Institutional Incentives for Early Retirement in the EU Member States

The average age at which male workers have decided to retire from the labor force has declined by more than 4 years since 1960 in the EU Member States. For females this age has decreased by more than 6 years. At the same time, the life expectancy of males at the age of 55 has increased by 2.2 years. For women life expectancy increased even further. This contribution gives an overview of the institutional arrangements of early retirement schemes and some reform efforts in the EU Member States and shows the development of early retirement decisions since 1960.

In the Member States of the European Union the standard age of entitlement to public pensions has developed differently since the early 1960s. In some countries (Finland, Germany, Spain, the Netherlands, Luxembourg and Portugal) the standard age for males as well as for females has been 65, with temporarily lower ages for females in the latter two nations. Some other Member States (Austria, Belgium and the United Kingdom) have fixed the standard age for males at 65 while the statutory age for females has been 60 years over the last four decades. While Austria and the United Kingdom are maintaining this age limit for women, Belgium has initiated a process which will bring females' standard entitlement age in line with the males' age of 65. Denmark, Ireland and Sweden had laid down higher age restrictions of 70 and 67 years for men and women in the 1960s and 1970s. Since then, all three countries have decreased the standard age to 65. In France, the former standard age of 65 for both gender groups has been decreased to 60. And Greece has returned to the limiting age of 65 for men and women after having regulated lower ages in 1975 and 1995.

Some of these countries plan to adjust females' standard age to the age limit for males. Austria intends to increase gradually the age limit for women to 65 in the period between 2024 and 2033. Belgium will raise females' standard age to 65 by 2009. In Germany, the standard age for females will rise gradually to 65 by 2004. The United Kingdom will increase the standard age for women to 65 between 2010 and 2020.

Table 1

Standard age of entitlement to public old-age pension

	Males				Females			
	1961	1975	1995	2001	1961	1975	1995	2001
Austria	65	65	65	65	60	60	60	60
Belgium	65	65	65	65	60	60	60	62
Denmark	67	67	67	65	67	67	67	65
Finland	65	65	65	65	65	65	65	65
France	65	65	60	60	65	65	60	60
Germany	65	65	65	65	65	65	65	65
Greece	65	62	62	65	60	57	57	65
Ireland	70	68	66	65	70	68	66	65
Italy	60	60	62	65	55	55	57	60
Luxembourg	65	65	65	65	65	60	65	65
Netherland	65	65	65	65	65	65	65	65
Portugal	65	65	65	65	65	62	62,5	65
Spain	65	65	65	65	65	65	65	65
Sweden	67	67	65	65	67	67	65	65
United Kingdom	65	65	65	65	60	60	60	60

Source: OECD, The retirement decision in OECD countries, Economics Department Working Papers No.202, ECO/WKP(98)15, 1998; Economic Policy Committee, Progress report to the Ecofin Council on the impact of ageing populations on public pension systems, EPC/ECFIN/581/00-EN-REV.1, 2000.

Most Member States of the EU have early retirement schemes. Besides the general possibility of early retirement in some countries, other countries put conditions on the entitlement to old-age pensions before the standard age. Those conditions for early retirement can be grouped into categories: gender, years of insurance or employment, heavy work and health reasons, and unemployment or jobs in difficult economic situations.[1]

[1] See the European Commission, Missoc 2001.

General early retirement schemes can be found in Austria, Finland, and Spain and Sweden. Until 2000, male citizens in *Austria* could retire early at the age of 60 and females at the age of 55. By 2002 both age limits will be raised by 18 month. For women the early retirement age will be aligned to the age of men between 2019 and 2028. In *Finland*, persons at the age of 60 are entitled to receive actuarially reduced old-age pensions. The reductions amount to 0.4 percent for each month during which the pension is received before the standard age. In *Spain*, persons with claims against the old-age pension system which was abolished in 1967 are able to retire early at the age of 60. Early retirees have to accept a pension reduction of 8 percent for each year. In *Sweden*, the basic pension can be claimed early at the age of 60. The amount of the benefit is reduced by 0.5 percent for each month of early withdrawal.

Females have the possibility to retire early in Germany and Greece. In *Germany*, early retirement of females is possible at the age of 60 after 180 months of insurance and more than 10 years of contributions after the age of 40. The age limit will be increased gradually to 65 in 2004. Even after the increase of the age limit the pensions can be claimed after the age of 60 with the acceptance of pensions reductions. The reduction amounts to 0.3% of the pension for each month for which the pension is claimed earlier. In *Greece*, mothers of minor or disabled children are entitled to receive the full pension at the age of 55 after 6.000 working days or 20 years of insurance.

Conditional on years of insurance or employment early retirement is possible in Belgium, Germany, Greece, Italy, Luxembourg, and Portugal. In *Belgium*, males and females at the age of 60 are entitled to old-age pensions if they have been employed for 28 years. Until 2005 the required period of employment will be increased to 35 years. After 35 years of insurance, men and women in *Germany* are able to retire early at the age of 63 with the acceptance of reduced pensions. The reduction amounts to 0.3 percent of the pension for each month for which the pension is claimed earlier. In *Greece*, persons insured before 31.12.1992 are entitled to receive the full old-age pension after 10.000 days of employment: men at the age of 62 and women at the age of 57. A reduced pension is obtainable after 4.500 days of employment or 10.000 days of insurance for men at the age 60 and for women at the age of 55. Persons insured after 1.1.1993 are entitled to reduced benefits after 5 years of employment or 4.500 days of insurance. In *Italy*, insured persons at the age of 55 and with a period of insurance of 35 years or, without age limit, of 37 years have a legitimate claim to old-age pensions. From 2002 limits will be increased to the age of 57 with 35 years of insurance or to 40 years of insurance without age requirement. In *Luxembourg*, early retirement is possible at the age of 57 with 480 effective years of insurance. And in *Portugal* insured persons have a claim to reduced pensions at the early retirement age of 55 after 30 years of insurance. The reduction amounts to 4.5 percent for each year of early withdrawal.

In the South European countries early retirement is possible **conditional on heavy work or health reasons**. In *Greece*, persons who have been insured before 31.12.1992 and are employed in arduous and unhealthy work can receive the old-age pension after 4.500 days of employment: men at the age of 60 and women at the age of 55. Persons who have been insured since 1.1.1993 are entitled to receive the full pension at the age of 60 after 4.500 days of work or 15 years of insurance. In *Spain*, workers in heavy manual or unhealthy labor may retire early before the completion of 65 years. In *Italy*, early retirement is possible for employees who entered the working force early and paid contributions for more than 52 weeks at the age of 14 to 19 years. Entitled are also workers in heavy manual work or on jobs with continuously changing workplaces. And in *Portugal*, early retirement is possible at the age of 55 for persons exposed to heavy manual work or unhealthy activities.

In Germany, Italy and Portugal early retirement is also allowed **conditional on unemployment or difficult economic situations.** In *Germany*, insured persons are entitled to receive a reduced pension at the age of 60 after 180 months of insurance if they are unemployed at the beginning of their retirement and have been unemployed during 52 weeks after the age of 58,5 or have been working for 24 months in old-age part-time work. In addition, they have to have paid contributions for 8 of the last 10 years. The pension reduction amounts to 0,3 percent for each month during which the pension is claimed earlier. In *Italy*, persons who work in enterprises which are in economic difficulties can be retired 5 years before the normal retirement age. And in *Portugal*, unemployed persons are able to retire at 60. If the unemployment occured from the age of 50 and if 20 years of insurance are fulfilled, early retirement is possible at 55. In this case pensions are reduced.

In *France, Ireland, the Netherlands*, and *the United Kingdom* there are no early retirement schemes.

In addition to these early retirement schemes for old-age pensions in the EU Member States, there are different possibilities to leave the labor force before the normal age of entitlement to pensions and to receive financial support, e.g. unemployment benefits for elderly unemployed persons who do not have to stay available for jobs in the labor market. Furthermore, most Member States provide disability pensions for incapacitated persons who are younger than the standard retirement age.

Table 2
Cumulated pension wealth accruals for singles on average wages*, 1967 and 1995

	Postponing retirement from 55 to 64		Postponing retirement from 55 to 69	
	1967	1995	1967	1995
Austria	– 3,1	– 3,4	– 6,5	– 7
Belgium	0,2	– 2,3	– 2,3	– 5
Denmark	0	0	– 0,6	– 0,8
Finland	0	– 2,2	– 1,3	– 4,9
France	– 0,2	– 1,4	– 1,2	– 3,7
Germany	– 0,4	– 1,4	– 2,9	– 3,4
Greece[a)]				
Ireland	– 0,5	– 1,4	– 0,6	– 2,6
Italy	– 3	– 1,7	– 4,5	– 11,8
Luxembourg[a)]				
Netherland	– 0,9	– 1,3	– 2,3	– 2,9
Portugal	– 0,5	– 0,4	– 3,8	– 3,7
Spain		– 1,4		– 5,9
Sweden	0,9	– 1,8	0	– 3,3
United Kingdom	– 0,6	– 0,5	– 1,4	– 1,5

*Note: The figure shows changes in the pension wealth measured as a multiple of annual earnings. For example, postponing retirement from 55 to 64 in Germany in 1967 implied that the pension wealth decreased by an equivalent of 0,4 times average annual earnings. As annual earnings are assumed to be constant and normalised at unity, this is equivalent to an average implicit tax rate of 4%.
[a)] Data are not available.

Source: Bjöndal, S and S. Scarpetta (1998), "The retirement decision in OECD countries", OECD Economics Department Working Papers No.202, ECO/WKP(98)15.

Early retirement decisions are affected by the change of pension wealth due to the continuation of work. Pension wealth is defined as the present value of the difference between future pension benefits and future contribution payments. Continuing work after the minimum age limit for the entitlement to pensions means the abandonment of pension benefits during the longer working period and the payment of contributions to the system. Furthermore, working for additional years increases the pension replacement rate in most pension systems. If the higher future pensions do not compensate for the loss of pensions and the ongoing contribution payments during the extended working period, the pension wealth decreases. This distorts the decision of continued work like an implicit tax on the expected wage income. Negative pension wealth accruals give an incentive to retire early.

Table 2 shows the cumulated wealth accruals of postponing retirement at the age of 55 for 10 or 15 years. In 1995, in all EU Member States, postponing retirement reduced the pension wealth. Thus, the wage income from working for additional years is implicitly taxed by the pension system in these countries. This implies strong incentives for early retirement in all EU States. In 1967 some countries had neutral or encouraging pension systems that maintained or even increased pension wealth with continued work. In 1995 compared to 1967, the pension systems of all countries induced a loss of pension wealth when retirement was postponed. In most countries this loss increased and set stronger incentives to retire early. In Belgium, Finland, Italy, and Sweden the implicit tax on continued work increased substantially.

Due to different opportunities in the EU Member States to receive early retirement pensions and due to increased implicit taxes on continued work after the minimum retirement age, the average age of transition to retirement has decreased over the last decades (see Table 3). In 1960 males retired on average after the age of 65 and females after the age of 62 in almost all countries. Until 1995 the average age had decreased continuously in all EU Member States. In 1995 males retired by more than 4 years earlier and females by 5 years. In Finland, the Netherlands, and Spain the average retirement age of males fell by more than 6 years. In Sweden and the United Kingdom this decrease was modest,

Table 3

Average retirement age among older workers

	Males					Females				
	1960	1970	1980	1990	1995	1960	1970	1980	1990	1995
Austria	63,9	62,7	60,1	58,7	58,6	61,9	60,6	59,3	56,7	56,5
Belgium	63,3	62,6	61,1	58,3	57,6	60,8	59,1	57,5	54,7	54,1
Denmark	66,7	66,3	64,5	63,3	62,7	64,6	62,0	61,0	59,9	59,4
Finland	65,1	62,7	60,1	59,6	59	63,2	60,6	59,6	59,4	58,9
France	64,5	63,5	61,3	59,6	59,2	65,8	64,0	60,9	59,0	58,3
Germany	65,2	65,3	62,2	60,3	60,5	62,3	62,2	60,7	58,2	58,4
Greece	66,5	65,6	64,9	62,3	62,3	64,4	64,3	62,5	60,6	60,3
Ireland	68,1	67,5	66,2	64	63,4	70,8	69,8	66,0	61,8	60,1
Italy	64,5	62,6	61,6	60,9	60,6	62,0	60,7	59,5	57,5	57,2
Luxembourg	63,7	62,5	59	57,6	58,4	63,8	62,3	60,8	56,0	55,4
Netherland	66,1	63,8	61,4	59,3	58,8	63,7	62,9	58,4	55,8	55,3
Portugal	67,5	67,2	64,7	63,9	63,6	68,1	65,3	62,9	61,0	60,8
Spain	67,9	65,2	63,4	61,6	61,4	68,0	64,7	63,6	59,7	58,9
Sweden	66,0	65,3	64,6	63,9	63,3	63,4	62,5	62,0	62,4	62,1
United Kingdom	66,2	65,4	64,6	63,2	62,7	62,7	62,4	62,0	60,5	59,7

Note: The figures are estimates. For the calculation methods see the OECD publication.

Source: Bjöndal, S and S. Scarpetta (1998), "The retirement decision in OECD countries", OECD Economics Department Working Papers No. 202, ECO/WKP(98)15.

at 2.7 and 3.5 years, respectively. The fall of females' retirement age was very high in Ireland, at 10.6 years. In the 1980s, Irish women decided to retire 4.2 years earlier. Ireland was followed by Luxembourg, the Netherlands and Spain with a decrease of more than 8 years. The lowest decline can be observed in Sweden and the United Kingdom.

In comparison to the standard age of entitlement, in 1995 males retired more than 6 years earlier in Austria, Belgium, Luxembourg and the Netherlands. On average across all countries, males retired 3.6 years below the standard age. In Luxembourg and the Netherlands females' early retirement remained more than 9 years below the standard age. On average, females retired 4.3 years earlier in the EU in 1995. Only in Greece did males and females stay in the labor force after the standard retirement age.

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