

The impact of changes in the age at pension eligibility on retirements on grounds of poor health

Michaël Boissonneault^{1,2} and Joop de Beer¹

Extended abstract

¹ Netherlands Interdisciplinary Demographic Institute (NIDI-KNAW)/University of Groningen, The Netherlands

² Corresponding author: P.O. Box 11650, NL-2502 AR The Hague, The Netherlands. boissonneault@nidi.nl. ++ 31 (0)70 3565239

Populations in many economically developed countries are ageing fast. This has brought about worries concerning the sustainability of pension schemes and the capacity of maintaining positive economic growth. One way that has been put forward to counteract the negative effect associated with ageing is higher participation of older workers on the labour market. In order to foster higher participation at older ages, many European countries have recently voted laws that will postpone the age at which people are entitled to receive retirement benefit.

This kind of decision rests on the assumption an older worker from the future will be just as able to work as a somewhat younger worker from now. If, however, this turns out not to be the case, the measures may prove to be less effective than planned. Furthermore, inequalities in front of retirement and in provision of welfare may accentuate.

Such a change in policy is not the first one to occur among economically developed countries. After being eligible to full retirement benefits at age 65 for decades, American workers born in 1938 or after have been seeing their eligibility postponed to older ages following the 1983 Social Security Amendments. The reasoning of the American congress—the institution which passed the laws—was then that the ongoing improvements in health and in life expectancy should ensure the effectiveness and fairness of the measure.

Many papers have documented the changes in the health of the people concerned by the measures around the age of eligibility. As argued by Ilmarinen (2001), health is however only one part of the story when it comes to assessing whether people are able to work or not. To illustrate that, he uses the term work ability, which he defines as “a process of human resources in relation to work” (p. 548). Health figures as an important human resource pertaining to the ability to work. However, there are many characteristics pertaining to work that must also be

taken into account. They can be for example the work environment, the pressure felt at work, and the physical demands of work, etc.

Some papers have looked at whether people are becoming more able to work over time, either using the term work ability or other equivalent expressions. Milligan and Wise (2015) put in parallel changes over time in mortality and changes in labour force participation, and conclude that there is substantial room for improvement in terms of labour force participation at older ages. Crimmins et al. (1999) and Reynolds and Crimmins (2010) measure “ability to work” by using data on respondents who state to be completely unable to work or limited in the amount of work they can perform. This information from the American National Health Interview Survey allow them to find improvements in work ability for the 1982-1993 and 1997-2007 periods respectively.

The two papers from Crimmins (1999) and Renolds and Crimmins (2010) use data gathered indistinctly among people who are at the time of the interview either working or non-working (e.g. retired, home makers, etc.). It has been suggested, however, that people who are out of the labour force in the years prior to the legal age at retirement are prone to be overly pessimistic about their health in order to justify the fact that they are out of the labour market (Van Doorslaer et al., 2005). Furthermore, we doubt about the validity of the assessment of the ability to work of the people who have been out of the labour market for several years. Indeed, they may be referring to their ability to work when they were still working and may therefore be unaware of any decline in it over time.

In the present paper, we chose to assess changes in ability to work over time by looking at people's behaviour on the labour market rather than relying on any measure that might be influenced by people's rationalisation or misperception.

In the upcoming section, we briefly describe how working life expectancies have been used for decades in order to give an indication of people's average career length. Then, we show how we find out about people's potential career, which is the career people have when they do not have to retire early because of poor health. The difference between the two is due to work related disability. By analysing the way the two career types vary in length, we can deduce how ability to work has been changing over time. Furthermore, the difference between the two gives insights into the number of people who have to retire on grounds of poor health, which is also important from a policy perspective. Also, people with different education levels may differ according to their level of work ability and in terms of how they adjust to the changes in policy. As a result, we will each time distinguish between the level of education when running our analyses, trying to determine whether the measures around the age of eligibility to retirement benefits may be more detrimental to certain subgroups.

Litterature

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