

When Will You Retire?

Associate Professor Feng Qiushi, Department of Sociology, NUS

As featured in Lianhe Zaobao, 2 December 2018

Although the retirement reform has been a trend, the policymakers need to be cautious in designing and implementing the adjustment of retirement age. Without a holistic consideration of the needs of the older adults and the prevailing social norms, the retirement reform is likely to fail.

Population aging has become a global phenomenon. In the face of such an unprecedented demographic transformation, policymakers are concerned about the shortage of working-age population, the affordability of the public assistance such as pension, the accessibility of the healthcare resources for elderly, and the sustainability of the family support system.

Major policy initiatives against population aging include: (1) increasing the fertility rate, (2) adding young immigrants, (3) promoting productivity by enhancing human capital, and (4) extending the retirement age. Unfortunately, they are not as effective as expected. Pronatal policies such as financial incentives, maternity or paternity leaves, and childcare provision have achieved limited success in many countries. It is almost impossible for fertility in industrialized countries to restore to the replacement level in the near future. Policies that designed to attract young foreign immigrants prove to be only a partial solution to offset the growth of the domestic elderly population. Due to social and political complexities involved in international migration, most industrial countries are tightening controls over immigration nowadays. Recently, increasing productivity through enhancing human capital of the population has been advocated as an effective option. However, promoting national educational system is a relatively slow process and of high cost particularly for the low- and middle-income countries.

Postponing age of retirement is currently another key policy solution. For the government, to delay the retirement age could directly enhance the affordability and sustainability of the national pension account, with more contributing working-age individuals and less payout-receiving retirees. It could also increase the labor force supply and thus promote economic growth. However, people worry that the prolonged stay of mature workers in the job market may affect the opportunities of youth. However a recent study, using the panel data of 22 countries of Organisation for Economic Co-operation and Development (OECD), found that postponing retirement age had no adverse effect on youth employment from the 1960s to 2000s, because the hypothesis that employment of the young and old are substitutes is invalid.

Despite the concerns and debates on postponing retirement age, most OECD countries have postponed their legal retirement age. 12 out of 34 OECD countries have already set up a prospective retirement age of 67 by 2040. By 2050, the official retirement age can be expected to be postponed to at least 67 in most OECD countries. The gender-specific scheme, in which women retire earlier than men, will also disappear.

The retirement reform needs to take account of national specific contexts. In the last year, the Singapore government made the new law that employers must offer re-employment to eligible

employees who turn 62, up to the age of 67. How to postpone the retirement age is also a major policy issue in China. Since the 1950s, China has implemented a compulsory scheme to regulate retirement age, with 60 years for men, 55 for female professionals/cadres (including teachers, medical personnel, other professionals, and administrators), and 50 for the rest of female workers. This scheme has had no substantial changes to this day.

In a recent study, Professor Jean Yeung and me forecasted how the size, stock, and quality of the Chinese working-age population will change from 2015 to 2050 under nine policy schemes. Through the projections, we revealed the impact of various scenarios on the Chinese labor force in the next few decades, highlighting the changes in the “the high human capital workforce” -- the working-age population with good health and education. We found that postponing the retirement age will not only retain more individuals in the labor market, but also retain increasingly better-educated individuals, particularly females, reaping the benefits of the Chinese education expansion since the 1990s. Extending the age of retirement to 60 for all females and to 65 for all males from 2015 to 2040 will generate an average gain of 42 million women and 24 million men as workforce per year by 2050, among which 18.6 million women and 11.7 million men are the high human capital workforce. In contrast to the scenario with no change in retirement age, the relative proportion of labor force to retiree will increase 52%. These changes could have major implications for the Chinese future economy.

Although the retirement reform has been a trend, the policymakers need to be cautious in designing and implementing the adjustment of retirement age. Without a holistic consideration of the needs of the older adults and the prevailing social norms, the retirement reform is likely to fail. To help older adults maintain their economic activities in later ages, it is imperative to ensure employment opportunities, flexible work arrangements and remuneration, age-friendly work environment, and training opportunities. For a smooth and effective reform to postpone the retirement age, it is also necessary to understand and reconcile interests and concerns of different stakeholders in the labor market. The decision to retire or to continue to work are often complex results of factors including replacement rate of pension, personal life events, savings, work condition, health, and family circumstances. Among employers, on the other hand, there are still practices of ageism to devalue the productivity of elderly employee, and to lay off elderly employees for higher payroll and health insurance.

A good retirement reform thus needs a comprehensive policy package effectively addressing these issues rather than only postponing the retirement age. Particularly the reform should not cause new social inequality. A successful retirement reform should prioritize the needs of vulnerable subpopulations in the labor market. There should be programs to protect the rights of aged workers, especially those in labor intensive sectors. In particular, the working class females deserve special considerations who may face a more drastic adjustment their more disadvantaged socioeconomic status than males. We expect more discussions on this important policy issues and wish a better future of all societies with population aging.