



# **The implications of pensions and retirement policy on the wider economy and society**

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# Longer working lives



World's longest serving flight attendant – Ron Akana, who retired in 2012 aged 83 after 63 years of flying

- Many agree that longer working lives must be part of the “solution” to the costs of population ageing
- But what does the economics literature tell us about the causes and consequences of retirement for individuals?

# Specifics of this talk



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- Are public pensions “sustainable”?
- Is the extension of working lives: (a) feasible; (b) good for people?
- International research
  - Four “myths”
  - Incentives and norms
  - Effects on mental health
- What does the Irish research say (TILDA)?
  - Changing the state pension age
  - Peer effects on happiness
  - Mental health



# Public pension costs as % of GDP

	2013	2020	2030	2040	2050	2060
Total Public Pensions	7.8	8.5	9.7	10.7	10.6	9.0
Public occupation pensions	2.0	2.6	2.9	2.7	2.1	1.5

Department of Finance projections from 2015

# Some popular myths....(according to Prof. Axel Borsch-Supan)

- Myth 1: declining health limits the capacity to work at older ages
- Myth 2: Retirement is bliss
- Myth 3: older workers are less productive
- Myth 4: keeping older workers creates unemployment for the young





# Incentives and norms (1)

Average effective age of retirement: men

	1970	1980	1990	2000	2010
France	67.6	63.5	60.0	58.8	59.4
United Kingdom	67.7	66.0	62.8	62.4	64.1
Japan	72.3	70.7	70.4	70.1	70.1
United States	68.5	66.4	64.7	64.7	65.5
EU-27	68.4	65.1	63.1	61.5	62.5

# Incentives and norms (2)

- Cross-country studies of Gruber and Wise focused on incentives
  - Identified spikes where incentives for retirement were created
- But norms seemed to matter too
  - A second spike in most countries around 65
- Question: have policy changes led to the increase in retirement ages by 2010?

# One effect of retirement



- On mental health the evidence is mixed, partly because this is a difficult thing to measure
- One very recent study using data from the Europe-wide version of TILDA finds negative effects of retirement on mental health in the long-term (four years)
- The paper makes the following claim: “politicians do not face a trade-off between increasing state pensions ages and improving well-being”.





# Focusing on Ireland and results from TILDA



# One piece of evidence from Ireland on impact of policy change

- In 2010, the Irish government (Mary Hanafin) announced that it was going to raise the State Pension Age (SPA)
- From 65 to 66 in 2014, to 67 in 2021 and to 68 in 2028
- The timing of the announcement was very useful from a TILDA point of view
- We had been collecting Wave 1 data throughout 2010
- Hence, we could see if expected retirement ages changed in response to the policy announcement



# Did expected retirement ages change in response to the change in the SPA?

- Quick answer – No!
- But we did find evidence that expected retirement ages were being influenced by the recession
- More people starting saying that “they didn’t know” when they’d retire and fewer were saying “at 65”

# Evidence from TILDA on Peer Effects

- We know from earlier studies that being unemployed has a different impact depending on whether there are other unemployed people around
- In particular, the negative psychological impacts are lower if the unemployed person lives in an area of high unemployment
- We wondered if a “peer effect” like this exists among older workers when they think about retirement

# What did TILDA show?

- For older people who are employed, we observed an increase in depressive symptoms as more of their peer group are not employed
- Similarly, they felt better if more of their peers are employed



# What about mental health?

- Mosca and Barrett analysed people in TILDA as they crossed into retirement
- They asked if their depressive symptoms increased relative to those who continued to work
- They showed increases in depressive symptoms among the retirees
- Effects was biggest for involuntary retirees and seemed to diminish over time



# What can we conclude? (1)

- Pension costs will rise and will have to be funded but are probably “sustainable”
- Can extended working lives be part of the financing solution?
- Internationally, the evidence is strong that incentives matter for retirement decisions
- But norms matter too

# What can we conclude? (2)

- The paper on peer effects showed the potential for a positive upward spiral
- Maybe there is compatibility between the twin policy objectives of extended working lives and improved well-being
- But is there a conflict between facilitating extended working lives and age discrimination legislation?



# A post-script

- The longest serving employee with the same firm was Mr Thomas Stoddard
- He started with the Speakman Company in Wilmington Delaware in 1928 and stayed with the company until 2008, retiring at age 96
- He died aged 102 in 2014

