

The effect of demographic developments and growth on the optimal statutory retirement age

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Abstract

This paper develops a stylized model that can serve as an instrument to assess how long term trends as demographic change and rising living standards affect the optimal future rise of the statutory retirement age (sra) in the Netherlands. As yet there is no such instrument. A crucial element of the model is that the disutility of working relative to leisure rises with age. The optimal sra then is reached at the point at which the disutility of working longer starts to outweigh the utility of the additional consumption that it enables. The model shows how this point changes in the course of time as a result of the rise in healthy life expectancy; the effects of the ageing population which dilutes per capita consumption; and increases in productivity. The first two of these trends lead to a higher optimal sra, respectively by lowering the disutility of working and by increasing the marginal utility of consumption. The third, productivity increases, tends to exert a downward pressure on the sra by lowering the marginal utility of consumption. This paper ignores other factors such as possible changes in the heterogeneity in society.