

Do retirement plans come true?

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The Dutch workforce is ageing rapidly. And so voices from various quarters are calling on people to extend their working lives. The underlying idea is that this would stimulate labour supply and at the same time broaden the tax and premium base of pension and social security systems. The public benefits of extending working careers have been set forth in numerous government policy proposals, but in practice achieving this has proven to be difficult. Recent NIDI research has shown that two thirds of all employees retire earlier than planned.

In the past decade the government has sought to put an end to the culture of early retirement that characterised the 1980s and 1990s. The labour force participation rate of older workers in the past few years suggests that recent government policies are paying off. There is evidence that the trend towards ending one's working life at an ever younger age has been reversed. The labour force participation of older workers has risen steadily since it reached a low in the 1990s (Table 1). This may, however, be explained by a number of developments. One such development is that dropping out of the workforce long before reaching early retirement or prepension age has become considerably less common since the tightened eligibility for disability benefits. Compared with the 1990s, a growing number of workers are now still employed when they reach prepension age, which may be attributed in part to the rising level of education. At the same time, prepension schemes themselves have been retrenched, with generally lower benefits and a later eligibility age than in former early retirement plans. That said, labour force participation among the 60 to 64-year age group is still no more than a fraction of the percentage of workers aged 55-59. Growing participation among women is mainly a reflection of the ongoing emancipation of older women in the labour market. Recent generations of older women have returned to work following childbirth in far greater numbers than earlier generations and many now continue working after the age of fifty. The above shows that there is no straightforward answer to the question whether employees continue working beyond retirement age based on labour force participation rates alone. The fact that labour force participation rates are rising does not necessarily mean that employees are delaying retirement.

Research into the retirement behaviour of older workers

A panel survey among older workers conducted by NIDI some years ago provides detailed insight into the retirement process. It presents a picture of retirement behaviour among employees aged 50-plus in 2001 and the factors that were at play. The research was based on the experiences of 1,700 employees working for four multinationals in the Netherlands and the labour market choices they made between 2001



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and 2007. Given the panel structure of the study, we were able to compare the employees' retirement intentions with their actual behaviour. This enabled us to determine the extent to which older workers act in accordance with their plans and whether there are signs that they have been more inclined in recent years to continue working longer than they had initially planned.

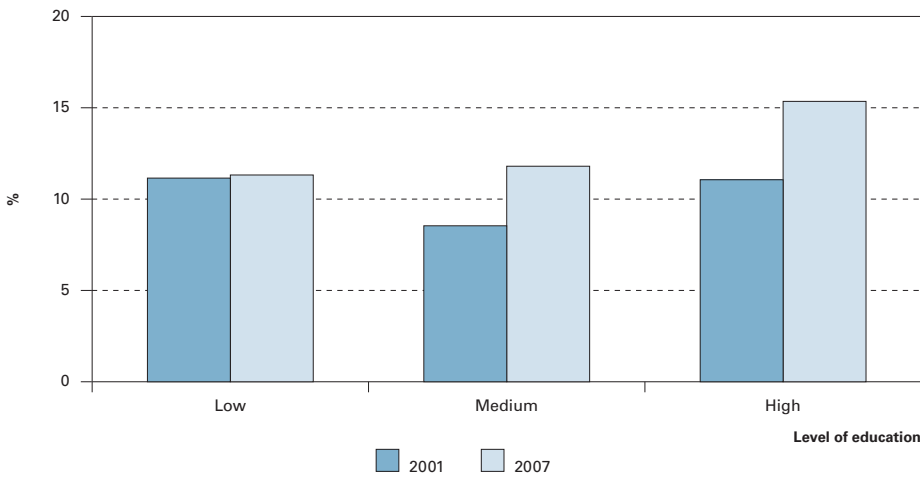
Table 1. Labour force participation rate (%) in the Netherlands by age and sex, 1971-2007

Sex	Age	1971	1975	1981	1985	1990	1995	2000	2005	2007
Male	50-54	93	89	85	83	85	86	88	91	91
	55-59	87	80	72	68	66	60	70	78	83
	60-64	74	65	43	30	23	20	27	34	42
Female	50-54	21	23	26	29	39	48	58	70	74
	55-59	18	18	18	19	25	29	39	50	56
	60-64	12	11	8	7	9	8	11	18	23

Labour force participation rate is here defined as the number of people who are employed for at least 12 hours a week, or who are actively looking for a job for at least 12 hours a week in relation to the working-age population.

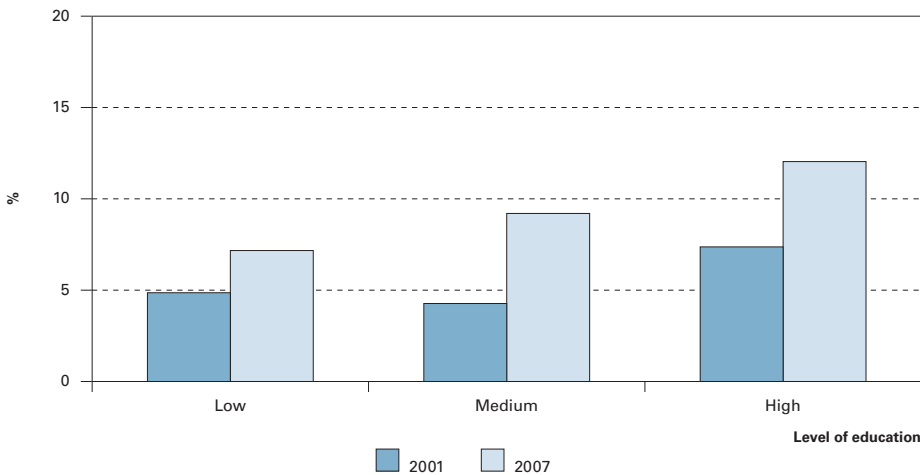
Source: Ekamper (2006), based on data provided by Statistics Netherlands (1971-1981) and Eurostat (1985-2007).

Figure 1. Interest in continuing to work **until** age 65 in 2001 and 2007 by level of education



Note: Figure refers to employees who were employed in 2001 and in 2007.

Figure 2. Interest in continuing to work **beyond** age 65 in 2001 and 2007 by level of education



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do so. This was no more than 21 percent among those with a lower level of education. On average, lesser educated employees intended to retire earlier than the better educated. The differences between the two were relatively small, however: the ideal retirement age was 60 years among the lower educated and just over 60.6 years among the better educated.

Retirement practice

The study examined whether there are signs that employees are generally inclined to continue working beyond the age they had initially planned to retire.

Two trends can be discerned:

- *Earlier than planned*

Six out of ten older workers retired between 2001 and 2007. Two-thirds of them left the labour force earlier than initially planned. They retired almost two years earlier, on average, at an average age of 58.2 years. In the Netherlands, this is two to three years before prepension age and no fewer than seven years before official retirement age.

- *Preparing for a longer working life*

Employees who were still employed in 2001 and in 2007 expect they will exit the labour force later than initially planned. Despite the fact that workers are still little inclined to continue working until or beyond age 65, things appear to be changing in this respect. The percentage of people who said they would like to extend their working life beyond age 65 doubled between 2001 and 2007. This shift was apparent mainly among employees with a medium or higher level of education and less so among the lower educated (Figures 1 and 2).

This shows that there tends to be a discrepancy between older workers' retirement intentions and what they actually do. A large percentage stopped working only a year earlier, but many retired much earlier than planned. This clear finding suggests that things happen at the end of people's careers that make them change their minds and consequently adjust their plans – most notably in favour of retiring earlier.

What is it that thwarts retirement plans?

People may revise their plans as a result of changed priorities, such as entering into a new relationship or the loss of a loved one. That said, employees often simply have no control over the time and conditions of retirement because their plans are thwarted by external circumstances or pressures. More insight into the role of external pressures on employees' decisions to terminate employment earlier than planned could answer the question whether their decision to retire was a voluntary one. More than 28 percent of the older workers who left the labour force between 2001 and 2007 said the decision had not, or not entirely, been a voluntary one. This percentage is in line with the results of international studies, which show that the percentage of older workers who experience their own retirement as involuntary fluctuated between 20 and 30 percent. Table 2 provides some insight into the reasons



NIDI: MISSION

NIDI's Mission is to build and maintain a knowledge infrastructure for population issues to address the challenges that demographic developments pose to individuals and society. Population growth and decline, mobility and population distribution, population ageing and population diversity, life course dynamics, intergenerational relations, and health and longevity are but a few of the dimensions of the ever-changing landscape of population issues which make up the population challenge. Demographic research is needed to address this challenge and to study population trends and their impacts on economic development, the environment, social networks, social cohesion, health and care systems, retirement and social security issues, family life and wellbeing.

NIDI RESEARCH

- is driven by societal issues, scientific curiosity and a demand for knowledge
- is interdisciplinary and international
- integrates basic and applied studies
- stresses the micro-foundations of population change
- has a clear focus that captures the ultimate cause of population change: 'Lives in Contexts'

Retirement intentions

Before looking into the extent to which employee's pension plans have been fulfilled, it is worth examining how they initially felt about ending their careers. The retirement intentions of the employees first interviewed in 2001 are in line with general retirement practice in the late 1990s, when most workers called it a day when they were about sixty years old. Only a small minority continued working until the official retirement age of 65. In this light it is hardly surprising that about 80 percent of the employees interviewed in 2001 said they did not want to continue working until they were 65. And working beyond that age was an attractive option for no more than five percent. The answers to the question whether they were inclined to work beyond the age of 61 were more varied: whereas over 60 percent of older workers aged 50-59 said they did not intend to do so, 20 percent said they did. The retirement attitudes of younger workers did not differ very much from those of workers who were approaching retirement age: 50-year-olds, too, said they would like to withdraw from the labour force (long) before reaching the official retirement age of 65.

Differences were found by level of education. The better educated were more interested in continuing to work beyond the age of 60: 29 percent said they would probably, or certainly

underlying involuntary early retirement. For more than three quarters of the employees, pressures from their employer or colleagues, or a reorganisation had been the main reason for their involuntary retirement. The second most important reason was their own health, followed in third place by the fact that they had reached retirement age.

'Voluntary' is a broad notion

Given that two thirds of the employees ended up exiting the labour force earlier, or even much earlier than planned, it is surprising that no more than 28 percent experienced their retirement as involuntary. Older workers may, of course, have revised their plans at their own initiative, encouraged by attractive retirement schemes. Another possibility is that employees do not experience their retirement as involuntary even if the circumstances leave them no choice but to retire. A clear example is the situation of a 56-year-old civil servant who was confronted with the situation that his department was closed down when he was 55. In 2001 he had indicated that he wanted to continue working until he was sixty. In 2007 he said: *"When I was 55 I retired under an early retirement scheme when our department was closed down. I would have liked to have continued working until I was 60, or maybe even 65."* Even though this employee had no choice but to call it a day, he did not experience the decision to retire as an involuntary one. This suggests that attractive retirement arrangements make good other less attractive aspects of having to retire. One could also question how voluntary certain 'voluntary' retirement schemes are. A 57-year-old operator, for example, who had wanted to continue working until he was 60 but actually retired at 56, said his decision to retire had been voluntary, but he added: *"I was pressed to take 'voluntary early retirement' and I had no option of staying on one or two years longer."* One may also wonder to what extent retirement can be said to be voluntary if people are offered a once-only opportunity to withdraw from the labour force. An early retirement arrangement in 2004/05, for example, which offered civil servants the opportunity to retire from age 57, was seen by many as an offer they couldn't refuse. Attractive offers may play a decisive role in the decision-making process, or may even force a decision. A 63-year-old project leader working for government said his decision to retire at 60 was influenced by the financially attractive conditions offered him: *"If I had not been offered this possibility, I would certainly have continued working with great enjoyment."* These statements suggest that people's 'voluntary' decisions to retire earlier than planned may not have been as voluntary as they may seem. Clearly, sufficiently attractive redundancy packages can remove the feeling of being forced to do something.

The results are particularly interesting in light of the ongoing debate about removing formal obstacles to working beyond the age of 65. This research has shown that some workers who



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wish to remain in the workforce experience this age limit as an obstacle. However, what this study makes overly clear is that there are many more invisible obstacles to extending one's working life long before employees reach official retirement age. Many of the employees who retired early would probably have had no problem continuing working a little longer if they had not been offered the opportunity of prematurely exiting the workforce.

Extending one's working life: the future

Decisions about work and retirement are taken in a fast-changing demographic and economic landscape. Whereas the credit crunch brings home the notion that pension entitlements may be at risk and that working beyond the age of 65 may be a necessity, we also see that the need for companies and organisations to restructure may seriously reduce the labour market opportunities of older workers. The outlook for the near future is bleak, with rapidly increasing unemployment and economic decline. It is difficult to say how this will affect the position of older workers, but there is little cause to be optimistic in this respect. And so employers and trade unions are again speaking out in favour of new early retirement schemes. It remains to be seen whether the ingrained culture of downsizing by offering early retirement will be a thing of the past.

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Table 2. Reasons for involuntariness of retirement mentioned by people who felt their retirement was entirely or partially involuntary (N=263)

Reason why the decision to retire was partially or entirely involuntary:*	%	Number
Pressure from employer/colleagues/ reorganisation	77	204
Own health	27	71
Reached official retirement age/age-related dismissal	13	34
Partner's health	5	14
Pressure from partner	5	12
Total number of reasons mentioned		335

* Several answers possible.