

Increasing Retirement Age Better Sooner Than Later

Greg McTaggart, Senior Pension Advisor, USAID Capital Markets Project (CMP)*

One of the most contentious issues to be resolved as part of the pension reform process in Ukraine is the question of when people can retire.

Normal retirement age is the term given to when people can first receive their state pension, unless they suffer a disabling injury. For Ukrainian men normal retirement age is 60 and for women it is 55. But normal retirement age also affects others in the pension system. For instance persons who work in a list I position can retire at least 10 years before normal retirement age – 50 for men and 45 for women. Those who occupy a position on List II can retire 5 years early.

Some times people argue that it is discriminatory to have different retirement ages for men and women. Another argument is that the system is loaded against women.

This was the reason under the old system there was a different retirement coefficient for men and women. Women used to get 2.75% of adjusted final salary for each of the first 20 years of contributory service and men got 2.25% of adjusted final salary. But the new system provides the same coefficient for both men and women.

Another issue for women is that they often have breaks in the contributory service to look after family. Whilst some of this is allowed for in the pension formula not all of it can be considered. And generally women will have lower salaries than men.

These factors, combined with retiring at 55 with five years less service than men will generally mean much lower pensions for women than for men.

International practice reveals

- There are now very few countries where men and women don't have the same retirement age; and
- There are very few countries where the retirement age for men and women is not planned to increase.

So the argument comes in all pension discussions in Ukraine – should men and women retire at the same age and should the retirement age at which they retire increase.

As we all know, statistics can be unreliable. And that applies equally to some of the statistics you hear quoted about how long people live in Ukraine.

There is really only one relevant measure of life expectancy when it comes to pensions. That is how long a person who reaches retirement age will live. Unfortunately when there is talk about retirement age often the other measure of life expectancy gets raised. This is the life expectancy at birth. That is how long a child (not a person who is at retirement age) will live.

Of course the life expectancy at birth figure will be lower. People die during childbirth or shortly thereafter and young men do have a habit of often killing themselves driving a car. But once we have reached retirement age these factors are no longer in the equation so many of the factors that lead to the deaths of younger people no longer affect the equation for the elderly.

Although the figures for Ukraine are not that much different.

For instance life expectancy at birth in Ukraine has increased from 66.5 in 2003 to an estimated 68.25 in 2009. For a man the estimated average life expectancy is 62.37 and for women 74.5. It is low for men and this is why you often hear the arguments that if you increase normal retirement age for men to 65 then more than

half the male population will pay contributions to social insurance but never get anything out of the system.

But as stated before life expectancy at birth is not the real measure of how long a person would receive a pension. The figure to use here is the life expectancy for a person who has reached 60 (or 55 in the case of a woman).

The Institute of Labour and Employment indicates that this figure is currently 14.7 for men and 23.4 for women. This means that a woman who reaches age 55 will average live until she reaches nearly 78.4. For men it is not much worse. They will live on average for 14.7 years but as they retire 5 years later they will, on average, live until they are 74.7.

Predictions by the institute show that in the year 2050, by which time all of today's workers have become pensioners, women will live on average to 80.8 and men will live on average to 77.1

There is certainly a strong case for both men and women's retirement age to be increased – probably slowly over a reasonable period. For instance in the UK both main political parties are looking at increasing retirement age to 70. The only difference is how long it should take. One party favours doing it over 20 years and the other favours doing it immediately.

It's not possible to keep going the way we are – at some stage in the very near future the Verkhobna Rada is going to have to accept the idea of an increase in pension age. If we start soon we can progressively increase the retirement age meaning a less severe introductory phase. Delaying for a long time means that the increase will have to be done over a much shorter time period meaning a more severe implementation phase.

RETIREMENT AGES IN SELECTED WESTERN COUNTRIES		
COUNTRY	CURRENT AGE	PROPOSED CHANGE
Korea	60	65 by 2013
Czech Republic	62	65 by 2030
Japan	62	65 by 2013
Hungary	62	69 by 2050
Australia	65	
Austria	65	
Canada	65	
Denmark	65	67 by 2027
Finland	65	
France	65	
Germany	65	67 by 2029
Italy	65	
Israel	65	67 by 2015
Mexico	65	
Netherlands	65	67 by 2011
Spain	65	
Switzerland	65	
United Kingdom	65	68 by 2046
United States	66	67 by 2027
Ireland	66	

(Source: Mercer's Global Financial Consultancy, OECD)

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