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[http://www.economist.com/opinion/displayStory.cfm?story\\_id=13900145&fsrc=nwlbtfree](http://www.economist.com/opinion/displayStory.cfm?story_id=13900145&fsrc=nwlbtfree)

### Ageing in the rich world

## The end of retirement

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From The Economist print edition

**Demography means virtually all of us will have to work longer. That need not be a bad thing**

Alamy



WHEN Otto von Bismarck introduced the first pension for workers over 70 in 1889, the life expectancy of a Prussian was 45. In 1908, when Lloyd George bullied through a payment of five shillings a week for poor men who had reached 70, Britons, especially poor ones, were lucky to survive much past 50. By 1935, when America set up its Social Security system, the official pension age was 65—three years beyond the lifespan of the typical American. State-sponsored retirement was designed to be a brief sunset to life, for a few hardy souls.

Now retirement is for everyone, and often as long as whole lives once were. In some European countries the average retirement lasts more than a quarter of a century. In America the official pension age is 66, but the average American retires at 64 and can then expect to live for another 16 years. Average spending on public pensions across the OECD is now the equivalent of more than 7% of GDP (they cost

America just 0.2% back in 1935). In some countries the current figure could double by 2050, to say nothing of the cost of private pensions and extra spending on health and long-term care.

## Grey and proud of it

Although the idea that “we are all getting older” is a truism, few governments, employers or individuals have yet come to terms with where longer retirement is heading: the end of the whole concept (see [special report](#)). Whether we like it or not, we are going back to the pre-Bismarckian world, where work had no formal stopping point. That reversion will not happen overnight, but preparations should start now—to ensure that when the inevitable happens it is a change for the better.

It should be for the better because it is being partly driven by a wonderful thing: people are living ever longer. Life expectancy has been rising by two or three years for every ten that pass, despite repeated forecasts that it was about to reach its limit. Centenarians used to be rarer than hens’ teeth; now America alone has 100,000 of them. By the end of this century the age of 100 may have become the new three score and ten.

This imminent greying of society is compounded by two other demographic shifts. First, in most rich countries women no longer have enough babies to keep up the numbers (a prospect that may please a lot of greens but not many governments); and the huge baby-boom generation, born after the second world war, has begun to retire. In 1950 the OECD countries had seven people aged 20-64 for every one of 65 and over. Now it is four to one—and on course to be two to one by 2050. That will ruin the pay-as-you-go state pension schemes that provide the bulk of retirement income in rich countries.

It is tempting to think that some of the gaps in the rich countries’ labour forces could be filled by immigrants from poorer countries. They already account for much of what little population growth there is in the developed world. But once ageing gets properly under way, the shortfalls will become so large that the flow of immigrants would have to increase to many times what it is now. Given the political resistance to even today’s levels of immigration (as shown up in the recent elections to the European Parliament), that, alas, looks unlikely.

So individuals, companies and governments in rich countries will have to adapt. There are some signs the first two are beginning to do that. Many employers remain prejudiced against older workers, and not always without reason: performance in manual jobs does drop off in middle age, and older people are often slower on the uptake and less comfortable with new technology. But people past retirement age would not necessarily carry on in the same jobs as before. In Japan, where pensions are Spartan and lots of people are still working in their later 60s and even 70s, big companies like Hitachi have found ways of re-employing staff after retirement—but in a different capacity and, significantly, at lower pay.

Elsewhere employers have been less inventive. But retailers such as Wal-Mart or Britain’s B&Q, and caterers such as McDonald’s, have started hiring pensioners because their customers find them friendlier and more helpful. And skills shortages are already creating opportunities: in the past year or two a dearth of German engineers has caused companies to bring back older workers. Once labour forces start declining, from about 2020, employers will no longer have much choice.

As for the older workers themselves, many of them seem keen enough to carry on beyond retirement. A recent *Financial Times*/Harris poll showed most Americans, Britons and Italians would work for longer in return for a larger pension (though Germans were much less enthusiastic). This surely makes sense: as long as the job is not too onerous, many people benefit in mind and body from having something to get them out of the house. Many baby-boomers say they never want to bow out altogether, though they would often prefer to put in shorter hours. If they want to go on working, they will have to accept that pay can go down as well as up.

## It will all work out, sort of

Can governments make sure this inevitable adjustment goes smoothly? In the recent past some policies have bordered on the demographically insane—for instance “job-creation” schemes that encourage older workers to take early retirement. Many things that make sense anyway, such as making benefits more portable, encouraging immigration, promoting private saving or reforming health care (see [article](#)), make even more sense now. Banning mandatory retirement ages in the private sector (as America has done) looks sensible, as does creating conditions in which people can retire more gradually. Above all, the retirement ages for state pensions need to be put back. Recent increases to 67 or 68 are doing no more than compensate for the likely rise in life expectancy: 70 would be a better figure. So far only Denmark has taken the radical step of indexing the pensionable age to life expectancy.

Some of this will be unpopular. Private pensions, which might make up for some of this, last year lost nearly a quarter of their value, a terrifying \$5.4 trillion. But as Herb Stein, an economist, pointed out, “if something cannot go on forever, it will stop.” Better to try to enjoy the consequences.