

## **Fair Pension Policies with Occupation-Specific Ageing**

**The average remaining life expectancy at the age of 65 varies greatly depending on the occupation. So how does a fair pension policy look like? What would an increase in the statutory retirement age mean for the health and welfare of different occupational groups? An economic model developed by the University of Freiburg and the University of Göttingen provides concrete answers for pension policy.**

A number of statutory pension systems in OECD countries provide early retirement incentives for workers who have performed arduous and dangerous tasks over a longer period of time. However, various studies show that high physical strain or low decision-making authority at work generally have a negative impact on health and that these effects increase with age. Early retirement, on the other hand, has a positive effect on the life expectancy of workers.

### **Redistribution from the bottom to the top**

Many pension systems, such as the second pillar of the Swiss pension system or the German pension insurance, pay out insurance benefits each year roughly in proportion to the contributions made during working life. Professor Volker Grossmann from the University of Freiburg has jointly with Dr. Johannes Schünemann and Professor Holger Strulik from the University of Göttingen developed a health and macroeconomic model that quantifies the extent to which differences in life expectancy lead to a redistribution from the bottom to the top under such policy. Redistribution to the rich would increase considerably if, as is often demanded, the statutory retirement age were raised equally for all employees. As a result, the welfare of blue-collar workers would also fall considerably. Moreover, their life expectancy would decline.

### **Early retirement incentives for workers would increase fairness**

This raises the question of how a fair pension policy that equalises the relationship between lifetime pension contributions and pension benefits for all occupational groups would look like. The results of the study suggest that there should be strong incentives for blue-collar workers to take early retirement, especially if the statutory retirement age is raised. If the statutory retirement age is left unchanged at 65, blue-collar workers should either receive higher benefits in relation to their contributions compared to white-collar workers, or their contributions should earn a higher rate of interest. "Such scenarios are not even being discussed in the political debate, probably due to a lack of awareness of the differences in life expectancy between occupational groups", criticizes Volker Grossmann.

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