

# ST. JOHN'S COLLOQUIUM

## Determination of Retirement and Eligibility Ages: Actuarial, Social and Economic Impacts

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# IAA Population Issues Working Group

- Report on “Determination of Retirement and Eligibility Ages: Actuarial, Social and Economic Impacts” published in March 2016

[http://www.actuaries.org/index.cfm?lang=EN&DSP=CTTEES\\_PIWG&ACT=DOCUMENTS](http://www.actuaries.org/index.cfm?lang=EN&DSP=CTTEES_PIWG&ACT=DOCUMENTS)

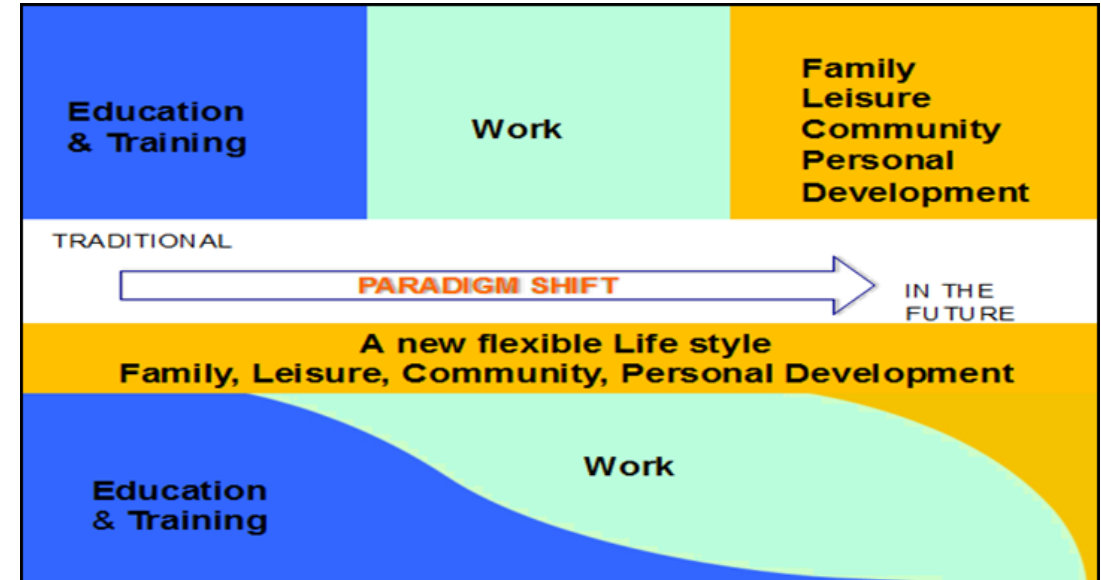
- The goal of the report is to explore the complex interrelations of
  - Retirement decisions, and
  - Economic, demographic and social impacts.

# Let's start with definitions

- “Eligibility age”: the age when an individual is eligible to begin receiving full retirement benefits
  - Social security programs
  - Occupational pension plans
  - Or even defined by tax regulations
- “Retirement age”: the actual age when retirement begins
  - Retirement: leaving labour force
- Eligibility age is one of many factors impacting individuals’ decisions on when to retire

# For an individual the retirement age concept is becoming very vague

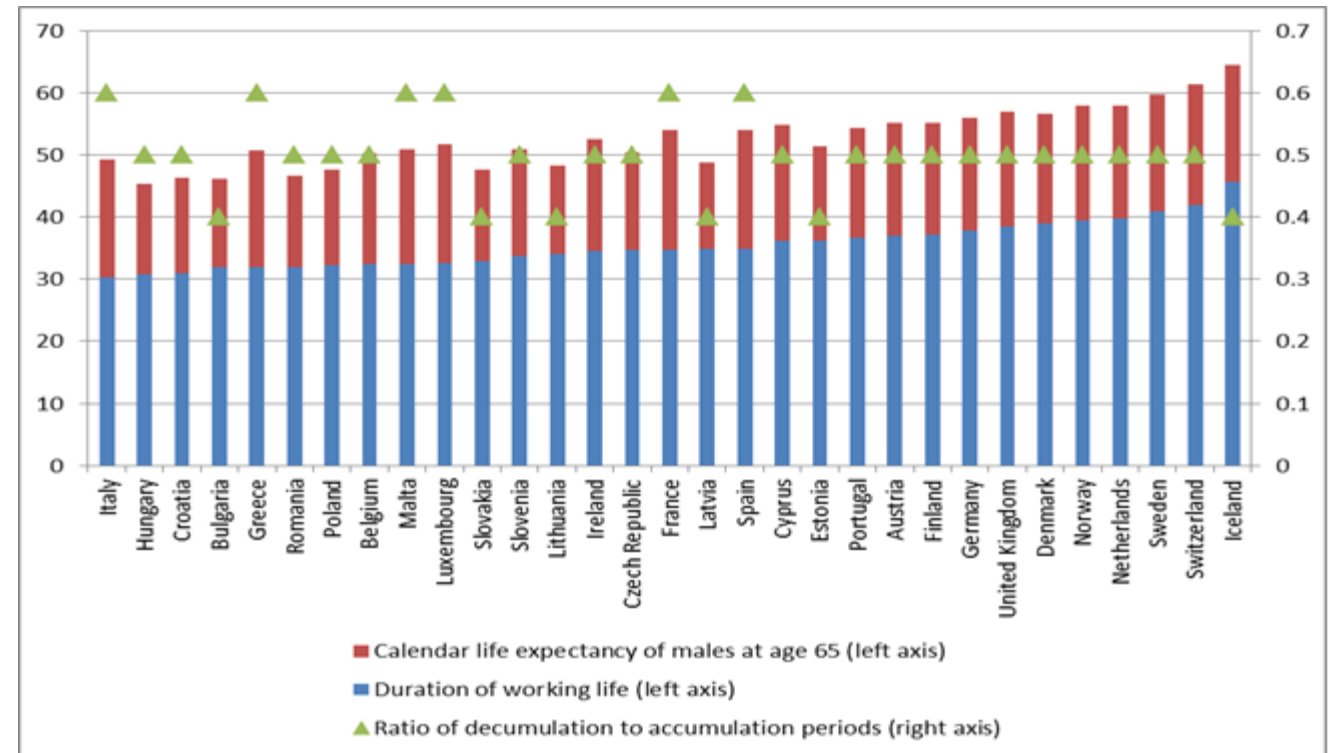
- Do I want to retire?
- Am I healthy?
- Is my spouse retired? Do I need to care for members of my family?
- Can I afford to retire?
  - Do I have enough net retirement savings (personal, employer-sponsored pension plans) to last for the life so
    - I can maintain my desired life style?
    - Will I become poor?
- Can I find employment?
  - Full-time, part-time?
  - Same or different occupation?



# Looking from the point of view of society

Accumulation and decumulation periods in selected European countries, 2013

- Societies are ageing
  - Low fertility of the young & greater longevity of the old
  - An old majority depending on a young minority (dependency ratio)
- Employment patterns are changing
- The cost of retirement is increasing



source: authors calculations based on Eurostat data  
<http://ec.europa.eu/eurostat/data/database>

**Financial and intergenerational sustainability of retirement systems is questioned**

# There are no magic bullets for alleviating impacts of ageing on pension systems

## **Pension System /Program**

- Increasing accumulation period, i.e. the eligibility age, and, hopefully, retirement age
- Increasing contributions
- Reducing benefits

## **Society**

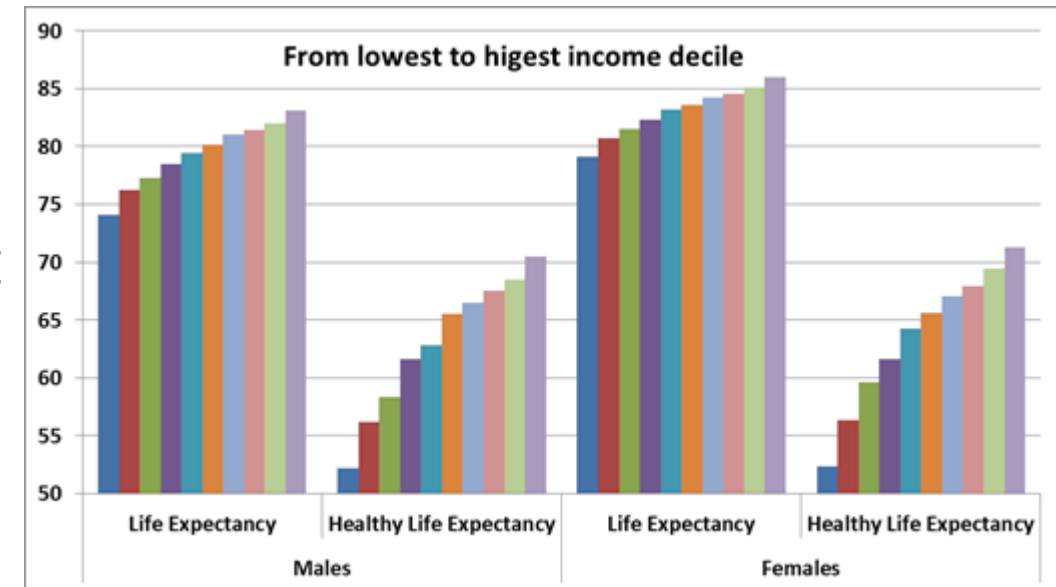
- Looking for better economic returns and higher economic growth
- Redistributing consumption and/or wealth
- Changing labour policies and increasing productivity
- Taking advantage of immigration

**Combination of several measures is probably the key for success**

# So, let's make a change! But... “law of averages” should not be over relied on

- Can aspects below be addressed at the same time?
  - Sustainability
  - Adequacy of benefits
  - Consistency with societal expectations
  - Equity/fairness
- There is a need for a holistic assessment
  - Entire population
  - Population subgroups
  - Individuals
  - All possible sources of income

**Life Expectancy and Healthy Life Expectancy at birth by income deciles, U.K., 2011-2013**



source: Office for National Statistics, UK

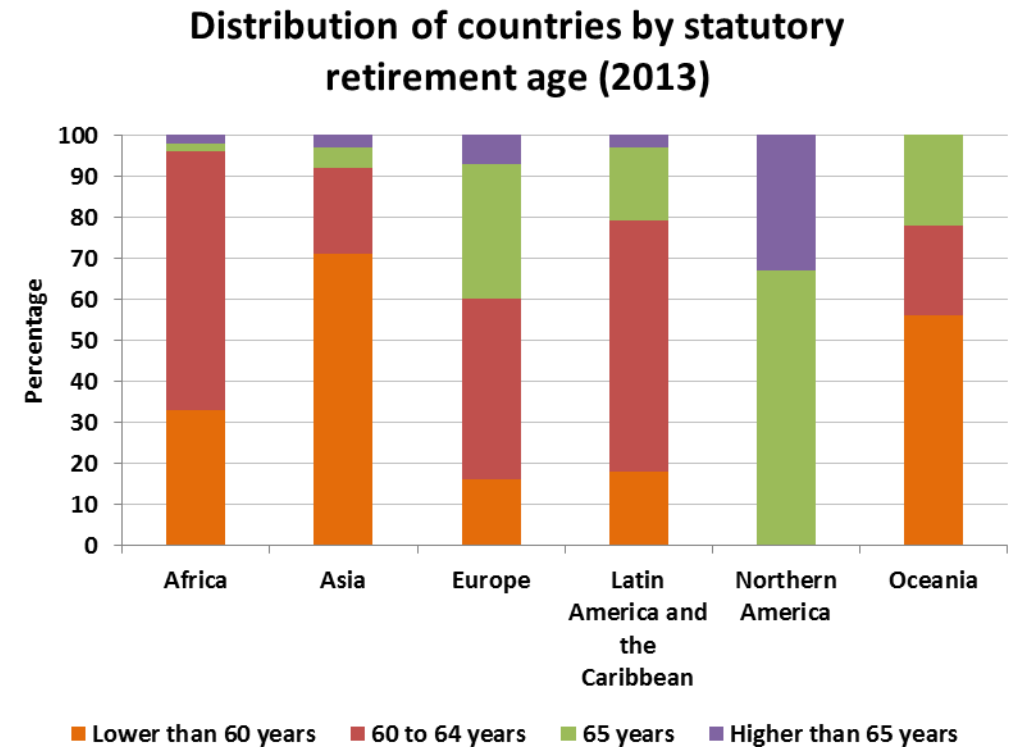
# What level of granularity in fairness could be achieved when eligibility age is increased?

- If the primary driver of the change is increasing longevity, the goal is actuarial neutrality between generations
- It is hard to have an inter-subgroup fair change
  - Specific groups/circumstances
    - Poor
    - Disabled
    - Physically demanding jobs
    - Long-term illness, unemployment, dependents/survivors
- Could be supplemented by adjustments in other features, including
  - Flexible retirement, disability, safety-net
- Fairness to individuals is usually not considered

**A change needs long lead-time to enable those affected to adapt**

# What is happening today – social security

- Increasing eligibility age
  - 18 OECD countries already have or are scheduled to have the eligibility age for males set at age 67 or older
- Converging eligibility age for males and females
  - However, women are often more underemployed in years preceding retirement. So will this trend increase poverty level of elderly women?
- Elimination or redesign of generous early retirement programs
- Flexible retirement: early and/or late actuarially adjusted benefits



Source: United Nations, World Population ageing 2013

# What is happening today – employer-sponsored pension plans

- Eligibility ages for DB employer-sponsored plans tend to cluster around the social security eligibility age
  - Is the harmonization possible or desirable?
- Eligibility age is affected by business objectives
  - The availability of late retirement is limited – older workers are more expensive
- Shift from DB to DC plans
  - Notion of eligibility age is becoming irrelevant
  - Longevity and investment risks shifted to individuals
- The main concern is about the cost – it is addressed
  - through mitigation of longevity risks (buy-in, buy-out, longevity swaps)
  - passing higher share of cost to employees
  - Increasing the eligibility age.

# The main challenge is to change retirement behaviour of individuals

- Indexing eligibility age with life expectancy
- Increasing early retirement penalties and/or reward for delayed retirement
- Providing an eligibility age that differs by population segments
- Combining work and retirement
- Sustainability factors and notional defined contributions (getting away from the notion of eligibility age)
- Strengthening eligibility requirements for retirement benefits

# More retirement policy strategies

- Encouraging higher pension savings
- Subsidizing certain population segments
- Linking eligibility age for pension with eligibility age for other benefits
- Harmonizing the eligibility age of employer-sponsored plans with social security programs
- Increasing labour force participation rates and employment rates of older workers
- Increasing confidence in the future of retirement programs

# Indexing eligibility age with life expectancy

- Life expectancy increases vary by socio-economic groups

## UNITED KINGDOM

UK review process of eligibility age requires a report that has to consider certain factors relevant to the review, including:

- Labour market issues, especially participation rates and any differences by UK regions
- Interaction of State Pension with other pillars of the retirement system
- Age-related sickness and disability, and healthy and disability-free life expectancies, how they differ between different regions or parts of the labour force, and any trends in these matters.

# Providing an eligibility age that differs by population segments

## FRANCE

- “Compte pénibilité”: attempt to differentiate required contributions periods by type of work
  - Hard to design non-questionable factors of arduousness
  - Lack of required resources to assess and implement this by medium and small companies

## ISRAEL

- Political battle regarding increasing eligibility age for females
  - Binding women to the labour force by law will only make them poorer
  - Low earnings and under- and unemployment means no additional pension accrual will materialize.

# Increasing early retirement penalties and/or reward for delayed retirement

- Flexibility is good but it should promote right objectives
- What does “actuarial neutrality” mean for pension programs?
  - Definitely NOT equivalence from an individual’s point of view
- For social security, actuarial neutrality means equivalence with respect to a social security retirement plan as a whole
  - Span generations and population subgroups - inter-generational actuarial neutrality is a primary consideration

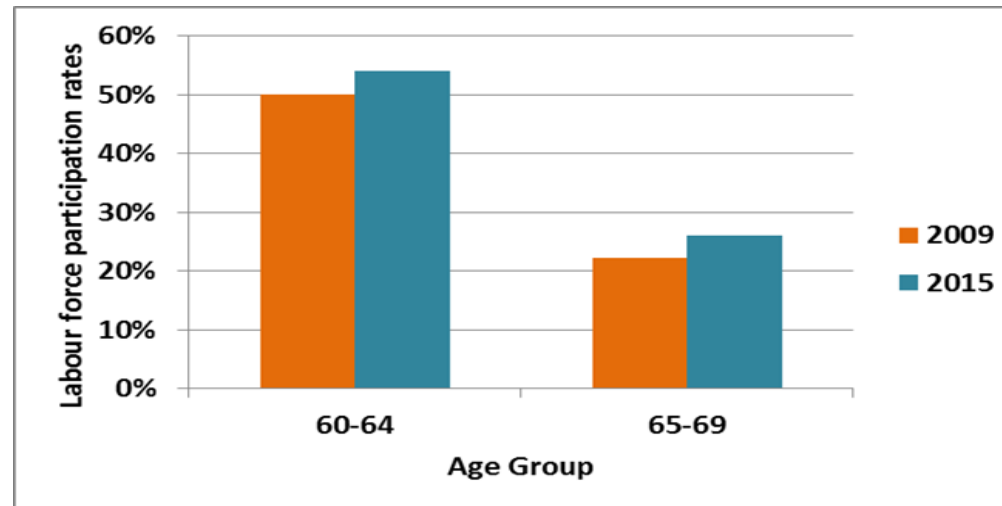
## CANADA

- Recently increased the penalties for early retirement and increased rewards for late retirement
- Allowed for deferral (with reward) of 1<sup>st</sup> pillar pensions for 5 years past eligibility age.

# Combining work and retirement

- To enable people to work after their eligibility age
  - while simultaneously receiving their “normal” pension, and
  - possibly accruing additional benefits.
- Increase labour force participation incentives at older ages

Canada: LF participation rate after working beneficiaries provision



source: Office of the Chief Actuary, Canada

# Effects of alternative eligibility ages – social security

- For social security programs, besides sustainability and affordability considerations, the “social” nature of these programs plays a big role in the decision
  - Balancing adequacy and sustainability is a difficult task
- Lower socio-economic groups are less able to work longer but have greater need of social security benefits
- “Ripple effect”: increasing eligibility age may increase the incidence of disability, ill-health and unemployment - hence savings may not be as large as first expected.
- **Australia** is to increase the eligibility age from 65 to 67 by 2023.
  - the effect of increasing the eligibility age from 67 to 70 between 2023 and 2035 is estimated to have net saving of **0.15%** of GDP after reflecting the effects of increased cost of disability pensions and unemployment benefits.

# Effects of alternative eligibility ages – employer-sponsored plans

- Defined benefit plans – affordability and sustainability are key concepts in setting eligibility age
- Defined contribution plans – eligibility age an individual choice
- Increasing the eligibility age – additional period over which contributions are paid; longer period to earn investment return; reduced period over which benefits are payable.

**An increase in the eligibility age/retirement age should be less than an increase in expected longevity, to achieve actuarial neutrality**

- Other benefits need to be integrated with change in eligibility age
- How occupational plans cope with part-time employment/portability

# Change in the eligibility age is only one small push toward people working longer

- Many people need and probably will work longer
  - Working longer can be beneficial in terms of health and satisfaction
- Any changes to eligibility age should be accompanied by measures that facilitate the employment of older workers
- There is no evidence that increasing the eligibility age increases youth unemployment

# What can we do as actuaries?

- Financial analyses at all levels of programs
  - Both technical and policy
- Provide advice to pension plan sponsors
  - Prepare objective forecasts
  - Assist in risk management
  - Address issues of benefit adequacy, sustainability, equity, etc.
- Need to combine a macro-economic view with micro analyses to develop practical solutions
- Promote the use of reasonable assumptions and models to form the basis of policy decisions

# Conclusion

- The question of change in the eligibility age can't be addressed in isolation
- It is only one piece of the puzzle that includes demographic, economic (e.g. labour market), behavioural and social issues
- The best approach for a country is to have a comprehensive pension policy that considers all pillars of retirement system in a wider demographic and economic context
- Actuaries are well positioned to provide assistance at all pension system levels: from individuals to policymakers.

THANK YOU

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