Reshaping Retirement Policies in Post-Industrial Nations: The Need for Flexibility

Angela L. Curl  
*Case Western Reserve University*

M. C. "Terry" Hokenstad Jr.  
*Case Western Reserve University*

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Reshaping Retirement Policies in Post-Industrial Nations: The Need for Flexibility

ANGELA L. CURL
M. C. "Terry" HOKENSTAD, JR.

Mandel School of Applied Social Sciences
Case Western Reserve University

Social Security programs in post-industrial nations are facing the need for policy reforms. Fiscal shortfalls in current Social Security programs are a major driving force promoting these reforms. At the same time, changes in longevity and the nature of work and retirement also suggest the need for policy reform. This article begins with a broad overview of some of the policy innovations of the Europe Union as a whole, and then focuses more in-depth on policy reforms in three countries that exemplify Esping-Andersen's (1990) typology of welfare states: Sweden, Germany, and Canada. These three countries have passed policies that promote flexibility in retirement for older adults, including "gradual retirement", "partial retirement", and credit for caregiving activities. Keeping older adults in the labor force longer retains the tax base of contributors into Social Security as well as allowing those who want to stay in the labor force more choice. The reforms are discussed, along with their potential usefulness for future Social Security policy reforms in the United States.

Keywords: retirement, pension policies, pension reform

Introduction

Both the demographic changes and the changing nature of our society and work emphasize the need to reshape our
thinking about retirement. The word "retirement" used to refer to the abrupt and total transition from full-time employment to zero-employment, but the way that retirement is defined and experienced has been evolving in the United States and around the world. Now, "The concept of retirement is not easy to define — it could imply eligibility for benefits, withdrawal from the labor force, changes in lifestyle, changes in family or living situations, or some combination of these characteristics" (Wiatrowski, 2001, p. 3).

Increased longevity and population aging are global phenomena for developed and developing countries alike. Every month one million people turn 60 years of age (33,000 every day) and today ten percent of the earth's inhabitants are over the age of 60 (United Nations Population Fund, 1999). In addition, the widespread availability of better health care has improved the physical well-being of older adults (Research & Policy Committee, 1999; Steuerie, Spiro & Johnson, 1999). This paper will focus on the fiscal pressures on current Social Security systems in post-industrial nations resulting from the increase in longevity, the changing nature of work and retirement, and selected efforts to reform policies to promote flexibility.

In addition to demographic changes, the nature of work has become increasingly more technologically complex. In the 18th century, the United States and much of Europe had agricultural economies and the working classes were generally forced to work until they were completely disabled or deceased. In the 20th century, these countries became industrialized, and policies were established to provide for the economic needs of older adults (e.g., Social Security), which changed the nature of work and retirement. In the 21st century, the economies of developed countries have begun to move away from industry and toward an information-based economy that requires highly educated workers that are able to obtain and process information effectively. Informational jobs are generally less physically demanding, require continuous learning and skill acquisition, and offer greater options in terms of work hours and work location (International Labour Organization, 2000; Moore, 1996; Reday-Mulvey, 2000; Steuerie, Spiro & Johnson, 1999). Co-existing with the information-based industry are the
retail and service industries, in which workers generally have jobs with less flexibility and more physical demands (Moore, 1996; Stewart, 2000). The Information Industry, and to some extent the retail and service industries, offer workers more work schedule and location flexibility than workers in industrial positions. Reduced physical demands and greater flexibility in terms of work schedules and work location coupled with increasing life expectancy may help encourage older workers to work longer—especially those in the information industry (Summer, 2000; Walker, 1998; see Hodson & Sullivan, 2002, for an historical review of the changing nature of work).

These demographic and economic changes have implications for individuals, corporations, and governments. At the individual level, advances in medical technology means that people, on average, are healthier and able to remain active longer (Beigel, 2001). It also means that the traditional sequential phases of life of the student, then worker, and then retiree may no longer fit. There is an increasing awareness that while life starts with the student role, there is a need for ongoing education, training, and productive engagement (e.g., work, volunteering) throughout the lifecycle. Emphasis on a more blended lifecycle can allow for integration and continuation rather than demarcation between phases of life. At the corporate level, if productivity rates remain constant, the demographic aging of the population means that there will be a labor shortage of workers. In the future, employers will be forced to find ways to recruit and retain older and more experienced workers in order to remain productive and competitive (Crossette, 1999; Research and Policy Committee, 1999; Walker, 1998). At the national level, the rising number of retirees relative to workers will result in a decrease in economic growth and productivity, higher taxes, and a decrease in living standards—unless people can be persuaded to work longer (Crossette, 1999).

There is some evidence that attitudes toward retirement, and working longer, have begun to change in the United States. For example, the U.S. Bureau of Labor Statistics predicts that by 2015 the percentage of those aged 55-64 in the workforce will increase to 65%, and the percentage of those aged 65+ in the workforce is expected to increase to 14.5% (Fullerton, 1999). This represents an important reversal of the 20th century
trend toward increasingly earlier retirement. If public policies encourage the trend of remaining in the workforce longer, the increase in the number and percentage of older workers is likely to be more pronounced.

According to one AARP (1998) study, about 80% of Baby Boomers expect to work for pay during their retirement. The reasons given for this expectation varied from economic necessity to the fulfillment and social interaction that work provides. Further, 56% of early retirees in the United States aged 51-59 say that they were forced to retire due to their poor health or the poor health of a family member (Kiefer, 2001). This highlights the fact that many would choose to work longer if they had the choice, and increased flexibility in terms of work and retirement may help boost the numbers of people that stay active in the workforce. Increasing the average age of retirement would also help bolster the financial viability of Social Security programs (Rix, 2000). This paper will focus policy reform efforts by post-industrialized nations that are designed to promote work and retirement flexibility.

Policy Reality

The current public pension system (Social Security) in the United States and much of Europe relies on a pay-as-you-go (PAYG) funding mechanism. This means that current workers pay taxes that financially support those currently receiving benefits. Therefore, the fact that the percentage of older adults in the population is increasing while birth rates are decreasing means that the ratio of tax-paying workers to pensioners has become smaller. Fewer workers are paying for the Social Security benefits of more retirees. In addition, due to increased longevity, more workers are living long enough to receive pension benefits, and to receive those benefits for a longer period of time (Clark, 2001). When public pensions were first established early in the 20th century, the average life expectancy was about 50 and the age of eligibility for pensions was 65; now the average life expectancy is approaching 80 but the age of eligibility remains about the same (Auer & Fortuny, 2000). This has created financial pressures on social insurance programs around the world.

As a result of these financial pressures, discussions
about the need for reform have become widespread throughout the world. Options for reform include shifting financial risk from the government to workers through privatization of social pensions, increasing the minimum age at which workers are eligible to receive early- and full-retirement benefits, decreasing pension benefits, increasing payroll taxes, and/or eliminating pension benefits for the affluent (MacKellar, Ermolieva, & Reisen, 1999). Of these, encouraging people to work longer appears to be the most attractive option since it offers a triple benefit: "it would raise economic growth, increase the tax base, and reduce the numbers of dependent older persons" (Organisation for Economic Co-Operation and Development [OECD], 1998, p. 19).

**European and Canadian Policy Innovations**

All developed countries share similar demographic and fiscal pressures on their pension systems and are jointly trying to stem the flow of older workers out of the labor force. This is especially true for the member states of the European Union ([EU]; Levinsky, 2000; Naegele, 1999; OECD, 1998). The council of European communities in 1986 proposed that stress be laid on gradual retirement and on accumulation of wealth (Reday-Mulvey, 2000). As part of the strategy, member countries are closing down early exit options, which had previously acted to reduce unemployment rates by allowing workers to retire early (OECD, 1998; Schmahl, 2000). They are also encouraging part-time work rather than full retirement as many older adults have indicated an interest in remaining economically active if the job opportunities were sufficiently flexible (Reday-Mulvey, 2000). Member countries are focusing on retention, reintegration, and retraining of older workers (Walker, 1998). As a result, during the past decade there has been a widespread growth in the numbers of male and female older workers in part-time positions. While these numbers represent a relatively small percentage of the total number of older adults, this represents an encouraging trend away from increasingly early retirement. The idea that retirement is a distinct life phase devoted to leisure at the end of working life is being challenged by changes in employment and insufficient
savings, as well as pressures on the pension system (OECD, 1998; Walker, 1998).

One barrier to gradual retirement is the manner in which pension benefits are calculated. Forty percent of OECD countries determine pension benefits based on final career earnings, ranging from the last month's pay to the last ten years (World Bank, 2000). The use of final career earnings can serve to discourage gradual retirement or late-life career changes to jobs that are not as well-paid, since it would result in lower pensions. On the other hand, another third of OECD countries base pension benefits on the average earnings over the person's working career, which tends to reduce the final benefits since salaries for many careers tend to rise over time.

The minimum number of years required for pension eligibility and the wage replacement ratios also vary by country (Evans & Falkingham, 1997). Part of the reason for these differences is the differing social values and fiscal realities experienced by EU countries. One main purpose of public pensions is to make sure that older adults have a minimum pension, but whether the goal is income adequacy or equity in terms of contributions and payments affects policy decisions. When the goal is equity, those who have contributed more taxes to Social Security receive more pension benefits; when the goal is adequacy, the focus is on providing for the financial needs of the poorest pensioners. The U.S. addresses the need for adequacy by replacing more of the pre-retirement income for those with the lowest average lifetime earnings and less for those with the highest average lifetime earnings. At the same time, the U.S. addresses the need for equity by making sure that those who contribute the most to Social Security still receive the largest pension payments.

While Social Security in the United States is a hybrid system that balances adequacy and equity concerns, some countries in Europe focus more one or the other, with differing results. For example, countries such as Germany and Canada focus more on income sufficiency than the United States and therefore replace a greater proportion of pre-retirement income through a combination of public pension payments and other income transfers (Burkhauser, Lillard & Valenti, 2001). According to Burkhauser and his colleagues, the overall gen-
erosity of social security, other public programs, and private pensions "may explain in part the higher exit rates and lower employment rates" in Germany and Canada relative to the United States (p. 12).

Having examined some policy reforms of EU member states as a whole, the paper will now examine the policy reforms of a select few countries. Esping-Andersen (1990) identified three major types of social welfare systems in developed countries: "liberal", "conservative", and "social democratic". Sweden, as a "social democratic" country, focuses on providing social assistance to all of its citizens, regardless of financial need, with the goal of reducing social inequality and dependency on family members. Germany, as a "conservative" country, encourages corporations and non-governmental organizations to provide social assistance when families and communities are unable to meet the needs of individuals, with the government as the provider of last resort. Canada and the United States, as "liberal" countries, provide as little social assistance as possible to encourage workers to remain in the workforce. The following sections examine policies from Sweden, Germany, and Canada, with a discussion of possible policy implications for the United States.

**Sweden**

Sweden is one of the demographically oldest societies on earth due to its record-low fertility rate and a continued falling mortality rate. At the same time, its social and political commitments make old age security and elder care essential features of the Swedish social policy (Hokenstad & Johansson, 2001). The goal is to guarantee a minimum level of economic security (www.fk.se/sprak/eng/engelska.pdf); however, this commitment has resulted in tremendous fiscal pressures on its Social Security system.

In an effort to ease fiscal pressures while providing an adequate safety net, Sweden has been moving toward a partial pension system for flexible retirement. It is Sweden's new pension system, which applies to those born in 1954 or later, that is described in this paper. Persons born before 1954 are part of the old and new systems. The new policy, implemented fully in 2001, means that workers can retire anytime after 61
years of age, but the later they retire the higher their pension payments are (Schremmer, 1999). Pensions are based on the average life expectancy at the time of retirement, as well as the expected increase in average wages in future years.

Swedish workers can also receive a partial pension for partial retirement. Public pensions can be drawn in full or in fractions of ¼, ½ or ¾ of full pensions, and can also be reduced from full to partial pensions at a later time if income rises above the earnings limits. This allows people to mix work with pensions so that individuals determine how much of a pension to take and when, up to age 70 when their full pension must be taken. Individuals over the age of 70 may continue to work while receiving pension benefits. Sweden’s participation rates in partial retirement schemes are relatively high, partially due to the availability of part time jobs and the long standing traditions of flexible working (Naegele, 1999).

The Swedish pension system has also been partially privatized (Normann & Mitchell, 2000). Of the 18.5% payroll tax paid jointly by all workers and employers to support the pension system, 2.5% of the worker’s salary is put into a private “premium pension” retirement account. Individuals can invest the money from their premium pension account in a variety of registered funds; otherwise the government invests the money on their behalf (www.fk.se/sprak/eng/engelska.pdf). Married individuals can also transfer their pension benefits to their spouse.

Germany

Germany has also introduced reforms to increase the flexibility of its pension system by modifying the eligibility criteria for those engaged in caregiving activities. Although the pension system in Germany is theoretically gender neutral, in Germany as in the United States, historically women have been socially expected to perform certain caregiving functions which can have economic impact and translate into lower social security contributions and therefore lower pension benefits. This includes withdrawing from the labor force, or reducing the number of hours worked, in order to provide caregiving for young children and for older relatives.

In Germany, people must work for a minimum of
five years to be eligible for Social Security (Social Security Administration [SSA], 2004). However, since 1996, parents have the universal right to earn up to three years worth of pension eligibility credits per child to compensate those that stay out of the labor force to raise children (Scheiwe, 1997). In addition, Germany is combining its long term care strategies with its pension policy efforts to reduce the costs associated with an aging population.

In 1994, Germany passed the Long Term Care Insurance (LTCI) Act (SSA, 2004), funded by a 1.7% payroll tax jointly paid by employers and employees (Scheiwe, 1997). The benefits and services under this Act are available to all that qualify regardless of income level. The LTCI Act has several unique features, including the establishment of a registry of elder caregivers. The government pays the pension contributions of registered caregivers who provide at least 14 hours per week of care and do not work for pay for more than 30 hours per week. The amount of pension contribution credited to a caregiver’s record is based on a formula of average pension contributions and the level of care needed by the older adult. By registering with the government as a caregiver, the time spent out of the labor force to provide caregiving also counts towards the eligibility requirements for receiving Social Security. These pension credits can be accumulated simultaneously with personal employment-related pension credits, and the caregiver pension credits are not time limited. Registered caregivers are also insured against accident and injury that occur during informal caregiving services. The goal of these long-term care provisions was not to increase the number of those withdrawing from the labor force but to assist those who had already withdrawn and were therefore economically disadvantaged (as well as to promote the provision of long-term care at home).

As Germany’s population grows increasingly older there is a need to promote longer involvement in the labor force, as well as long term informal caregiving for older adults. In 1998, the percentage of the German population over the age of 65 was 15.9 percent, with a projected rise to 20.3 percent by 2015 (United Nations Development Programme, 2000). In addition to the population aging, there is a trend for workers, especially male workers, to retire years earlier than the age of
full time retirement. According to a cross-sectional study of employment conducted by Burkhauser, Lillard, and Valenti (2001), German labor force exit rates “exceed 10 percent as early as age 58 and rise rapidly to nearly 30 percent by age 61. They approach 50 percent by age 64” (p. 4).

One policy implemented in Germany in an attempt to delay early retirement was the reduction of pension benefits (OECD, 1998). It was thought that if benefits were less generous then workers would have economic incentive to stay in the labor force. However, this policy strategy did not have a significant impact on the retirement decisions as many continued to retire early rather than continuing to work until the age of full retirement. Therefore, to cut costs Germany lowered the rate of adjustment of pension benefits based on inflation and encouraged greater reliance upon private pensions.

Germany also instituted a partial retirement program in 1992, and then modified this program in 1996 with the passage of the Act Promoting Gradual Transition into Retirement (Levinsky, 2000). This program allows workers over the age of 55 to reduce their employment to 50% while receiving 70% of their previous income. The 20% difference is paid for by the Federal Employment Office if the remaining 50% position is filled by an unemployed person. According to 1998 data, about 82 percent of the participants in Germany’s gradual retirement program were males, in contrast to Belgium, where most participants were female (Levinsky, 2000). In Germany, part-time workers are also eligible for the partial retirement program, providing they were employed more than 15 hours per week, earned above a minimum baseline salary, and both the employee and employer contracted to keep the worker at least until the minimum age for early retirement eligibility. Germans age 61-64 do not need to participate in a formal gradual retirement program in order to receive partial retirement benefits (SSA, 2004). Those in this age group may reduce their hours of employment and receive a two-thirds, one-half, or one-third pension depending on individual earnings.

Partial retirement of older workers offers benefits to employers (e.g., retaining skills, freeing older workers to train younger workers, raising productivity) and employees (e.g., reducing stress, increasing job satisfaction, allowing employ-
ees to remain part of the work team, providing free time to develop non-employment related activities) (Reday-Mulvey, 2000). Although partial retirement can also have drawbacks (e.g., schedule planning, reduction or elimination of fringe benefits), this partial retirement program was instituted in an effort to reverse the trend toward early retirement.

Canada

Canada’s public pension program, called the “Retirement Income System”, combines income protection for older adults with policies that promote flexibility (Human Resources Development Canada [HRDC], 2001). This system has three parts: the Old Age Security (OAS) program, the Canada Pension Plan (CPP) and private pensions and savings through such venues as the Registered Retirement Savings Plans (RRSPs). While some benefits are available beginning at age 60, the age that people become eligible for full retirement benefits is 65. The Old Age Security program gives everyone aged 65 or older $451.55 (CAN) per month if they have been residents of Canada for at least 10 years since their 18th birthday, regardless of income or wealth. This OAS pension is supplemented by the Guaranteed Income System (GIS) for those who fall below the federal poverty cut-off, raising the universal pension to a possible maximum of $1,010.08/month for a single person. Low-income spouses and common-law partners of OAS beneficiaries and widows/widowers are eligible for the Allowance program, which provides a monthly income for those ages 60-64 until they become entitled for Old Age Security.

The Canada Pension Plan provides a monthly retirement pension for all Canadian residents who have worked and contributed to CPP after the age of 18 (HRDC, 2001). In 2003, the maximum CPP retirement pension was $801.25 per month for those who retired at age 65 (SSA, 2003). The CPP pension benefit is based on the average amount of contributions and the number of years of contributions over the working life, but includes some provisions for those who have a few low-earning years. For example, CPP excludes 15 percent of the lowest earning years and the years spent out of the workforce raising children under the age of seven, when calculating the
average contributions. The CPP also includes retirement age flexibility provisions for those who wish to retire as early as age 60 or as late as age 70. While people can retire early, those who wish to claim early retirement benefits must earn little or no money, and their pensions are permanently reduced by 0.5 percent for each additional month between the date of their retirement and the age of 65. On the other hand, those who delay drawing their retirement pension past the age of 65 earn an additional 0.5 percent for each month past age 65, up to the age of 70, providing an economic incentive to remain in the labor force longer.

U.S. Policies

In an effort to encourage workers to remain in the labor force longer in the United States, legislation was passed in 2000 to eliminate the "retirement earnings test" for those above the full age of retirement (SSA, 2005). The retirement earnings test reduces the Social Security benefits of those who earn more than a minimum amount (in 2005, the limit is $12,000 per year), by deducting $1 for every $2 or $3 earned above the annual limit (depending on age). For example, if a person earns $20,000/year, this means that he or she is $8,000 above the minimum amount allowed, and thus his or her pension benefits would be reduced by $4,000/year (or $5,280/year, depending on age). Those above the full retirement age now are able to receive their full Social Security benefits as well as all their earnings. In addition, since Social Security benefits are calculated based on an average of the 35 highest years of income, working longer could also help increase Social Security benefits for future years. However, the retirement earnings test still applies to those who are younger than the full retirement age and receive Social Security.

Under the ADEA, it is unlawful to discriminate against a person because of his/her age with respect to any term, condition, or privilege of employment -- including, but not limited to, hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training (www.eeoc.gov/facts/age.html).

The Older Workers Benefit Protection Act of 1990 (OWBPA) amended the ADEA to include provisions that prohibits employers from denying benefits to older employees.

In 1987, the U.S. also passed a law that eliminated mandatory retirement based on age, except for certain professions such as airline pilots, law enforcement, and the military. In Canada, legislation currently protects against age discrimination for all workers in Alberta, Manitoba, Prince Edward Island, Quebec, and the territories, while it only protects workers ages 18-64 in British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Saskatchewan (Human Resources and Skills Development Canada, 2005). Mandatory retirement ages have also been abolished in Australia and New Zealand, but remain in effect in European nations (Meadows, 2003).

Gradual, or phased retirement, defined as “a gradual change in a person’s work arrangements as a transition toward full retirement”, has also been considered in the United States, although not as part of the Social Security system (Employee Benefits Security Administration, 2000). The Advisory Council on Employee Welfare and Pension Plans convened a working group to study the issue, and a report was subsequently written and forwarded to the Secretary of Labor. The committee identified three types of barriers to phased retirement: the design of private pension plans, the potential loss of health care coverage, and legal concerns, such as potential violations of the ADEA

In order to facilitate the development of phased retirement programs in the private sector, the Working Group made five key recommendations. First, pension laws and regulations should clearly state that pensions cannot be reduced if pay decreases due to phased retirement, since some private pension
plans determine benefits based on final pay. Second, a law should be passed stating that pension payments can be made to those who are in phased retirement programs, if certain age or years of service requirements are met. Third, that the 10% additional penalty tax for pension benefits paid before age 60 be eliminated, if the years of service requirements are met. Fourth, individuals should be allowed to purchase Medicare coverage between the age of 55 and the age of 65, or that they be allowed to purchase extended COBRA (Consolidated Omnibus Budget Reconciliation Act of 1986; COBRA is a program that allows workers to pay to continue receiving their employer-provided health insurance coverage for 18 months after termination of that employment) continuation health coverage after age 55. Fifth, ADEA should be reviewed and written guidance provided concerning age discrimination as it relates to designing phased retirement programs.

Comparison of the United States, Canada, Sweden, and Germany

Similarities. There are similarities in some of the policy regulations of the Social Security programs of the United States, Canada, Sweden, and Germany. For example, all four countries provide universal coverage for the majority of workers (not just those with incomes below a certain limit) (SSA, 2003; SSA, 2004), and each country requires a minimum number of years of contribution into Social Security in order to receive benefits. These Social Security programs are all funded by mandatory payroll tax contributions from employees and their employers. For all four countries, Social Security benefits are calculated based on an average of lifetime earnings (with some provisions for low-earning years), and each country offers financial incentives for each month of delay of retirement past the age of eligibility for full retirement (up to the age of 70, except for Germany where incentives continue to accumulate indefinitely).

It is also important to note that all four countries provide additional assistance for low income older adults, separate from the Social Security programs (SSA, 2003; SSA, 2004). In the United States, those with incomes below the federal poverty limits can apply for financial assistance through the
Supplemental Security Income (SSI) program. In Canada, low-income adults apply for the Guaranteed Income Supplement (GIS), which raises the household’s total income above the national poverty threshold. In Sweden, there is a guaranteed pension of 83,709 kronor/year (US$1 = 7.31 kronor) for a single person with 40 years of residence and no earnings-related pension. Germany’s low-income program is called “social assistance” (www.bmgs.bund.de/cln_040/nn_600110/EN/Home/index.html).

Differences. In addition to similarities, there are also differences in the Social Security programs of these four countries. One major difference is that Sweden and Germany have provisions for partial retirement/benefits, while Canada and the United States do not (SSA, 2003; SSA, 2004). The United States requires the most (10 years [40 quarters]) number of years of contributions into the system in order to be eligible for benefits, while Canada only requires that workers be at least age 60 and have one or more years of contributions. Sweden requires at least three years of contributions, and Germany requires a minimum of five years of contributions. Other differences relate to age-eligibility, how the programs are funded, level of benefits, and residency requirements.

The minimum age of eligibility for full retirement benefits and for early retirement benefits varies between the four countries. Sweden has the youngest minimum age of eligibility for full retirement benefits: age 61, while in Canada and Germany the minimum age is 65. In the United States, the minimum age of eligibility for full retirement benefits is gradually increasing from age 65 to age 67 (in 2005, the current minimum age is 65 and a few months), and this change will be completed by 2027. The minimum age for early retirement benefits is 62 in the United States, while it is age 60 in Canada and 61 for Sweden. In Germany, the minimum age for early retirement is 63, but those who are unemployed, part-time workers, and/or severely disabled are eligible for early retirement benefits at age 60.

Canada and Sweden have residency requirements (requiring that beneficiaries must have lived for a certain number of years in the country – not just to have contributed to the system) and a universal guaranteed monthly minimum
benefit, while the United States (except for those who reached age 62 before 1982) and Germany do not. In Canada, this guaranteed monthly minimum of $451.55 is given to all adults age 65 or older who have ten or more years of residency in Canada. In Sweden, the guaranteed monthly minimum applies to all older adults (age 65+) with three or more years of residency in Sweden.

The percentage of taxes withheld to fund Social Security also varies significantly between the four countries (SSA, 2003; SSA, 2004). Canada collects the lowest percentage (9.9%; evenly split between employees and employers) on earnings up to US$39,900. The United States collects 12.4%, also evenly split between employees and employers, on earnings up to $87,000 in 2003 (this amount changes every year). Sweden collects 18.5% (7% from employees and 11.5% from employers), and 2.5% goes into an individual pension account. The highest percentage, 19.5%, is collected by Germany (evenly split between employees and employers), but lower contributions are required for low-income workers. Sweden and Germany do not have a cap on the amount of earnings that are taxed, and they do not have a stated maximum benefit for monthly earnings-related pensions. Canada, which collects the lowest percentage of payroll taxes, offers a maximum monthly benefit of $801.25 for an individual at the age of full retirement (Canadian dollars; US$1 = C$1.37; SSA, 2004). The United States has a maximum monthly benefit of $1,741 at the age of full retirement (SSA, 2004). These figures illustrate how the amount of taxes collected can have implications for a nation’s pension benefits.

Another important benefit-related difference between the four countries is the way that benefits are calculated (SSA, 2003; SSA, 2004). For all four of these countries (but not for all post-industrial nations), benefits are calculated based on the lifetime earnings (with provisions for excluding some years). In the United States, benefits are based on an average of the 35 years of highest earnings and the overall income category (low, medium, or high). In Canada, benefits are based on an average of all contributing years, after dropping the 15% of years with lowest earnings, and years spent caring for child under age 7 (optional). Sweden bases its benefits on lifetime average wages...
from age 16 onward, the average life expectancy at the time of retirement, and expected increase of average wages in the future. In Germany, benefits are based on lifetime earnings, but periods of incapacity for work, childcare, unemployment, and schooling after age 17 are taken into account.

Policy Recommendations

As the previous section illustrates, there are a lot of similarities and differences in the pension systems of post-industrial countries. The populations of Canada, Sweden and Germany all have a greater percentage of older adults than the United States, so the United States can learn valuable lessons from their experiences and policy reform efforts. For example, in order to make retirement policies more flexible, the United States could adopt plans that allow workers to take partial retirement benefits while continuing to work. Sweden has used this strategy to help keep workers in the labor market longer, which increases its Gross Domestic Product (i.e., national productivity) and tax base.

The experience of Germany teaches us that reducing pension benefits does not appear to encourage workers to remain in the labor force longer, but that providing incentives for remaining in the labor force does work. The United States could also benefit from instituting a partial retirement program similar to Germany’s to help promote time and scheduling flexibility for workers approaching retirement age. This could help workers remain in the labor force longer, and could also encourage the employment of those who are currently unemployed.

Sweden has been innovative in the way that it privatized its Social Security program. As has been mentioned, the Swedish system is funded by an 18.5% payroll tax. This tax used to be 16.0%, but Sweden added a 2.5% payroll tax and put this amount in private accounts (www.globalaging.org/pension/world/sweden.pdf). In contrast, England took part of the contributions that used to fund the regular pension system and used that amount for its private accounts, and this caused great financial problems for the regular pension system.
Williamson (1999) has written about lessons that the United States can learn from the privatization of pension systems in other nations. One key lesson is that privatization involves risks. There are great costs associated with transitioning to a privatization system and greater risks for those who are most vulnerable – traditionally women, minorities, and those with the lowest incomes.

One way the United States could help reduce the economic risks of women age 65+ is to create policies that compensate women if they have made economic sacrifices throughout their lives in order to provide caregiving to young children or older adults. Canada and Germany both allow those who have provided care for young children to discount those years when calculating the average lifetime earnings (and thus the pension benefits of these individuals is higher). Germany also has many mechanisms designed to help those who provide caregiving for older adults. Although the pension systems around the world are facing financial pressures, there is also a growing need for caregivers. As people live longer, an increasing number of older adults are experiencing chronic health conditions and require assistance performing tasks that allow them to continue living in the community. Yet as more women enter the labor force, the number of available caregivers is decreasing. If the United States does not create systems that encourage caregiving activities, it potentially could face much greater health care costs in the future.

Conclusion

There are practical as well as philosophical reasons for older adults to be part of the labor market. Practically, we are learning that even significant retirement savings may not prevent poverty in retirement. The poor economy and stock market returns of the early 2000’s have reduced the wealth of many soon-to-be-retired (Wolff, 2002). Delaying retirement, perhaps indefinitely, may serve as an alternative to a significant drop in standard of living upon retirement, as well as easing some of the fiscal pressures on Social Security systems around the world.
Philosophically, the United Nations (2002) emphasizes the importance of older people participating fully in society. This means encouraging older adults to play a more active social and economic role in contributing to the well being of society. One way this could be facilitated is through policies that blend student, work, volunteer, and leisure time activities (OECD, 1998). The International Labour Organization (2000) concurs, and states that policy makers around the world should focus on making labor markets and labor market participation more flexible through strategies such as the promotion of partial retirement and partial pension plans.

It is clear that retirement and retirement policies are being redefined in the 21st century. Both population aging and the changing patterns of work are driving these reforms. There is a need for public policy strategies that promote employment and retirement flexibility – for the sake of individuals and the global society.

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