Retirement age: Economic outcome or social choice?

Pension flexibility and retirement choice

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Abstract This paper considers the conditions which have to be met if an individual is to be able to retire at a date of his own choosing. These conditions arguably are 'partial pension' flexibility to supplement earnings from part-time employment, full retirement income adequacy, elimination of age discrimination in employment and a state of health able to sustain an active and productive lifestyle. The paper attempts to identify those developments in social policy (and, by way of an Appendix, in health risk management) during the last 20 years which have the most practical bearing on the realisation of these necessary conditions for individual retirement choice. The paper concludes with a personal view on what may still need to be accomplished through social policy innovation to create these conditions, and how a new retirement paradigm, offering opportunities for work, education and leisure in old age could be of benefit to both the individual and the community. This paper follows 'Retirement Age: Economic outcome or social choice? Pension policies and retirement practices' in *Pensions*, Vol. 9, No. 2, pp. 148–162, which considers how the notion of retirement age, embodied in pension systems, evolved and how it is related to our concept of 'old age'.

Keywords: *retirement age policies; employment practices; age discrimination; necessary conditions for retirement choice; social policy innovation; 'partial pension' flexibility; adequacy and equity in pension provision; 'fourth pillar' of pensions; new retirement paradigm; new social meaning of age*

Introduction

As long ago as 1982, the Social Services Committee of the House of Commons published a report on the 'Age of Retirement'.¹ At para. 2.2 the report recorded that 'many seek a greater measure of personal choice in the age at which they retire'. Paragraph 2.6,

however, contained a starkly realistic warning:

'real choice must depend not only on the right to some pension, but on the ability to go on working and the adequacy of the pension received when work stops. Health is perhaps the main constraint, but it is becoming increasingly difficult for older

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people to get jobs, and there is often considerable pressure on those over 60 who have jobs to give them up in favour of younger people.¹

In this statement it is possible to discern four distinct conditions which arguably have to be met if older workers are to be able to retire at a date of their own choosing. Perhaps it would not be unreasonable to re-state these conditions in amplified form as follows:

- the availability, where the individual's financial circumstances require, of a 'partial' pension to supplement earnings from part-time employment;
- the opportunity for the individual to go on working unhampered by age discrimination in employment, or in the labour market;
- entitlement, after work has ceased, to a retirement pension adequate to support at least a minimum acceptable standard of 'civilised life' (ie a standard entailing a reasonable degree of personal autonomy in addition to physical survival);
- a condition of mental and physical health capable of sustaining an active and productive lifestyle.

This paper attempts to identify the most important social policy developments in the last 20 years in Europe and to some extent North America, which have affected or are likely to affect retirement and employment practices in relation to older workers. The paper then considers those particular developments in social policy which appear to have the most practical bearing on the realisation of the first three of the necessary conditions for individual retirement choice, namely 'partial pension' flexibility, full retirement income adequacy and the elimination of age discrimination in employment.

The fourth issue which relates to the

health and productiveness of older workers is relatively technical and complex and merits treatment in a separate paper. However, some consideration of this issue is arguably necessary for a balanced discussion of the choice of the time of retirement. This is because onset of permanent infirmity in a person who wishes to prolong his productive life-span can quite abruptly bring his economic activity to an end. Moreover, contemplation of this contingency, along with a perceived inevitability of the degenerative effects of ageing, often gives rise to a 'negative fatalism' which does not give much weight to medical evidence which strongly suggests that human behaviour can affect uncertain health outcomes. This 'negative fatalism' tends not only to have an adverse effect on the outlook of the ageing individual but also on that of society, including the attitudes of employers which are then reflected in labour markets. It seems entirely appropriate to add to this paper a short appendix (Health, Life Expectancy and the Active Lifespan)² containing some remarks on comparatively recent work that has been carried out mainly in the USA, but also in Europe, on the feasibility of developing illness prevention techniques aimed at postponing, or containing, infirmity in the lives of economically active older persons.

The paper concludes with a personal view on what may still need to be accomplished through social policy innovation, or moral persuasion, to create the conditions necessary for authentic retirement choice. It ends with the speculation that a socially recognised period of flexible retirement choice towards the end of the individual life span could perhaps usher in a new retirement paradigm offering opportunities for work, education and leisure in old age which would be of

benefit to both the individual and the community.

The quest for flexibility

Perhaps with a view to offering some encouragement to those persuaded of the social fairness of the notion of an individual being free to choose the time of his retirement, the 1982 House of Commons Report mentioned that the 'quest for flexibility' in retirement choice was not confined to Great Britain. It recorded that the International Labour Organisation (ILO) had in June 1980 published a 'Recommendation concerning older workers'.³ Following this, in December 1980, the European Commission had then issued its statement of 'Principles of a Community Policy on Retirement Age', based on the ILO recommendation, to influence member states of the EC to work towards a flexible approach to retirement age.³

Retirement age policies

All three of these public documents recognised that provision of a pension of varying amount related to the membership, or contribution record, of the recipient and corresponding to a range of optional retirement ages, under both public and private pension systems, constitutes the basic condition for individual retirement choice. It is in fact instructive to compare retirement age policies as they were in 1980, the year in which the ILO recommendation and the EC statement of principles on flexible retirement were published, with retirement age policies today.

A 1980 survey⁴ based on a questionnaire sent to 19 countries to enquire about their policies on retirement age, with a view to discovering whether there were any trends towards flexible retirement

options, under either public or private pension systems, revealed that fixed normal or statutory, retirement ages represented the crucial influence affecting most retirement choices. According to the survey, the most common statutory retirement age for men was 65 (15 of the respondents), with two of the respondents showing age 67 and a further two reporting age 60. The most frequently reported statutory retirement ages for women were 60 and 65 (seven countries each), while two of the respondents reported age 67, two others reported age 62 and one (Italy) reported age 55.⁴

Despite the crucial influence of the statutory retirement age on most retirement decisions, and the pressures, in a number of countries, for earlier retirement ages (or options), there were indications in some countries that the principle of the fixed normal retirement age could in time be eroded by the gradual introduction of variable retirement options under the public pension system. The effect of these was to permit individuals to choose, subject to certain conditions (ie after the attainment of a certain age, or payment of contributions for a specified number of years), the age of their retirement whilst retaining entitlement to a full, or reduced, pension related to the contribution period. In Germany (West Germany at the time), for example, a 'flexible retirement' period was available under the social security system from age 63 to age 67, with special provisions permitting women, the unemployed and the disabled to draw a pension even earlier than 63.

The most promising development in the pursuit of retirement flexibility, at the time, was the 'partial retirement' option which had been introduced under the national pension system in Sweden in 1976 for those wishing to change from

full to part-time employment towards the end of their working lives. Norway was also moving towards a similar programme with a system which permitted persons aged between 67 and 69, who were working less than full-time, to claim a partial pension if the sum of such pension and earnings did not exceed 80 per cent of former full-time earnings.⁴

In 1980, pressures for flexible retirement were mainly evident in the Scandinavian countries of Norway, Finland and Denmark. Yet the 1978 federal law in the USA prohibiting mandatory retirement before the age of 70 had been generally expected to give a strong impetus to the wider movement for flexibility and freedom of choice in retirement. The US legislation had come as a response to the political activism of groups of the elderly like the 'Grey Panthers'. It came into force on 1st January, 1979, and its broad effect was to raise from 65 to 70 the age at which private sector employees, other than certain 'bona fide executives' and 'high policy makers', could be forced to retire. Mandatory retirement based on age was abolished for federal civilian workers with effect from 30th September, 1978.

Despite these developments, which occurred around a quarter of a century ago, recent surveys of social security and occupational scheme retirement practice show that, in most industrialised nations at the beginning of the 21st century, fixed 'normal' retirement ages are still the norm. Moreover, where demands for change in retirement practice have been made in the intervening period, these have primarily manifested themselves either as pressures for increasing the fixed normal retirement age by governments, or for lowering it by labour unions, and not for its abandonment in the interests of retirement flexibility.

Research, carried out by the author and some associates in 2001, based on

the questionnaire used for the 1980 survey and covering broadly the same countries, revealed that 65 was now the most common statutory retirement age for both men and women in most of the countries. In the USA the statutory retirement age has been increased (for those born after 1959) from 62 to 67. In Great Britain it is now 65 for women (born after 1955) and men. In most, if not in all countries, there has been a tendency for occupational schemes to adopt a normal retirement age consistent with the social security retirement age.

In most countries some provision is still made for deferred retirement beyond normal retirement age under both social security and occupational schemes. Differences in practice between the two systems arise because of the divergent financial considerations relevant to public and private schemes. In the case of social security, deferred retirement entails longer periods of contributions and delay in payment (and therefore shorter payment periods) of pensions, thereby strengthening the financial structure of the public pension system. Although this pattern of continued contributions and delayed pensions is generally replicated under occupational schemes, the major financial considerations for the latter are those affecting the employer rather than the retirement fund. The desirability of late retirement, from the employer's point of view, depends on the relative productivity of the older worker compared with that of his possible replacement.

With the exceptions of Italy (with its 'stay bonus') and Spain (with its discount of social security contributions), and to some extent Germany, no countries at the beginning of the 21st century seem to offer any serious inducement under their public pension systems to encourage older workers to remain in employment. In the Netherlands deferred retirement,

under the social security system, does not even give rise to the accrual of additional pension, and occupational schemes, possibly influenced by this practice, often do not provide for late retirement in their rules. In many countries there is still a tendency for employers to discourage older workers from remaining in employment after attaining what is considered as the 'normal' retirement age. In some countries it is customary to enforce termination of employment at the 'normal' retirement age.

Pressures for flexible retirement options are still mainly evident in the Scandinavian countries, where the Swedish system still serves as a model for debate. In Spain, however, the comparatively recent innovation in social security of a partial retirement pension available from age 60 provides a useful 'bridging pension' for older workers who wish to change from full-time to part-time employment. In Germany a scheme of old-age part-time retirement (*Altersteilzeit*) has also been recently introduced as a vehicle for flexible early 'partial' retirement from 55.

Retirement choice, retirement income provision and the 'fourth pillar'

The rationality of a retirement choice in any society is inevitably related to the nature of that society's system of retirement income provision. In the USA and in the advanced economies of Western Europe, such as Britain, France, Germany, the Netherlands, Italy and Switzerland and the Scandinavian countries, the pension systems which evolved in the second half of the 20th century generally conformed to what is known as the 'three pillar' model. This model comprises:

— a basic pension from social security

— a pension from employment
— a pension from personal retirement savings.

A period of flexible paid employment after retirement age has been termed the 'fourth pillar' of income in retirement. Because such employment is generally, although not invariably, of a part-time nature it tends, in most cases, to be less stressful than regular full-time work, and the continuance of earnings which it provides is a useful augmentation of retirement income from pensions. This 'fourth pillar' of retirement income derives its name from a research project of the Geneva Association begun in 1987.⁵

The subject of this research was the financing of retirement income within 'a new design for retirement'. Referred to as the 'Four Pillars project', it was essentially an investigation into the medical, social and economic means of 'keeping the elderly active longer' and extending their productive period thereby maintaining their contribution to society. The economies of most advanced societies provide many more opportunities for part-time employment for the elderly than regular full-time work, and this kind of employment through its flexibility, is better suited to the psychological and physical needs of the elderly.

Recourse to the 'fourth pillar' is therefore really conditional on the pensions from the other three pillars being adequate, in the first place, to provide the elderly person, seeking to prolong his working life span, with a minimum acceptable standard of civilised life. In other words, such pensions would have to be adequate to meet, not only the person's psychological and physical needs to ensure survival, but also to provide him with some degree of autonomy as well. This would enable

him to seek employment suitable to his age, education and experience and, if appropriate, to finance a vocational training course to equip him with new skills which would be marketable.

The aim of the 'first pillar' was originally conceived as the prevention of poverty in old age through the provision of a basic level of retirement income (whether related to a tranche of the recipient's own former earnings, or a more general index, eg average national earnings) funded from public resources, with the risks shared by the whole of society. The 'second pillar' of provision subsumes the employer's objective of promoting efficiency and productivity among employees by encouraging long-term commitment to their jobs under the socially desirable aim of spreading income from employment more evenly over the life cycle.

These 'three pillar' pensions arise from a specific right to benefit, accruing on the basis of an insurance contribution or employment record, or under a personal insurance or investment related retirement savings contract. They do not include means-tested benefits such as income support, or a pension income supplement, which older people may be able to claim depending on their income or savings. These means-tested benefits are not really pensions, but 'poor relief'. Retirement income provision is self-evidently a social good, like education and healthcare (whether financed from public or private resources, it could not exist without society) and like them it is subject to arguments about rights and responsibilities. These social goods also raise questions about equity between different socio-economic groups and between generations.

The social security benefits of the public pension system (the first pillar) and the occupational welfare benefits of the private pension system (the second

pillar) are both essentially instruments of social policy in that both receive financial support from the state, the first directly, and the second indirectly, through tax reliefs. A reduction in income tax liability in the provision of an occupational pension is as much an implicit transfer payment as a social security retirement pension is an explicit transfer payment. Occupational pensions, of course, become explicit social benefits when, like certain occupational pension rights under 'contracted-out' schemes in Britain, they are formally treated as social security replacement benefits and are subject to post-retirement inflation-proofing by the state. The Pensions Policy Institute⁶ has estimated that the UK currently has indirect state expenditure of 2.5 per cent of gross domestic product (GDP) a year on tax relief for private pensions and contracted-out deductions. This has been referred to as the 'public cost' of private pension provision and can be compared to the projected cost of public pension spending of 5 per cent of GDP per annum quoted in the UK government's pensions Green Paper.⁷ Pension provision, whether public or private, is an integral part of the whole society's system of income maintenance and the state, as the agent of the entire community, has a legitimate interest in both the adequacy and the equity of that provision.

Adequacy and equity: Two principles of pension policy

In analysing the aims of policy in the provision of income benefits under schemes of social welfare, it has been suggested that use could be made of a distinction between 'adequacy' and 'equity' on which decisions could be based. Adequacy is concerned with 'what is required to meet measured needs'

whereas 'equity implies conformity with a principle of social justice'.⁸

The development of the 'three pillar' pension system (still substantially based on 'defined benefit' rights in many countries and on the principle of the collective responsibility of state, employers and workers for retirement income provision) resulted from the drive for adequacy to ensure that individuals throughout retirement have resources corresponding, to their 'needs'. The 'three pillar' system, as surveys show, has been very successful in providing adequate incomes (as a proportion of national average earnings) for many workers, but they have been criticised for failing to meet the requirements of adequacy and equity in two main areas.

The 'first pillar' is seen as reflecting political failure to agree on a concept of adequacy based on a 'benchmark definition of needs', and the 'second pillar' as lacking 'inclusivity' in the exclusion of many workers from access. These failures have been seized upon by 'liberal economist' detractors, and other ideological opponents of the mixed economy of welfare model implicit in the 'three pillar' system. They have argued for a 'privatisation' of the state pension system on the lines of the Chilean scheme introduced in 1981, and for the replacement of 'defined benefit' occupational pensions by personalised retirement accounts under which the investment risks are transferred to employees.

Any defects of the 'three pillar' system can easily be remedied by simple reforms within their existing structures. Access to 'second pillar' occupational schemes can be widened to include as many workers as practicable and the rate of 'first pillar' state pensions can embody a concept of adequacy related to an objective measure of 'human needs'. 'Needs' are a

contestable concept, but presumably few would disagree that, even in conditions of relative scarcity of resources, they go beyond the requirement for material goods to ensure physical survival. Provision should allow for the meeting of social and psychological needs as well as food and shelter. To evaluate and measure this relative concept of need, resource may be had to household budget standards which, regularly updated, provide useful indications of 'needs'. In Britain, for example, this would accord with the original Beveridge principle of a universal state provided retirement income for subsistence 'so that individuals may build freely upon it'. Household budget standards were pioneered by Seebohm Rowntree in his study of poverty in York in 1901 and used by Beveridge in 1942 to help establish benefit levels for Britain's post-war welfare state.

Because successive British governments have been unwilling to raise the level of the state basic pension to an amount adequate to meet basic needs, older people are expected to rely on means-tested benefits which are costly and complex to administer, have low take-up rates and inevitably lead to the 'savings/poverty trap'. Pensioners constitute the largest social group dependent on income support. Moreover, despite the large number of older people dependent on these means-tested benefits, there is a significant number who, whilst entitled to the benefits, do not claim them. The 'Income-related benefits: Estimates of take-up in 1994-5', published by the Department of Social Security, revealed that the number of pensioner households estimated to be entitled to income support, but who failed to claim, was between 810,000 and 1,100,000.⁹ The proportion of pensioners receiving income support was between 59 per cent

and 66 per cent of those entitled to the benefit.¹⁰

For pensioners, the situation is aggravated by the UK government's refusal to restore the link with national average earnings in the uprating of the state basic pension which would have given pensioners a share in the rising prosperity of the nation based on the growth of GDP. Instead, the government introduced a more generous version of income support called the 'Minimum Income Guarantee' (MIG) which is also a means-tested benefit. In October 2003 the MIG was superseded by the so-called 'pension credit' composed of a 'guarantee credit' (which is virtually the same as the MIG) and the 'savings credit'. The guarantee credit provides a minimum income supplement like the MIG and the savings credit a further 'top-up' ostensibly to 'reward work and savings'.

Low income figures published by the Department of Work and Pensions (DWP) show that in 2001–02 there were still over 2 million people living in poverty, defined as dependent on incomes below 60 per cent of median contemporary income. The UK government expects about one million people to claim the pension credit in 2003–04, in addition to the 1.8 million single pensioners or couples currently claiming the MIG. This assumption is based on a 67 per cent take-up rate among all pensioners entitled to claim. The government's target is to have 3 million pensioners receiving pension credit by 2006. This target still only represents about 75 per cent of eligible pensioners, leaving more than 1 million still in poverty.⁷

In addition to the complexity of the claiming process, a major reason put forward for the low 'take-up' rate of means-tested benefits is the problem of stigma or 'spoiled identity' to use the phrase coined by Erving Goffman.¹¹ The

'selectivist' programmes designed to safeguard against the evasion of the work role, required the poor, as Titmuss has said 'to define themselves', to stand up and declare themselves poor people'.¹² It is the view of Age Concern, in common with many other groups concerned with the relief of poverty, that there will always be incomplete take-up of income-related (ie means-tested) welfare benefits. For this reason, they continue to argue for a state-provided basic pension of sufficient amount to eliminate entirely the need for means-tested benefits.⁷

The political failure to provide adequate state pensions for the basic needs of pensioners is also accompanied by the lack of will to restore 'equity' in pension provision for so many of them. As Peter Laslett pointed out nearly 30 years ago: 'Since it is the elderly who lived and worked through the time of educational expansion it could be said that they have been paying the bill, but not sharing the benefits' ... 'Equity suggests that persons of all ages should have equal shares in the social fund, but the young ... have had a monopoly in that very considerable part that goes to education'.¹³

The requirements of an advanced technological society, like our own at the beginning of the 21st century, are such that a high proportion of the young are engaged in the full-time acquisition of learning and vocational skills until they are well into their twenties. 'Child benefit', which is a 'universal' income benefit in Britain that is not means-tested, is payable up to the age of 19. The result is that the period of dependency, or near dependency, for the eventual highest income earners in British society may be as long as 30 years before they become fully productive contributors to the economy. It can be argued that it would not be

inappropriate for the young, and even the middle-aged, beneficiaries of state-provided education, to repay in the form of adequate pensions and healthcare, at least some of the social costs incurred by the older generation who have benefited less than most other groups from social arrangements enhancing individual life chances.

Age discrimination in employment

On 27th November, 2000, the European Union issued Directive (2000/78/EC) to establish a general framework for equal treatment in employment. The Directive was in accord with the Guidelines for 2000, agreed by the European Council in Helsinki in December 1999, which emphasised the need to pay particular attention to supporting older workers to increase their participation in the labour force. The UK consultation document discusses how equality is to be promoted and enforced and how advice, guidance and support is to be provided to individuals wishing to pursue complaints and to employers seeking to implement the requirements of the enabling legislation. The Directive is to be implemented by member states by December 2003. An additional period of three years for implementation can be granted to member states which need 'to take account of particular conditions'. Britain is one of the countries which has applied for this extended period to implement the Directive.

In Britain, the Labour Force Survey, published in Spring 2001, showed that despite relatively high levels of overall employment in the economy, an increasing number of older workers are economically inactive. Only 68 per cent of people aged between 50 and state pension age were in employment, compared to 82 per cent of those in the

25–49 age group. According to Loretto and White,¹⁴ the number of men aged over 65 in work has declined steadily from 31.1 per cent in 1951 to 7.5 per cent in 1997. The Labour Force Survey however reported a slight increase in the overall number of men and women in employment after state pension age to 8 per cent. The greater proportion of these will be women over age 60 (which will still be the state pension age for women currently in this group).

There is general agreement among all political parties in Britain (as elsewhere in the EU) that there is an urgent economic (as well as social) reason for increasing labour force participation rates among older people. The British government has estimated that the cost to the UK economy of low employment participation rates among older people is of the order of £16bn per annum in lost GDP and the cost of providing benefits. According to the Cabinet Office paper 'Winning the Generation Game', also to be reckoned is the additional cost of lost taxes of £3bn to £5bn.¹⁵

Most European governments take the view that removal of age discrimination in employment cannot be achieved unless the objective is underpinned by legislative authority. The British government's voluntary Code of Practice on Age Diversity in Employment has had only limited success in influencing the behaviour of employers. Evaluation of the Code of Practice revealed that some employers regard older people as less viable as employees despite evidence that preconceptions about the general lower productivity levels, and lack of flexibility, of older workers is incorrect.¹⁵ According to the Employer's Forum on Age in 1998, 30 per cent of businesses had never heard of the Code of Practice on age diversity and 68 per cent said it will not make a

difference to the way they run their businesses.¹⁵

There are, of course, some doubts as to the effectiveness of the proposed law as a remedy.¹⁴ Following publication of the EU Directive, the British government (according to a report in the *Financial Times* on 14th February, 2001) proposed early in 2001 that it was minded to legislate against retirement ages for men and women in contracts of employment. However, after consultation with employers, the question was left open as to 'whether employers should still be able to fix a compulsory retirement age at, say 65'.¹⁴

The experience of New Zealand may be instructive. Legislation outlawing age discrimination came into effect in 1999. In a survey of employed labour union representatives aged 55 and above carried out in 2001, continuing widespread disadvantage of older workers was uncovered.¹⁴ Whilst the legislation may have had some effect in reducing overt discrimination by employers (eg age discrimination in job advertisements) covert discrimination (eg discrimination in the candidate selection process) was proving more difficult to combat.¹⁴

To bring an end to age discrimination in employment in Britain, Age Concern has recommended implementation of the following proposals, namely:

- the abolition of mandatory retirement ages in employment contracts to prevent employers being able to insist on the end of an individual's employment;
- the extension of employment rights to employees over 65 to ensure that their rights are fully protected;
- improved performance management practice by employers to ensure that competence and capability issues are identified and dealt with throughout working lives through training,

development and flexible approaches to employment rather than reliance on retirement as a mechanism for labour turnover;

- improved focus on the transition from work to retirement.¹⁵

Some conclusions on retirement age

Perhaps because of the complex nature of the issues involved, the retirement age policies administered in most countries seem at best to be a more or less tolerable blend of principle and pragmatism, and at worst an uneasy mixture of policies incorporating social objectives which conflict with one another, such as raising the retirement age and simultaneously supporting early retirement programmes to create job opportunities for younger workers. At a time when there is growing anxiety about the present and future costs of social benefit programmes, there is an irony in the fact that, in not a few of the industrialised countries, there is evidence of poverty among elderly people, and that this poverty is not merely of a 'relative' kind. As has been argued in this paper, existing programmes, with all their complexity, are not adequately geared to meeting the needs of older persons, and this, at least in part, may be due to the failure of social policies and programmes to distinguish between the needs of the productive, or potentially productive, old and the dependent old.

In Australia and Canada (and even the USA) the problem of an ageing population is not expected to become really acute until sometime after 2020. In Japan, the proportion of the aged in the population has increased very significantly in the last 30 years. It has been recognised for a long time, however, that it is in Western Europe where the

population is ageing at the most rapid rate. Accordingly, in Europe one of the greatest challenges to social policy is to find new ways of coping with the dependency problems of ageing populations. These seem to be emerging as the real priorities in pension and retirement planning, as well as in care provision through medical, health and social services.

Raising the retirement age may seem a straightforward and logical way to contain the costs of pension provision. It tends, however, to have an unequal impact on different groups in society.¹⁶ Raising the retirement age shortens the duration for which pension payments are made to the pensioner. Accordingly, because the life expectancy of employees in the lower socio-economic groups (associated with low average incomes) is lower than that of employees in the higher socio-economic groups (associated with high average incomes), the reduction in the total lifetime pension, resulting from raising the retirement age, will be proportionately greater for workers on low average incomes.

Autonomy and the age of retirement

It therefore seems not unreasonable to entertain doubts as to whether tinkering with such variables as retirement age can achieve economy in pension provision without sacrificing equity between different groups in society. It has been argued from both the Right and the Left of the political spectrum that there is an urgent need for public and private pensions systems, which are flexible enough to cope with the various consequences of demographic, social and industrial change. Such a reform of the pension system would probably entail going back to the drawing board of social policy to decide upon the social

objectives we want to reach, and then to give attention to devising administrative systems to realise them. Any consensus of social aims will tend to vary in its content from country to country, but in most of the Western liberal democracies it should extend, at least, to a recognition of the basic needs of physical survival and some degree of personal autonomy in the lives of their citizens, including older people.

The provision of resources to ensure physical survival is now generally accepted as an incontrovertible minimum aim of social policy in any civilised society. Autonomy in choosing one's own retirement age entails making both a moral and an economic choice and, as such, should surely be accorded a high value in any society whose dominant 'leitmotif' is supposedly freedom and choice. If there is a genuine concern in our society for the autonomy of older persons then it should be possible to persuade our legislators that flexibility and choice in retirement practice should be made a reality.

Apart from the 'Grey Panthers', and a few similar groups aimed at advancing the interests of older workers in the USA, the elderly, as Peter Stearns has pointed out, 'have not developed their equivalent of a labour movement or feminism'.¹⁷ Yet it is widely recognised that many of the elderly wish to continue to contribute, by working, to the economy on which their society is based. In this respect the interests of the individual and society may not completely coincide, but they are not so divergent as some are inclined to think. It is also doubtful that inflexible retirement policies, such as those based on age, are in the long-term interests of business organisations, although markets vary from industry to industry and from occupation to occupation. As evidenced by the Age Discrimination legislation in

the USA and the Equal Treatment in Employment Directive in the EU, there is increasing acceptance that people should not be forced to retire solely on account of age. Employers should be able to evolve other objective criteria for determining whether or not older workers are capable of efficiently carrying on employment. In principle, there should be no difficulty in developing reliable retirement criteria totally unrelated to age. In the case of managerial or administrative employees, for example, setting each individual's goals for the year would probably provide quite adequate criteria for performance evaluation.

In 1978, the European Commission declared that in retirement policy there needs to be a balanced approach between 'global needs' and 'individual aspirations'. In current circumstances where there is still scepticism about the long-term sustainability of present rates of economic growth, some stabilisation, or even scaling down, of individual expectations may be inevitable. In a situation, however, where there is a recognisable need to prevent pensioner poverty through the creation of equitable pension rights providing an adequate retirement income to ensure a minimum acceptable standard of civilised life, instead of widening the eligibility for poor relief, it will be necessary to maximise the conditions for sustainable economic growth. This will depend on the removal of age-related obstacles to economic growth, which will entail acceptance of technological change, occupational mobility, the availability of re-training schemes, and much more flexibility on the part of both trade unions and employers in devising conditions of employment appropriate for older workers.

If the provisions of the public and private pension systems are to be made

more flexible to cope with these changes, the 'partial pension' option in Sweden, which enables partial working to be combined with partial retirement, may well serve as a suitable model for other countries to follow. The occupational pensions movement, supported by employers, should not encounter much practical difficulty in re-defining benefit rights for people who work after the traditional retirement age, for the part-time employed (whose numbers are likely to increase due to the development of such patterns as job sharing), and for short term workers whose patterns of employment will tend to be irregular.

Towards a new retirement paradigm

The advice of '*Troisième Age*', at one time France's most popular journal for the elderly, was that people should plan for old age by building up secure pension rights to enable them to retire at a date of their own choosing, while seeking the ability to work part-time, if they wished.¹⁷ Part-time working is important for any new retirement paradigm because, in the first place, it recognises the practicality of scaled-down work activity. The elderly worker, whose health is not seriously impaired, can generally work just as effectively as his younger counterpart although probably not at the same pace, or perhaps for the same duration in a working day. The seeking of part-time work is also likely to meet with more success than the quest for full-time employment. During the 1980s¹ and 1990s, in Britain for example, there was a very considerable growth in the volume of part-time employment. Various estimates of the number of part-time employees in the UK give figures well in excess of 5 million. Although the highest proportion

of these workers are women, there is a small, but not insignificant, proportion of men aged more than 65.

These elderly part-time workers are made up not only of members of the professions, but also of employees in clerical, retail and even manual trades. Some are in temporary grades in the public service. Outside the professions, the greatest beneficiary of the services provided by part-time elderly workers is probably the retail business sector to whom these workers have brought both experience and dependability. Which consumer has not encountered in shops, or supermarkets, part-time workers over retirement age, and benefited from their services and practical help? There are clear indications that most of the advanced economies will experience acute labour shortages (particularly in relation to younger skilled workers) in the future and we will need to husband all the resources we have. Accordingly, an end should be brought to age discrimination in employment as soon as practicable. In Britain a useful beginning could be made by implementing the proposals recommended by Age Concern¹⁵ quoted earlier in this paper.

Perceived major obstacles to employing older persons, even in part-time jobs, which perhaps quite understandably worry employers, and give rise to general scepticism, are the recent rate of technological change, the development of new work methods, and the fundamental changes in markets and the wider economic environment. The older worker is not generally seen as having the technical education or skills to be able to cope with these changes in the workplace. These obstacles, of course, could be regarded as a challenge to the older worker to re-skill and to make good any educational deficit even if he has to accomplish this, if possible, from his own private means, treating the

cost of re-training as an investment, along with his financial savings, to achieve a satisfactory work-retirement balance for himself.

Work, education and leisure in old age

An enlightened retirement policy would most probably entail a period encompassing a number of optional retirement ages providing a wide range of flexibility in retirement choice. Initially, perhaps the period of choice would encompass an age range from 60–75 with full pension entitlement from 65 (or 67), or, in case of serious incapacity, after age 55. There should be provision for a partial pension from 60 up to 65 (67), and a significantly enhanced pension, in cases of pension deferral, between 65 (67)–75. The partial pension option is of the utmost importance for those who wish to prolong the working life span because, as discussed earlier, employment opportunities for older workers are most likely to present themselves in the form of part-time work and some pension income is required to offset the reduction in earnings, resulting from changing from full-time to part-time employment. This kind of framework would enable the older person to express his autonomy in choosing a balance of part-time work and part-time retirement (providing opportunities for education and leisure) appropriate to his own capacity and interests. It would also give him the freedom to choose the time of full retirement, when judged appropriate.

Education is self-evidently a good in itself, quite apart from providing the means to maintain a hold on employment. It seems, however, to be taking a long time to eradicate entirely the view that education is a process which occurs once and for all, early in

life. There are practical, as well as equitable, reasons why education should not continue to be the monopoly of the young. Many of the elderly approaching retirement age need education, or practical instruction of some kind, to enable them to prepare for, and to live through, the final stages of life.

Just as education, in its broadest sense as a process of learning and reflection, is essential for the cultivation of moral and aesthetic values, and indeed for the development of all the resources of the intellect and imagination, its continuation, even on a very informal basis, throughout life (including later life) contributes to the renewal and deepening of those values and resources. For the elderly, perhaps, the continuance of education, on a formal or an informal basis, could be of especial importance because, during the retirement years, they will tend to rely increasingly on their personal values and inner resources to live a meaningful life.

So, in the new retirement paradigm, we may see old people increasingly resolving for themselves a balance of work, education and leisure appropriate to their own individual situations. As the old person progresses, through each of the final stages of life, the relative balance of these activities will require adjustment to correspond with that person's changing inclinations and capacities and the increasing onset of age. Leisure provides the maximum opportunity for creative activity, whether in the form of human relationships, the pursuit of hobbies, the study of a new intellectual discipline or the creation and enjoyment of aesthetic experience. Cicero, when he was 62, wrote that many old people are too infirm to engage in creative activities. He added, however, that '... weakness of such a kind, far from being peculiar to age, is a product of poor health in general'.¹⁸ He

certainly did not see the inevitability of a link between poor health and old age. Activity in age of course, may well depend on health. But health in turn may also depend on activity.

This paper has argued that improvements in the health and productive capacity of older people in the second half of the 20th century has emptied the definition of 'old age', implicit in the notion of a normal retirement age, of all meaning. Yet how, as a society, are we to define age, and find its measure? How are we to find a new 'social meaning of age'? We know now that age is not simply a matter of the number of years lived. Perhaps the only realistic measure of age we can have (or ought to have) is that encapsulated in an epigram which appeared in *Troisième Age* in 1965: 'A man is no longer as old as his arteries, but only as old as his activities'.¹⁷

Appendix

Health, life expectancy and the active lifespan

Health and ageing

In 1997, the Geneva Association⁵ launched the second phase of its 'Four Pillars' programme investigating the medical, social and economic means of 'keeping the elderly active longer' and extending their productive contribution to society. Consistent with their first project, which focussed on the future financing of retirement income within 'a new design for retirement', this second project was concerned with healthcare interventions using medical technology 'to revitalise the human body'.

The view of the Geneva Association is that, through advances in such disciplines as genetics, cardiology, orthopaedics, it has become possible to

develop procedures for the replacement of worn-out parts with new ones. For this purpose, use would be made of 'spare parts' such as hip and knee prostheses and heart valves, as well as parts of other organs. The underlying assumption of this research programme on 'Health and Productive Aging' seems to be that we are not so much ageing as a society, but benefiting from good health for longer periods of our lives, largely as a consequence of developments in medical technology. The primary concern should not be with the increased spending on health, but on how such expenditures can be allocated effectively to increase wellbeing and productiveness.⁵

This positive attitude towards the aging population, and its belief that expenditures on the health of the elderly can generate a return in terms of an extended active life span combined with continued economic productiveness, provides grounds for the optimistic view that social attitudes towards the elderly could be improving.

Improvements in mortality and morbidity

There have been great improvements in life expectancy in the 20th century. This has occurred in all the developed countries in the world, notably in the USA, the UK, France, Germany, the Scandinavian countries, the Netherlands, Japan, Italy and Spain. Most of these improvements occurred in the first half of the 20th century, although the latest British projections assume a further four to five years will be added to the expectation of life over the next 60 years. This could mean that 62 per cent of those born in 1996 can be expected to live to at least the age of 80, whereas only 34 per cent of those born in 1916 have reached that age or would have done so by the end of 1996.¹⁹ In recent

tables published by the Continuous Mortality Investigation Bureau (CMI), in Britain the life expectancy for a 60-year-old in 2020 is projected to be two years older than for a 60-year-old in 2000.

It is perhaps projections of this kind, the true nature of which have not always been fully understood, accompanied by other expected demographic changes, particularly those in the gerontic (old-age) dependency ratio (usually calculated as the number of people of pensionable age divided by the population aged 20-59/64), ie 12 per cent in 1901 and projected to rise from 34 per cent in 1981 to 39 per cent in 2021,²⁰ that underlie 'the conventional anticipation of an ever older, ever more feeble and ever more expensive to care for population'. Perhaps the most well-informed set of critical observations on this scenario are those of Dr James Fries of Stanford University School of Medicine with his provocative theory of the 'compression of morbidity'.²¹ Whilst there can be no basis for an accurate forecast of the health of those who will be elderly in 2021, Fries' theory provides some grounds for predicting an offset to the expansion in health-care expenditure required for the increasing numbers of the elderly.

Illness prevention and the elderly

Health risk management programmes for the elderly, aimed at refocusing healthcare away from the unnecessary use of medical services towards illness prevention, were neglected until recently, on the grounds that changes in health habits late in life would be difficult to achieve. Against this, it was argued that, as health expenditures on the elderly are so much higher, and the proximity of the onset of permanent infirmity so much closer, these programmes could

actually be more effective than for younger people.²²

In a study carried out by Dr James Fries of Stanford University School of Medicine and his colleagues, 6,000 Bank of America retirees were divided, at random, into three groups.²³ The first received a low-cost, but well designed, health risk management programme, the second received survey questionnaires only, and the third were measured by medical expenses claims data. Health habit changes of about 10 per cent to 20 per cent were achieved in the experimental group relative to controls. Estimated medical costs and claims data showed cost reductions of 20 per cent in the experimental group, compared with the control groups. The financial savings per subject, per year, were six or more times greater than the cost of the health risk management programme.²⁴

A highly impressive longitudinal study based on data from 1741 alumni who attended the University of Pennsylvania in 1939 and 1940 provides substantial evidence that persons with lower health risks have less lifetime disability, as well as less disability at any given age, than those with higher health risks.²⁵ The alumni were separated on the basis of exercise levels, smoking behaviour and body mass index into those with low, moderate and high behavioural health risks. In the study the line representing minimal disability was 0.1 on a 0.3 scale and was crossed about nine years later in the low risk group than in the high risk group.

These University of Pennsylvania alumni, who were first studied whilst at university in 1939 and 1940, were subsequently surveyed in 1962 (average age in 1962 was 43 years), 1976 and 1980. Mailed health-assessment questionnaires were used to obtain information on disability, medical history and health habits among the alumni on

an approximate annual basis. Seven surveys were carried out between November 1986 and March 1994 (average age in 1994 was 75 years).²⁵ This study is of particular importance because previous longitudinal studies have not examined the relation between cumulative disability and degrees of health risk. All earlier studies have not reported on disability until the end of the lifespan and have therefore focused on total lifetime disability.

The main conclusions of the study were that persons with lower behavioural health risks will tend to have:

- disability later in life
- less disability at any given age and
- less cumulative disability

than persons with greater behavioural health risks. Disability was postponed by more than five years in the low risk group, as compared with the high risk group. Nevertheless for all the alumni studied, the time of the greatest disability (after the age of 85) is still in the future.²⁵

According to Fries, the results obtained from the study of these alumni, who represent a cohort of persons of high socio-economic status with access to high quality medical care, indicate that morbidity can be postponed to a considerable extent exceeding, by a significant margin, any likely increases in life expectancy.

Compression of morbidity

Fries argues that, as the general use of illness prevention techniques increases, the time between birth and the onset of permanent infirmity will increase, so that the period of morbidity is compressed between an increasing age of onset of permanent infirmity and a more slowly increasing life expectancy. The

compression of morbidity entails a delayed onset of infirmity and an extended healthy life-span, improving the quality of the years of life.

In further support of his view that the compression of morbidity is happening, Fries cites in a recent paper²⁶ a number of other US studies, including Manton KG and Gu X.²⁷ This study demonstrates that, although the average age of the over 65 population has been slowly increasing, disability has actually declined from 26.2 per cent in 1982 to 19.7 per cent in 1999. This is a relative decline of 25 per cent over 17 years.²⁷

The Manton and Gu study is of considerable interest because of the data on which it was based. The paper reported results from the US 1999 National Long Term Care Survey (NLTCs) on disability trends from 1982 to 1999. In each survey year, from 1994 to 1999, the sample averaged 19,000 cases — a total of 42,000 different individuals in all five years. (The NLTCs response rate has historically been high and in 1999 was at its highest at 97.6 per cent.) The longitudinal sample of persons was linked to a continuous history of Medicare service use from 1982 to 2000, derived from administrative files. The study found that the decline in disability was greater in the 1990s than in the 1980s. The decline from 1982 to 1989 was 0.26 per cent, from 1989 to 1994 it was 0.38 per cent and from 1994 to 1999 it was 0.56 per cent.²⁷

The discussion in the Manton and Gu paper on the findings of the study concluded with the comment that monitoring chronic disability over time will continue to be important because increases in birth rates and immigration cannot be relied upon to replace losses of the stock of human capital available to the US economy. Accordingly it was thought that the only viable strategy

going forward would be to adopt measures to preserve human capital and keep it in the work force for longer periods of time.²⁷

Fries argues that longitudinal studies and scientific trials, show that illness and infirmity in some populations may be postponed by 8–12 years and that this rate of postponement can exceed the rate of decrease in mortality rates.²⁶ Fries has called for a national policy of illness prevention in the USA. If such a policy were to be introduced in the UK and, if as a result, the average age of onset of permanent infirmity were to be increased more rapidly than life expectancy (estimated in the Government Actuary's 1998 national population projections to increase by about five years between 1998–2050) the compression of morbidity will have happened in these islands. The economic benefits entailed by this compression of morbidity would be two-fold: first, a reduction in health and care costs; secondly, an extension of the active life span, and thereby the productiveness of older workers.

Human behaviour and health outcomes

Although he is certainly not dismissive of the theory, there is nevertheless a note of scepticism about the 'compression of morbidity' in the 2001 BBC Reith Lectures, 'The End of Age', by Professor Tom Kirkwood.²⁸ He says that the compression of morbidity has become something of a mantra and we have to accept that the mantra could be wrong. Attempting to postpone the diseases of old age, in his view, may not compress morbidity at all, 'unless we learn to control the rate of ageing organ by organ' and select the conditions to be postponed, leaving the ageing of the remaining organs to run its normal course. Whilst it is clear from discussion that it is not the view of Professor

Kirkwood, the reference to the ageing of organs, running its normal course, nevertheless may suggest that organs age, or decay, in accordance with some kind of biological time clock and there is nothing we can do about it. If that is the case, we will have returned to the notion of old age as a disease in itself.

Professor Kirkwood, however, also cites the example of food restriction in rodents slowing the damage accumulation in the animals' organs and thereby slowing the rate of ageing. This at least suggests that decisions can postpone conditions. Food restriction is an intervention just as primary prevention, in the form of human decisions, for example, not to smoke or use drugs, or to develop unhealthy eating habits or to use alcohol immoderately, are interventions which demonstrably bring about the postponement of many infirmities.

The arguments of critics of the 'compression of morbidity' theory do not entail that we have to succumb to a biological determinism. In human affairs, as Antonio Gramsci said, the pessimism of the intellect always has to be accompanied by the optimism of the will.²⁹ Human behaviour can influence outcomes, even if it cannot always dictate them. Fries argues that if we neglect preventive and behavioural issues, morbidity is likely to increase.³⁰ We ignore the 'mantra' at our peril. In its original Sanskrit meaning a mantra is not merely a word or sound repeated to aid meditational concentration. It is also an instrument of thought, and has considerable moral as well as intellectual force. As such it can lead to reality transforming action even if only within the microcosm of the individual self. An individual can only bring about his own compression of morbidity, or at least his own postponement of infirmity, by taking responsibility, as far as he is able, for

managing his own health and well-being, and this entails a sustained personal commitment to both the physical and psychological care of the self.

Health risk management can probably be traced back to the Renaissance. It was not until the first half of the 20th century, however, that human behaviour was identified as a critical factor in risk theory, largely as a result of the work of Frank H. Knight and John Maynard Keynes. Uncertainty was looked at by these two economists in a radically different way from any of their predecessors, who had taken little account of human behaviour in the calculation of probable outcomes. Their predecessors had been concerned only with chance, disease and the expectation of life as supposedly ordinarily ordained by nature and not by human decisions. Both Knight and Keynes, however, always emphasised the significance of human behaviour in the determination of uncertain outcomes, whether the behaviour was rational or irrational.

It is arguably a humane, as well as an economic, decision to introduce or encourage the adoption of personal illness-prevention and disease-management programmes and activities in respect of elderly persons. The aim, as Fries has said, is '...to improve the quality of life and to extend active life expectancy'.²² The 'compression of morbidity' which may result from these programmes could entail a delayed onset of disease and an extended healthy life-span thus improving the quality of the final years of life. What may start as an economic decision to reduce morbidity in employment could be carried over into a decision to reduce the need for post-retirement health care, and indeed partial retirement healthcare, (whether provided from public or private resources) and, as the active life-span

increases, so the distinction between working and retirement years may pass away.

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