

Blue Ribbon Analytical and Advisory Centre



ANALYTICAL NOTE

Life expectancy at official retirement age, deductions for pension provision, and retirement age increase¹ in various countries of the world

Prepared at the request of the Ministry of Labour and Social Policy of Ukraine

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¹ Retirement age increase in Hungary and Great Britain is suggested as a measure of the anti-crisis programme for 2009.

Life expectancy at retirement age in various countries of the world

Life expectancies presented in Table 1 (and in the Expert Note on *Problems of retirement age increase in Ukraine, Annex 5*) are provided for the official retirement age legislatively established in the specified countries. For example, male and female life expectancy at the age of 65 in Poland is 14 and 22 years, respectively, at the officially established retirement age; in Hungary, the figures for men at the age of 62 and women at the age of 61 are 16 and 20 years, respectively, etc.

Table 1

Life expectancy at retirement age

Countries	Official retirement age established in the country, men/women		Life expectancy	
	Men	Women	Men	Women
Great Britain	65	60	15.7	23
Italy	65	60	16.9	24.9
Germany	65	65	16.8	20.9
Poland	65	60	14	22
Slovakia	62	62	15	18
USA	67	67	15.2	17.7
Hungary	62	61	16	20
Ukraine	60	55	14/12**	25/19*/16**
France	60	60	20	26
Czech Republic	63	63	15.9	19.2
Sweden	65	65	17.4	20
Japan	65	65	18.2	23

*- life expectancy at the age of 60, ** - life expectancy at the age of 65 years.

1. Rate of deductions for pension provision in Bulgaria, Romania, Poland, and Slovakia

1.1. Bulgaria

The rate of deductions for pension provision is 23% of wage. Of them, 19% is allocation within the first tier of the pension system, 4% being the second tier. Before 2009, the contributions were divided between employers and employees as 63:35, and since 2009 it is 50:50.

1.2. Romania

The rate of deductions for social contributions is presented in Table 2.2. Since 1 January 2008, 2% of the social contributions is directed to the second tier of the pension system. The second tier is represented by nongovernmental pension funds and allows receiving an extra pension. There are plans to increase the rate of deductions to the second tier gradually up to 6% during 8 years (0.5% annually).

Table 2.2

Rate of social contributions in 2005-2011²

Payer	Rate of social contributions, % of aggregate wage						
	2005	2006	2007	2008	2009	2010	2011
Employer	22.00	19.75	19.50	18.00	18.00	18.00	18.00
Employee	9.50	9.50	9.50	9.50	9.50	9.50	9.50
TOTAL	31.50	29.25	29.00	27.50	27.50	27.50	27.50

1.3. Poland

The pension provision system is funded from pension contributions at the rate of 19.52% distributed uniformly between employees and employers³. 12.22% of the said contribution is directed to individual accounts within the system based on governmental quasi-bonds, and 7.3% is transferred to individual accounts invested in the financial market.

1.4. Slovakia

² Including deductions for disability insurance.

³ In addition, 13% of wage is paid for disability insurance and survivor's benefits insurance.

Rate of contributions by year, % of aggregate wage

Payer	2003	2004	2005
Employer:	21.6	21.75	21.75
- Contributions to general mandatory pension insurance	-	16.0	14.0*
- Disability insurance	-	3.0	3.0
- Reserve fund	-	2.75	4.75
Employee:	6.4	7.0	7.0
- Contributions to general mandatory pension insurance	-	4.0	4.0
- Disability insurance	-	3.0	3.0
TOTAL	28.00	28.75	28.75

* Of them, 5% is directed to the first tier of the pension system, and 9% to the second tier.

2. Approaches to increase of retirement age in Poland, Hungary, and Great Britain

2.1. Poland

Pension age problems in Poland have 2 aspects: 1) cancellation of preferential early retirement (increase of actual retirement age); 2) making retirement age the same for women and men.

1) The retirement age established by law in Poland is 65 years for men and 60 for women but there were many population categories entitled to retire early (preferential occupational pensions, for service record – e.g. after 30 years of service, etc.). Due to that, the actual retirement age in Poland was considerably less than the officially established one.

To handle the early retirement problem and increase actual retirement age, a law was passed in 2008 establishing a minimum retirement age in a universal system, and the early retirement opportunity was abolished. Now, retirement age is the same for all population categories – 65 years for men and 60 years for women.

Now, population categories having preferences⁴ will retire earlier and receive 'bridging pensions' until they reach the minimum retirement age (65/60), however not from the Pension Fund but from another fund established outside the pension system. The 'bridging pension' amount is much lower than a usual pension. After having reached the minimum retirement age, these population categories will receive pensions in full amounts. Hence, motivation to early retirement is now much weaker.

Besides, extent of preferences has decreased substantially. The number of persons

⁴ A relatively small number of persons.

entitled to 'bridging pensions' is no more than 25% of the number of pensions who received preferential (early) pensions before. The statutory minimum retirement age cancels any scheme of early retirement, thereby automatically increasing the actual retirement age.

2) In 1997, an idea emerged to equalize retirement age for men and women at 62 years. However, it was not supported. Besides, it was suggested to increase retirement age for women gradually, beginning from 2014, by 6 months a year (until 2023). However, no decision was made on that matter. The Polish Ombudsman has recently applied to the Constitutional Court (Tribunal) for explanation concerning legitimacy of a lower retirement age for women. The Constitutional Court (Tribunal) is now to decide this issue.

2.2. Hungary

In February 2009, Hungary's Prime Minister suggested the following measures concerning the pension system as a component of an anti-crisis programme:

- 1) cancel the 13th pension – i.e. new pensioners would not receive the 13th, additional pension (assigned once a year);
- 2) raise retirement age from 62 to 65 years during 8 years beginning from 2016.

2.3. Great Britain

The Pensions Act was passed in 2007 prescribing increase of retirement age for men and women. Currently, the age is 60 years for women and 65 for men, but there are plans to equalize retirement age for women and men in 2010-2020. The retirement age for women born after 6 April 1959 will be gradually raised to 65 years in 2010-2020. After 2024, retirement age will be gradually increased simultaneously for men and women during the period from April 2024 to April 2046 one time per 10 years by 1 year: from 65 to 66 years in 2024-2026, from 66 to 67 years in 2034-2036, and from 67 to 68 in 2044-2046.

At the same time, experts of the British National Institute of Economic and Social Research assert⁵ that for the British Government to cut state debt down to 40% GDP by 2023, retirement age for women and men should be raise to 70 years as soon as during 2013-2023. The experts believe that it is reasonable to increase retirement age gradually after 2013 when employment goes down in the country. They think that one additional working year will decrease a budget deficit by 1% GDP.

⁵ The National Institute of Economic and Social Research published its report in May 2009.