attitudes toward retirement conducted by the Commission of the European Communities among the working population of member countries<sup>1</sup> shows that:

- 57 percent intend to stop working at retirement age or earlier;
- 25 percent plan to continue in paid work after they receive their pension (about 3 in 4 of these persons want to keep active, and 1 in 4 wants to increase his income);
- 33 percent intend to retire early with a reduced pension (1 out of every 2 to get more leisure time, and 1 in 5 because of poor health); and
- 72 percent—an overwhelming proportion—support the idea of a gradual transition from work to retirement.

The survey was termed a first contribution to understanding European attitudes toward retirement. It reflects to a considerable extent the demand for more flexible retirement policies that has surfaced in a number of industrialized nations during the past decade.

The Commission, the executive arm of the European Communities (EC), is invested with the authority to make binding decisions and regulations under the Treaties of Rome and Paris and directs the implementation of treaty provisions.<sup>2</sup> The survey is the result of the Commission's involvement in implementing the EC social action program, which attempts to clarify inequities in social-security-related programs on an EC-wide basis.

The survey consisted of interviews of representative

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<sup>1</sup> The nine members are Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.

<sup>2</sup> The Treaty of Paris established the European Coal and Steel Community (ECSC) in 1951; the Treaties of Rome set up the European Economic Community (EEC), and the European Atomic Energy Community (Euratom) in 1957. Basically, the three treaties sought to establish a closer, more unified European community in economic, political, and peaceful nuclear energy cooperation.

working-age persons aged 15 and over in the EC countries. The sampling included various age groups to take into account the influence of the nearness of retirement. Major questions focused on attitudes toward early retirement or continuing to work after the pensionable age; improving the quality of life by shorter workdays, longer holidays, earlier retirement, or a transition in stages from full-time work to full-time retirement; and willingness to pay higher payroll taxes to permit earlier retirement.

### Current Intentions Regarding Retirement

Those interviewed were asked about their retirement-age preference, that is, would they like to quit working early with a loss of income or at the "normal" age.<sup>3</sup> Interesting variations occur when the intentions of the work force with respect to retirement are looked at from the viewpoint of all the countries and from the standpoint of each country individually. For example, in the European Community as a whole, 57 percent of the respondents indicate that they would prefer to stop working at the normal retirement age or earlier. Among individual member countries, however, there was wide divergence: 70 percent of the workers in Luxembourg but only 43 percent in Ireland express this intention.

Generally speaking, the proportion of persons wishing to continue in paid employment after retirement is higher in countries with low earnings-replacement rates (that is, where social security pensions, based on a benefit formula, are relatively low in terms of previous earnings). For example, 1 out of every 3 pensioners in the United Kingdom would continue working, as would roughly 1 pensioner in 4 in Denmark and Ireland. The relationship is tenuous, however, and suggests that perhaps cultural or historical factors play a more important role.

### Improving the Standard of Living

A number of questions focused on attitudes toward reducing worktime as a way of raising the quality of life: (1) Would a period of graduated transition from work to retirement be a good idea? (2) Would shorter working hours

<sup>3</sup> Each interviewee was asked what the "normal" retirement age was in his or her job. On this basis, the average age for workers in EC countries (men and women combined) was 62.5 years, with Ireland highest at 64.8 and Luxembourg lowest at 60.9.

or higher wages be preferable? and (3) How could the total working time be reduced without a loss of income?

The overall response to the first question was much in favor of a transitional period that would permit a reduction in working time in several stages, with 72 percent responding affirmatively. On a country-by-country basis, the highest favorable response rates appear to come in countries with the highest actuarial reductions for early retirement. The highly favorable response rate in Denmark may also have been influenced by the fact that its Scandinavian neighbors (Norway and Sweden) already have transitional provisions built into their social security programs.

On the second question, the choice between shorter working hours or higher pay, opinion overall was much more divided; about 50 percent favor shorter working hours, and about 40 percent prefer an increase in pay. Interestingly, the pattern of choosing shorter hours over higher pay is common to all income groups. Country by country, however, a different pattern emerges. Six countries favor shorter hours; three countries prefer higher pay. These choices are strongly correlated with the average level of income in the country: workers from high-income countries favor shorter working hours, and those in lower-income countries favor higher pay. The data, therefore, contain a dual phenomenon, as pointed out by the Commission: first, the respondent's position on the income scale in his own country has no influence on his preference for shorter hours or higher pay, and second, a national trend is seen in each individual country, sometimes in favor of higher pay but more often for shorter hours. Consequently, what is deemed to be the more desirable alternative is determined not by the individual's position on his country's income scale but rather by the position his country occupies on the scale of average income levels in all of the countries concerned.

The third question—how to reduce total working time without a loss of income—offered the respondent three choices: earlier retirement, a shorter working day or week, or longer holidays. In the nine countries combined, 37 percent of the respondents prefer fewer hours of work per day or a shorter workweek; 33 percent support earlier retirement; and 25 percent would like longer holidays. For the first time in the survey a difference of opinion emerged between the working population and the working-age population as a whole, with the latter group favoring a lower retirement age as the first alternative.

On an age-group basis, longer holidays appeal mostly to the young, with about 1 in 3 workers under age 25 favoring this option. The idea rapidly loses support as age increases, however, with only 1 worker in 7 aged 55 and over indicating that preference. On the other hand, although lowering the retirement age has relatively little support among the younger age group (23 percent), it is much more important to those in the age 55-and-over group (38 percent). The preference for a shorter workday or workweek is relatively balanced among all age groups, varying from 35 percent to 40 percent.

## Extra Contributions for Earlier Retirement

The survey asks whether the individual would be willing to make a higher contribution for the opportunity to claim a full pension earlier than the current pensionable age (for example, 1 percent of earnings for each earlier year). Overall, 45 percent favor the proposal, and 37 percent oppose it. By age group, 47 percent of those under age 55 support the idea, compared with only 37 percent of those aged 55 and over.

The proportions of workers in Belgium, Italy, and France who favor extra personal contributions are 54 percent, 53 percent, and 50 percent, respectively. Luxembourg, the United Kingdom, and West Germany have favorable response rates ranging from 43 percent to 48 percent of their workers, and the Netherlands and Denmark are in the 35–40 percent range. The lowest favorable response rate comes from the Irish workers—28 percent.

The Commission points out that this question was aimed specifically at testing any real interest workers might have in early retirement. The respondents did not have the opportunity to discuss the question with anyone before the interview. A policy of this kind has not, in fact, been under discussion in any of the countries concerned. Recognizing that it would be too early, based on the responses to one rudimentary question, to conclude that workers in the European Community would be overwhelmingly in favor of such a system, the Commission nevertheless suggests that the interest in the principle is considerable.

## Conclusions

In summarizing the results of the survey, the Commission emphasizes the variety of positions of the working population of the European Community regarding retirement. In fact, so many clear differences of opinion among the countries emerge that the national variable appears to dominate all the others—level of income and education, profession, political opinions—except age.

Feelings about retirement throughout the European Community change considerably during the working life. A career may be divided into three distinct periods from this point of view—under age 30, age 30–45, and age 46 and over. In the youngest group, indifference toward retirement is characteristic, and the vast majority rarely thinks about retirement at all. In the 30–45 age group, retirement is viewed with increasing satisfaction, and the intention to stop work at normal retirement age or before, if possible, is at its peak. At age 46 and over, anxiety toward retirement mounts, and when retirement becomes imminent (at ages 55–60), the desire to keep on working beyond the normal retirement age is at least as strong as the desire to stop working as soon as possible.

About 1 out of 4 workers wishes to continue in paid employment after the pensionable age is reached, primarily

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because of a desire to remain active. This desire is especially strong in the 55-64 age group, as retirement age is approached, and is more common in the United Kingdom and Denmark than in the other countries. On the other hand, an even larger proportion of persons would like to be able to stop working earlier, as indicated by the positive (45 percent) reaction to the idea of making extra contributions throughout the working career in order to retire earlier than provided for by law or professional custom. Although the indications are that workers would like to be free of the constraints now imposed by the normal pensionable age, it is by no means obvious that everyone would exercise the right to early retirement. After all, of three possible formulas for reducing worktime, lowering the pensionable age comes in second after a shorter working day or week, and in six of the nine countries the choice is shorter hours rather than higher pay.

The Commission finds attitudes toward retirement far more varied than expected. The variations are caused by differing national traditions, which make it difficult to harmonize regulations at the EC level. Attitudes vary within each country, too, and in most countries there are three large groups of workers without a clear majority—those who want to stop working before, at, or after the normal pensionable age. For that reason, the Commission concludes the most desirable solutions are those that would make the system a more flexible one.

### **A Further Comment**

The question of flexibility in social security retirement provisions was discussed quite extensively, and subsequently acted upon, in a small number of countries at the beginning of the 1970's. With the recession that followed the 1973 oil crisis, however, the issue lost prominence, and programs that became effective after that time essentially reflect legislation passed before the crisis.

The Swedish variable-pension program, introduced in July 1976, provides the most flexibility of any program currently in existence. For those in the 60-64 age group, it replaces 65 percent of income lost as a result of shifting from

full-time to part-time employment, without reducing the size of the regular pension available at age 65. Eligibility is based on 10 years of covered earnings after age 45 and a certain minimum number of hours worked per week.

In Norway, a partial-pension option was introduced into the social security program in 1973 in conjunction with a lowering of the retirement age from 70 to 67. The program permits those aged 67-69 to draw a partial pension while continuing in paid employment. The benefit varies inversely with employment income and may be claimed as one-fourth, one-half, or three-fourths of the normal or regular pension, as long as the combination of earnings and pension does not exceed 80 percent of former earnings. At age 70, the restriction on employment earnings no longer applies, and the individual receives full pension regardless of earnings.

Also in 1973, West Germany added a flexible feature to its social security program by giving the worker the option to draw a full benefit at age 63. The payment of benefits, at the full rate previously payable at age 65, is conditioned on 35 years of pension coverage and relatively severe restrictions on earnings.

In the more recent past, attempts have been made to make social security retirement programs more flexible, primarily to relieve unemployment among youth. A program operating in Belgium since 1976 permits early retirement if the employee is replaced with an unemployed worker under age 30. Since 1979, the program in Denmark has allowed persons aged 60-66 (the normal pensionable age is 67) to retire and receive a full unemployment benefit, which is gradually lowered until the pensionable age is reached at 67. These benefits are paid through the unemployment program.

In summary, although attempts have been made in several countries to introduce flexibility of one kind or another into the retirement program, these have been individual efforts suited to a country's particular needs. In the latter part of the 1970's, particularly, these adjustments have been provoked by various economic challenges facing the individual social security systems. As a result, no effort has been made to coordinate an approach to make retirement programs more flexible.