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Eric Reguly

Raising retirement age a risky move for governments

ERIC REGULY

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When France announced plans to raise the retirement age in 2010, its citizens responded with mass protests. (Francois Mori/Associated Press/Francois Mori/Associated Press)

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When France and Spain announced plans to raise retirement ages, mass strikes and protests exploded in both countries. But similar plans in other European countries, such as Germany and Sweden, met with little resistance.

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As governments in the developed world make plans to raise retirement ages to ease the strain on underfinanced pension plans, politicians hope they won't trigger the reactions seen in France and Spain, which can prove politically fatal.

The socialist government of Jose Luis Rodriguez Zapatero fell in 2011, a year after he raised Spain's retirement age to 67 from 65. In France, President Nicolas Sarkozy trails François Hollande in pre-election opinion polls. Mr. Hollande, if elected in next month's vote, has promised to roll back the minimum retirement age to 60 from 62.

Raising retirement ages is not popular in any country, though is certainly easier to achieve in some places than in others. "Proposals to curb public expenditures by raising minimum retirement ages typically face political resistance," economists Philip Sauré and Hosny Zoabi wrote in a recent paper on the Vox economists' website.

They noted that retirement ages are being raised because of longer life expectancies and threats to the sustainability of existing pension systems. "What's more, rising debt levels in the wake of the Great Recession have intensified the need for reforms," they wrote.

Raising the retirement age in wealthy countries with low unemployment rates seems to meet with the least political and popular resistance.

That's often because young people are likely to find work even if older workers stay employed longer. In countries with high unemployment – Spain's youth jobless rate is 50 per cent and Greece's is close to that figure – keeping older workers employed longer is often considered unfair.

Michael Hewson, senior market analysts in London with CMC Hewson, said that "the retirement age [in Germany] is 67 and, while not popular, it has generally been accepted and doesn't appear to be a problem given the low unemployment rate." Sweden is another wealthy, high-employment country where plans to raise the retirement age to as high as 69, from 65, drew almost no backlash.

The implication is that resistance to the Canadian's government's move to raise the retirement age to 67 may vary considerably, depending on the province. In Quebec and the Maritimes, where unemployment rates have traditionally been high, delaying Old Age Security benefits by two years may meet more resistance than, say, in wealthy Alberta, where jobs are plentiful.

Job composition is one of the main reasons behind the broad range of retirement ages, Messrs. Sauré and Zoabi noted in their recent paper. Psychologists retire at an average age of 71. Airline pilots, on the other hand, tend to leave the work force at age 60.

Many other factors, such as retirement incentives, per-capita wealth, life expectancy, and preponderance of jobs that involve heavy physical labour, are also contributing factors.

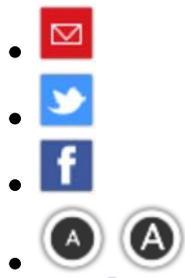
Workers tend to retire earlier in Hungary and Bulgaria than in Switzerland and South Korea. In member countries of the Organization for Economic Co-operation and Development, retirement ages vary wildly. In Mexico, the average man retires at age 75; in Bulgaria, he's 58.

Faced with political fallout, some countries are taking a go-slow approach to higher retirement ages. One such case is Italy, where the usual retirement age is 60 for women and 65 for men. The new ages are to be 62 and 66, respectively, though they are to be phased in gradually. In some countries, Italy included, governments plan to save money by basing pension payments on the number of years of contributions, not on the worker's final salary.

Some economists and strategists doubt that Mr. Hollande, the front-runner in France's coming presidential election, will get away with dropping the retirement age to 60, given the country's wide budget deficit and rising national debt.

"Every other developed country has decided that longer life expectancy means people need to

work longer,” said Marshall Auerback, a director of Toronto’s Pinetree Capital. “France just lost its triple-A rating, but it doesn’t look like anyone told Hollande yet.”



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