

Brotherhood of St Laurence
Fitzroy, Victoria

Raising the Age Pension Eligibility Age and Its (Dis)Contents

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May 2009 Federal Budget

The Rudd Labor Government announced increase in Age Pension eligibility age from 65 years to 67 years.

To be phased in over a six-year period beginning mid-2017. From 1 July 2017 the eligibility age will increase to 65.5 years and then rise by 6 months every two years reaching 67 years by 1 July 2023.

Thus, Australia has fallen into line with countries that have already increased (e.g., Iceland, Norway, USA) or are in the process of increasing (e.g., Denmark and Germany) the public old-age pension eligibility age to 67 years. (But note 68 years in the UK.)

Reasons for Increasing Public Pension Eligibility Age

At least two:

1. Reduce demand for/access to old-age public pensions as a means of slowing the inexorable growth in public pension costs.
2. Encourage older workers to remain in the workforce in order to extend the period that they remain working taxpayers (and “growers” of their private pension (superannuation) savings).



Perceived need to increase eligibility age the result of the confluence of several factors:

1. Imminent entry of the huge baby boom generation into the retirement years.
2. The (continuing) increase in life expectancy resulting in people remaining on old-age pensions for much longer periods than in the past.
3. Negative impact of sustained low fertility on the old-age dependency ratio.



The Australian Context (1)

- 13.5% (3 million people) 65+ years of age
- Almost 70% (2.1 million people) receive Age Pension (full or part) + <10% receive Service or War Widows Pension.
- During 2010 107,000 front-end female boomers (born in 1946) will reach current eligibility age of 64 years. In 2011 100,00 front-end male boomers will reach male eligibility age of 65 years together with a further 120,000 female boomers.
- Cost of Age Pensions is equivalent to 2.7% of GDP but will reach 3.9% by 2049-50.

The Australian Context (2)

- Front-end boomers who take up the Age Pension can expect to remain on it for about 18 years cf. 12-year average from 1909 to early 1970s.
- Due to increase in life expectancy at birth (1/4 century over last 100 years) and older ages. Since 1985 alone, male life expectancy at 65 has increased by 4 years to 18 years and female life expectancy at 65 has increased by 3 years to 21 years.
- At same time, ratio of workers to people 65+ years, which was 7.5:1 in 1970 and is 5:1 today, is projected to reach 2.7:1 by mid-century and number of Age Pensioners will have increased by 150%.

Three Questions

1. Will the increase in the Age Pension eligibility age yield the intended savings to the public purse?
2. Will the reconstruction of what constitutes the duration of a working life/the onset of old age that is implicit in the increased eligibility age be accepted?
3. Related to 2, will it have the desired impact on older workers' labour force participation rates?

Q1: Savings to the Public Purse?

Prospects for slowing growth in Age Pension expenditures through increase in eligibility age are minimal.

Higher eligibility age will not commence for 7 years and not be fully implemented for another 13 years.

By the time it is fully implemented, the greater bulk of the huge baby boom generation will have retired and taken up a full- or part-Age Pension at a high rate.

Further, many people cease to work before Age Pension eligibility age. Those who cannot work will simply find themselves dependent on other Centrelink income support payments for a longer period until Age Pension eligibility is established. Thus, savings in Age Pension envelope will be offset by increased expenditures in others.

Realization of savings would require that the increase in the Age Pension eligibility age be brought forward.

Q2: Reconstruction of a Working Life-- Acceptable? (1)

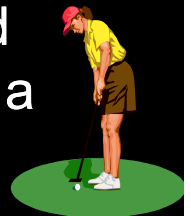
For social policy initiatives to be effective their presumed “beneficiaries” must be willing to comply (e.g., Prohibition in the US).

Many social policy initiatives have sought to regulate supply and demand for labour at various times.

Have been a number of initiatives intended to boost older workers’ labour force participation.

All represent an effort to reconstruct later life as a period of continued labour force participation cf. increased leisure—an effort to shape a new ageing citizen that is in tune with changing population and labour market trends.

Has this reconstruction taken hold/been accepted by those who will be affected? Reaction to Budget announcement, esp. by blue-collar/manual workers, was hostile.



Q2: Reconstruction of a Working Life-- Acceptable? (2)

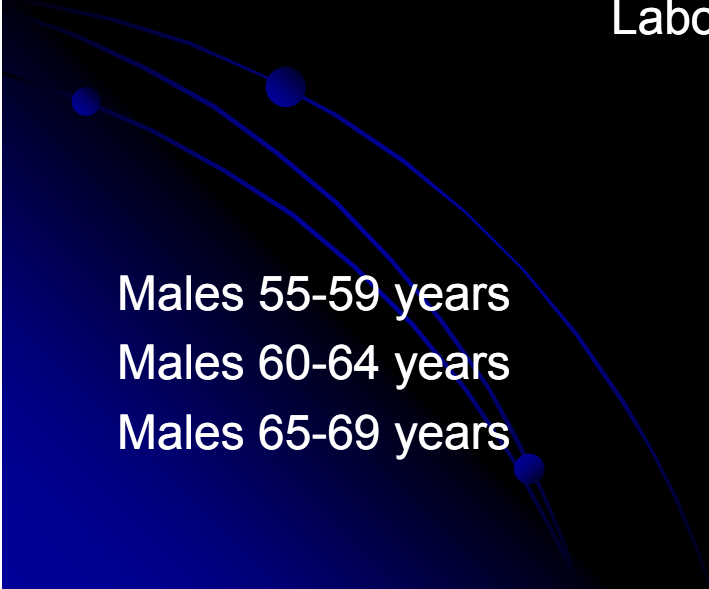
- Despite opposition to the increase in the eligibility age, there is evidence to suggest that the social construction of old age—the age at which it is broadly acceptable to withdraw from full-time employment—is shifting.
- US data (Pew Research Centre 2009) show that:
 - Young adults believe the average person becomes old at 60 years
 - Middle-aged people place this threshold is 70 years
 - Those 65+ years of age place it at 74 years.
- There are no comparable Australian data *but* there are data that show Australian workers are *expecting* to work longer than they did in the past. And this, rather interestingly, is especially true of blue-collar workers who now expect to retire later than all other groups of workers.

Q3: Increased labour force participation? (1)

Gradual increase in level of labour force participation over last several decades, driven mainly by strong rise in women's labour force participation.

However, in common with other OECD countries, over most of the post-WW2 period, increased longevity (and better health) has not been accompanied by longer working lives. On the contrary, many retired well before reaching traditional retirement age.

Labour Force Participation Rates



	<u>1960</u>	<u>Lowest Point</u>
Males 55-59 years	93%	72% (2001)
Males 60-64 years	83%	44% (1985)
Males 65-69 years	26%	13% (1988)

Q3: Increased labour force participation? (2)

Given long-term trend towards early retirement, will older workers actually be willing to work longer (whether in response to increased Age Pension eligibility age or other “incentives”)?

Recent data suggest the answer is YES!

Over the last decade older workers are increasingly remaining in the workforce longer than their counterparts of earlier years.

Labour Force Participation Rates

	<u>Mid-1990s</u>	<u>2009</u>
Men 55+ years	33%	40%
Women 55+ years	10%	26%

Largest increase among 60-64 year-olds.

Q3: Increased labour force participation? (3)

Comparison with USA

Two reports just released (July 2010) by the Urban Institute show that:

- Between 1999 and 2009, the share of the workforce aged 55 and older increased from 12% to 19%, the greatest proportion since 1948.
- Participation rate for men 62-74 years grew from 27.3% to 38% (an increase of 39%) between 1993 and 2009. For women, the participation rate increased by 66% from 16.9% to 28.1%

Source: R W Johnson. 2010. *Older Workers: Opportunities and Challenges* Washington DC: The Urban Institute

- Older adults are now working longer. More than 40% of men born 1943-1947 did not retire by age 65 cf. only 20% of those born between 1933 and 1947 who did not retire by age 65.

Source: R W Johnson, B Butricia & C Mommaerts. 2010. *Work and Retirement Patterns for the GI Generation, Silent Generation and Early Boomers: Thirty Years of Change* Washington DC: The Urban Institute.

Q3: Increased labour force participation? (4)

- In Australia the Increase in labour force participation has translated into employment (even during GFC-caused downturn).
- Even in labouring and related occupations, the number of employed young men has fallen while the number of older men has increased suggesting that blue-collar workers' expectations of retiring later are being increasingly translated into action.
- But note that still need data about the distribution of work at older ages among higher skill workers and those with lower skills. US data indicates shift in employer demand away from low-wage, less-educated to more-educated workers. (Decline in health an unlikely explanation.)

Source: A H Munnell, G Sanzenbacher & S A Sass. 2009. Can the Bottom Third Work Longer? (No 9-1) Chestnut Hill, MA: Center for Retirement Research at Boston College

- US: Physically demanding jobs:
 - 1971 57% of all jobs were physically demanding (heavy lifting, bending, quick reactions, repetitive motions, standing for long periods).
 - 2006, 46% of all jobs were physically demanding.
 - In 2006, 39% of workers aged 50-61 held physically demanding jobs.

Concluding Comments

- Increase in Age Pension eligibility is unlikely to result in any real slowing of expenditure in the short-term.
- But not an inconsequential addition to the suite of policies aimed at shifting workers' expectations about the span of a working life and, in turn, yielding higher levels of labour force participation.
- But additional initiatives needed to boost participation rates, e.g., on 4 August 2010 Opposition leader Tony Abbott announced program whereby employers would be paid up to \$3250 to hire workers >50 years of age. Paid in lump sum after 6 months (equivalent to \$250 per week) of continuous employment. Policy is targeted at 60,000 discouraged workers over 55. However, up to 900,000 people aged 50-65 (unemployed, people with disabilities and age pensioners) could be eligible. Would begin 1 July 2011.
- Issue of Age Pension eligibility unlikely to go away.
- Highly likely that government will “soon” take steps to further raise the minimum age at which older people can access the Age Pension.



THE END

Hooray!!!