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WORLD POLITICS REVIEW

The ‘Golden Age’ of Retirement Is Over

By Richard Jackson | June 1, 2023

An elderly woman and a younger woman walk side by side in Warsaw, Poland, Sept. 27, 2022 (Sipa photo by Jaap Arriens via AP Images).

After months of strikes and protests that threatened to paralyze France’s economy and topple the government, French President Emmanuel Macron passed a pension reform this past April that raises the retirement age by two years, from 62 to 64. Doing so required bypassing parliament, surviving two no-confidence votes and overcoming a constitutional challenge. The protests are ongoing, now fueled not just by opposition to the increase in the retirement age, but also by outrage at the way it was achieved. However, the reform is now law, and the retirement age will be raised incrementally until it reaches 64 in 2030.

Though Macron’s methods strained France’s democratic processes, his pension reform was fiscally and economically necessary. Across developed countries, aging populations and slowing economic growth are rendering today’s retirement institutions unsustainable. Many countries, from Sweden to South Korea, have already been compelled to make large cuts in government retirement provision. France, where early retirement ages and generous pensions are considered cornerstones of the country's social contract, long put off the day of reckoning. Despite the predictable backlash—70 percent of the French public opposed the reform—Macron decided it could be put off no longer.

Working longer as societies age is both natural and necessary: It is natural because life spans and health spans have risen dramatically since today's retirement institutions were first put in place, and it is necessary because those institutions are no longer affordable. Many people wish that it weren't so—raising the retirement age is unpopular in most countries, not only in France. But wishful thinking cannot change demographic and economic reality. France's pension system is already among Europe's most expensive, and its cost will continue to grow as the country's population ages. Working longer is an important part of the solution.

The need to extend working lives, however, does not mean that everyone should be required to work longer. Some workers will always need to retire early because they are in poor health or have physically demanding jobs, and governments should ensure that policies are in place to protect them. What it does mean is that what future generations may look back on as the "golden age" of retirement is now coming to an end—not just in France, but across developed countries.

Retirement Past and Present

It's easy to forget that retirement as we know it is a relatively recent social construct. Until well into the 20th century, only soldiers, civil servants and the members of a few other privileged professions could feel any confidence about one day retiring. Most older adults worked for as long as they were able, and when they could no longer work they were generally cared for by their extended families.

It was only in the post-World War II decades that retirement became a near-universal expectation in developed countries. With both the workforce and wages growing rapidly, many of them set up new government pension systems or expanded existing ones. Almost all were financed on a pay-as-you-go basis, meaning that the contributions of current workers pay for the benefits of current retirees. By the 1970s and 1980s, some European countries were virtually bribing older workers to retire as early as their mid-50s with lofty income replacement rates and no-penalty early retirement programs. Others provided for backdoor routes to early retirement by liberalizing older workers' access to disability and unemployment benefits.

The architects of this postwar retirement revolution assumed that rapid demographic and economic growth would continue indefinitely. The U.S. was in the midst of its postwar boom, Germany and Japan their so-called economic miracles, and France its "*Trente Glorieuses*," a 30-year period of exceptionally robust economic growth. As Nobel-Prize-winning economist

Paul Samuelson put it in a 1967 article in Newsweek, “A growing nation is the greatest Ponzi game ever contrived.” With an expanding population and economy, he argued, there will always be more young people than old people, and each new generation will always be richer than the one that preceded it. It therefore seemed entirely reasonable to channel some of tomorrow’s “guaranteed” affluence into retirement benefits.

It also seemed like enlightened social policy. As recently as the 1960s, older adults in most developed countries had much higher poverty rates than younger adults. They were also on average far less educated, often lacking not just the youthful stamina needed for manual labor but also the skills to compete in the industrialized world’s modernizing economies. Subsidizing retirement was the obvious solution. It also had the additional benefit, or at least so thought many at the time, of clearing the workplace of the old “deadwood” in order to free up jobs for the young.

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The predictable result was an exodus of older workers from the labor force. In 1950, 46 percent of U.S. men aged 65 and over still worked. By 1990, that share had fallen to just 16 percent. In much of Europe, older workers virtually disappeared: By 2000, the share of men aged 65 and over still in the labor force had fallen to 8 percent in the United Kingdom, 4 percent in Germany and 2 percent in France. It’s true that labor force participation rates of older women remained stable or even rose in most developed countries over the same period. But that was only because the mass entry of women into the labor market eventually began to push up female labor force participation at older ages faster than earlier retirement was pulling it down.

Then everything changed. Just as the capstones of the postwar retirement edifice were being hoisted into place, its foundations began to crumble. By the 1970s and 1980s, birthrates were in freefall across developed countries. Together with rising life expectancy, the result was a dramatic acceleration in population aging. In 1950, there were 5.1 French people aged 20-64 for every person aged 65 and over. Today there are 2.5, and the U.N. projects that by 2050 there will be just 1.8. In many Western European and East Asian countries, the ratio of working-age to older adults will fall even further. In South Korea, where it is projected to fall to 1.2 by 2050, there will by then be more people turning 90 each year than being born.

It wasn’t only the demographic tide that had turned. Productivity and real earnings growth also began slowing in the 1970s amid oil shocks and stagflation, and they have never fully recovered. All of a sudden, the retirement promises that had once seemed so affordable threatened to become a crushing fiscal and economic burden.

At the same time, a transformation in virtually every aspect of what it means to grow old has rendered the social policy rationale for subsidizing retirement less compelling. In the 1960s, the poverty rate of adults aged 65 and over in the U.S. was three times higher than that of younger adults. Today it is actually slightly lower. In most high-income countries of the Organization for Economic Co-operation and Development, or OECD, older peoples' income now approaches or equals that of younger people. The gap in educational attainment between old and young has also steadily narrowed over the course of the postwar era, even as the shift from manufacturing to services has rendered youthful stamina irrelevant in most jobs.

Not only are today's older adults more affluent and better educated than those of previous generations, but they are also living much longer. Since 1950, life expectancy in the U.S. has increased by 10 years, in France by 17 years and in Japan by 26 years. Most of these extra years of life, moreover, are being spent in reasonably good health. In almost every developed country, according to the World Health Organization, adults who reach age 60 can now on average expect to spend at least three-quarters of their remaining life disability free.

Longer Working Lives

It took a while for governments to catch up with these new realities. A few developed countries, including Japan and the U.S., began to cut the generosity of state retirement provision in the 1980s. The number of developed countries enacting major cost-saving reforms grew rapidly in the 1990s, and by now almost all have done so. Most have eliminated their no-penalty early retirement programs and slammed shut their backdoors to early retirement, and many have raised the full-benefit retirement ages in their government pension systems into the mid- or late 60s. A few, including Italy and Sweden, have even redesigned those systems in ways that stabilize their cost by automatically adjusting benefits to offset increases in life expectancy or slower growth in the payroll tax base.

In some countries, the reduction in the generosity of state retirement provision has been enormous. South Korea—which established its pay-as-you-go National Pension System in the late 1980s, just before its birthrate collapsed—has already cut promised income replacement rates twice, from the original 70 percent to 40 percent. With the system still facing large long-term deficits, it may have to cut them again.

Reducing costs, however, is only part of the challenge. As developed countries reform government pension systems, they need to maintain the living standards of older adults, or else risk a political backlash from their aging electorates. One reason that resistance to pension reform is so fierce in France may be that dependence on government benefits is so great.

According to the Center for Strategic and International Studies' Global Aging Preparedness Index, French people aged 60 and over in the middle—or third quintile—of the income distribution receive three-quarters of their income in the form of a government check. In the Netherlands, the comparable share is one-half. In Canada and the U.S. it is two-fifths, and in Switzerland it is just one-third. All four of these countries lean heavily on employer or personal pensions to supplement state retirement provision.

Encouraging or requiring people to save more for retirement over the course of their working lives is one way to lessen their dependence on government retirement benefits. In recent decades, a growing number of developed countries have begun to make concerted efforts to broaden and deepen retirement savings, including some, like Italy and Germany, that have long relied almost exclusively on pay-as-you-go-state retirement provision. Even Sweden, perhaps the epitome of a European welfare state, has added a funded second tier of personal retirement accounts to its pay-as-you-go government pension system. The reform, which was implemented in 1998 as part of a broader restructuring of the pension system, had the support of both the country's center-right and center-left parties and passed parliament with a remarkable 80 percent of votes cast.

Another way to lessen dependence on government benefits is for people to work longer and retire later. Simply put, the longer people work, the more time they have to save for retirement, and the less time the government will have to support them. All other things being equal, if workers contribute to a retirement savings plan for five more years and collect benefits for five fewer years, the share of pre-retirement income that the plan replaces will be roughly one-third greater. Under some government pension systems, such as U.S. Social Security, monthly benefits also increase on an actuarially fair basis each year that retirement is postponed. In short, while trimming benefit formulas will lower retirement incomes, postponing retirement will not. In fact, it typically raises them.

Longer working lives can also have other important benefits for developed countries. On the fiscal front, they can reduce deficits in the government pension system, helping to ensure that it will still be there for future generations—something that Macron has repeatedly stressed in explaining why his hike in the retirement age is necessary. On the economic front, longer working lives can help to buoy up employment and GDP growth as the population in the traditional working ages grows more slowly or contracts. The U.N. projects that, between 2022 and 2050, the number of adults aged 20-64 will decline by 16 percent in Germany, 28 percent in Italy and 35 percent in South Korea. Older workers can help to fill this gap.

Meanwhile, on the individual front, a growing literature suggests that continued productive engagement can have a significant positive effect on the physical health, cognitive function and emotional well-being of older adults. Of course, not everyone is able to work well into their 60s or 70s, but for those who can, there appears to be a virtuous feedback loop: Longer health spans facilitate productive aging, and productive aging helps to further lengthen health spans.

Some worry that more jobs for older adults would mean fewer jobs for the young. Although this concern was once widespread, especially in Europe, almost all economists agree that it is groundless. The truth is that a job for one person does not deny a job to another. In fact, just the opposite is true. In market economies, additional jobs generate additional income, resulting in new demand for goods and services that in turn translates into still more jobs. In fact, according to the OECD, countries in which relatively large numbers of older adults are employed also tend to have relatively high rates of youth employment.

No Easy Solutions

A shift toward longer work lives is already under way in many developed countries. After bottoming out in the 1990s, the labor force participation rates of adults in their late 50s and early 60s have begun to rise rapidly in many European countries as early retirement programs have been curtailed or eliminated. Labor force participation after age 65 stills remains low in most countries, but it too is rising, helping to boost economic growth. As of 2019, there were seven developed countries, including Japan, Sweden and the U.S., where at least 20 percent of adults aged 65 and over were still employed. In the U.S., this age group accounted for nearly three-fifths of all growth in the labor force during the 2010s.

If today's aging developed countries are to maintain economic growth and ensure the fiscal sustainability of their retirement systems, which can and should remain pillars of the welfare state, they will need to do what they can to encourage this shift to longer work lives, which has stalled since the pandemic.

Governments could begin by eliminating the remaining disincentives for people to work at older ages that are still embedded in the pension eligibility rules and tax codes of many countries. Employers could also provide for new kinds of work arrangements that better meet the needs of older workers, such as phased retirement, flexible retirement and "unretirement"—that is, arrangements that allow workers to combine work and retirement or move in and out of retirement. There's also the need to overcome the reflexive ageism that all too often associates chronological age with functional senescence. The fact is that, on average, the health and ability to work of adults in their 60s and early 70s is little different from that of adults in their late 50s.

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To be sure, there may be other ways to boost employment growth in aging societies. In every developed country, women are still less likely to be employed than men are. Policies like subsidized daycare and paid maternity leave could help to increase female labor force participation, given that the burden of child care still disproportionately falls to women. Such policies might also have the additional benefit of raising birthrates, which would eventually mean more workers. Then there is the option of increasing immigration, which can provide an immediate boost to employment growth, provided that countries are able to integrate new arrivals economically and socially. A few countries, notably Australia and Canada, have made this the linchpin of their aging strategy.

All of this would help to increase employment growth, but it will not be nearly enough to prop up today's retirement institutions. In most developed countries, the labor force participation rate of women aged 25-54, the so-called prime-age rate, is already at least 90 percent of the equivalent rate for men, and there is simply not much room to raise it further. Even if developed countries were to experience a new baby boom, it would have no effect on the ratio of workers-to-retirees for 20 years and little effect for 30 years—long after many of today's government pension systems will have sunk in a sea of red ink. As for migrants, they tend to be younger on average than the native-born population when they arrive, but they will also grow old. For higher immigration to significantly alter the long-term age structure of the population, the increase would not only have to be large, but permanent and rising over time.

Some might hope that higher productivity and wage growth could substitute for higher employment growth in propping up today's retirement institutions. But both have been sluggish for decades now in most developed countries, and there is little reason to believe they will experience a sudden recovery in economies with aging populations, which are likely to be characterized by low rates of investment and older—and hence less mobile and entrepreneurial—workforces.

None of this means that we should return to a world in which workers needed to toil far into old age and, when they could toil no longer, had to fall back on their extended families for support. No one should be expected to work until they drop. Nor, in fact, should everyone be expected to work longer. After all, not everyone has shared equally in the transformation of old age. Some people, particularly low-skilled workers, enter the workforce at a younger age than others, and some jobs remain more dangerous and physically demanding than others. Better-educated and higher-earning workers on average also live longer and in better health than less-educated and lower-earning ones do.

Some workers will always need to retire early, and there must be policies in place that protect them. For instance, eligibility for retirement benefits could be based on years worked, rather than chronological age. Governments could also offer means-tested “bridge pensions” to older workers who need to retire early, or else allow them easier access to disability benefits, as some European countries once did.

Aging societies, however, will need most older adults to work a bit longer. If a larger share did, it would be good for government budgets, good for the economy and, in the end, good for older adults themselves, who would enjoy a more economically secure retirement when they do leave the labor force.

The golden age of retirement, in which workers could look forward to spending as much as the last third of their adult lives in subsidized leisure, may be coming to an end. But retirement as a lifecycle phase need not, provided that we adjust last century’s institutions to the radically different demographic, economic and social realities of this one.

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Editor’s Note: All demographic data cited in this article, both historical and projected, come from the U.N. Population Division’s “World Population Prospects: The 2022 Revision.” For projections, the author follows standard practice and uses the U.N.’s medium variant. Except for U.S. data for 1950, which come from the U.S. Bureau of Labor Statistics, all other labor force data cited in this article come from the OECD.stat database.