

Retirement age – a good news story

Mar 12 2010

[Nicholas Barr](#) *discusses the future of retirement policy in the context of longer, healthier lives.*



I tell my students that we all play by the same rules: they have as much freedom to express their views as I do; but, like me, they are accountable for the analytical quality of their argument. There is, however, one exception. The “ageing problem” is an ideologically unsound term whose use is not allowed.

There is not an ageing problem. The great triumph of the twentieth century is that people are living longer lives and healthier lives. This is great good news. It means that many more people reach retirement age and that people live longer in retirement.

But it also means that pensions cost more. The problem, however, is not that people are living too long, but that they are retiring too soon.

When retirement was invented in the nineteenth century, it was intended to get doddering workers off the factory floor, where they lowered the productivity of younger workers. At that time, people who were 65 were very old – already older than the life expectancy of their generation – and often frail, so it made sense that retirement was mandatory and complete.

Since then, two things have changed. People are living longer healthy lives. The top bar of the Figure shows the story of a man who retired in the UK in 1950. He left school at fourteen, worked until the then average retirement age of 67, and then retired with eleven years of remaining life. A man who retired a few years ago left school at sixteen and retired at the then average retirement age of 63, at which point he had 20 years of retirement. Thus it is possible to raise retirement age but at the same time for each generation to be retired for longer than its forebears.

The second change is that societies have become richer, making it possible for people to retire when they are still active. That, however, means that the purpose of retirement has changed – it no longer exists primarily to clear dead wood out of the labour force, but to provide a period of leisure in later life, as part of a civilised society. Given this new purpose, it is bad economics, bad politics and bad social policy to force people to retire completely on a fixed date. They should be given choice over how they move from full-time work to full retirement.

Bottom line: an important part of the response to population ageing is later retirement, on average, but more flexible retirement. This should not be surprising. If we were designing a pension system for a brand new planet whose native life form was living longer and longer we would never consider a fixed retirement age of 65; instead we would suggest a default retirement age that bore some sensible relationship to life expectancy.

As life expectancy continues to rise, any solution that does not contain later and more flexible retirement will fail. That is true of all OECD countries, and more widely. The argument applies to state pensions, to private pensions and to public sector pensions. The pressures will face the next government, whatever its political make-up. As is often the case, the economics is straightforward – it’s the politics that is difficult.



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