

Send Pensioners Back to Work?

By Edoardo Campanella Thu, Dec 13, 2018

'With able-bodied retirees "working" for a pension, consumption patterns among the elderly need not decline, and governments would have more fiscal space to support the most vulnerable,' writes our guest columnist, a Future of the World Fellow at the University of Madrid.



In most developed countries, a retirement of leisure is one of the great socioeconomic innovations of the past century. But it is quickly becoming a luxury that few countries can afford, particularly in Europe. The retirees enjoying a second youth may not want to hear it, but it is past time that governments made public pensions partly conditional on community work.

Overly generous pension benefits are destabilizing public finances, compromising the intergenerational social contract, and fueling support for far-right populist movements. Across Europe, potential debt obligations due to unfunded pensions range from 90-360% of GDP. In Italy, some retirees receive pensions that are 2-3 times higher than their working-age contributions would entail. And across the European Union, the median income of people over 63 is almost as high as the median income earned by active workers.

Moreover, as a result of early-retirement policies, around 30 million pensioners across the EU are under 65 years old, which is to say that about 25% of all European retirees are not old at all. Making matters worse, the official retirement age has not been adjusted to account for longer life spans. When German Chancellor Otto von Bismarck introduced the world's first public pension system in 1870, the eligibility age was 70 and the average life expectancy was 45. Today, the average European retires at 65 and lives until he or she is at least 80.

The standard way to fix this problem is to raise the retirement age or cut pension benefits. But each of these measures comes at a cost. The longer that older workers remain in the labor force, the more exposed they are to technological unemployment. From an employer's perspective, older workers simply do not have the skills to compete with fresh graduates or younger colleagues. Greece's experience during the euro crisis showed that cutting benefits can force retirees to reduce their consumption, causing recessionary pressures.

Lastly, the purely technocratic approach is a recipe for pushing older voters into the arms of populists. After appealing to retirees in the election earlier this year, Italy's populist governing coalition is now trying to dismantle a technocratic pension-reform package that former Prime Minister Mario Monti pushed through in 2011. If they succeed, they will have undermined the stability of the system, all but ensuring that pensioners collect fewer benefits in the future.

A policy of mandatory active retirement would avoid some of the pitfalls of the standard approach. Although most seniors are ill-suited for today's fast-changing labor market, they still have the skills, wisdom, and experience to contribute to society. As such, governments should start treating them as a segment of the workforce, rather than as a burden on public spending and economic growth.

With able-bodied retirees "working" for a pension, consumption patterns among the elderly need not decline, and governments would have more fiscal space to support the most vulnerable. Better yet, society as a whole would benefit from older citizens' more active day-to-day engagement.

Contributions from the elderly could take many forms. As a first step, governments should survey pensioners to determine their competencies and the kind of community work they would like to perform. The focus should be on filling roles in education, social services, and health care that would otherwise require hiring public sector employees. Whatever is paid out in pensions would be at least partly offset by reduced public-sector wage costs. Alternatively, pensioners could serve as labor market reservists whom the government could call upon when the need arises.

Needless to say, the active-retirement condition would apply only to those who are physically and mentally fit to contribute, and the commitment to work would decline with age. At the same time, governments could impose financial penalties on those who refuse to contribute—particularly those who do not even remotely qualify as "elderly."

Pensioners would instinctively resist any such reform, arguing that they earned their benefits in full, and that they already provide unpaid services such as child care within the home. In 2012, when Lord Bichard, a former head of the British Benefits Agency, suggested that retirees could make a "useful contribution to civil society," pensioners-rights campaigners reacted angrily.

But community work would have benefits for pensioners, too. Studies show that idle

retirement leads to a sharp decline in one's cognitive skills, whereas a policy of active retirement would encourage older people to pursue fulfilling new challenges.

At the end of the day, conditioning retirement benefits on work represents a fair compromise between the self-defeating technocratic approach and the unsustainable populist approach. Asking governments to cut pensions at a time of rising job insecurity is a political nonstarter, whereas continuously promising more benefits is financially suicidal.

Enlightened politicians should appeal to older voters' sense of fairness. Younger generations are being asked to contribute to a system that will pay out ever-smaller returns over time. If younger workers are to remain committed to the current system, they will need to see a display of reciprocity from their elders.

Idle retirement is a remarkable socioeconomic experiment that has been rendered unsustainable by current economic and demographic trends. It is time to put it out to pasture and try something new.

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