

## **Summary of Netspar Brief 12**

### **Later Retirement: Decisions for Now and Later**

#### **Foster Advance Planning: Today's Older Workers Not Always Well Prepared**

Anyone not yet retired must cope with the raising of the retirement age. The repercussions are not the same for everyone, however. People who are well along in their careers have less time to prepare for this later retirement than younger workers. Moreover, working longer is relatively difficult on people with poorer health or a lower labor market status, and workers without many financial resources have fewer options. This affects primarily poorly educated and low-income people.

Ideally, people would plan ahead in order to decide how much to consume, save, and work. A higher retirement age would thus translate into a higher level of saving and investing in job proficiency and health. But employees and employers do not always plan ahead. That means they can sometimes shift the underlying costs to society, given that risks such as unemployment and disability are covered by the social welfare system. The government could help workers by providing them with more insight into their current and future financial position, along with education and personal development, and promoting healthy lifestyles.

A different formula for linking the social security age to life expectancy and greater protection for all working people (including independent contractors) could ease some of the harsher impacts of the increase in the entitlement age. The first option, in particular, would be expensive in the long term. Other policy options are of limited benefit. For people with little or no supplemental pension, options in terms of flexible or part-time retirement are not of much use. Meanwhile, arrangements for physically demanding occupations are notoriously difficult to delimit, acting moreover as perverse incentives for both employees and employers. Investments in healthy work become less profitable.

The current generations of older workers have had less time to prepare for the higher retirement age. Targeted short-term policies could lessen the impact on this group. It is difficult, however, to formulate a temporary policy without removing the incentives for healthy living and remaining fit for the labor market. Reversing the accelerated increase in retirement age – without changing the overall long-term course – might alleviate the problem to some extent but is expensive in the short term. A second option is to temporarily allocate an especially large budget for retraining or updating the skills of older workers.