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# The Age of Eligibility for Public Retirement Programs in the OECD

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## Summary


- All industrialized countries, particularly those in the OECD and including Canada, are experiencing an aging of their populations.

- Of the 22 high-income OECD countries apart from Canada, 18 of them (over 80 percent) (Australia, Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Portugal, Spain, the United Kingdom, and the United States) are enacting increases in the age of eligibility for public retirement programs.

- Thirteen countries, or almost 60 percent (Australia, Belgium, Denmark, France, Germany, Iceland, Ireland, Italy, the Netherlands, New Zealand, Spain, the United Kingdom, and the United States) are increasing their age of eligibility for public retirement programs to 67 years old or older; 2 of these (Ireland and the United Kingdom) are moving to 68 years, and Iceland is moving to 70 years.

- Five countries are indexing their age of eligibility with life expectancy, meaning that the age of eligibility will be automatically adjusted as life expectancy changes.

- Four countries in addition to Canada are retaining the status quo with no reforms: Luxembourg, Norway, Sweden, and Switzerland.

- In 2015, Canada's federal government reversed a 2012 reform that would have increased the age of eligibility for Old Age Security and the Guaranteed Income Supplement to 67 by 2029. The federal government estimates that this policy reversal will cost $10.4 billion in 2030.

## Introduction

As documented in the recent study *Canada's Aging Population and Implications for Government Finances*,[1] Canada's federal and provincial governments will all be facing enormous financial pressures from increases in spending on such programs as health care and income support for seniors. Those pressures will occur at the same time that economic growth is expected to slow.[2] The pressures could lead to deficits that are 5.3 percentage points of GDP higher in 2045 than in 2017, which equates to roughly $107.1 billion (Jackson, Clemens, and Palacios, 2017).

Canada is not unique in dealing with an aging population. The Organization for Economic Cooperation and Development (OECD) is a group of 35 of the world's most industrialized countries. The OECD predicts that the dependency ratio (the ratio of retired people to the working-age population) for all OECD countries will increase from 28 percent in 2015 to 51 percent by 2050 (OECD, 2015a: Facts and Figures). The anticipated fiscal pressures on the OECD countries from their aging populations have motivated many of them to enact a variety of reforms in an attempt to mitigate these pressures.[3] Indeed, as the OECD's recent *Pensions at a Glance* 2015 noted:

> About half of OECD countries have taken measures to improve the financial sustainability of their pension systems over the past two years. Benefits were mostly reduced by switching to less favourable indexation but not cut in absolute terms. The finances of pension systems were also improved by raising taxes and contribution rates in defined-benefit systems. Despite tight constraints on the financing side, efforts have been made to improve the adequacy of retirement income for targeted groups in about one-third of countries.
>
> The main objective of recent reforms was to delay retirement by raising the statutory retirement age, tightening early retirement provisions, and increasing incentives to work longer. These changes might entail distributive effects, however, as work ability at older ages and remaining life expectancy can vary between different socio-economic groups. (OECD, 2015a: 13)

This bulletin provides an overview of one particular reform enacted across most OECD countries: changing the age of eligibility for public retirement programs. The summaries presented in this bulletin are taken from the OECD's *Pensions at a Glance* 2015 and focus on each country's primary public retirement program(s).[4] *Pensions at a Glance* 2015 outlines pension reforms that OECD countries undertook between September 2013 and September 2015. This bulletin outlines any additional changes to the age of eligibility for public retirement programs that have been implemented in the past two years.

The first section of the bulletin summarizes the recent changes to the age of eligibility for public retirement programs in Canada—chang-

[1] Jackson, Clemens, and Palacios (2017). This paper is an update of a study completed by McGill University economist Christopher Ragan (2011).

[2] See, for example Canada, Department of Finance, 2016a.

[3] See, for example, International Monetary Fund (2010).

[4] For a more thorough examination of both the OECD pensions in general and those of specific countries, see OECD (2015a: chapter 5).

es that contrast sharply to reforms introduced in other OECD countries. The second section summarizes the reforms implemented in the 22 other high-income OECD countries.[5] Lower-income OECD member countries[6] were excluded from this analysis to ensure that the comparisons with Canada were from like countries. The bulletin ends with a brief conclusion.

## I. Canada and the age of eligibility for public retirement programs

Canada's retirement pension system consists of three key components: a flat-rate public benefit (Old Age Security), an earnings-based public benefit (Canada Pension Plan or the Quebec Pension Plan), and voluntary private savings including RRSPs, registered pensions, TFSAs, and other savings.

Old Age Security (OAS) is a federal program that provides a flat-rate benefit to all eligible residents regardless of their employment history.[7] In order to be eligible for OAS benefits, an individual must have resided in Canada for at least 10 years of their adult life (after they turn 18) (Canada, 2016b). The Guaranteed Income Supplement (GIS)[8] is a supplemental payment for low-income seniors and is linked to the OAS.

In early 2012, then Prime Minister Stephen Harper announced at the World Economic Forum annual meeting in Davos that the Conservative government would, among many other policies announced, slowly increase the age of eligibility for Old Age Security and the Guaranteed Income Supplement from 65 to 67 (Kennedy and Press, 2012). Budget 2012 followed through on the prime minister's announcement. It outlined a plan that would phase in an increase in the age of eligibility for OAS and GIS to 67. The plan exempted from the phase-in anyone who was 54 years old or older in 2012. It started by increasing the age of eligibility in April of 2023 and planned to achieve full implementation in January 2029.[9] The Chief Actuary of Canada's report indicated that these changes, once fully implemented, would save the federal government $10.8 billion in 2030 (OSFI, 2012).

As the next section will demonstrate, though they were perhaps a bit tepid, the Harper government's proposed reforms were generally in accord with those being implemented in many

[5] The cut-off for high-income countries was Israel, which in 2014 maintained an average annual income of a little over US$33,000. The 23 countries included in the analysis (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States) all had average annual incomes that exceeded Israel's.

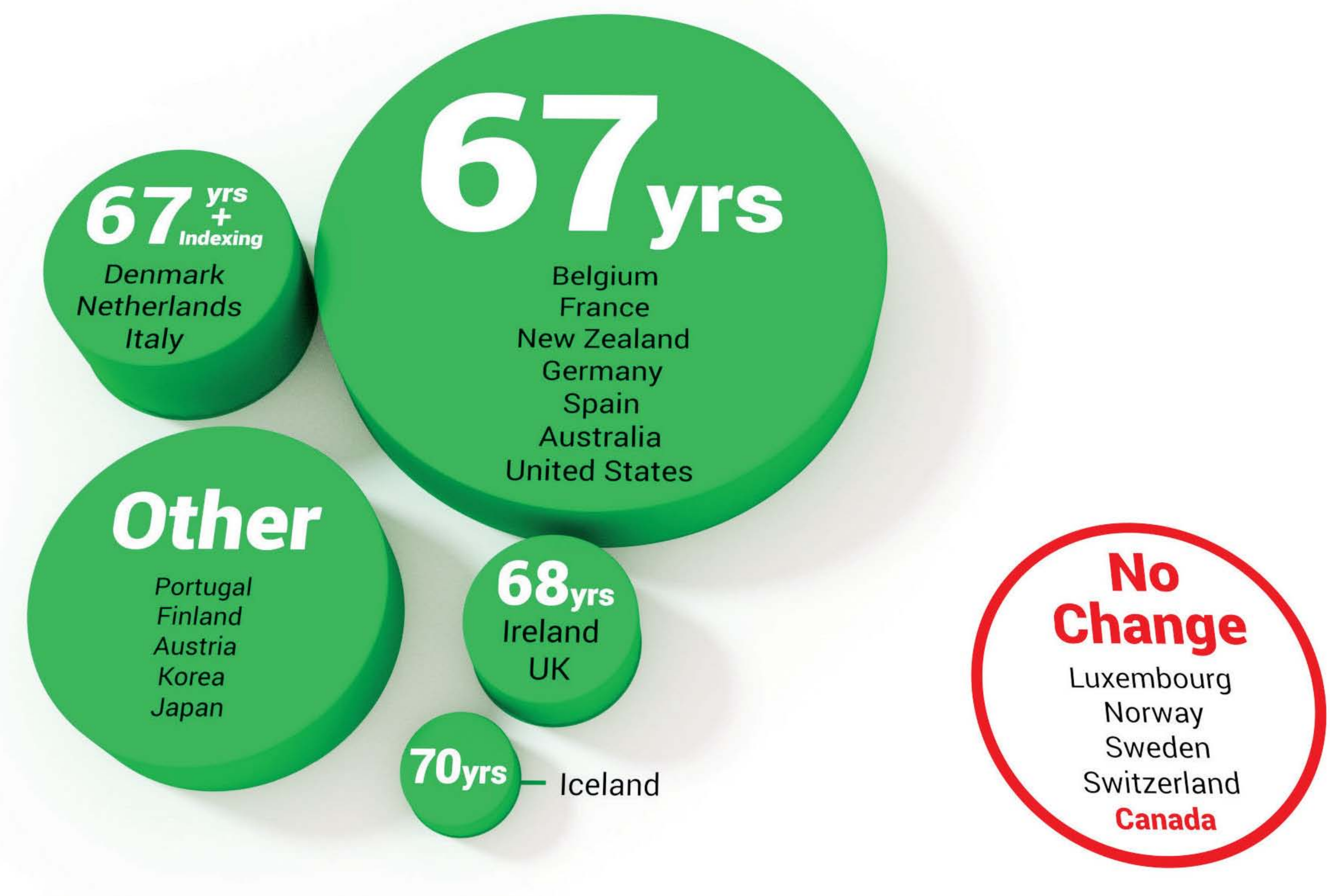
[6] The excluded OECD member countries were Chile, the Czech Republic, Estonia, Greece, Hungary, Israel, Latvia, Mexico, Poland, Slovak Republic, Slovenia, and Turkey. In addition, other major economies covered by the OECD (but not members of it) were also excluded: Argentina, Brazil, China, India, Indonesia, Russian Federation, Saudi Arabia, and South Africa.

[7] While the OAS is provided to all eligible Canadians, there is a claw-back in the benefits based on reported income. (The claw-back is officially referred to as the OAS pension recovery tax). In 2016-17, for instance, full OAS benefits were paid up to income levels (for individuals) of $72,809. The OAS benefit was completely clawed back at an income level of $118,055. See Canada (2016a) for more information.

[8] For information on Canada's Guaranteed Income Supplement, particularly its eligibility requirements, see Canada (2016b).

[9] For more information, see Canada, Department of Finance (2012a) and Canada, Department of Finance (2012b: Chapter 4, p. 187).

**Figure 1: Age of eligibility for public retirement programs increased to:**




other industrialized countries.[10] However, after the defeat of the Harper Tories in the fall of 2015, one of the first major acts of the Trudeau Liberal government was to reverse this policy reform. Specifically, Budget 2016, the Trudeau government's first full budget, cancelled the planned increase to the age of eligibility for the OAS and GIS programs by reinstituting age 65 as the age of full eligibility for both programs (Canada, Department of Finance, 2016b). The Chief Actuary's assessment was that the changes would cost the federal government an additional \$10.4 billion by 2030, an increase in program costs of 0.3 percent of GDP (OSFI, 2016, July 15). Put simply, the Trudeau government reversed the increase in the age of eligibility for both OAS and GIS.

[10] For an evaluation of the proposed reforms by the Harper government as well as suggestions for additional reforms, see Clemens, Palacios, and Veldhuis (2013).

## II. OECD countries and the age of eligibility for public retirement programs

As outlined in the introduction, most OECD countries have significantly reformed their public pension systems over the past few years. The OECD report *Pensions at a Glance 2015* finds that between September 2013 and September 2015 a substantial portion of the changes to retirement-income programs were aimed at improving their financial sustainability and/or increasing retirement income adequacy (OECD, 2015a). The most common way to do this was to increase the age of eligibility for public retirement programs. This section summarizes the reforms implemented in the 22 high-income OECD countries apart from Canada regarding their age of eligibility for public pension benefits.

Prior to delving into each country's brief specifics, it's worthwhile to quickly review the reforms that the high-income OECD countries included in this analysis have undertaken (see figure 1). Of the 22 high-income OECD countries apart from Canada, 18 of them, or 81.8 percent (Australia, Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Portugal, Spain, the United Kingdom, and the United States), are enacting increases in the age of eligibility, including increases in the age of eligibility for full public retirement benefits, indexing the age of eligibility to life expectancy, and normalizing the age of eligibility for both men and women.

More specifically, 13 countries or 59.1 percent of the countries analyzed (Australia, Belgium, Denmark, France, Germany, Iceland, Ireland, Italy, the Netherlands, New Zealand, Spain, the United Kingdom, and the United States) are increasing their age of eligibility to 67 years or higher; 2 of these (Ireland and the United Kingdom) are moving to 68 years, and one country, Iceland, is moving to 70 years.

Five countries (Denmark, Finland, Italy, the Netherlands, and Portugal) are introducing a system of indexing their age of eligibility for their retirement programs with life expectancy, meaning that the age of eligibility will be automatically adjusted as life expectancy changes.

Four countries included in the analysis (Luxembourg, Norway, Sweden, and Switzerland) are retaining the status quo and are implementing no reforms.[11]

### *Specific country reforms*

■ In **Australia**, the current age of eligibility for the main public pension benefit, the Age Pension, is 65.5 years of age for both men and women. It was increased by six months in 2017. It is scheduled to increase to 67 years of age by 2023, with six-month increases implemented every second year (Australia, Department of Human Services, 2017).

[11] Interestingly, Poland is the only country in the survey that has lowered its age of eligibility. In October 2017, Poland introduced new legislation to lower the official pension age to 65 for men and 60 for women. At the beginning of 2017 the pension age was 65 years and 7 months for men and 60 years and 7 months for women. This is a significant policy reversal from the 2012 pension reforms which proposed increasing the official pension age to 67 years by 2020 for men and 2040 for women. The European Commission has raised concerns about these new reforms, given that the decision goes against pension policy reforms in other EU countries that are increasing the pension age and moving towards gender equalization (see Goettig, 2017).

In **Austria**, the current pension age is 60 years for women and 65 years for men. Between 2024 and 2033, the pensionable age for women will gradually increase to 65 years old.

**Belgium's** current pensionable age for both men and women is 65 years. However, proposed reforms will gradually increase the state pension age to 66 by 2025 and 67 by 2030.[12]

**Denmark's** age of eligibility for the main public pension for both men and women is 65 years. However, the current plan is to increase the pension age to 67 years within a three-year period from 2019 to 2022. From 2030 onwards, the pension age will be indexed to life expectancy (Finnish Centre for Pensions, 2017a).

In 2014, **Finland** introduced a number of pension reforms aimed at normalizing the age of eligibility for all its public pension programs to age 65. In addition, once all these reforms are fully enacted, which is expected in 2027, Finland will thereafter link the age of eligibility to life expectancy (Finnish Centre for Pensions, 2017a).

**France's** full public pension is payable to individuals aged 65 and over. Starting in 2016 through to 2022, France will increase the age of eligibility for the full pension to 67 years.

The **German** government in 2012 began a process of increasing the age of eligibility to 67 years for all retirees by 2029.

In **Iceland**, the normal age of eligibility for public pension benefits is 67 years. In January of 2017, major pension reforms were implemented that will increase the official pension age from 67 years to 70 years by 2041 (European Commission, 2016, October 28).

In **Ireland**, as of 2014 the age of eligibility for both the public pension and the means-tested pension was 66 years. The public pension threshold will increase to 67 years by 2021 and to 68 years by 2028.

In **Italy's** private sector, the pension age is currently 65 years for women and 66 years for men. In the public sector, the pension age is already set at 66 years for both men and women. The official pension age is gradually increasing for both sexes: it will reach 66 for both men and women in 2018. The pension age will increase further to 67 years for all retirees by 2021 (Finnish Centre for Pensions, 2017b). Future changes to the threshold will be tied to life expectancy (Finnish Centre for Pensions, 2017b).

In **Japan**, the government is currently in the process of increasing the age of eligibility for the earnings-related pension to 65 years for both men (by 2025) and women (by 2030) (Japan Pension Service, 2017). Eligibility for the basic old-age pension provided by the government is already 65 years of age.

In **Korea**, the age of eligibility for normal pension benefits is being raised to 65 years by 2033 from its current age of 61 years.

In **Luxembourg**, the age of eligibility for the old-age pension is 65 years. Luxembourg is the only EU member state that hasn't implemented reforms, which has drawn criticism from the European Commission (Luremburger Wort, 2017, May 22).

In the **Netherlands**, the Dutch government introduced reforms in 2013 to increase the official pension age from 65 to 67 years by 2021. From 2022 onwards, the statutory pension age will be tied to increases in life expectancy.

[12] Blenkinsop (2014). These proposed reforms appear to have been approved (see OECD, 2015b).

- **New Zealand's** current age of eligibility for full pension benefits is 65. Earlier this year the government announced plans to increase the age of eligibility for the state superannuation benefit from 65 years to 67 years between 2037 and 2040 (New Zealand Herald, 2017, March 6).

- **Norway** has a comparatively complicated pension system with a number of distinct components. However, any individual residing in Norway for 40 years can claim the full basic public pension at age 67. There are currently no plans for additional changes.

- The government in **Portugal** raised the pension age from 66 years (2014) to 66 years and three months in January 2017. The age of eligibility in Portugal is linked to life expectancy. Specifically, the age of eligibility is increased by two-thirds of any change in life expectancy from age 65 calculated over two-year incremental periods.

- **Spain** is currently in the process of increasing the age of eligibility for pensions to 67 years by 2027 based on reforms introduced in 2011.

- **Sweden** has no plans to change the age of eligibility for retirement programs at present. The basic public pension is available at age 65.

- **Switzerland** had planned to normalize the age of eligibility for men and women by 2020 by raising the age for women to 65 to match the requirement for men. However, Swiss voters rejected this reform earlier this year in a referendum (Associated Press, 2017, September 25). No plans have been made public for additional changes.

- In the **United Kingdom**, the current age of eligibility for the public pension benefit is 64 years for women and 65 years for men. The pensionable age for women will continue to increase, reaching 65 in 2018. Under recent reforms, the pensionable age will gradually increase to 66 years in 2020 and 67 years by 2028. Most recently, in July, the government announced plans to further increase the state pension age to 68 years from 2037 to 2039 (United Kingdom, Department of Work and Pensions, 2017).

- In the **United States**, the age of eligibility for social security is currently 66 years and will increase to 67 years by 2027 (for workers born after 1959) (Burtless, 2016).

## Conclusion

This bulletin has provided an overview of one particular pension reform that has been implemented across the vast majority of high-income OECD countries: changes in the age of eligibility for retirement programs. It is evident that the recent decision by the Trudeau government to reinstate a lower age threshold for Old Age Security and the related Guaranteed Income Supplement for low-income Canadians diverges from pension reforms implemented by most other industrialized countries.

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