

**Title:** Actual age of exit and expected retirement age of the Spanish adult population.

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### **Abstract**

The approach to retirement ages of the baby boom cohort causes great uncertainty about the economic sustainability of the pension systems and the European Welfare System. Being one of the oldest populations in Europe, Spain exhibits as well as most of the European countries a transition towards early exits from the labour market of adult population at ages increasingly lower. The research addresses this phenomenon attending to the relationship between ageing and labour force participation. Thus, the general objective is: *To describe trends in actual and expected exits from the labour market towards permanent labour inactivity of adults in Spain.* From a demographic approach, the thesis focuses on the analysis of the age at which this event takes place using a cross-sectional perspective. To describe the behaviour of employment and exits of adult population the Spanish Labour Force Survey (LFS) is used. This research identified elements that could be taken into account in the formulation of labour policies. Two elements stand out among them, the first refers to the significant potential of older adults under age 65, and who are not employed because they have gone under early retirement, or are seeking a new employment. Thus, the demographic component indicates that there is an available demographic potential which is not properly exploited. The other element is that some of these older adults who are already out of the labour market would have prolonged their working life, even beyond the retirement mean age observed today, if labour conditions had been different.

## **Extended abstract**

### **Statement of the research**

Since the end of the XX century there has been an increasing concern about the viability of this demographic regimen, given the demographic, social, and economical consequences of this trend. One of the main focuses of attention in this regard is the relationship between the demographic ageing and the labour market. The decrease of the workforce, particularly affected by the approach to retirement ages of the baby boom cohort (Díez, 1999; Auer y Fortuny, 2000; Díaz y Llorente, 2005) is reason of great uncertainty about the economic sustainability of the pension systems and the European Welfare System.

Spain in particular is facing this demographic and economic context. Being one of the oldest European's populations (Gómez, 1995), Spain exhibits, together with most of European countries, a transition towards labour exits of adults at ages increasingly lower (Quinn, 1999; Gendell, 2001; Garrido y Chuliá, 2005; Christensen *et al.*, 2009).

The research has the following general objective: *To describe trends in actual and expected exits from the labour market towards permanent labour inactivity of adults in Spain.* Two research questions have been formulated in order to guide the investigation:

- *What similarities and differences can be found in the employment patterns of adult population in Spain during the period 1976-2012?*
- *Which differences can be observed between the actual age of exits and the expectations of population aged 50 years and over?*

The labour market withdrawal is basically determined by three interrelated dimensions. In the macro level is where the first two dimensions work, the institutional or legal context and the structural or economic context. Then, it is at the micro level where the third dimension acts, which is related to the individual context.

The European political agenda of the last years has been characterized by a growing concern with regards to the reduction of the population that contributes and, therefore, sustains the dependent population. To this effect, it has been advocated to extend the period of employment, with regulations such as limiting the anticipated retirement (before promoted), and extending the working life beyond 65 years old. However, this contrasts with the fact that for most of the European countries the employment rates for the population between 55 and 64 years old have considerably decreased in the last decades, with a decline in the mean age of retirement taking place in most of the OECD countries (Auer y Fortuny, 2000; López, 2004b; Antón *et al.*, 2007; Bloom *et al.*, 2011).

### **Data and methods**

From a demographic approach, the thesis focuses on the analysis of the age at which this event takes place using a cross-sectional perspective. To describe the behaviour of employment and exits of adult population the Spanish Labour Force Survey (LFS) is used.

Basic demographic indicators are used in the analysis such as life expectancy by employment status; dependency ratios and employment rates for specific age groups among others.

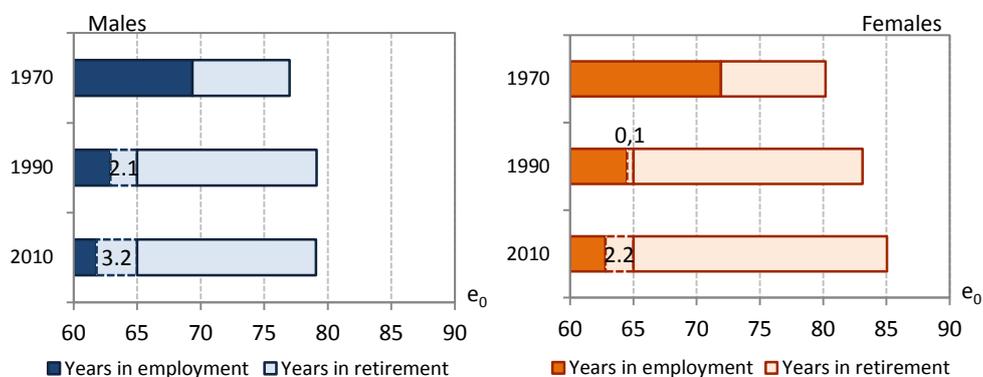
Data from the Spanish Labour Force Survey (LFS) is used to describe the patterns of employment for males and females from 1976 to 2012. Population with ages between 50 to 74 are targeted, splitting in two groups, from 50 to 64 and 65 to 74 years old. Within the LFS, in 2006 a module on expectations and realization of the transition to retirement was collected. This is used to compare the expected age of permanent exit and the age of those that have already made the decision. Besides, causes of exits are described, as well as factors that could prolong the permanence in employment.

### Selected Results

The first research question address the population ageing process in Spain during the last fifty years and the evolution of employment rates between ages 50 and 75 during the period 1976-2012. The first results reveal three phenomena converging on the pressure exerted upon the pension system. First, the working age population decreases, not only due to the exit of a significant proportion of adult population, but also due to the low fertility rates in previous decades, and the delayed market entry of youth nowadays, as educational attainment continues growing over time, and the high unemployment rates in younger population.

The second aspect is related to the increase in population's survival. The pension systems developed when the demographic regime was characterized by fewer individuals arriving to adult ages, and with a low probability of survival after age 65. The current demographic context has considerably changed from what it was when these systems were created. One particular impact is that the system-dependent (those receiving a pension) is maintained for a longer time by the system and on the other hand, the arrival to retirement ages of the baby boom generation creates a double effect, of declining revenues to the system (a higher proportion of individuals out of the labour market) and increased costs due to the boost in dependents or pensioners (Graph 1).

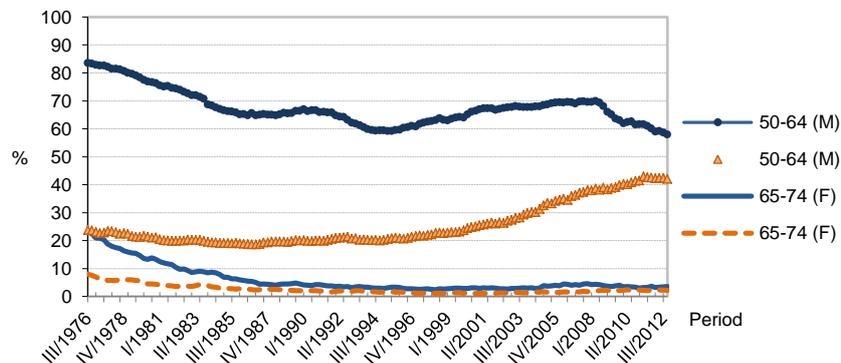
**Graph 1. Life expectancy at birth by years in employment or in retirement, Spain.**



Source: Life expectancy from INE ([www.ine.es](http://www.ine.es)) and age of exit from employment from Eurostat (<http://epp.eurostat.ec.europa.eu>).

The third phenomenon stems from the economic context and it is in relation to the early exits from the labour market experienced in the past decades, as a result of early retirement programs and incentives to retirement. For some groups this caused a premature exit from employment up to 15 years, with the consequent loss of contributions and an increase in pensions. Participation in the labour market of adult population, with ages between 50 and 74, has been higher for males than for females during the entire period (Graph 2). Continued labour enrollment in males was directly related to economic variation, showing a decrease in employees' proportion during times of economic depression and an increase in employment in periods of economic expansion. On the contrary, females' employment follows a steady increase trend and is not subject to economic cycles and labour policies that promoted a contraction in the workforce. This confirms that female employment is not correlated to effects of economics conditions as in the case of men, but seems to be due to a cohort effect, a hypothesis that was further analyzed.

**Graph 2. Proportion of population in employment (ages 50-74) by sex and age groups, Spain (1976-2012).**



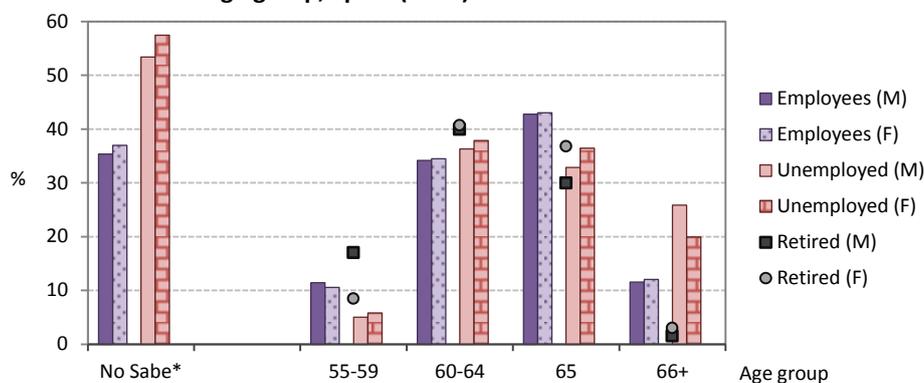
Source: Labour Force Survey (LFS).

The years at the end of the seventies and throughout the eighties were characterized by the consolidation of an almost absolute withdrawal of those over 65 years old. No further economic expansion has led again to any increase in the labour engagement of this group. It can be stated that although the policy of pension benefits was a step forward in the wellbeing of the elderly and a necessary support for them in their old age, it also involved a withdrawal from the labour market for at 65 or older, given the benefits or advantages offered by the transition to inactivity, or the forced dismissal that has been applied since 1980 that allowed companies to compulsorily lay off those employees.

Regarding the second research question, *which differences can be seen between the effective age of exits and the expectations of the elderly adults?*, the aim was to analyze the differences in age and sex between those who plan to retire before the established age of 65 years or later, and individuals who have already taken the decision to retire. Moreover, it was depicted the determinants that influenced to those who have already left the labour market, and if certain incentives in relation to employment conditions, could delay the exit of those who have not yet done so.

Considering effective age and expected age for the permanent exit of the labour market, it was found that being unemployed before age 55, creates a great deal of uncertainty regarding the expected age of retirement; more than half of the individuals refer not knowing when they would retire, while of those currently employed, one-third were in this situation (Graph 3).

**Graph 3. Effective and expected age of retirement by relation with the labour market, sex and age group, Spain (2006).**



Source: Module on Exits from the labour market and transition to retirement, LFS (2006).

Of those who did express at what age they planned to retire definitely, it was found that intentions to reach 60 or 65 years while being employed occurs in a higher proportion than for those who actually finish their working life at these ages. Given that the intentions were expressed by active individuals aged 50-54 (employed or unemployed) we can conclude there is a higher proportion of effective early exits (before 65) than intentions to leave at this age; while effective later retirement occurs in a lower proportion than those who would expect to leave at these ages.

The reasons for permanent retirement were also explored, grouping them into five determinants. For males, the high impact of Legislative determinants stands out, referring to the pre-retirement schemes, and anticipated retirement programs. This determinant, together with the Economic determinant (unemployed and looking for job) accounted for more than half of the exits before the age of 65. For females, the determinants of Diseases/Disabilities and Family Reasons gain prominence, with more than half of retirement due to these causes, becoming three out of four in those women aged from 55 to 59 years.

Finally, the conditions that could contribute to extending the working life were analyzed. To this purpose it was investigated whether a higher Scheduling Flexibility, Lifelong Learning, and improvements in Working Conditions (health, safety and hygiene in the workplace) could contribute to their permanence in occupation. A significant proportion of individuals (between 5 and 20 per cent) would have prolonged their working life attending to the improvement in these conditions, with differences according to sex, age and employment status. Both retired women and employed/unemployed under 65 years showed a higher proportion of willingness to continue in employment with improvements in the workplace conditions than what was found in men, and the opposite happens for those over 65 years old.