How Well Have Retirement Systems Adapted to Longer Life?

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Introduction

Many formal retirement programs started with retirement ages around 65. As the programs progressed, people had access to social insurance systems and retirement plans, and retirement ages gradually dropped. Many people were retiring in their late 50s or early 60s. In recent years, however, labor force participation at higher ages has increased, and work is being accepted as part of retirement, and, in the past 100 years, the United States and other nations have experienced major increases in life spans. Some social insurance systems have gradually increased their retirement ages, but far less than the increase in life spans. In the United States, Social Security normal retirement ages have been increased to 67, and the limits on earning and collecting benefits after normal retirement ages were repealed more than a decade ago.

Retirement systems have not been adequately adjusted to changing life spans, leading to the perception of huge systemic longevity risk, including unsustainable defined benefit (DB) retirement plans and other social insurance systems. If retirement ages indexed to changes in population mortality were incorporated into DB retirement plans, longevity risk would be shared much more with participants but could still be pooled. The solution adopted by many plan sponsors has been to freeze or terminate their DB plans and shift all risk to participants.

If retirement ages are indexed in DB plans, it could lead to later retirement. Without increases in actual retirement age, increases in normal retirement age requirements are a reduction in monthly benefits paid at time of retirement. Without indexing of retirement ages, the value of monthly pension benefits starting at a fixed age increases as life spans increase. With indexing, their value would be much closer to remaining the same as life spans increase.

However, this will depend on there being adequate opportunities for older workers. In the United States, nearly half of retirees have retired earlier than planned, often due to job loss or health problems. Of those who retired voluntarily, a number retired because of difficulties with work rather than because of wanting to be retired (Society of Actuaries 2013).