



Institute of Actuaries of Australia

It's time to abolish Retirement
(and here's how to do it).

Work, learn and play till you drop.

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Abolish Retirement, Ageing, Population, Social Security, Superannuation, Health Insurance, Disability Insurance, Pensions, History of Retirement.

Abstract

Retirement is a relatively new phenomenon. Retirement as a period of leisure is even more novel. Increasing lifespans & low birth rates mean that retirement is becoming less affordable.

Retirement now means decades of government funded leisure (funded through social security payments and subsidised through tax concessions on self funded retirement). Australian taxpayers are providing a subsidy to fund the leisure of healthy retirees to the tune of around \$20bn per annum and growing.

The linear progression from education to work to retirement / leisure is becoming less relevant in a more flexible world where people cycle in and out of those phases.

With fewer new entrants into the workforce, employers' perceptions of older employees are likely to change significantly. Participation rates for older employees are trending upwards and baby boomer expectations and attitudes to retirement are different from previous cohorts of retirees.

As our societies age, retirement no longer makes sense economically, and arguably it is not good for society. It's time we radically rethink the concept.

This paper reviews the history of retirement and examines the reasons why the whole concept of retirement should be questioned. It then suggests a radical option to transform social security and private pension systems to suit this new reality.

“Youtube” Web Presentation / for those short of time

For those short on time each section has a key points summary. Alternatively, go to www.youtube.com and search for “Abolish Retirement” for the video presentation.

Acknowledgements

The genesis for this paper occurred while contributing to a (yet to be published) paper with Geoff Dunsford about options for social security reform. Abolishing retirement ages in social security was one of the potential options raised in the paper.

The first part of this paper, the History of Retirement, is primarily a review of academic literature, and in the most part draws heavily from some excellent published works (including Sarah Harper's “Ageing Societies: myths, challenges and opportunities” and various books & presentations by Pat Thane). Actuaries do not necessarily make very good historians, so any errors or omissions (or misinterpretation) in quoting / summarising these works is entirely my responsibility. Where the first section does contain some original research it's in relation to the historical decline in workforce participation rates (for Australia) and in the suggestion that we have entered a new era of retirement.

Thank you to all of my family, friends and colleagues who have debated, discussed, reviewed and help shaped these ideas (even though many of you disagree with me).

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1. The History of Retirement

Key Points:

- Retirement is a recent concept.
- It was not viewed positively initially and evolved from a “rest” to a “reward” to a “right” to leisure (Retirement as a period of leisure has only existed since 1960s & 70s).
- Understanding the history of retirement helps us understand the reasons why the institution of retirement exists.
- The main reasons why retirement exists are disability, peoples’ preference for leisure, employers not wanting older employees and government policies taking older employees out of the workforce.
- Section 2 examines why these reasons are no longer valid.

1.1 The evolution of retirement

Retirement comes from the old French word “retirer” which means to go off into seclusion [Freedman]

Retirement for the masses is a relatively new concept only really becoming entrenched in the 20th Century. Prior to that, if you were a serf working for a feudal lord or indeed any job up until the early 1900s you never really retired. You worked until you no longer could, often in a low paid, low skilled job (unless you were rich or had support from family).

In many poorer countries today (without old age income support) that is still the case.

The history of retirement is inextricably linked to the history of social security and occupational & private retirement savings. It is a complex story with many other interacting threads including:

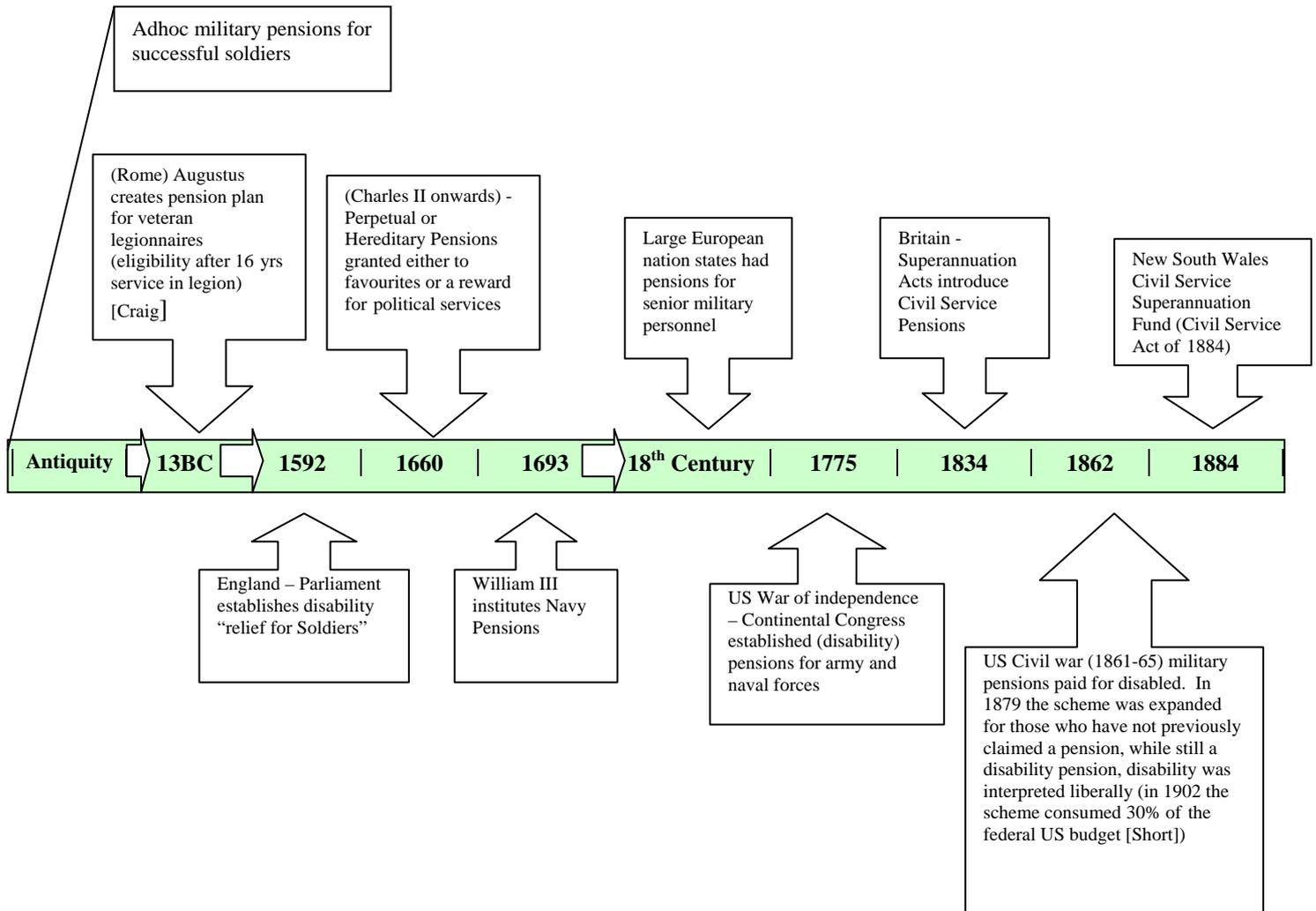
- Changing nature of families
- Changing nature of work
- Rise and fall of different industry sectors
- Changing Employee attitudes
- Changing Employer attitudes
- Impact of growing affluence

Before considering the main reasons for the spread of retirement & why it exists, it is important to understand the development of two major income sources which have allowed retirement to develop: occupational pensions and social security.

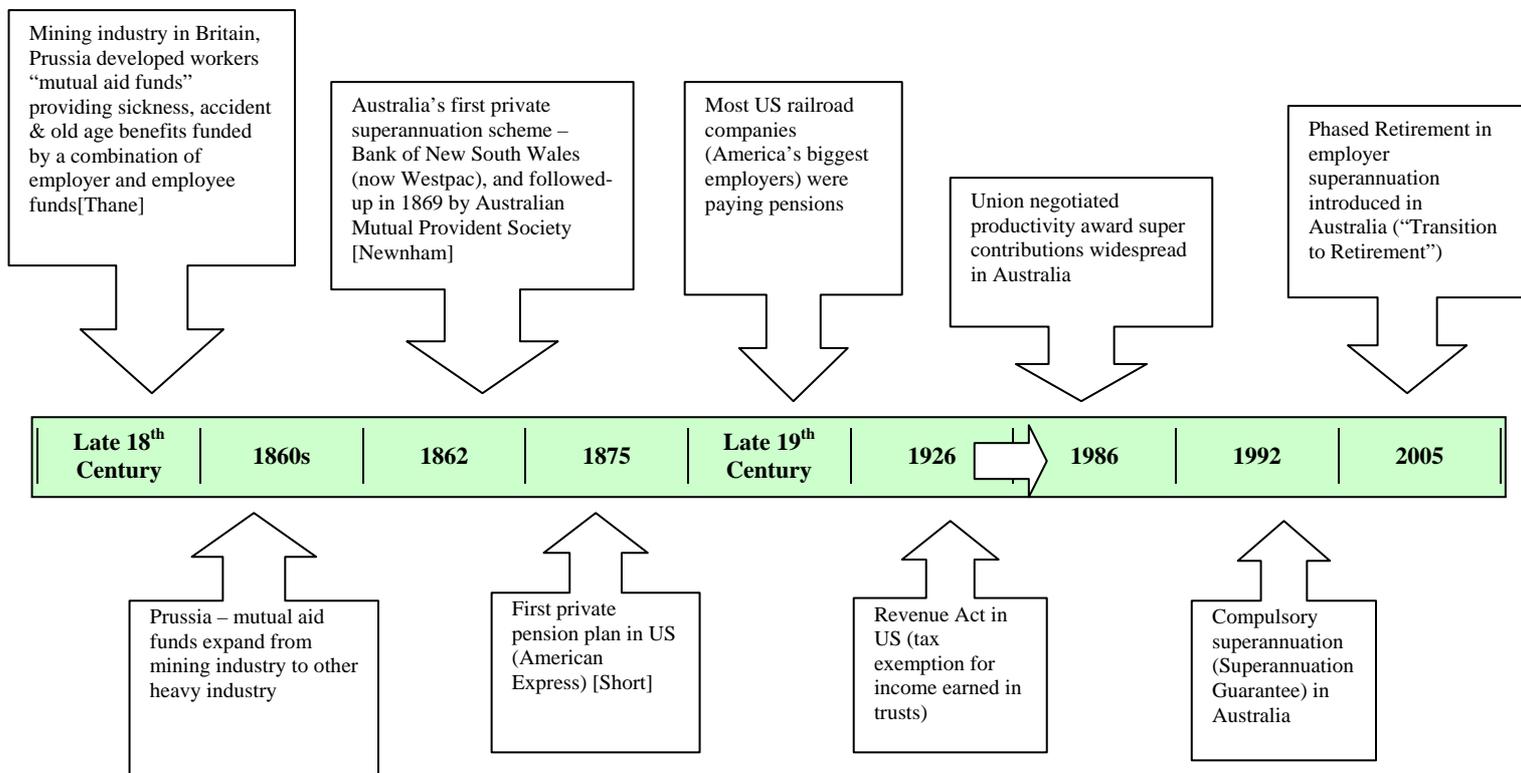
1.2 Emergence of Occupational Pensions

Occupational pensions pre date state Social Security old age income support and are logically considered first. The early occupational pensions were for military personnel and later expanded to public and private sector employees more generally.

Some historical milestones in occupational pensions: Military and Government employee pensions



Some historical milestones in occupational pensions: Private Sector pensions



1.2.1 Why did occupational pensions emerge?

The growth of occupational pensions also reflects the growing scale of the government (military then civil service) and later the growth of private companies.

Initially pensions were established on an informal discretionary basis, sometimes as an act of paternalistic generosity, sometimes as a convenient management tool for removing someone who became unfit for work.

Pensions for civil servants were established and systemised in all developed countries over the course of the nineteenth century, gradually overcoming resistance of state employees to fixed retirement ages, normally 60 or 65. Pensions and retirement spread from other public sector employees such as teachers and postal workers in the late nineteenth and early twentieth centuries [Thane]

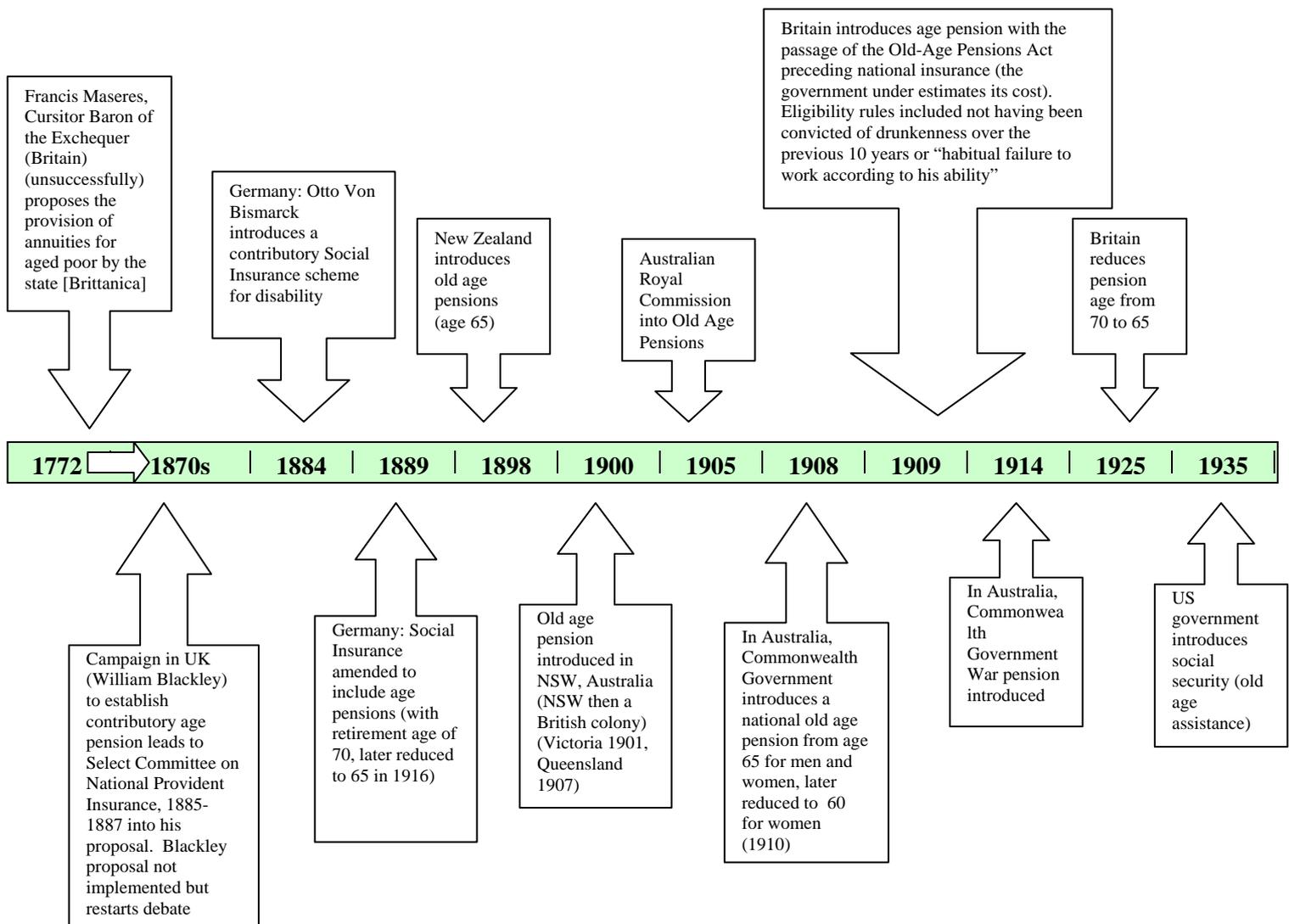
For the private sector, employee loyalty, attraction and retention were important drivers for the introduction of pension schemes, although eligibility was normally for only senior white collar employees. For blue collar employees, the common alternative to a pension was to keep the worker on in posts reserved for older workers which were less demanding (and less well paid) than their previous positions. In the mining sector, where mutual aid funds developed, employers were happy to contribute in order to retain employees in difficult jobs often in inhospitable locations.

Formal pension schemes with fixed retirement ages were introduced from the later nineteenth century by the minority of firms which had grown too large to apply informal discretionary pensions effectively (although employers did retain elements of discretion to withdraw pensions – for example if employees went on strike).

Most unions were initially hostile to occupational pensions fearing they would reduce wages or employers would win more worker loyalty [Achenbaum]. However, union acceptance and later union championing of occupational pensions was an important factor in their spread in the latter half of the twentieth century. In Australia, the Labor government / Union “Accord” led to productivity award superannuation agreements, dramatically increasing superannuation coverage in the workforce.

1.3 Emergence of Social Security

Some historical milestones in Social Security



1.3.1 Why was social security introduced?

The main reason for the introduction of age pensions was the alleviation of old age poverty. In the late 19th century, old age poverty became more apparent (due to better measurement, rising numbers of older people, and the rising gap between rich and poor). This led to a number of social activists and economists developing pension proposals for governments.

According to Thane, the introduction of age pensions were never expected to be permanent, rather they were envisaged as short-term solutions to poverty, on the assumption that in future generations all old people would have the advantage of higher capacity for saving during their working lives.

The World Bank suggested that governments adopted social security as a political response to urbanization and industrialization. As individuals moved out of the traditional agricultural family structure, there was a need to establish formal risk management arrangements that could substitute for the informal arrangements that were eroding in the face of the transition. [World Bank]

Two broad historical models of social security emerged:

- The Bismarckian Social Insurance Model based on employee and employer contributions and benefits related to contributions.
- The Beveridge model (named after the British economist who championed the scheme) involving coverage for the whole population regardless of employment status and is funded from taxation, provides benefits unrelated to contributions usually with a means test applying. [Harper]

The contributory social insurance model was consistent with the values of the age and society in which it was developed which valued personal savings as an important virtue. In the Beveridge model, the level of assistance was set deliberately below subsistence level explicitly to provide an incentive for people to save and families to assist. [Thane]

For Bismarck, an explicit aim in introducing the social insurance model was to prevent the spread of socialism amongst workers by demonstrating that their needs could be met by a liberal state. [Thane]

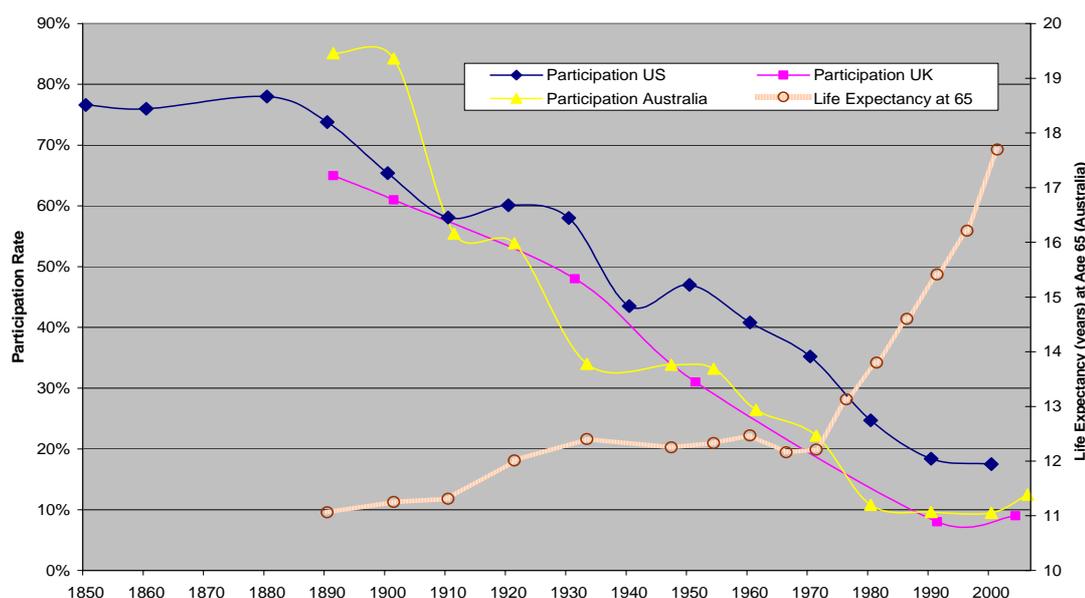
In Australia, debate over the two types of model (Bismarckian social insurance vs Beveridge means test model) and how the means tests should apply has continued for over a century. In 1928 the Bruce government put forward a policy of social insurance, but this lapsed when the government lost office in 1929. In 1938, the Australian parliament actually legislated a social insurance scheme, but this lapsed with the outbreak of World War 2. In the 1960s and 70s various social insurance approaches were considered (including by the National Superannuation Inquiry in 1976 which recommended a social insurance model). These social insurance proposals were all rejected, however the debate about the means tests continue to this day. [Whiteford], [Unikoski].

1.4 Trends in Retirement

1.4.1 Reducing Participation Rates

The evolution of retirement is illustrated through workforce participation rates. This is illustrated on the graph / timeline below:

Changes in Labour Force Participation Rates of Men Age 65 +¹ & Life Expectancy at 65



The graph shows that in the UK, US and Australia, rates of men over 65 working (or seeking work) has decreased considerably in the past century. Life expectancy for those over age 65 remained fairly constant until the 1970s and has since improved dramatically.

Participation rates have been shown for men only as they are more easily available (and the measurement of female participation in the labour force is problematic due to prevailing preferences not to declare female employment to census takers, and also for censuses to overlook part time and casual work performed by women).

1.4.2 Changing Attitudes to Retirement

A noted author on the subject has suggested that retirement has evolved from a Rest to Reward to Right. [Harper] A possible presentation of this evolution is shown below.

¹ Note that in 1891 (NSW) and 1901 (Australian) statistics based on "breadwinner" definition used in Census, more detailed information and alternative definition of labour force participation ("grade of occupation") was available in the 1911 census

Sources: US Statistics - [Short] , UK Statistics- [Harper]

ABS Australian Social Trends 2000 (Cat# 4102.0)

ABS Year Book 1971 (Cat # 1301.0)

ABS Labour Force, Australia, Detailed - Electronic Delivery (Cat # 6291.0.55.001)

ABS (and NSW) Censuses 1891, 1901, 1911, 1921, 1933, 1947, 1954, 1961 onwards

The summary below also includes a view of a new era of “Phasing Retirement” which the author of this paper believes will eventually lead to the next era - the End of Retirement.

Period	Work Till You Drop	A Rest before death	Reward for Hard work	Right to Leisure	Phased Retirement
Date	Pre 1890s	1890s to 1950s	1950s to 1970/80s	1970/80s to 2000	2000 onwards
Retirement Ages	No Retirement		Rigid Rules about retirement ages Rise of mandated retirement	Trends to earlier retirement	Trends to Later Retirement “Bridge” Employment
How withdraw from workforce	Gradual withdrawal from workforce based on disability		Abrupt withdrawal from the workforce based on rules rather than capacity	Withdrawal at early ages, often due to redundancy	Periodic withdrawal from & re-entry to workforce
Attitudes	Negative attitude towards retirement “To old to work, too young to die” & “The roleless role” [Freedman]		Rebranding of retirement as “Golden years” begins	Concept of retirement as a period of leisure well established	Expectation of some employment in old age
Government support?	No Social Security	Introduction of Social Security	Increase in generosity of social security		Financial crisis for some Social Security systems
	Belief that an individual should provide for themselves		Belief that individual has entitlement to income from the state		Emerging belief that state assistance will not be available
Occupational pensions	Some discretionary occupational pensions	Spread of occupational pensions	Defined Benefit designs give incentive for early retirement	Superannuation becomes compulsory Superannuation viewed as deferred pay not a company benefit Trend to Defined Contribution	Widespread closure of Defined Benefits Less generous Defined Contribution schemes Retailisation of super as a financial product, not an occupational savings vehicle

1.5 Why has the institution of retirement developed? Why does retirement exist?

There are a few related but importantly subtly different questions:

- Why does retirement exist? / Why do we have retirement?
- Why do people retire?
- Why did retirement become more widespread?

The first of these questions is the most important to understand why Retirement should now be abolished.

	Why does Retirement Exist?	Why do people Retire²	Why did Retirement Spread?
Labour Supply	People stop work when they are disabled	Disability To care for family member / partner	Decline of family support in old age
	People prefer leisure over work if they can afford it	To pursue leisure	Rising real wages (allowing more savings for retirement) Changing employee attitudes Leisure has become cheaper People are healthier and can enjoy more leisure
	Government policies encourage older people out of the labour force		Introduction of and then increase in social security
Labour Demand	Employers do not want older workers	Considered too old by their employer/ reached a compulsory retirement age / “reached an appropriate age for retirement” Unemployment (redundancy, unable to obtain work) Financial incentives to retire from employers and occupational pension plans	Employer attitudes (preferring to retire older workers) Spread of occupational pensions Some pension funds giving incentive to early retirement Decline of certain industry sectors

² [Standing Committee on Health and Ageing]

The author speculates that there are four main reasons that retirement exists / why we have the institution of retirement:

1. People become disabled
2. People have a preference for leisure over work
3. Government policies (with union support) have encouraged older workers from the labour force
4. Employers did not want older workers

1.5.1 People become disabled

While disability does not explain retirement becoming more widespread, it is the fundamental reason it exists.

The wear and tear resulting from the ageing process often means a person is no longer able to perform their own occupation. This is also the fundamental reason why aged poverty existed (as people were not able to derive the same level of income when they were younger due to incapacity).

Some authors have hypothesised that an early reason for saving for retirement was a change in family arrangements. In particular, in the nineteenth century men typically used the promise of a bequest as an incentive for children to help their parents in old age. As more opportunities for work off the farm became available, children left home and defaulted on the implicit promise to care for retired parents. Children became an unreliable source of old age support, so parents stopped relying on children - had fewer babies - and began saving (in bank accounts) for retirement. [Short]

1.5.2 People have a preference for leisure over work

People prefer leisure to work if they can afford it. Rising societal wealth has enabled more people to act on their preference.

Retirement has lengthened due to retirement ages being fixed and healthy lifespans increasing. This means that more leisure is possible. At the same time, leisure activities have become cheaper and more accessible / available adding to retirement's popularity. [Short]

Most authors tend to agree that the main reason for the spread of retirement after World War 2 is increased economic security in old age allowing people to withdraw from employment. This has resulted from rising real wages (allowing more savings), government provided age pensions and occupational retirement savings. [Short] Arguably all this has been made possible by unprecedented economic prosperity which has not been interrupted by a major war or economic depression. Strong investment returns over the past 25 years have also had a positive impact on people's savings and hence their ability to retire.

However, the increase in income has been gradual and initially the levels of social security were set at below subsistence level. This may have been a contributing factor as to why the introduction of social security in the UK (and Australia) did not have an immediate impact on participation in the workforce [Harper].

Up until World War 2, retirement was perceived quite negatively by people. From the 1960's entrepreneurial companies realised the potential of a new market and commenced "rebranding" retirement. The most famous example is the "Sun City" property development in Phoenix US in 1960. Promoted as a retirement community (located on a golf course), it was this development which coined the phrase the "golden years" and "55 and better". [Freedman]

This was a turning point in how people perceive retirement, previously it had been viewed as a rest before death. It then evolved into a "reward for hard work" (and later a "right").

1.5.3 Government policies (with union support) have encouraged older workers from the labour force

While social security emerged as a reaction to old age poverty, old age poverty is not the reason why retirement has emerged. However, the emergence and increased generosity of social security is a major factor in allowing retirement to emerge.

At different times government (intentionally or otherwise) have had a mixed role in encouraging older employees into and out of the workforce. Overall the main impact (via social security) has been to encourage older workers to leave the workforce.

As noted above, the levels of social security were initially set at below subsistence level, with a deliberate intention for people to save and also continue to work. However the imposition of stringent means tests (in the UK) meant that any work would have to be miserably paid in order for a person to still qualify for a pension.[Thane]

Some authors have observed that it is no coincidence that old age assistance was introduced in the US during the Great Depression [Achenbaum]. There is a view that governments have used social security as a (questionable) mechanism to lure older workers out of the labour market and so make room for the hordes of unemployed young people [Freedman].

After the Great Depression in the 1920s to 50s there was a panic about the ageing of the population. There were pessimistic forecasts of dependency ratios, falling birth rates and increased life expectancy [Thane]. In Australia this concern formed the context (combined with the impact of two world wars & fear of invasion) for the government suggesting Australia should "populate or perish".

Governments in the UK during the 40s and 50s tried to encourage older people to remain in the workforce, changing the pension system to provide higher payments to late retirees (although this was insufficient) and funding campaigns to (unsuccessfully) persuade employers to retain older workers.

At the same time, governments were under pressure from trade unions to keep commitments for earlier retirement for working people. By the 1960s concern about ageing population evaporated (due to the baby boom and belief that technology would solve many of the labour problems) and Governments ceased to be less concerned about retaining older workers [Thane]. In Australia in the 1970s the position had changed and the flow of new young workers encouraged the removal of older workers. [Harper]

Some authors have observed that the increase in relative value of social security pensions that occurred in the 1970s is thought to have led to a decrease in the workforce participation rates of over 65s over the subsequent two decades. In the US, pensions increased 20% in 1972 a US election year [Achenbaum] and similar growth occurred in pensions in the 1970s in

Australia. [Kennedy] Over the past decade or so, there has been relatively little change in real value of age pension.

1.5.4 Employers did not want older workers

Employers have historically had a preference for younger workers instead of older workers based on the latter's perceived lower productivity and perceived lack of adaptability to new technology.

These beliefs have persisted and to some extent are still present today despite evidence to the contrary.

Retirement provided employers with a benevolent mechanism to remove older workers to replace them with younger workers. [Thane] The introduction of more rigid retirement ages in the 1950s and 60s provided employers with an administratively efficient and equitable way to do this. [Harper] It coincided with employers offering fewer part time and casual jobs for older employees.

Occupational pension funds were a convenient tool to achieve this, providing a monetary amount to ease the blow (for the employee) of not being wanted any more and also provided employees with financial incentives for retirement.

The design of occupational pension funds has often provided financial incentives to retire early [Harper]. Although in the US, there can be opposing financial incentives to remain in the workforce due to the provision of health insurance coverage by the employer.

More recently, the demise of defined benefits and their replacement with often less generous accumulation schemes (with the agreement of unions) have prompted some authors to suggest the inadequate benefits will lead to the "end of retirement". [Ghilarducci]

In the early years of the twentieth century, the fall in workforce participation rates may possibly reflect declines in different sectors in the economy (in particular agriculture) where retirement was less prevalent (older farmers were more likely to work than older non farmers). [Short]

Thane notes that in most countries employment of older people plunged between the two world wars, but argues that this is not due to sectoral changes but due to the impact of high general levels of unemployment. This led to the permanent withdrawal from the labour market of a cohort of workers. Harper argues that older workers are likely to be "first out" in times of recession. This may have played a role in the 1990s trend to earlier retirements with mass redundancies.

In the 1980s, changing technology and a more competitive business environment reinforced employer's belief that older workers could not "keep up".

2. Why Retirement Should Be Abolished

Killjoy? Calvinistic Zealot? Work till you drop?

To be clear – this paper is not arguing that leisure at older ages should be abolished. Nor is the argument being made that older people who are capable of work should be prevented from voluntarily withdrawing from employment.

The argument being put by this paper is that leisure (for those capable of work at older ages) should be funded by savings and not subsidised by the state (either through social security or tax concessions). It is accepted that those who are unable to work through disability or unemployment should be appropriately supported.

Key Points: The reasons for having the institution of retirement no longer apply

In this section it will be shown that the reasons why the institution of retirement exists no longer apply in the new demographic environment.

	Reasons why Retirement Exists	Reasons why it should be abolished
Labour Supply	People stop work when they are disabled	<ol style="list-style-type: none"> 1. Retirement at an arbitrary fixed age does not make sense (disability should be the trigger) 2. People are living longer and will become relatively healthier in “old age”
	People prefer leisure over work	<ol style="list-style-type: none"> 3. Why defer leisure until 65? Spread leisure throughout life 4. Abolishing retirement is better for families 5. School → one job for life → Retirement no longer exists. Retirement does not suit a more flexible world of work. 6. It deprives people of the meaning and social connection derived from work 7. People do not have resources for a lengthy retirement
	Government policies encouraged older people out of the labour force	<ol style="list-style-type: none"> 8. Governments should not subsidise old age leisure for the work capable 9. Governments cannot afford ageing
Labour Demand	Employers did not want older workers	<ol style="list-style-type: none"> 10. Employers now need older workers 11. Employers cannot afford Retirement Benefits

2.1 Retirement based on a fixed age does not make sense

Thinking about what is an appropriate “retirement age” leads naturally to thinking about why do we have retirement?

2.1.1 Thought Experiment

Consider the following thought experiment – imagine life expectancy (at birth) increasing significantly say to 110 as a result of medical advances (for example due to effective treatments for major diseases such as cancer). What age would you choose as the minimum to be eligible for a social security age pension? Why would you choose that age? Some proportion of Life Expectancy? An average age of the onset of disability?

The thought experiment is likely to lead the reader to the conclusion that setting a fixed retirement age is an entirely arbitrary decision, just like the decision to use age 65.

2.1.2 Reason for age 65

Contrary to popular belief, 65 was not chosen as the average life expectancy when Otto von Bismarck introduced age pensions into the German social insurance scheme in 1889. Initially, German age pensions were payable from age 70 and this was reduced to age 65 in 1916. Nor was it Bismarck’s age at the time (he was 74).[SSA b]

With the introduction of pensions in the UK in 1909, the overriding consideration in setting the eligibility age was cost. Pensions were initially payable from age 70 despite overwhelming testimony at the time that 65 was the age at which need most often became apparent. [Thane]

As the US Social Security Administration notes, the decision to use age 65 there was not based on any philosophical principle or European precedent. It was, in fact, primarily pragmatic, and stemmed from two sources. One was a general observation about prevailing retirement ages in the few private pension systems in existence at the time and, more importantly, the 30 state old-age pension systems then in operation. Roughly half of the state pension systems used age 65 as the retirement age and half used age 70. [SSA]

In New Zealand in 1898 & Australia (NSW, 1900) , the decision to set 65 as the eligibility age for the age pension was most likely on the basis of being comparable with the few other social security schemes internationally and also eligibility ages for civil service pensions.

Civil service and occupational schemes did not always have fixed retirement ages. Initially, they were established with discretionary retirement ages, fixed retirement ages were introduced as a technique for management to evade the invidious task of telling an employee that they were past working and also to overcome the inequity between those who did and did not receive a pension. [Thane]

The use of age 65 for civil service & private occupational pensions may have deeper historical roots. There is evidence in medieval legislative texts that old age was often defined as between 60 and 70 and was the age at which older men were exempted from military service, trial by battle, service on town watches etc.[Thane b]

2.1.3 67/68 is the new 65 – changes in Social Security Retirement Ages

Recently a number of countries have announced gradual increases in social security ages (67 in the US from 2027, 67 in Germany from 2029, 67 in Denmark from 2027). Other countries, such as the UK & Netherlands, have had official enquiries recommending an increase in the eligibility age (Netherlands to 67, UK to 68 from 2046) [IPE.com, Pensions Service UK, BBC, SSA].

There does not seem to be any science or underlying principles behind the current consensus eligibility age of 67/68, other than it representing a compromise between political acceptability and economic savings from the change.

2.1.4 Disability + Unemployment + Age Pension mean the retirement age is irrelevant

In the Australian social security system, the combination of the disability, unemployment and age pensions means that there are many people who achieve early retirement via social security (unemployment or disability pensions). In other words, the concept of a fixed retirement age is somewhat meaningless for those with access to the unemployment & disability benefits. In 2001 over 30% of all people between the ages of 55 & 65 were receiving social security income support.[Vanstone / Abbott]

2.1.5 People don't want a fixed retirement age

Recently in Australia, there was some public debate generated by a Judge forced to retire at age 72. Fixed retirement ages for Judges were introduced (by referendum) in 1977 at a time when rigid rules about retirement ages were commonplace. In reaction to this recent forced retirement, the NSW Chief Justice called for the raising of the compulsory retirement age and editorials questioned the wisdom of a fixed retirement age [Dick].

A recent survey showed that the majority of people reject enforced withdrawal from the workplace at a fixed age. [HSBC].

While judges have a fixed retirement age, there are few other instances of fixed retirement ages set by employers in Australia (as it is largely illegal in Australia since the introduction of anti discrimination legislation). A “Retirement age” usually refers to social security age pension eligibility. If our society doesn't have fixed retirement ages from the workforce it would be logically consistent to not have fixed ages for social security eligibility.

2.2 Why retire if you are healthy? People are living longer and are relatively healthier in old age

Why should our society encourage the retirement of people who are healthy and capable of work?

It is not unreasonable to imagine that, in the future, people will be spending an increasing number of years being eligible for retirement benefits all the while being healthy and work capable (even after considering the likely incremental increases in retirement ages).

2.2.1 People are healthier than previous generations

That people are now living longer than when the first age pensions were implemented is well known and easily demonstrated. But are people above age pension age healthier?

Intuitively, this seems obvious, the baby boomers today seem to be healthier and more active than their parents were at the same age. But proving this is not straightforward.

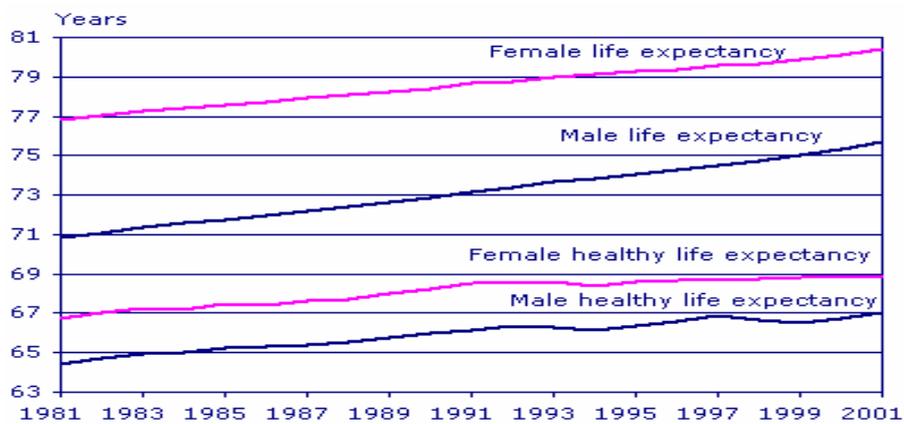
Demonstrating improving health is more complex than demonstrating improvements in longevity.

However, there are some measures which allow such comparisons. One such measure is the “Healthy Life Expectancy” measure used by the World Health Organisation. Essentially it is an estimate of how many years are lived in good health over the lifespan and is derived from Census and other surveys where people are asked whether they are in good, fairly good, or not good health.[WHO]

In Australia, the figures for healthy life expectancy are as follows:

	Life Expectancy at Birth (2002)	Healthy Life Expectancy at Birth (2002)
Males	77	71
Females	83	74

While the WHO first published this measure in 2000, some countries’ statistics bureaus have produced results over longer periods. The graph below illustrates the improvement in healthy life expectancy over time in the UK. [ONS]



While this is only a limited period, a discernable trend is present that healthy life expectancy is increasing. The graph also shows that the period of “non healthy” life expectancy (the gap between Life Expectancy and Healthy Life Expectancy) is increasing. The general consensus in the academic community is that these trends reflect increased years of mild disability, and a decline in severe disability. [OST]

Some other measures of health include:

- Rates of Disability as measured by inability to perform “Daily activities of living” (such as stair climbing and personal care).
- Rates of Severe Disability as measured by rates of institutionalisation

An OECD report showed moderate to significant declines in these measures of aged disability but the results were variable by country. [Jacobzone]

2.2.2 *People are likely to be healthier in the future*

Many commentators have remarked that we are living in an era of remarkable advances in biotechnology and the practice of medicine.

Consider the major causes of loss of healthy life expectancy [Standing Committee on Ageing]:

Disease	Years of healthy lives lost due to disability (in 1996)			
	Females	Males	Persons	%
Dementia	33,976	20,232	54,208	16.7%
Adult-onset hearing loss	10,871	15,404	26,275	8.1%
Stroke	10,160	13,587	23,747	7.3%
Vision disorders	15,591	4,343	19,934	6.2%
Osteoarthritis	11,942	7,691	19,633	6.1%
Coronary heart disease	9,593	9,734	19,327	6.0%
Parkinson's disease	9,969	5,392	15,360	4.7%
Diabetes mellitus ^b (type 1 &2)	4,288	5,541	9,829	3.0%
Benign prostatic hypertrophy	N/A	9,690	9,690	3.0%
Chronic Obstructive Pulmonary Disease	3,698	4,506	8,204	2.5%
Top 10 Disorders	110,088	96,120	206,207	63.6%
Total	170,730	152,995	323,725	

The two biggest causes of healthy years lost due to disability, dementia and hearing loss, are areas showing tremendous medical advance. It may be a surprise to some that there are currently a number of drugs at advanced stages of human clinical trials for Alzheimer's disease. [Elias].

This adds up to the prospect of significant increases in people's capacity to work at older ages.

In an OECD report on Biotechnology and Healthy Ageing observes that

"In envisaging a longer life course, it is necessary to start thinking about abolishing retirement as we know it and look at what education and training will mean. With the long life spans now predicted, it is ridiculous to think that children will go to school at age three or four, be trained to work until they are only 50 or 55 years old, and live as many as 50 or 55 more years without a real purpose" [OECD]

2.3 Why defer leisure until 65? Why not spread the (currently) expected 20 or 30 years of retirement leisure more evenly over your entire life?

Increasing life expectancy and improved health now means that people potentially have 20, 30 or even 40 years of healthy life after becoming eligible for social security age pensions.

Why has society decided to distribute leisure in such an uneven fashion? (ie work for 40 years straight and then retirement leisure for 20/30/40 years). The answer is that this was never the intention, it has accidentally evolved that way (life spans have expanded and retirement ages remained fixed).

Why not spread the 20/30/40 years of leisure more evenly over your entire lifetime?

To paraphrase a “Cold Chisel” song, the money you save for retirement won’t buy your youth again.

Why is it that we can afford 20/30/40 years of uninterrupted leisure in retirement but not a 4 day working week?

From a microeconomic view, this pattern of “consuming” leisure (in one 20/30/40 year block) does not optimise a person’s utility. Arguably, leisure, like other goods, has diminishing marginal utility. Consuming it in smaller amounts over time produces more satisfaction than consuming one large period (this is like eating a year’s worth of chocolate in one sitting versus consuming it a little amount each week over a year). In considering expected utility, there is also a greater risk of disability in retirement. Factoring in that probability, the current linear retirement pattern of consuming leisure is even less optimal.

One reason for this pattern of deferring leisure is the “miracle” of compound interest, which means an individual’s pool of savings are greatest at older ages, so it might be more easily afforded then. However, abolishing retirement means the pool of savings required does not need to be as large (saving is primarily for disability & health not funding decades of leisure).

2.4 Abolishing retirement is better for families

Abolishing retirement allows the bringing forward a portion of the 20/30/40 years of old age leisure (some of which is meaningless) for other important life events (particularly as they affect families). Adopting a Lifetime Income Policy (as outlined in Section 3) would allow people to better use their time / savings for broken periods of employment that might be required for:

- raising children
- caring for family members in the event of ill health
- reducing financial stress during unemployment, disability
- a variety of other circumstances which affect families.

It might be argued that abolishing retirement will have a negative impact on the role of grandparents. However, it should be noted that in proposing abolishing retirement, it does not mean people are not able to choose to have leisure to spend time being grandparents. In fact, it provides grandparents with greater flexibility to choose how they would like to relate to their grandchildren - as it would be less likely for parents to automatically assume

grandparents are a default child care facility (which is currently the case and which many grandparents resent).

Recently one large employer in Australia has instituted “Grandparenting leave” which allows staff to take (flexibly) up to twelve months unpaid leave for caring for grandchildren. This points the way for employers to manage a workforce in a “post retirement” world where older people remain in the workforce.

2.5 Retirement does not suit the changing nature of work – cycling in and out of work, training & leisure

2.5.1 Work has changed & retirement has changed

The days when people went to school, worked full time for one employer (often in the same type of role) for 40 years and then suddenly stopped work to retire with a nice defined benefit are well and truly gone.

This pattern of employment existed when retirement was considered a “reward” from 1950s to 1970s / 80s. Most defined benefit designs reflected this paternalistic environment where loyal employees with long periods of service were rewarded (overcoming large vesting scales that punished short periods of service).

At the same time as retirement evolved from a “reward” to a “right” (in the 1980s), employer paternalism gave way to a more competitive economic environment and the nature of work changed:

- The frequency with which people change employer increased
- The number of jobs which were part time and casual increased relative to full time employment
- Employment arrangements & industrial relations became more flexible
- Superannuation changed from being considered “reward” provided by an employer to being deferred pay earned by the employee (a “right”)

Some further trends are now evident [Kahane]:

- Communications technology is changing the nature of work, allowing greater flexibility in how & where work is performed
- People are now more likely to have a number of different “careers” in their working life (involving retraining for new areas of work)
- People are more likely to have more frequent periods of unemployment as companies restructure their workforce more frequently to adapt to competitive pressures.
- People are staying in the workforce longer
- Many Retirees experience “Bridge employment” - a form of partial retirement in which an older worker alternates periods of disengagement from the workplace with periods of temporary, part-time, occasional, or self-employed work. [Stein]

These trends, combined with employers’ growing need to retain older workers, point to an increased flexibility in work and phased retirement with an ongoing attachment to the workforce.

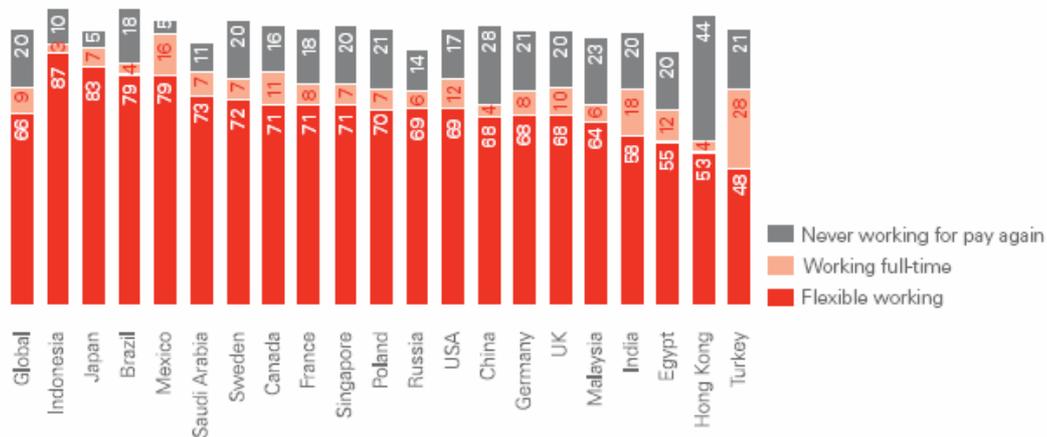
Some commentators have speculated that the 21st century may be known as the era of lifelong learning and lifelong working.

“Retirement, the end stage of a linear working life, may be replaced with a learning, working, leisure, working, learning life cycle. In a cyclical living and working model, participating in the work force never ceases but is interspersed with periods of leisure and learning. Full-time work may be interspersed with periods of flexible working arrangements such as part-time, seasonal, occasional, and project work (Brown 1998; Dychtwald 1990). The traditional notion of retirement may be replaced with lifelong working--in various positions and in varying amounts of time throughout adult life.” [Stein]

2.5.2 Phased Retirement is not retirement- it is working flexibly.

The trend to ongoing participation in the workforce by older people is supported by a recent survey which shows that people want flexible work in retirement. [HSBC]

How individuals view the ideal plan for balancing work, leisure and money in their later years (in percent)



Source HSBC Future of Retirement Research 2006

In a similar survey conducted by the AARP (American Association of Retired Persons) over 80 percent of Baby Boomers are planning to continue in paid labour during their sixties and seventies. [Freedman]

Retirement is becoming “the new career break”. [Smith] According to a recent report, of those mature age people not currently in the workforce, one third would be prepared to return to work or relocate if they were offered the right job, and more than half would consider doing further study. [Diversity Council Australia]

The Australian government is encouraging this trend of ongoing workforce participation through its policy on phased retirement (“transition to retirement”).

But phased retirement is not retirement. It is working flexibly at older ages. Arguably, this is no different to working flexibly at younger ages. The changes in the nature of work mean that the same cycling in & out of the labour force (unemployment, to retrain for another career) will occur not only at older ages but at younger ages too.

The concept of phased retirement (and the savings vehicle which facilitates such flexible working arrangements) should be extended to all ages (not just those at older ages). Instead of just “transition to retirement”, how about “transition to a new career”, “transition from education”, “transition to parenthood”?

2.6 Retirement deprives people of the sense of meaning and social connection provided by work

As well as having a financial benefit, work provides a number of other important non remunerative benefits which are lost in retirement such as:

- sense of purpose, identity and meaning,
- a social connection
- intellectual challenge / stimulus
- sense of structure to daily living / keeping busy

There is a substantial amount of research which shows exactly that.

“The American Association of Retired Persons received 36,000 responses to a working life survey, covering 375 job titles from workers age 50 plus who had returned to the workplace after an initial period of retirement (Bird 1994).

The three most frequently cited reasons for returning included having financial need, liking to work, and keeping busy. However, closer examination of the data revealed that "financial need" included money to help the children as well as to meet basic needs. "Liking to work" included feeling successful, enjoying the excitement of the workplace, and making a contribution. "Keeping busy" included working with a spouse, staying healthy, or fulfilling a social need. Reasons cited for remaining or returning to the workplace expressed the social meaning of work.

Ginzberg (1983) proposed that work provides income, status, and personal achievement; structures time; and provides opportunities for interpersonal relationships. In the study by Stein, Rocco, and Goldenetz (2000), older workers remaining in or returning to the workplace mentioned: not planning wisely, the need to contribute, appreciation from others, and the desire to create something as reasons for not retiring from the workplace. Work is more than earning a living. It is a way to live.” [Stein]

In Australia, ASFA’s research “Looking forward to Retirement.....is this as good as it gets?” paints a bleak picture of retirement, particularly for those with little superannuation savings (which is likely to be the case for most people - see the next section). The people interviewed for the ASFA research told of social isolation / loss of social networks arising from limited income (including an example of a man who told how he felt when he could no longer participate in drinks at the club because he could no longer afford to shout a round).

“These stories reveal that retirement can be a daily compromise where individuals keep a close track of spending and watch every penny as they preside over a shrinking horizon of reduced opportunities.....If retirement savings are inadequate to cope with the changes that are at times imposed on retirees, they can sentence them to a veritable period of imprisonment”.[ASFA b]

2.7 People do not (and will not) have adequate resources for a lengthy retirement

Many financial planners suggest that a satisfactory income in retirement is in the order of at least 60% of your final salary. This is consistent with figures determined by ASFA / Westpac about the income required for a “comfortable” retirement (around 66% of Average Weekly Earnings) and a “modest” retirement (around 48% of Average Weekly Earnings).
[ASFA/Westpac]

For a person on Average Weekly Earnings (AWE), a retirement income 60% of final salary is an annual income \$35,000 indexed to wage inflation. In order for a male retiring at age 65 to achieve that (combining superannuation and age pension), a lump sum of around \$600,000 (in today’s dollars) is required*. Mortality improvements due to biotechnology advances may see this blow out to \$800,000 or \$900,000.

Balance at Retirement	Lump Sum at 65	Total Retirement income (superannuation + age pension) Percentage of Average Weekly (full-time) Earnings (AWE)
Before Retirement		100% of AWE
No superannuation	\$0	25% of AWE (age pension only)
Current Average Superannuation balance [ASFA]	\$130,000	32% of AWE
Average superannuation in a mature SG system	\$300,000	39% of AWE
Ideal	\$600,000	60% of AWE

The table above shows that a male retiring at age 65 with the current average superannuation balance at retirement can expect a retirement income of 32% of Average Weekly Earnings.

Baby boomers who have always had it all, will wish to spend as they did during their working life. This will be difficult as their income drops from 100% of Average Weekly Earnings down to 32% of AWE. While some extra spending might be met from reverse mortgages, the reality is that these retirees will not have enough to maintain their lifestyle and many will eventually have to take up some form of employment.

It might be argued that the current superannuation system is not mature. However, even in a mature system (decades away), a person on average wages will only accumulate a lump sum of around \$300,000 producing a total retirement income (combined super and age pension) of 39% of AWE.

* Based on the author’s calculations and a reasonable set of assumptions including a 7.0% net of fees & tax investment return and 4.0% wage inflation and ALT mortality with improvements. Figures are shown for an individual – the Age Pension is based on half the rate of a married couple.

Clearly there is a massive gap between the ideal and the current reality. This will be exacerbated as each cohort of retirees will be healthier and desiring more active and expensive leisure in retirement.

In other parts of the world, the problem of not having enough to retire on is being accentuated by the closure of generous defined benefit schemes and their replacement with less generous accumulation arrangements producing lower retirement incomes.

At the conclusion of a recent US television documentary by PBS Frontline titled "Can You Afford to Retire?" economist Teresa Ghilarducci stated that the only way many workers with under funded 401(k) plans will be able to afford to retire will be to keep working. "So what is the meaning of retirement if the only way you can live is to work?" she asks. "The answer is, there is no meaning to retirement anymore. It's the end of retirement." [PBS]

2.8 Governments should not fund old age leisure for the work-capable

When social security systems were established at the turn of the 20th Century, they were intended to alleviate short periods of old age poverty – governments never intended them to facilitate decades of leisure for the work capable middle class. In fact, when these policies were introduced, they were only intended to be introduced on a temporary basis. [Thane]

Taking a step back the question should be asked, why should the government assist in helping people satisfy their preference for leisure?

In 2007/08 the Australian Government is expected to spend around \$20bn on superannuation tax concessions and \$24bn on age pensions. Of this it is estimated that \$9bn in age pensions relates to expenditure for those people below the healthy life expectancy ages³. In addition, it is possible that as much as 50-60% of the \$20bn of super tax concessions will be consumed by retirees while they are still healthy.

In other words, as much as \$20bn of the \$44bn in Age pension and Superannuation tax expenditure in 2007/08 will go to fund the leisure of retirees who are still healthy.

Generations X & Y may legitimately ask why they have to expect to bear a relatively heavier tax burden throughout their lives while their baby boomers parents are the beneficiaries of ever greater amounts of tax concessions & welfare payments funding the leisure of those capable of work.

2.9 Governments can no longer afford retirement

As discussed in Section 1, governments have supported social security arrangements not only as a means of poverty alleviation but also as a means to withdraw older workers from the workforce to reduce labour supply.

³ These calculations are based on a healthy life expectancy for males of 71. For superannuation tax concessions, this is based on a retirement age of 65, a lump sum of 20% of final payment and a pattern of draw down of the mid point of the old allocated pension maximum and minimum factors Superannuation Tax Expenditures figures from Treasury [Treasury a]. For the age pension, proportions of recipients below healthy life expectancy are derived from the detailed age breakdown contained in the statistical paper [DFCSIA]. Further adjustment is made for operation of the means tests at younger ages.

The ageing of advanced economy populations will place financial pressure on governments and is causing them to rethink retirement incomes policies and to try and keep people in the workforce as long as possible.

Ageing is really a result of three (different) demographic aspects:

- A large cohort of people currently reaching retirement ages – due to increased fertility following World War 2 (the baby boomers)
- Fewer new entrants into the workforce (due to the baby bust - decline in fertility from 1960s)
- Increasing longevity

The ageing of the population has different impacts for the Australian Government:

ITEMS	%of GDP 2006/07	%of GDP 2046/47	Change
Age pension costs	2.5%	4.4%	1.9%
Health expenses	3.8%	7.3%	3.5%
Aged Care expenses	0.8%	2.0%	1.2%
	Average in 1990s	Average in 2040s	
Economic growth	3.3%	2.0%	(1.3%)

Source: the Intergenerational Report 2007 [Treasury]

In Australia, the largest budgetary impact of an ageing population is not really the social security age pension, it is primarily higher health care costs (in particular pharmaceuticals).

Arguably, the most significant economic impact of ageing is the reduction in economic growth as result of a workforce that is not growing due to the retirement of baby boomers and there being fewer new entrants into the workforce.

It is no surprise that governments have recently been taking steps to encourage an increase in workforce participation by older people. The real economic benefit of people working longer is more economic growth (and taxes) to pay for increased health costs and reduce the extent to which taxes would otherwise need to rise. Saving money on the age pension is a second order effect as the current expectations are that superannuation will have only a marginal impact on Australia's age pension costs (indeed superannuation tax concessions will cost the government almost as much as the age pension itself). As a policy lever superannuation is most useful to increase workforce participation rates.

Considering the above, it is not surprising that the results of a recent survey show that only 29% of people in advanced countries have confidence that their governments will provide financial support in old age. [HSBC]

2.10 Employers will now need older workers

2.10.1 Fewer new entrants into the workforce

In Australia the lack of new employees is the real issue facing employers (rather than rising pension costs).

As society ages and the baby boomers start to enjoy retirement, the growth in the workforce is projected to slow as a result of fewer young people entering the workforce. According to the Productivity Commission, the number of workers is projected to grow by over one million in the seven years from 2003-04 to 2010-11. This is about the same growth in the labour supply that is projected to occur over the entire 21 years from 2023-24 to 2044-45. [Productivity Commission]

From an employer perspective this will mean fewer young employees to compete for, and is likely to lead to a realisation that retaining and recruiting older workers will often be more cost effective than recruiting younger employees.

2.10.2 Are older employees really less productive? Less adaptable?

It might be argued that employers do not prefer older workers because they are less productive.

However a number of authors note there is little practical evidence to show that older workers are less able to perform modern economic activity than younger workers. [Harper]

"In a review of older worker studies, Rix (1990) concluded that many aging workers continue to work at peak efficiency and that there is usually much more variation within age groups than among age groups. Shea (1991) summarized the studies on older workers by pointing out that "age-related changes in physical ability, cognitive performance, and personality have little effect on workers' output except in the most physically demanding tasks". [Stein]

In Australia, similar studies note that direct investigations of worker productivity have found no significant difference between older and younger workers [Fitzgerald].

Despite this evidence, econometric modelling of the economy often allows for worker productivity varying by age (although the Productivity Commission's model used in its report on Ageing allowed for such variables it did not apply to them).

The average level of occupational training offered to older workers is significantly lower than for younger workers. However it is noted that in industries with high rates of technological change typically have later retirement ages because older employees receive more on the job training.[Harper] This conclusion is also supported by Australian authors who note that there is little evidence that older workers are not worth training because they won't be staying long enough to benefit from it. [Fitzgerald]

Even where older employees are less productive they have other attributes that make them attractive for employers, namely they are often more reliable (and loyal) than Gen X/Y, plus they have accumulated experience, wisdom & maturity. Indeed with Gen Y, it has been argued that companies should not waste money training them as they will simply be training them for their next employer.

2.10.3 Employer perceptions are changing

According to a recent survey, employers:

- View older employees as being just as productive and just as flexible than younger employees (except employers in Asia & Africa).
- Older employees are perceived to be slower learners and less technologically oriented, but more loyal and reliable than younger employees. [HSBC]

While no longitudinal data of this nature is available, the results of the survey seem to differ from long held stereotypes of older workers.

Although according to the same survey, firms are not yet actively recruiting older employees (except in the UK).

In another recent study, workers over the age of 55 account for more than 40% in the growth in employment in the Australian economy over the past five years. [Gittins]. At the same time participation rates for the over 55s has been increasing. [Kennedy]

Although this has occurred during a boom when there are labour market shortages, it does indicate that employers are willing to embrace older workers and employ them on terms preferred by the older workers (which is increasingly part time).

Harper observes that older employees may be the last hired during a boom and the first retrenched during a recession. However, there is good cause to think that this impact may not be as pronounced during the next recession (due to the lack of younger employees, structural changes to superannuation, disability pensions etc).

2.11 Employers can no longer afford retirement benefits

Unlike employers in Europe and the US, Australian employers do not face any significant difficulties affording retirement benefits as a result of widespread defined contribution arrangements.

However, in the US and Europe where employers have more generous defined benefit and health arrangements, employers may struggle to maintain profitability and adequately fund these plans.

While it may be possible for these employers to renegotiate these generous historical arrangements with less generous defined benefit schemes, defined contribution arrangements or even offload the liabilities through bankruptcy, it may be easier said than done. New arrangements that are affordable from an employer perspective may translate into lower retirement savings which might be inadequate to fund a long retirement commencing from the age of 65.

3. Here's How To Do It

Key Points:

Instead of facilitating fixed age retirement for leisure, government policy should instead develop a Lifetime Income Policy which encourages flexible working arrangements throughout a person's life while they are capable and focuses on providing income during disability:

- Eligibility for social security age pension should be based on a disability test instead of attaining a fixed age
- Compulsory occupational based superannuation savings should be maintained and transformed into a Lifetime Savings vehicle.....
- The playing field for occupational savings tax concessions should be level for all ages – special tax concessions should only be directed to prefunding / insuring disability, health and long term care.
- Under the Lifetime Income Policy / System preservation rules regarding minimum ages for accessing pensions funds should be changed to allow withdrawal at all ages subject to certain limits
- Access would be allowed for certain life events education / parenting / ill health. There would be no restriction of access to voluntary savings.

3.1 If there is no retirement what is the role of social security and occupational savings?

As outlined in section 1 the main reasons for the institution of retirement are disability, people's preference for leisure, employers not wanting older employees and government policies taking older employees out of the workforce. Section 2 examined those reasons and found that employers now need older workers and the government needs them to stay in the workforce. Nor does retirement totally satisfy people's leisure preference.

Having dismissed 3 of the 4 reasons for why the institution of retirement exists, it leaves one – Disability

There is no debate that old age disability requires a policy response. Although disability is not confined to those at older ages (it's just more likely to occur). Designing a system only for old age disability (and not younger age disability) does not make sense (at what age do you draw the line?).

The primary focus of government provided tax concessions & social security benefits should be meeting older people's (or perhaps people of all ages) needs while disabled.

These needs include:

- Income while disabled

- Ability to meet expenses (including health expenses and cost of long term care)

The logical extension of saving/insuring for disability (and health expenses for the disabled) is to save / insure for health expenses generally (ie not just the disabled). In any case, health expenses are shown to increase with age (on average) and as a result lend themselves to a prefunding approach.

Separately, there is an arguable case that in a more flexible world of work where people cycle in and out of:

- work
- training (and retraining)
- unemployment
- family /caring responsibilities

a flexible savings & insurance vehicle is required to help facilitate such transitions. While such a vehicle could be established on a purely voluntary basis, it makes sense for it to be arranged as an occupational savings scheme (like the current compulsory superannuation arrangements) because the transitions it would facilitate are essential to and from work. This would have an overall positive impact on workforce participation and labour market flexibility.

While it would be possible to have two separate savings vehicles (one for disability and one for workforce transitions), there are several advantages in having only one (including administrative efficiency, the fact is that there will not always be a clear delineation between unemployment and disability).

3.2 What should the goals of government policy be in relation to Lifetime Incomes (including old age incomes)?

The World Bank has suggested a set of goals in relation to an Old Age Income Policy. While the focus of these goals is old age income, in a more flexible world of work without retirement, I believe they are also suitable (with some minor amendments) for a “Lifetime Incomes Policy”. [World Bank]

These World Bank goals are set out below together with suggested changes marked up:

to provide *adequate, affordable, sustainable*, and *robust retirement* income, while seeking to implement welfare-improving schemes in a manner appropriate to the individual country

- An *adequate* system is one that provides benefits to the full breadth of the population that are sufficient to prevent ~~old-age~~ poverty in the event of disability or unemployment on a country-specific absolute level in addition to providing a reliable means to smooth lifetime consumption (including during transitions into and out of the workforce, especially disability) for the vast majority of the population.
- An *affordable* system is one that is within the financing capacity of individuals and the society and does not unduly displace other social or economic imperatives or have

untenable fiscal consequences.

- A *sustainable* system is one that is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions.
- A *robust* system is one that has the capacity to withstand major shocks, including those coming from economic, demographic, and political volatility.

The World Bank’s goals are founded on a social risk management framework. A system of income support should assist individuals to prevent, mitigate and manage the risks that individuals face.

It has been argued that people have varying consumption patterns during the different phases of old age (active, passive, frail). Because the uncertainty about when frailty (substantial disability) will occur, it is important for a system to have a risk based / insurance focus.

Governments have a role in pooling of risk where markets cannot or do not adequately provide this function via insurance, derivatives or other means.

3.3 A Possible Lifetime Income System: Some New Pillars

The World Bank has developed a five pillar conceptual framework⁴ for the design of old age income support systems. The table below summarises a possible system of Lifetime Income support using the World Bank conceptual framework:

Lifetime Event / Risk	Pillars 0 & 1 Government Social Security	Pillar 2 Occupational Mandatory Savings	Pillar 3 Additional Voluntary Savings	Pillar 4 Social Programs
Disability / Disabled Longevity	Basic universal pension based on disability not age	<ul style="list-style-type: none"> ▪ Savings ▪ ability to purchase additional social security pension with mandatory savings 	<ul style="list-style-type: none"> ▪ Savings private disability insurance ▪ optional long term care insurance 	Government provided Nursing care
Health Expense		<ul style="list-style-type: none"> ▪ Savings 	<ul style="list-style-type: none"> ▪ Savings ▪ Medical insurance ▪ Medical Catastrophe insurance 	Government provided Health Care
Death	Family welfare support		<ul style="list-style-type: none"> ▪ Savings ▪ Life insurance 	

⁴ The World Bank recently redefined the government pillar into a zero pillar (which is a basic social security benefit like Australia’s means tested age pension) and the first pillar (which is a government defined benefit or defined contribution scheme like UK or Singapore). There is now also a fourth pillar –non-financial support.

Lifetime Event / Risk	Pillars 0 & 1 Government Social Security	Pillar 2 Occupational Mandatory Savings	Pillar 3 Additional Voluntary Savings	Pillar 4 Social Programs
Workforce Transitions Unemployment, Education, Family / Carer/ Leisure	<ul style="list-style-type: none"> ▪ Unemployment pension ▪ Family / carer welfare support 	<ul style="list-style-type: none"> ▪ Savings 	<ul style="list-style-type: none"> ▪ Savings 	<ul style="list-style-type: none"> ▪ Anti discrimination laws ▪ Training programs
Investment Loss	N/A	<ul style="list-style-type: none"> ▪ Social pooling of risk via ▪ option to purchase additional disability social security pension from government ▪ Availability of wage linked investments 	Savings	
Healthy Longevity	Not a risk to be addressed by government policy – if people are healthy and capable of work, income needs are met through employment.			

The system proposed represents a mixture of public and private:

- Income support
- savings / investment
- insurance

The diversity of sources and types of benefits itself reduces risk from both an individual and systemic perspective.

3.4 Pillar Zero & One – Social Security

3.4.1 A Disability Pension (instead of an age pension)

In the proposed Lifetime Income system, the Government would provide a disability income benefit – a flat payment of 25% Average Weekly Earnings (at the same level of Australia’s current age pension) in the event a person is disabled (at any adult age) and payable for the duration of their disability.

This benefit would replace the current Age Pension (after a transition period) & Disability Support Pension. The difference between the proposed disability benefit and the current system of two separate benefits is that welfare payments would not be available for those capable of work.

One possible option for this disability pension is for it to be a universal benefit (ie not means tested) and for it to be funded out of a flat percentage tax levy on the income of employed people. This is a hybrid of the Bismarckian Social Insurance and Beveridge means tested pension models. Not having a means test avoids the administrative complexities, higher effective marginal tax rates and perverse incentives provided by the application of means tests. Equity (in the progressive tax sense) is achieved on the funding side and not the benefit side as high income earners would contribute higher dollar amounts to fund the pension (through the tax levy).

Ideally the disability pension would be pre-funded - revenue from the tax levy could be invested in a “Future Fund” type arrangement.

3.4.2 Transition Arrangements: from Age Pension to Disability Pension

One possible transition arrangement (from the current age pension to the new disability benefit) is to steadily increase the age pension eligibility age from the current age 65 up to (say) age 75 over a period of 30 years and then at that point remove the age based eligibility altogether. This 30 year transition would allow time for an adequate education program and sufficient time for personal plans to be put in place.

On day one, disability and unemployment benefits would be increased to the same level as the Age Pension. As the Age Pension eligibility age increases during the transition period, the maximum age for unemployment benefits and disability support benefits would similarly increase.

3.4.3 Unemployment / Family support

While there are some very interesting possibilities for designing unemployment benefits and family support benefits in a Lifetime Income system, this paper does not intend to examine alternatives to those benefits currently available. It is possible to integrate current unemployment and family benefits into a Lifetime Income system, with some particular changes:

- Unemployment benefits will need to be available for those over age 65.
- People would be able to draw down on mandatory savings (Pillar 2) while unemployed during waiting periods for government benefits

Some options to allow for the best integration of draw down of mandatory savings and government unemployment benefits:

- exclude draw down of mandatory savings from the means test; or
- abolish the means test with only the “looking for work” test remaining.

3.5 Pillar Two – Mandatory Occupational Savings

3.5.1 Transition of Current Superannuation Savings Pool

The current pool of superannuation savings would become the “Lifetime Income” savings vehicle. Balances accumulated under the old rules would have the new rules (eg access to benefits etc) applying from a changeover date.

Just as Pillar 2 (mandatory occupational savings) & Pillar 3 (voluntary savings) currently co-exist, under a Lifetime Income Policy this same situation would continue (although balances should be separately identified).

3.5.2 Contributions

Currently Australian employees have a mandatory 9% of earnings paid into a superannuation fund. It is proposed that a mandatory employer contribution continue at this level into a defined contribution arrangement (defined contribution arrangements are better suited to flexible withdrawals envisaged below).

3.5.3 Access to Benefits (Changes to Preservation)

Withdrawals would be allowed for the following specific expenses:

- To pay for approved medical expenses (and possibly those of children)
- To pay for educational / retraining expense.
- Purchase an annuity with a term of at least 10 years (or life expectancy)

In addition withdrawals of a general income would be allowed:

- Must be withdrawn as a monthly income:
- Maximum annual withdrawal is the lesser of:
 - 75% of previous year’s occupational income; or
 - a percentage of the balance at the start of the year;

These withdrawals of general income would provide people with the flexibility to engage in leisure, caring and general “non work” life.

3.5.4 Re-focus tax concessions on Disability (for Pillars 2 & 3)

Currently in Australia, superannuation tax concessions are more generous for people over the age of 60 who enjoy tax free benefits and tax free (in fact negatively taxed) investment income.

As argued in section 2, there is no good reason for governments to extend tax concessions to fund the leisure of work capable older people. If the government is using tax concessions for maximum impact to meet its Lifetime Income policy goals, then tax concessions are best “spent” on providing income during disability.

The topic of tax and tax concessions is one that could easily fill a paper or two on its own. Obviously there are a considerable number of options.

One possible system which provides equitably for Lifetime Incomes with a focus on disability is as follows:

- All contributions would be made on an after tax basis (ie contributions would be taxed at the person's employees marginal income rate instead at the current flat rate of 15%) [Dunsford / Wickham]
- Tax all investment income (including capital gains) at a flat tax rate (with the only rebate being for dividend imputation)
- Investment income on savings voluntarily quarantined for disability income, health & long term care expenses would be tax free
- A rebate would be available on death, disability, health & long term care insurance premiums. The size of the rebate would be a balance between incentive and cost.
- All amounts withdrawn would be tax free.

3.5.5 Pooling of Investment Risk

One of the most significant problems with defined contribution arrangements is investment risk. Many (if not most) people do not adequately understand investment risk, despite government funded financial literacy campaigns. Studies show that people make very poor decisions switching investment options to their detriment after significant market movements. [Livanis]

There are certain measures that the Government can adopt to assist savers manage investment risk in a defined contribution environment:

- Purchasing An Additional Government Pension:

Allow people to purchase additional amounts of social security disability pension out of their mandatory savings on reasonably commercial terms. There may be certain limits that the government might impose, firstly in the form of limit to 75% of a persons pre-disability income (to provide incentive to return to work), and secondly dollar based limits to ensure that any potential subsidy is limited and to leave room for private sector innovation. Underwriting would be required for healthy lives (people already disabled could buy into the pension on annuity terms).

Such an arrangement would mean the government is bearing investment risk (as a lump sum is being exchanged for a future income stream which will need to be invested). It is also bearing disability risk and disabled longevity risk.

The government could decide to outsource some or all of this risk to private sector insurers.

- Average Weekly Earnings Linked Bonds

The Government could issue debt securities with coupons based on some margin over Average Weekly Earnings growth. This would allow funds to hold investments that

match their member's objectives which are based on maintaining an income relative to average earnings. It would also allow product providers to offer innovative annuity products. The problem with CPI indexed annuities is that the payments may lose value relative to the growth in wages (and therefore relative to living standards of the rest of the community).

- Government Growth Investment.

The Government could provide a “growth” investment to allow people to share in growth in the economy (via an instrument with a GDP based return). Underlying such an investment might be a mixture of Government debt and equity investments in areas where markets fail to invest because of the very long time period before a return is evident or because the return is not evident directly but indirectly and achieved in the form of higher tax receipts (eg public infrastructure which boosts productivity and economic growth but cannot be provided on a user pays basis).

3.6 Pillar Three – Voluntary Savings / Insurance

3.6.1 Contributions

In addition to a mandatory contribution, a voluntary savings arrangement could be included in a Lifetime Income savings vehicle.

One possibility is to implement a “soft compulsion” approach to voluntary contributions whereby upon commencing a new job, an employee is automatically enrolled to contribute a portion of their salary (say 3% or some other level), although the employee would have the ability to “opt out” if they so choose. This is based on the behavioural finance research which shows that people are more likely to save if a default arrangement is in place. This approach has been introduced in New Zealand with Kiwisaver.

Incentives could be provided for younger people (and perhaps other groups with the lowest savings rates) to build their savings faster. Government matching contributions (like the current co-contributions scheme) could be maintained to encourage voluntary contributions.

3.6.2 Access to Benefits

This proposal envisages no restrictions would be placed on voluntary savings ie they can be withdrawn at any time (although government matched contributions might have the same rules apply as mandatory contributions to provide some restriction on their use).

3.6.3 Voluntary Insurance arrangements

Under the proposed Lifetime Income system, insurance is a key part of managing the risks that people are exposed to in their everyday life. As discussed in above (in Pillar 2), tax concessions would be refocused to providing insurance benefits. These insurances would include:

- Disability Income Insurance
- Long Term Care Insurance
- Life Insurance

- Health insurance (with low levels of excess)
- Health insurance – catastrophe cover (with very high levels of excess).

3.7 Pillar 4 – Non Financial Supporting Structures

The table in 3.3 above identifies some of the non financial programs that may support a Lifetime Incomes policy.

While this paper does not wish to discuss issues relating to Government provided Nursing Care, Health Care, it will briefly highlight some important supporting structures that are required in a world without retirement:

- Strong Anti-Discrimination Legislation (in relation to age discrimination)
- Training – assisting older people to learn new skills to change jobs
- (possibly) Government incentives to employers to hire older employees
- (possibly) Governments focusing on hiring older people for appropriate jobs including creating part time jobs.

These measures may be required (at least initially) should the labour market fail to generate sufficient employment for older employees (although the recent empirical evidence is not showing this).

3.8 Housing and the Lifetime Savings Vehicle

The proposed preservation rules outlined in 3.5 do not specifically allow for a deposit for a house to be withdrawn from the Lifetime Savings Vehicle. However, the proposed system provides greater flexibility than is currently the case:

- A person can withdraw their own voluntary contributions at any time
- A certain portion of employer contributions can be withdrawn as general income.

This greater flexibility might be of benefit for those young people wishing to purchase a house.

4. Possible Objections and Responses

Yeah Yeah ...all well and good....But.....

The remainder of this paper will dwell on some possible objections that will naturally be encountered when such a radical change is proposed.

4.1 People have already made plans for retirement

Abruptly changing the rules to abolish government subsidised retirement leisure would understandably be criticised by those who have already made plans under the current rules.

The proposed system therefore has a thirty year transition period to allow time for people to adjust their plans. Those currently under age 35 would fall entirely under the new rules. In any case it is arguable that this group has very low expectations of receiving any form of government subsidy in retirement.

4.2 I've paid my taxes – I am entitled to the age pension – you can't take that away

The age pension is not an automatic right. It is subject to a means test so not all taxpayers receive it. Arguably people in the past have not paid sufficient taxes to fund their age pension. Changing the age pension to have a disability focus would not be taking away any rights.

On the other hand, the Lifetime Income system proposed in this paper with its taxpayer funded non means tested pension would ensure there is actually a right to a disability pension for all taxpayers.

In any case, the age pension was never intended to fund middle class leisure.

4.3 Dignity in old age 1 – having to prove disability

Currently many older people never need to admit or confront disability due to automatic eligibility for benefits, they can just cease work and be funded into retirement. The proposed Lifetime Income system outlined here requires a person to prove they are disabled (to be eligible for certain benefits), which many people with current expectations of retirement will not enjoy doing.

This is indeed a drawback, but the main counter argument is the cost is too high for people to be able to avoid confronting the truth of their disability by providing generous benefits to the work capable.

The negative perception of having to prove disability may be a result of how people's expectations are currently framed. To illustrate, most people who purchase disability insurance would not consider it undignified to claim it – because claiming for disability is the expectation. As people's expectations are re-calibrated to a new Lifetime Income system over a long period this dignity issue will become less important.

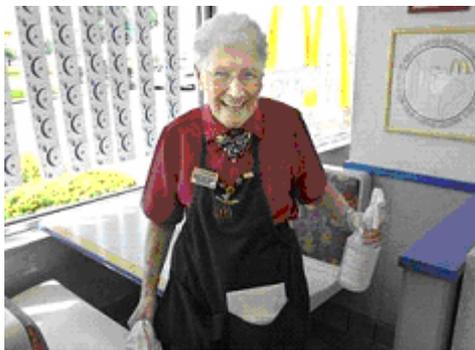
4.4 Dignity in old age 2 – having to work while you are old (Work till you drop / Back to the coalmines)

It might be argued that it is undignified to expect people to be working in their old age (especially in low skill / menial jobs). Would it be unreasonable for a work-capable 94 year old to be employed at McDonalds?

The following points can be made:

- How do we know the 94 year old doesn't enjoy working at McDonalds?
- Is there dignity in being deprived of the social contact that employment brings?
- At what age is low skill /menial work acceptable? Is it ok at 64? 65? 75? when does it stop being ok? Why is it ok for young people but not older people?
- Is there dignity in being work capable but being forced to live on a social security pension of only \$263 per week?
- Why does it have to be a low skill / menial job?

The following is an extract of a story from an US (Illinois) local newspaper “The Pantagraph” [Miller]:



Litta Ballow of Bloomington who works at McDonald's turned 94 Monday. She has worked at McDonald's for 13 years and puts in about 23 hours each week. She doesn't have a pension and said that Social Security doesn't cut it. “I'd go nuts if I had to stay home,” said Ballow, who turned 94 Monday. “As long as I possibly can, I'll work.”

4.5 Disability is harder to assess at older ages / Rehabilitation less likely

It might be argued that assessing disability is more difficult at older ages. However, it should be remembered that assessing disability can often be a very subjective exercise (at any age).

While some conditions are more prevalent at older ages, it is not impossible for judgement to be applied to determine disability and for definitions of impairment to be improved. If we accept the truism “what is measured is managed”, it might be argued that better measurement of old age disability (resulting from conditions being assessed from an economic / insurance perspective) will also lead to it being taken more seriously and more resources devoted to treatment of major causes.

That rehabilitation from disability is less likely at older ages is of no real consequence. It simply means that people disabled at older ages are more likely to remain on any disability benefits for a longer period.

4.6 Blue Collar Burnout –these people can’t work in old age

One possible criticism of abolishing retirement is that many blue collar employees are unable to work at older ages due to “wear and tear” of their occupation.

A Lifetime Income policy as outlined above would cater for such situations with a mix of government and private disability benefits. However, the following observations are made:

- A decreasing percentage of the population are involved with heavy manual labour
- Blue collar burnout raises many questions and points to a broader societal problem:
 - Are we fairly compensating workers for the physical damage they sustain as a result of their occupation?
 - Should we limit number of years working in damaging blue collar work?
 - Is it fair to expect disabled blue collar workers to have meaningless (and limited) leisure for 40 years?
 - Is it possible / should people be required to retrain for other less physically demanding jobs?

4.7 The unpaid economy

Retirees currently make a non remunerated contribution to the economy in the form of caring (eg for grandchildren) and volunteer work. The value of this contribution is not measured in the formal economy but is considered to be substantial. The value of this unpaid work is not disputed. However the following questions can be asked:

- Does this represent the best use of society’s productive skills?
- Should this voluntary work fall exclusively onto older people? Should younger people take greater responsibility in these volunteer areas? (and share both the burden & receive the emotional satisfaction).
- Do older people really enjoy unpaid family caring responsibilities – there is growing resentment expressed in grandparent groups about the increasing burden of child minding and the changes this brings to the nature of the relationship they have with their grandchildren (from being a spoiling nurturing role, to having a more a disciplinary role)

The withdrawal of older people from volunteer work may require increased government funding for employees paid to perform these services.

4.8 Age Discrimination

One argument against abolishing retirement is that employers will discriminate in favour of younger workers and that the proposal would simply generate old age unemployment (so retirement would be swapped for old age unemployment).

While strong anti-discrimination legislation will be required, a more important factor is employers appetite for employing older people. Recent boom time experience has shown that when there are labour shortages, employers have enthusiastically hired older people [Gittins]. The demographic forecast is for fewer young entrants into the workforce over the coming decades – so employers' appetite for hiring older people is likely to continue.

4.9 Poor people won't have savings and will have to work for longer

Under the proposed Lifetime Income system, everyone has an incentive to work for as long as they are capable (and not disabled).

It is true poorer people are likely to have a lower level of savings and therefore will be able to afford less leisure time during their lifetime, but this is little different from the current situation.

Some may argue that governments should continue to subsidise the leisure for the work capable poor. The question remains though, with increasing life expectancies how much leisure should the government subsidise? Governments, should they wish to continue to subsidise some leisure, could explicitly do so through asset based welfare (eg additional contributions into the Lifetime Savings vehicle).

The poorest in Australian society are the unemployed and disabled. Under the proposed Lifetime Income Policy recipients of the disability welfare would be unaffected by the changes. For unemployed people, they would actually be better off as it is proposed that unemployment pensions be increased to the same level as the age pension.

Another aspect of the proposed Lifetime Income policy that would be to the advantage of the poor is the earlier release of compulsory superannuation (via the proposed new preservation rules). Many commentators have argued that the current compulsory superannuation system locks away income that would be much better utilised as consumption expenditure for the working poor. The Lifetime Income policy would allow much earlier access to these savings (for when it is most needed).

Finally, the working poor would benefit from the removal of the very high effective marginal tax rates applying to superannuation savings due to the operation of social security means tests. Having non means tested social security, combined with the proposed progressive taxation arrangements for occupational savings would ensure more equitable tax outcomes than is currently to case.

4.10 Women

In a recent paper to a Society of Actuaries symposium about the future of retirement one author argued that the “end of retirement” would lead to many more poor women in old age.[Rappaport]

Pat Thane notes, most of the elderly poor are women [Thane]. But it is not clear that abolishing retirement would change that.

Under the Lifetime Income system proposed, Government provided disability benefits would be important in reducing poverty for disabled elderly women.

In fact, the focus on disability of the system is likely to be an advantage for women (who have higher rates of disability).

4.11 Spreading the expected 20 or 30 years of retirement leisure more evenly over a lifetime is not possible

This paper has argued that deferring long term leisure until retirement is not optimal and that spreading the expected 20 or 30 year’s of leisure more evenly over a person’s entire life time could better suit people’s needs (and may also be better for families). A possible counter argument is that this “respreading” of leisure is not possible because the pool of savings is not large enough at younger ages to achieve this.

It is acknowledged that a 25 year old will not have a sufficiently large accumulated balance in a “Lifetime Savings” vehicle to enable “bringing forward” leisure.

However, by the time a person reaches the median age for parents in Australia (median age of mothers in 2005 was 30.7 for mothers and 32.9 for fathers [ABS]) the size of amounts accumulated will arguably be of a more useful size. Assuming a new parent has had 10 years worth of 9% occupational superannuation contributions, the pool of savings might grow to around 80% of a full years (pre tax) salary (which would be withdrawn tax free).⁵

If this is not considered sufficient, there are some further possible ideas for facilitating greater Lifetime Savings at younger ages:

- parents (or grandparents) could be provided with incentives to contribute for children (and grandchildren)
- if a government were so inclined, they could provide tax concessions (in the form of rebates etc) or asset based welfare (contributions) for Lifetime Savings used for socially desirable ends (eg income while parenting).

⁵ Assuming 7.0% pa investment return, 4.0% pa general wage inflation, 2.0% pa additional promotional salary inflation for a young person, an average tax rate of 15%.

4.12 People do not have the financial sophistication to manage their savings over their lifetime

This is a valid criticism. However, it is an equally valid (if not stronger) criticism of the current defined contribution superannuation arrangements. At least with the Lifetime Income arrangement of saving for disability instead of retirement, the target pool of savings required is smaller (with less potential for mismanagement or under saving). Further, the Lifetime Income policy proposals allow for additional government support (through voluntary purchase of additional pensions etc).

5. To conclude

Retirement is a relatively recent development. It exists because people become disabled, employers did not want older employees, governments acted to take older employees out of the workforce and people have a preference for leisure.

In considering why retirement should be abolished the following questions were posed:

- Why should our society encourage the retirement of people who are healthy and capable of work?
- Why should taxpayers allow Governments to spend billions each year (at least \$20bn in Australia) in tax concessions and pension payments to fund the leisure of people who are healthy and are capable of work?
- As life expectancies increase – how should we determine age pension eligibility? Does a fixed eligibility age make sense?
- Why can we afford 20 / 30 / 40 years of leisure in retirement but not a four day working week? Should we try and spread this retirement leisure more evenly over peoples' lifetimes?
- With fewer new entrants into the workforce – how are employers going to maintain their workforces?
- What is the difference between phased retirement (transition to retirement) and flexible working? Should we extend the concept to other life events? (Transition to parenthood, transition to a new job / career?)

In considering the answers to these questions it becomes evident that many of the reasons retirement exists are no longer valid.

The paper suggests a “Lifetime Income” policy (and the transformation of occupational pensions/superannuation into a Lifetime Savings vehicle) to cater for a world without retirement.

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