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Report summary

Retirement age reform

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Strategic and Service Policy Branch, Social Policy Directorate

Report summary: Retirement age reform

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Why this study

Aging poses significant challenges to pension plan finances in several Organisation for Economic Co-operation and Development (OECD) countries. Since the 1990s, several countries have changed their pension plans. Some, for instance, have increased the retirement age. The objective of this literature review was to document the effects of those reforms.

What we did

In order to understand the effect of the changes, we consulted several scientific studies:

- we consulted the OECD's "Pensions at a Glance" reports from 2005 to 2017 to identify countries that have reformed their pension system
- we selected countries that have completed their reform and conducted a keyword search on the search engines of scientific articles
- in total, some 30 studies published between 2002 and 2018 in 14 countries were selected

What we found

Our research shows that raising the normal retirement age and early retirement age are the most commonly used measures. The age of eligibility for retirement has been extended by two to five years depending on the country, and has generally been phased in. The pace at which these policies have been implemented varies considerably from country to country.

The studies consulted show that:

- raising the retirement age increased labour force participation by a few percentage points
- people already employed stayed employed longer, and
- unemployed or inactive individuals did not return to the labour market

These findings suggest that raising the retirement age could increase the poverty rate of unemployed or inactive people.

Several studies have shown that reforms have caused a "spillover effect" on other social programs. Some people have tried to circumvent the increase in the retirement age. They were able to do so by enrolling in employment insurance or disability insurance. The majority of the spillover effect was caused by individuals who were already receiving employment insurance or disability insurance. These individuals continued to receive these benefits until the new retirement age.

Several reforms also introduced greater flexibility between retirement and work. They did so by eliminating the recovery tax on employment income. Those policies have had a positive impact on the labour force participation and income of older workers. In short, these types of reforms have led to a more gradual transition to retirement.

What it means

Raising the retirement age delayed retirement and slightly increased labour force participation. However, studies show that there was no real change in behaviour regarding retirement:

- people who could work longer stayed in their jobs
- those who could not, retired with a penalty or remained inactive until the new retirement age

Individuals in the latter group are financially vulnerable. They are also at greater risk of falling into poverty.

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