

***A default retirement ages seems out of date in an ageing society***

(Dr Frank Eich, Pension Corporation)

- **Government's announcement to abolish default retirement age was welcomed by organisations representing workers but not by those representing businesses.**
- **What feels like the removal of discrimination to some is just another regulation for others. However, there is little choice.**
- **As the population and workforce age, most people now accept that we will have to work for longer to be able to support an acceptable quality of life in retirement.**
- **Much of the burden of change has up to now fallen onto the workforce, with individuals taking on more of the risks associated with retirement savings. The increase in the State Pension Age is also affecting individual retirement decisions.**
- **Employers must meet their side of the bargain and in future employ more older workers so that society can gradually adapt to an ageing population and workforce.**
- **Abolishing default retirement age removes important asymmetry in bargaining position of employers and employees and sends signal that we need change.**

The Government's announcement last week to abolish the default retirement age of 65 years by October next year was greeted by some as a triumph and by others as a disaster. Those who greeted the news included ageUK who had campaigned for this change for years, while the Institute of Directors (IoD) belonged to those who were deeply disappointed.

Welcoming the news, ageUK, for example, argued that *"...ending forced retirement has many benefits – giving employment security to hundreds of thousands of people, enabling people to save for longer for their retirement and allowing people the dignity of choosing when to retire. Enabling people to work and contribute their skills for longer not only keeps them active – it also makes economic sense as our population ages..."*<sup>1</sup>, while the IoD commented that: *"...we greatly regret the Government's decision to abolish the DRA. We do not see how the removal of a mechanism that gives employers flexibility in managing their workforce is compatible with the Government's stated desire to boost enterprise and de-regulate the employment arena."*<sup>2</sup>

It should come as little surprise that the news was generally welcomed by organisations representing workers, while those representing businesses showed little enthusiasm. What feels like the removal of discrimination to some is perceived by others to be just another regulation. It clearly seems that there are winners and losers from this policy change.

But do we really have a choice? As the British population and workforce age, most people at least begrudgingly now accept that we will have to work for longer to be able to support an acceptable quality of life in retirement. The previous Government's policy to increase in steps the Basic State Pension age from 65 years in 2020 to 68 years by the mid 2040 sent the strong signal that workers will be expected to stay active in the labour market for longer. The new Government's recent announcement to bring the first increase to 66 years forward to 2016 merely reinforces this point. Others have suggested that working longer should be one response to the fiscal problems facing the country emerging out of the recession.

Much of the burden of change has up to now fallen onto the workforce, the labour market's supply side. The closure of defined-benefit pension schemes in the private sector has moved the risks associated with preparing for retirement to the individual. They have also been asked to change their retirement plans and work that bit longer. Coming from admittedly low rates, the economic activity rate – covering those in employment or actively looking for employment - of older workers has steadily increased since the beginning of the last decade. This is a trend, which is likely to continue in the future.

Being willing to work for longer is one thing, being able to another. The longer we are supposed to work, the more important will lifelong learning become and the more we need to look after our

health. It is not for nothing that the European Commission asked in its recent Pensions Green Paper whether health policies aimed at older workers could make a difference.<sup>3</sup> There will be plenty of scope to make older workers still more productive and more able to contribute constructively at their workplace.

For all this to work, employers – the labour market’s demand side – must meet their side of the bargain. They must be willing to employ older workers so that society and the economy can gradually adapt to an ageing population and workforce. For this, the workplace will have to change too over time. While even today most businesses are happy to keep their older staff on the books as long as it suits both parties, abolishing the default retirement age removes an important asymmetry in the bargaining position of employers and employees. It is also a strong signal that something needs to change. In 10 or 20 years’ time when the 1960s baby boomers will be in their 60s and 70s we will probably look back and wonder how we could have ever lived with a default retirement age.

<sup>1</sup> [www.ageuk.org.uk/latest-news/default-retirement-age-to-be-scrapped/](http://www.ageuk.org.uk/latest-news/default-retirement-age-to-be-scrapped/)

<sup>2</sup> <http://press.iod.com/2010/07/29/iod-reaction-to-proposed-abolition-of-the-default-retirement-age/>

<sup>3</sup> [www.pensionomics.com/commentary/eu-commission-s-green-paper-pensions-goes-beyond-funding-requirements](http://www.pensionomics.com/commentary/eu-commission-s-green-paper-pensions-goes-beyond-funding-requirements)