

Talking point

Raising the retirement age in Germany to 67: Policymakers must stick to reform course

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The start of the transition to a retirement age of 67 at the beginning of the year set the ball rolling on one of the major reform projects approved in Germany in the previous decade. This initiative refutes the widely held preconception that policymakers lack the ability to implement substantial reforms. It shows that in this case politicians certainly are prepared to take farsighted and unpopular action.

The gradual raising of the retirement age by two years that is to be concluded by 2030 has a positive impact on Germany's attractiveness as a business location that extends well beyond the statutory pension scheme. It is a key to continued economic growth in an ageing society. A higher retirement age can reduce the growing scarcity of labour and slow the costly rise in the number of pensioners. This improves the prospects of prosperity being broadly distributed and makes pension financing more sustainable.

Furthermore, it is a matter of boosting intergenerational justice. There can be no justification for a numerically small younger generation having to finance ever-increasing numbers of pensioners who are living for longer and longer. The average period that a pension is drawn has nearly doubled over the last 50 years from 9.9 years in 1960 to 18.2 years in 2009. There is no sign of a reversal in this trend given that life expectancy continues to rise. All the same, the higher retirement age has largely found few friends in the general public. Populistically inclined political forces have therefore been opposed to the reform from the very beginning.

It therefore comes as little surprise that as the transition commences there are politicians of various affiliations trying to stop implementation in its tracks. They are calling for the raising of the retirement age to be scrapped or at least for the start of the transition to be postponed. The latter would be tantamount to scrapping the entire policy of raising the retirement age to 67, especially as there will be an increase in the number of older workers being affected imminently and thus in the potential opposition within the general population in the coming years.

The call for a halt to the reform is misguided. It is not made any better by its advocates citing insufficient employment opportunities for the elderly as the reason for their demands and holding out the prospect of restarting the project when more older people are in work. This reflects a static mindset and is misguided in many respects. Critics appear to ignore both the new vigour in the labour market for older people and that this was stimulated by the reform policy. If Germany were to retain its retirement age of 65, this go-it-alone move would probably not elicit any understanding from its European partners.

The German labour market can currently boast many success stories. One of them is the already significantly increased participation of older people. The participation rate for people aged 50-64 rose from around 34% in 2000 to over 47% in June 2011. A key factor in this was a large increase in the 60-64 age group. The participation rate for this age cohort more than doubled over the last eleven years from 10.4% to 27.5% in the summer of 2011. This is a remarkable improvement, even though the latest figure is still well below the 50% threshold that sections of the SPD consider a prerequisite for making the transition to a higher retirement age. Contrary to an assertion repeatedly made by certain interested parties, boosting the employment of older people does not occur at the expense of younger people. Compared to the EU as whole, Germany not only boasts an above-average participation rate for 55-64-year-olds, but also the lowest youth unemployment at present.

This dynamism is not due solely to the economic upturn of recent years. Rather, it also reflects new conditions in the labour market for older people. These include the abolition of once numerous and in many cases (too) generous terms for taking early retirement. For instance, state subsidies for phased retirement schemes have been sharply reduced since 2009. But the "Pension Age Amendment Act" passed in 2007 is also part of the new body of data that signals to older workers that working for longer makes sense. The actual age at which people retire has risen from 62.3 in 2000 to 63.5.

Postponing the start of the transition to a retirement age of 67 would damage the improved conditions for increased employment of older persons and thus jeopardise the positive trend in this segment of the labour market. It does not make sense to call for higher participation rates for older people and at the same time to put obstacles in the way of achieving this objective.

Every delay in introducing a retirement age of 67 would largely saddle younger taxpayers and contributors to social security schemes with an additional financial burden. Calculations by the Freiburg economist Professor Raffelhüschen suggest that the public purse would have to pump an additional EUR 90 bn into the statutory pension scheme by 2050 if the reform were to be abandoned. One alternative would be increased contributions: the pension contribution rate would rise by one percentage point instead of falling one percentage point from 2030. Higher taxes and social security contributions are not, however, consistent with the requirements of an ageing society that requires the greatest possible participation of as many people as possible in the official economy.

The advocates of a suspension of the reform should also take into consideration the negative message that such a U-turn would send to Germany's partners in the eurozone. Many eurozone members, including the crisis-stricken countries in particular, have recently approved substantial increases in the retirement age. In Italy and Spain, for example, the retirement age will also be raised by two years to 67, and these changes will already be implemented in 2026 in Italy and in 2027 in Spain. Ireland has even paved the way for a retirement age of 68. And in Greece the retirement age will rise in line with life expectancy by 2021. Germany has not only served as a pioneer for these countries. Rather, Germany's politicians and media even demanded such steps be taken by the heavily indebted states. That is why the credibility of Germany's policymakers is also at stake.

As far as Germany's partners are concerned there is another aspect: a higher retirement age not only boosts economic growth on the supply side. It also promotes consumption because a longer working life raises private income and also tends to reduce the need to save for retirement. A higher retirement age can thus even help to reduce current account imbalances in the euro area.

So there are a lot of good reasons for retirement age reform. Policymakers should therefore stick to their course. This can include potential improvements such as introducing greater flexibility. The public should be able to decide for themselves whether they retire before or after they reach the official retirement age. The prerequisites for this, however, are commensurate deductions from/supplements to their pension if they retire before/after reaching the official retirement age.



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