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FINNISH CENTRE FOR PENSIONS, STUDIES

EXECUTIVE SUMMARY

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Flexible retirement age

*A study of the functionality of the flexible retirement age,
based on employer and employee surveys*

The study examines the views of employers and employees on the flexible retirement age, the decision to retire on an old-age pension, and factors that affect the decision to continue at work or to retire.

The employer data was collected in tandem with the "Vacancies and recruitment in the workplace" study carried out by Statistics Finland, by interviewing persons responsible for personnel and recruitment duties in the workplaces. The employee survey was carried out as a mail survey directed to wage earners who had retired on an old-age pension in 2010, directly from work. Both sets of data represent the target groups very well. The response rates are high. Results of the study have been compared with previous surveys on flexible retirement age carried out in the early years of the last decade.

Employers and employees have a fairly congruent understanding of the age limits of the flexible retirement age. The lower age limit is generally accepted. Only a fifth of all employers considered the lower age limit to be too high. On the other hand, a majority of employers would like to limit upward flexibility and lower the upper age limit. Almost half of all wage earners also support limiting the flexibility. Wage earners who considered the upper age limit as too high were to a greater extent found among those with a lower education, and among those who had retired at the age of 63 or earlier. The proportion of women who considered the age limit to be too high was greater than the proportion of men who felt the same. Among employers, those considering the upper age limit to be too high could be found mostly in the fields of physical work; the hotel and restaurant field, the fields of traffic and transportation, farming, forestry and fishing as well as in construction, but also in the fields of healthcare and social services. The idea to raise the age limits of flexible old-age pension did not get a great deal of support among employers.

According to both employers and retired employees, the individual is most often able to decide on retirement himself/herself. The employer, on the other hand, participates in the decision when the employee wants to continue at work from the age of 63 on. The participation of the employer in a discussion on continuing at work is related to an evaluation of labour needs of the workplace. However, in a fourth of all workplaces, the employee alone makes the decision to continue to work. These workplaces are relatively more numerous in the public sector, and among large workplaces.

A fifth of all retired persons would have wished to continue working. Of this group, approximately every second has had to retire earlier than desired because continuing at work was not possible for the workplace. In other words, every tenth wage earner who retired directly from work on an old-age pension in 2010 had to retire earlier than desired. This group comprised more men than women, and a greater number of people retiring from the private sector than from the public one. Over half of them have retired at the age of 63.

However, a majority of employees retiring on an old-age pension belong to the group who did not wish to continue working but were given the opportunity to do so by their employer. Employer views on the opportunities of employees to continue working seem to point in the same direction. There are evidently more opportunities for continuing to work until the age of 65 or 68 than there are employees who will continue at work for so long. Employer views of employee possibilities to continue at work have slightly improved from 2004. Opportunities for continuing have been evaluated as worse in basically the same fields of physical labour where also the current age limits are now considered too high.

The significance of factors relating to work and working conditions in pushing towards earlier retirement came up in analyses carried out using different methods. Individuals who have retired on an old-age pension were asked to state their own opinion on how much factors such as work, free time, health and family affected their decision to retire. According to the responses, factors relating to work and working conditions have affected the retirement on an old-age pension the most, although free time and hobbies are also significant, especially among the highly educated.

The significance of working conditions also became apparent in the freely formulated responses of wage earners, when asked which factors would have convinced them to remain working. The perspective of the respondents emphasized the push effect of factors related to work and working conditions. Many would have chosen to continue at work, had there been more support from the workplace and working conditions that would have facilitated it. Approximately half of the open answers dealt with work and working conditions in different ways. A fifth of the responses stated that no factors whatsoever could have been convincing enough to remain at work. Such responses came to a greater degree from individuals who had retired at the age of 63 or earlier, and more frequently from those with a lower education. Five per cent mentioned reaching upper retirement age or retirement age of the civil service as a hindrance to continuing at work.

The importance of working conditions in the retirement decision was confirmed by the analysis, which studied the impact of various factors on retirement using a multivariate model. Factors that advance the decision to retire on an old-age pension are adverse effects of time pressure, mental strain of work, inflexible working hours and uncertainty regarding the future of the work. Correspondingly, if the work is perceived as meaningful and the employee can influence on his/her work, careers are usually extended more. An important factor that promotes remaining at work is the employer's support. If the employer supports a continued career, the employee is more likely to remain working until the lower retirement age limit and beyond. Agreeing with the employer on when to retire also helps extend working careers. Careers could be extended by introducing more flexible working hours, decreasing the mental strain of work, and by increasing employer support to older employees to continue working.

The employer sector strongly affects retirement on an old-age pension, as the public sector still has retirement ages based on old pension legislation: retirement age limits lower than 63 years, as well as individual retirement ages (63–65 yrs.) These retirement ages have the dual effect of both advancing and postponing retirement on an old-age pension. The impact of these retirement ages is particularly apparent in the retirement of women and the well-educated, as their shares are significantly larger in the public sector than in the private one. Women and the highly educated are more likely to retire on an old-age pension already before the age of 63, and on the other hand, they are also more likely to retire only after the age of 63. When the impact of the employer sector on old-age retirement is controlled, the differences in gender and education when it comes to retirement can be explained away almost completely.

Of other factors relating to the individual, the most significant one affecting retirement on an old-age pension is the length of the career. The flexible retirement age is taken advantage of if there are breaks in the working career. An individual whose career has been patchy is likely to continue to work past the age of 63. The earnings level also has an impact. It is more likely in the lowest income quarter to continue working at least until the lower age limit for old-age pension than it is in the two highest income categories. On the other hand, it is more likely for employees in the highest income category to continue to work past the age of 63. The family situation is significant, as those living alone more frequently tend to continue working than those living with a partner. The state of health affects the decision to continue working past the age of 63, but its impact is not a major one. Those who have continued to work until reaching retirement age are already a select group. They are healthier than their contemporaries.

Employer opinions on the extension of careers, and their willingness to employ and retain, to a greater degree than today, those over 55 years of age as well as persons of retirement age, do not support the view that working careers will be extending quickly. Only an abundant fourth of all workplaces consider the extension of careers to be an important goal, and believe this goal will be implemented in their own workplace. Similarly, a fourth of all workplaces expressed a desire to employ those over 55 years of age to a greater degree than nowadays, but only half of this group was interested to employ those who have reached retirement age (63–68). There was greater willingness to employ the ageing and those having reached retirement age in the public sector than in the private one. The size of the workplace plays a role, too; the

larger the workplace, the more likely employers were willing to employ the ageing workforce under different terms (whole-time and part-time work and temporary work).

The view of a slow extending of working careers is also supported by the fact that the retired wage earners had little desire to continue at work. A fifth of all retired employees would have wanted to keep working, but these persons were more often among those who had worked the longest. The workplace offers more opportunities for continuing at work than there has been use for those opportunities. Obstacles to continue working are more often related to working life than to the individual's state of health or family situation.

The postponement of old-age retirement, again, is affected by the ageing of the workforce and its decreasing numbers. That also increases the demand for the older workforce in a good economic situation. The postponement of old-age retirement is also affected by many legislative measures. Retirement prior to the age of 63 is becoming less common as the lower retirement ages of the public sector are gradually being phased out, but also as a result of recent amendments. According to the bill to Parliament, the early old-age pension from the age of 62 will be abolished. The raising of the retirement age of the long-term unemployed, from the age of 62 to 63 years, will also have a positive effect in the same direction. The application of the life expectancy coefficient is also expected to postpone retirement, but its impact on extended careers is not yet known.

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