A comparative review of international approaches to mandatory retirement

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Background

This research study, conducted by RS Consulting on behalf of the Department for Work and Pensions (DWP), was designed to examine existing, published evidence on international approaches to mandatory retirement. The research will be used to inform the Government's review of the default retirement age (DRA), which is jointly led by DWP and the Department for Business, Innovation and Skills (BIS).

Eight country case studies were selected to represent a broad spectrum of approaches and a range of experiences of age legislation, including countries that have never had specific age legislation; countries that have had age legislation for longer than the UK; and countries that have increased the minimum permitted mandatory retirement age or banned it altogether.

Key findings

- Age legislation, with no accompanying policies to encourage older working, is unlikely to increase the participation rates of older workers significantly.
- Age legislation is more likely to increase the participation rates of older workers when enacted in conjunction with an increase to the State Pension Age (SPA) and other policies to support older working.
- Employers often believe banning mandatory retirement will increase their costs: but it is unclear whether this is actually the case in countries that are comparable to the UK.
- Age legislation can act as a catalyst for employers to provide more opportunities and flexible conditions for older workers, particularly when led by government initiatives.
- When it is made easy – and satisfying – for employees to make a phased transition into retirement, employees can be encouraged to work later.
- There is little research evidence that banning mandatory retirement impacts upon the employment opportunities of younger people.
- Employers' and society's negative attitudes to older workers can act as a barrier to working later, irrespective of the age legislation in place: but these attitudes can be overcome.
- The structure of state retirement benefits have a significant role to play in individuals' decisions to retire – or continue working.
- There is little research evidence as to the impact of age legislation on the economy or public sector spending.

Research findings

Context of the case study countries

In all of the countries studied, as in the UK, issues around retirement and the ageing society were an important policy topic, in the face of increasing dependency ratios and the consequent burden this was likely to put on the countries' social security and pension systems.

Countries where mandatory retirement is not permitted at any age:

- **USA**: In 1986 the US became one of the first countries to outlaw mandatory retirement. Previously the minimum permitted mandatory retirement age was 70.
- **Canada**: Canada has had a complex legal history of abolishing mandatory retirement province by province between 1973 and 2009, reflecting the involvement of federal and provincial governments and courts.
- **New Zealand**: Mandatory retirement was made illegal between 1993 and 1999, and the SPA was increased from 60 to 65 over the same period. New Zealand also implemented the *New Zealand Positive Ageing Strategy*, in part designed to improve opportunities for older people in the workplace.
- **Australia**: Commencing in the 1990s, several laws were enacted to abolish age discrimination, finally cemented in 2004 when mandatory retirement was made illegal. Since 1989, a number of initiatives have been enacted to encourage working later.

Countries where mandatory retirement is permitted, with a minimum permitted mandatory retirement age set by legislation:

- **Japan**: In Japan there was predicted to be almost one inactive elderly person to each person of working age by 2050. Use of mandatory retirement was always lawful and almost universal in Japan. The minimum permitted retirement age increased from 55 to 60 in 1994, and is increasing to 65 by 2013. In addition, SPA is being increased from 60 to 65 by 2030.
- **France**: Mandatory retirement is permitted, and the minimum permitted mandatory retirement age in the private sector was increased from 60 to 65 in 2003. At 60, the French SPA is lower than that of most European countries and post-retirement income as a proportion of pre-retirement income is the highest of all the case study countries. In fact, there are several state schemes that allow early (rather than late) withdrawal from the labour market, although these are now being restricted and phased out.
- **Sweden**: In 2001 a law was passed making mandatory retirement before the age of 67 illegal. In addition, a major reform of the public pension system was made in 1999.

Country in which mandatory retirement is legal, with no minimum age set by legislation:

- **Ireland**: Ireland has not changed its mandatory retirement policy, and has always permitted mandatory retirement as a clause in the employment contract.

Impacts of age legislation on employers and business

Increasing the minimum permitted mandatory retirement age, or abolishing it altogether, often had implications for employers' human resources (HR) policies. There was also evidence that abolishing mandatory retirement in some countries had led to employers needing to pay disproportionately high insurance and benefits such as disability insurance, life insurance, health insurance and pension payments. However, we could find no research evidence that attempted to quantify these costs in countries that are comparable to the UK.

Only in Japan, France and Sweden was there evidence that an increase to the DRA could impact employers' costs significantly. Here, unlike in the UK, it was common for employees to stay with an employer throughout a large part of their working life, with their salary increasing steadily throughout employment, so that employers have often had to pay disproportionately higher salaries to their oldest employees. In these cases, attempts by the government to increase the DRA had often met with resistance from employer associations.

Impacts of age legislation on individuals

The abolishment of mandatory retirement has sometimes led employers to adapt their working environment to provide more flexible working conditions for older employees, to encourage them to adopt a 'phased' or gradual retirement. When led by the government, training schemes for older workers were also sometimes implemented. In Australia, for example, the government has started publicly-funded employment services that provide access to training for older people.

Evidence suggests that such policies can be successful in encouraging employees to work later in life, particularly when supported by government initiatives. Studies have shown a range of workplace changes that could facilitate the productive employment of older workers, including: work scheduling, flexible hours, voluntary work-time reductions, vacation and leave policies, phased retirement, job assignment, improved workplace organisation, hiring and contracting strategies, training practices, and benefit and compensation methods.

In New Zealand in particular, the promotion of flexible work options is one of the goals of the *New Zealand Positive Ageing Strategy*, launched by the government. The impact that this policy had in increasing the participation rates of older people may be, in part, due to the promotion of flexible working options. In one quantitative study of a large sample of imminent retirees in New Zealand followed over a three-year period after mandatory retirement was abolished, three-quarters chose to make phased transitions into retirement. In another study, 60 per cent were able to identify changes in terms of flexible working that they felt may have influenced them in deciding to continue working.

Organisation for Economic Co-operation and Development (OECD) reports from Canada, Ireland, Japan and France suggest that there is no clear link between the employment levels of older workers and those of younger workers.

The role of attitudes towards older employees

Little evidence was found to suggest that older workers' productivity declines with age. Nevertheless, there is clear evidence that many employers across different countries do believe that older workers' productivity does decline.

Such attitudes were evident across almost all the countries studied, whether or not they had made changes to their age legislation. They are also likely to be faced in the UK, although there is some survey evidence that these negative attitudes are less marked in the UK than in other parts of Europe.

New Zealand again provides useful pointers as to how these attitudes might be overcome. The *New Zealand Positive Ageing Strategy* included the elimination of ageism as one of its goals. Qualitative interviews with recruitment professionals reported that after the implementation of the strategy, employers were now adopting a more open attitude to employing older workers.

Impact of the State Pension Age and the level of retirement benefits

Many sources of evidence have shown that the SPA, and the level of benefits available to individuals in retirement, can be just as important in determining individuals' actual age of retirement as the mandatory retirement age.

In Sweden, major pension reform was undertaken in 1999. The state system changed from Defined Benefit (DB), which gave pensioners guaranteed benefits, to Defined Contribution (DC), with benefits depending on contributions made and the performance of the funds invested. After the changes, a number of surveys suggested that there is a growing interest among those aged 60 plus in working part time while drawing a pension, whether out of financial necessity, or simply because the system makes it in their financial interest to work longer and save longer.

Impacts of age legislation on participation rates, the economy and public sector expenditure

Increasing or abolishing the permitted mandatory retirement age has often been used by governments as a way to encourage working later: but its impact on the participation rates of older people in the labour market has often depended upon what other policies were enacted at the same time.

In Canada, mandatory retirement has been progressively banned across provinces from 1986 to 2009, not usually in tandem with other age-related policies. Empirical analysis of census data, comparing the provinces where mandatory retirement was still allowed from age 65 with those where it had been made illegal, showed no significant impact upon participation rates.

In France the DRA increased from 60 to 65, but the participation rate of this age group did not increase. This could be due to several factors that may have acted as a disincentive to working longer: SPA remained at 60 years of age, which was lower than most European countries; several early retirement schemes remained in place; and few incentives existed for employees to work beyond SPA.

Conversely, in New Zealand three policies were enacted in tandem from the mid- to late 90s:

- mandatory retirement, which had been allowed from the age of 60, was gradually banned;
- the SPA was gradually increased from 60 to 65;
- the *New Zealand Positive Ageing Strategy*, aimed at improving attitudes toward older workers, was launched.

The number of people in the labour force aged over 50 more than doubled between June 1991 and June 2005. This was said to have made a difference by reducing the skills shortage within several key industries, including manufacturing, where an overall decline in employment had been witnessed.

Economic analysis has often speculated that abolishing mandatory retirement should impact upon public finances. However, there was no clear empirical evidence to prove the economic impact of increasing the mandatory retirement age in this respect.

Further relevant research is published alongside this report and is available at www.dwp.gov.uk/publications:

- *Second 'Survey of Employers' Policies, Preferences and Practices in Relation to Age'* (NIESR-BMRB, 2010).
- *'Default Retirement Age – Employer Qualitative Research'* (TNS-BMRB, 2010).
- *'Review of the Default Retirement Age: Summary and evaluation of the external evidence'* (ISR, 2010).
- *'Pathways to retirement: The influence of employer policy and practice on retirement decisions'* (Natcen, 2010).

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 793 8. Research Report 674. July 2010).

You can download the full report free from: http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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