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Retirement in a global labour market: a call for abolishing the fixed retirement age

Baruch Yehuda Sayce Susan Gregoriou Andros

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Retirement in a global labour market: a call for abolishing the fixed retirement age

Yehuda Baruch
Southampton Business School, University of Southampton, Southampton, UK
Susan Sayce
Norwich Business School, University of East Anglia, Norwich, UK, and
Andros Gregoriou
Hull University Business School, University of Hull, Hull, UK

Abstract

Purpose – The purpose of this paper is to explore potential benefits and possible pitfalls of the removal of the default retirement age.

Design/methodology/approach – A human capital and labour market perspective provide theoretical lenses for exploring the potential implications for individuals, organizations and societies. The paper employs financial costing analysis to demonstrate.

Findings – The paper uses the UK case to illustrate anticipated managerial and societal outcomes. The main finding from the discussion and the financial analysis is that indeed the current system is unsustainable.

Originality/value – The paper offers areas where lessons about age management can be learnt from other experiences of flexible retirement strategies such as enhancing older workers' human capital. The idea is of global nature and relevance and forms a "wake-up call" for decision makers at national level.

Keywords Age, Policy, Retirement, Finance, Qualitative, Default retirement age, Labour markets, Pensions

Paper type Conceptual paper

Introduction

A combination of human development in various facets of life, financial arguments and societal considerations caused us to question the sustainability of the current retirement system and the prospects of its viability in the long term (Johnson, 1990; Van Dalen *et al.*, 2010). Governments and employers are starting to realize that present pension systems and the original ideas they are based upon require significant reforms around retirement and pensions. However, how this is to be implemented in different national and organisational contexts is more contentious as organisation has to consider its own attitudes towards an ageing workforce and its own worker's ability and willingness to extend their working lives. In particular developments in age and longevity have led us to construct this paper. We use societal and financial analyses to manifest why the default retirement age (DRA) should be abolished using the UK as a case study to illustrate our argument.

Wrestling with the problem of an ageing society where people are living well for longer while working for shorter time periods is characterizing most if not all of the

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nations, in particular the developed countries (Burke and Ng, 2006; Alcover *et al.*, 2012). Socio-economic pressures that have led to the structural changes in retirement in the UK such as the removal of the DRA are a concern in many developed economy contexts. A European Union green paper on pensions and sustainability predicts that whereas there are four people of working age for everyone over 65, by 2060 this number will be reduced to half, making state pensions in European developed economics more difficult to afford. The EU Green Paper (2010) leads to the inevitable conclusion that that in the future the choices EU countries would face are "poorer pensioners, higher pension contributions or more people working more and longer."

This has resulted in a European wide policy focus on improving the labour market opportunities of older workers and increasing their participation rate in the workforce in order to tackle the effects of an ageing workforce and an increase in life expectancy (Van Solinge and Henkens, 2010; Walker and Maltby, 2012). The average labour market participation of workers aged 55 or more is below 50 per cent in the EU (Eurostat, 2007), though there is a variety even within the EU. For example, it is significantly higher in the Scandinavian context compared with the rest of Europe. Policy measures have focused on the pull factors of early retirement such as limiting financial incentives for early retirement or increasing the retirement age at which social State pensions are paid (Bernaciak *et al.*, 2011; Dencker, 2012; Flynn, 2010; Taylor and Walker, 2006; Van Vuuren, 2011).

Socio-economic implications of the previously mentioned background along with the decrease in mortality has caused some countries to remove the DRA, a concept which traditionally shaped retirement boundaries, and is usually linked to a statutory pension age. Conversely, other push factors exist, such as age discrimination, concerns about lower productivity and individual's limited notions of employability.

It is important to be aware that the statutory pension age was set to be 65 in most countries, following the convention initiated in 1883 by Chancellor Otto Von Bismarck of Germany. This age was set, among other reasons, because during that era, the vast majority of the population would perish by that age, not causing significant financial constrain on the state. Further, most works in the industrial revolution required physical ability and stamina. The situation in terms of longevity as well as the typical requirements of work has altered significantly. Yet, in many countries these developments have not been reflected in the setting of formal retirement age.

The aim of this paper is to offer a learned argument for the abolition of retirement age, following recent call for investigation of retirement and its relevance (Collins, 2003; Sargent *et al.*, 2013). We will start by listing a set of arguments, then supporting these with two distinct perspectives – socio-managerial, and financial analysis. The contribution of this paper is threefold. For individuals, it manifests why traditional concepts are not viable any longer. For organisations, it offers a way to better utilize their most important asset – their human talent. At a global and national level, it argues that national decision makers have to face the inevitable and be prepared for a new era of pension and retirement. Thus we need to ask how does the removal of a default retirement age affect push as well as pull factors in retirement. In order to explore this question we united financial, labour market perspectives with human capital perspectives to explore the different facets of retirement and ageing. We argue that in answering this question we illustrate how pull factors such as default retirement ages are removed so challenging push factors such as workers and their colleagues' attitudes to ageing, flexible work practices and engaging with older workers can lead to increases in productivity and deferment in retirement that leads to a reduction in pension costs (Saga, 2011). We also argue that change in older workers labour markets are not linked to increasing unemployment in the labour market for young people (OECD, 2013). We argue that taking a more holistic approach when talking about policies in retirement labour markets and human capital and organisational settings permits us to challenge long-standing societal and organisational assumptions about work, retirement and age.

The paper is structured as follows: we present the context for the study, the dynamic nature of demographics and their impact on the structure of current labour markets. We proceed with financial analysis demonstrating the problem of sustaining the current state of affairs. Using the UK as a case, we explore the relevance of human capital theory and the practical point of policies and practical implications as leading to our call to abolish retirement age, as presented in the discussion section.

The context

Changes in life expectancy, tenure in the labour market, and changing attitudes to "third" and old age form the basis for our argument about the unsustainability of present retirement planning. The current pension system is based on a concept developed in an era where people started working as teenagers, and where the majority never actually reached pensionable age. The main differences are as follows: People start working life later, and with more education required, many only start to contribute to their future pension in their 20 s. Average life expectancy is in the 80 s, and most people in their 60 s and 70 s (the "third age") are capable of continuing to work. No less important, the period between formal retirement and death is typically divided between the so-called "the third age", where people are able, competent, and can keep personal and professional vitality, and the decline period, where work is not a viable option. This argument is a testimony to the idea of the need to revisit age identity (Gullette, 2004, p. 121).

Thus, the premise underlying our discussion of DRA is that developed countries existing pension arrangements are unaffordable in the long term, in particular in Europe. While some countries started changes and gradual reforms such as mildly increasing retirement age, these are somewhat cosmetic changes whereas a true and decisive solution is called, which will incorporate realistic view of the labour market and the contemporary nature of retirement. As it turn out, we argue that in a holistic way, the concept of retirement at arbitrary age that is within a range of age where people can work productively cause more harm than benefit to individuals and societies – which was not the case when the idea of retirement was introduced. Both political narratives and financial evaluations are continually reinforcing the current unsustainability of present retirement planning (Dixon, 2008; Duval, 2003; EU, 2010; OECD, 2011). We posit that the changing nature of ageing poses a serious challenge to developed countries. We do acknowledge that there are variations among countries with very different degrees of welfare dependency. Actions that reduce the generosity of cost of public pensions or augmenting private pension through acts such as auto-enrolment will not be sufficient to resolve the welfare dependency challenge that developed countries are facing (Spicker, 2000; Van Oorschot *et al.*, 2012).

Changing demographics about longevity and well-being legitimate the dialogue about structural change in standard retirement ages (Borsch-Supan, 2010; Herzog *et al.*, 1991; Thomas and Pascall-Calitz, 2010). For most contemporary jobs, especially in developed countries, the physical element required for work is less critical. Vitality is a significant factor that influence well being and performance (Kark and Carmeli, 2009), and older people can have high levels of professional vitality, picking up in their 50s + (Grimland *et al.*, 2012).

In Europe increasing worker's choices in flexibility including retirement has risen up the policy agenda (Gough and Arkani, 2011) and is considered to help improve adaptability and consequently increased national productivity (Delsen and Smits, 2010, p. 584). Increasing the investment in older workers can be a way to improve their labour opportunities and to delay early retirement. However, we consider that changing established societal customs and norms in developed countries around the notion of a compulsory retirement age may not fully reach its economic welfare objectives of people's agency to consider flexible retirement if the human capital and labour markets' push (demand) and factors of age reform and retirement for men and women are not fully considered.

Policies that need to be considered to improve older worker's productivity include education, "on the job training" and the promotion of work and well-being. Furthermore, a later retirement increases incentives to raise one's own skills (Skirbekk, 2008) and there are a number of factors influencing individual decisions about retirement (Schwerha *et al.*, 2011). However, against this, productivity variation in older age has to be considered taking into account research on older worker's cognitive and experience abilities, which illustrates that productivity declines towards the end of the working life. This decline is more noticeable in tasks that rely on speed, learning, and problem solving. In work tasks where verbal skills and experience are preeminent there is less or no reduction (Waldman and Avolio, 1986). However, a mix of young and old individuals performing these tasks could improve overall organisational productivity. From this perspective, the economy as a whole will gain if experienced and able people will not be forced or encouraged to retire at an arbitrary age. However, people still need to be managed and thus these arguments also have relevance for HRM processes and where they intersect with the labour market. Contemporary organisations need to consider the financial and organisational implication of dealing with their resources, including reappraising age boundaries (Clark, 2012).

The pension promise and the shift to flexible retirement

The pension promise was consolidated in the post-war era around men's work contribution, which from a welfare perspective was itself problematic for women with lower work records (Vickerstaff, 2006). Thus another objective in removing a compulsory DRA is the notion of equality. Women's lower levels of labour participation help to explain in part the higher numbers of women in poverty in retirement and can be changed if women will gain the opportunity to build up a longer work history. In addition, the existence of age discrimination legislation suggests that a fixed age of retirement is direct discrimination regardless of gender (Manfredi, 2011).

When the first Old Age Pension Act was introduced in the UK in 1908 and the standard retirement age was 65 there were ten working age people for every pensioner. In 2010 there were four working age people for every pensioner and by 2050 it is predicted that there will be only one (DPW, 2013). The prospects are similar in other developed countries. This changing ratio and the burden it will place on the economic sustainability of government funding is a major driver in political re-evaluations of retirement ages. The previous figures also indicate how mortality figure have increased. In 1926 when the first contributory pension was introduced in the UK, 34 per cent of men and 40 per cent of women were expected to reach 65. Mortality experts today consider that one in four baby boys will live to a 100. By 2050 there will be 50 per cent more pensioners than 2010, which has major implications for state social security schemes in developed economies (OECD, 2011).

While longevity is growing, time in employment is shrinking at both ends. A higher percentage of young people study in university for first and second degrees compared with the situation in the early twentieth century. The typical starting age of employment then would have been about 14-18; today it is 18-22. At the other end of working life, many firms in industrialized economies use redundancy programs to "release" people aged 55+ to "early retirement" (Baruch, 2004; Phillipson, 2013; Shacklock and Brunetto, 2011). At the aggregate level, forcing able and competent people to retire adds a burden on national budgets and can hamper their competitiveness. But this does not have to be the case as we will discuss later.

Cost benefits of extending working life and supporting flexible retirement

A background of changing demographics, falling investment returns and global recession explains how the real value of the basic state pension has steadily decreased while population ageing has increased. It is against this background that some governments have adopted, as a priority, a policy of extending working life (Smeaton *et al.*, 2010) For example, Finland has one of the highest figures for an ageing population in Scandinavia. In the 1990 s the government acted and introduced policies to combat early retirement on health grounds as harmful to the economy. A variety of initiatives were used to keep people working for longer and reduce rising absenteeism and pension costs (Saga, 2011). Finland developed the concept of maintenance of a policy of work ability to tackle early withdrawal from the labour market. This included focusing on employee health, skills, management style, job demands and work environment. It meant seeing retirement as a process rather than an age. A contributory factor in the policy's success was measured in decreased pension costs and improved organisational productivity. A key component was Finland's extensive network of occupational health centres as well active contribution from government agencies and unions. However, this progress of reform in seeing retirement as a process is still held back by Finland's continuing adherence to a flexible retirement age from 63-68 (Kautto, 2012) and it does not link retirement ages to longevity trends as occurs in the UK despite calls for reform from the EU and the OECD among others to do so. and reducing barrier older employees encounter when attempting to enter or re-enter the labour market (Hirsch *et al.*, 2000).

A range of partial measures have been introduced into labour markets with varying levels of success. We argue that a logical extension of that discussion is to take the drastic and significant measure of fully abolishing the DRA and introducing more flexible retirement policy. The economic objective of this social and political reform is that the longer people delay their retirement and continue working, the more the level of GDP rises as working people pay more taxes and social security contributions than retired people while reducing pressure on pension funds through delaying drawing down their funds (Davis, 2004).

The institutional pressure on organisations to extend their employees working life and support flexible retirement in the labour market is made apparent when one analyses the economic costs of pension age reform. The introduction of Age discrimination policy also means that no longer can organisations depend on age to get their employees to leave but that they will have to focus on performance and capability processes to remove employees and if done incorrectly these moves are open to legal challenge. However, by focusing on extending employees working lives and re-examining push factors into retirement such as inadequate transition from work to retirement long-standing inaccurate perceptions about older workers and the labour market can be challenged so that productivity and performance are enhanced and higher pension costs of those taking retirement early reduced.

The financial impact of pension reform has been a long standing academic debate over the last decade (e.g. Blake, 2000; Disney and Emmerson, 2005). In this study we examine the financial impact of abolishing DRA as done in the UK. Following Merton (2003) we can directly evaluate the financial cost to the economy of pension retirement age reforms, by assuming that an individual pension is a security that pays a fixed amount of income periodically to an individual forever. This is known in the finance literature as a perpetual annuity. If we assume that the government pays an individual a percentage return A at the end of each time period, and that there is pre-period interest rate set by the government denoted by r. Then the value of a perpetual annuity at the current time period is given by the following equation.

$$P = \sum_{k=1}^{\infty} \frac{A}{(1+r)^k} \tag{1}$$

Given that the terms in the previous equation represent a security that grows at a constant rate, we can solve equation (1) to establish the following present day valuation for a perpetual annuity;

$$P = \frac{A}{r} \tag{2}$$

A more practical way to value a pension is to solve equation (2) for a finite lifetime, because the government does not pay pensions forever, due to individuals' finite life horizons. The value of a pension with a finite horizon is computed as:[1]

$$P = \frac{A}{r} - \frac{A}{r(1+r)^n} = \frac{A}{r}\left[1 - \frac{1}{(1+r)^n}\right] \tag{3}$$

Equation (3) represents an annuity that begins payment one period from the present, paying a percentage return A for each period for n periods. The financial cost of a pension is denoted by P (the present value of the pension), r denotes the interest rate, which is assumed to be constant throughout the life of the pension, and n is the number of monthly periods of the pension.

We can compute the savings to the economy if individuals are not restricted to obtaining their pensions at a compulsory time period, by simulating the percentage change in P if N is reduced by a number of years[2]. For the purpose of the simulation, we let $A = 10$ per cent and $r = 2$ per cent. Note that there is no significance in the values of the A and r parameters of equation (3) that were chosen, as long as they are both positive. These values simply allow us to simulate values of P for different n periods, which is the focus of our study. We then derive the percentage change in P with respect to the current year over different n periods, in order to view the financial impact to the economy as a result of people staying in the pension system for fewer years.

Table AI (see Appendix) manifests that there is a major impact on the financial system if individuals are staying in the pension system for longer time periods. Even if they stay in employment for one additional year, it saves the economy 0.79 per cent per individual pension. Multiplying this by the number of people receiving a pension would offer a major significant financial benefit at the national level. Yet, incrementally increasing age of retirement is more of sticking plaster than a solution. Whereas policies that support individuals in extending their working lives, addressing older workers demand for greater flexibility has the potential to shift societal thinking about retirement, and age. But in order to explore how best employers and organisations can respond to these structural pressures around age reform in the internal and external labour markets we need to focus on what those pressures are in an older person's labour market as this will have consequences for people's choices as they age. These can vary – for example, Owen and Flynn (2004) identified different types of older people' choices.

Structural reform around retirement, pensions and – the case of UK labour market

What is significant in age reform is how structural changes impacts on labour markets and production as it defines their boundaries (Beck, 2010; Employers Forum on Age, 2010). In reforming the age at which people retire, the mobility of older workers, which traditionally has been dominated by exit mobility, has to be addressed. This includes recognising that HRM practices of recruitment and retention also have a role to play in challenging long-standing age and retirement assumptions (see Terry and White, 1998).

Consequently, the UK government set up a public sector agreement in 2007 with its delivery partners, practitioners and service users to maximize employment opportunities for all (Public Service Agreement, 2007). This has helped some older workers into employment and helped challenge stereotypical assumptions about older workers' ability to deal with change and to learn new skills (Chiu *et al.*, 2001). There is a normative belief that retiring earlier increases opportunities for younger workers and while in some organisations conflict between younger and older workers will have to be managed at an organisational level labour markets themselves are always demand led (Manfredi and Vickers, 2009, p. 346). The normative beliefs that older workers block recruitment pipelines is widely discussed in the media, but there is little research evidence for the idea that 'a fixed lump of labour' where younger workers will replace retiring older ones ignores the asymmetry of labour market demand where young people may not have the skills, education or experience of retiring older workers (CIPD, 2013; Skirbekk, 2008). Indeed the evidence from the OECD (2013) focusing on unemployment through several recession is that when older workers are forced to retirement young entrants are not hired to replace them. Thus, inaccurate normative beliefs that older workers are postponing recruitment in the labour markets needs to be robustly challenged by organisations and institutions.

Older workers and human capital

A different dynamic perspective is needed to examine social structure and social change in recruitment and retention of older employees. Human capital theory (Becker, 1975), is premised on the notion that in an ideal labour market, differences in individuals' entry is linked to better education and skills and this is rewarded by better jobs and higher recompense for those people with valuable skills. Labour market economic theorists (Van Oorschot *et al.*, 2012) indicate that education, gender and background are labour market "signals". It should be noted that Shacklock *et al.* (2009) did not find gender differences in factors influencing inclination to retire. However the clear measurable link between education (schools and universities), recruitment and employment is challenged when dealing with an older people's labour market as experience gained over a life-time in both social and work endeavors enters the equation. Spence's (1973) "signaling theory" claims that the labour market depends on information exchange or "signals" from the employee to the employers, relevant in particular in time of boundaryless careers (Arthur and Rousseau, 1996; Kalleberg, 2009). Gender and ethnicity have often been alluded to as signals to labour markets. For example women's employment patterns are often dependent on labour market policies of the time and they may be perceived to have a lower attachment to the labour market because of parental leave and family commitments and flexible work practices, which consequently has meant labour market policies have been more targeted at women of child-rearing age "back to work schemes" rather than at the end of their working lives (Loretto and Vickerstaff, 2013). We suggest adding age as a further signal, where older age does not necessarily mean a decline or preparation for retirement, but of prospects of long term, stable contribution. This interpretation is vital because in previous labour market crises age was used as signal to encourage older workers to withdraw from the labour force to increase youth employment. However an evaluation of labour market data indicates this did not work (OECD, 2013). Thus the only outcome of older workers' labour withdrawal in the past in OECD countries was increased calls on the public purse, in line with our financial analysis.

However, older worker's skills and experience work portfolio unlike younger workers also contains a growing notion of well-being as worker's age, which makes labour market theorizing much more difficult. Consequently, human capital arguments about flexible retirement and the modification of policies can help influence employees actions in retirement at an economic unit-level were evidenced. Employers' concept of human capital has shifted to focus on individual's knowledge, ideas, skills as well as health in relation to an older worker grouping.

This thinking is linked to developments in human capital as a concept (Becker, 1975). How individuals invest their energy into improving their health, competence, and obtaining qualifications and training, and how choices connected to this occur over the life-stage. For organisational interpretation of human capitals the orthodoxy is that investment in human capital at a unit level is a way to increase productivity and thereby enhance job, employment and income security (Wright and McMahan, 2011). A key feature of retaining and recruiting older workers besides their work commitment is that they have historical and experiential understanding of the cyclical nature of economy and businesses, which is advantageous to businesses in a period of economic crisis (Conen *et al.*, 2010; Eversheds, 2009, p. 12). These arguments allude to the benefits of intergenerational organisational knowledge within businesses. Consequently, there is a clear economic waste for organisations and for nations in preventing those older workers who are able and competent to continue to work. Policies aimed at extending working lives can link into this. This is a process policy-makers can influence as Finland did in the 1990 s recognising that it had one of the oldest demographics of any Scandinavia initiated policies to increase productivity of older workers and extend their working lives. These initiatives include challenging age discrimination by linking individual organisation work planning and training to work ability. For example, in UPM-Kymmene Paper Mill each employee over 55 had a personal plan where they indicate when they want to retire and what measures they would need to stay longer such as occupational health support. The plans are then taken into account when planning training and help to combat age discrimination as there is a "tacit knowledge" programme where older and younger workers are paired up to help retain and transfer knowledge (Saga, 2011).

In principle organisations are not adverse to recruiting and training older workers (Thomas and Pascall-Calitz, 2010, p. 30). However, organisation's attitude towards older workers can be polarized between those being positive about their skills and expertise and their continuing value to the company as in Finland, compared with those less enthusiastic about employing older workers as highlighted in UK and Dutch research (Beck, 2010; Conen *et al.*, 2010). Changing these attitudes to recruit older workers may prove more difficult as organisations recognise that their only way of letting people go is through performance management. As a result this can constrain an individual employee's agency to continue working if employers persist to perceive retirement as a way to release employees (Vickerstaff, 2006; Eversheds, 2009). Counter arguments exist too: Older workers are often targeted for retirement; first to cut labour costs as older workers are more likely to be senior workers with higher labour costs, second, because of stereotypical thinking that perceives them to be less effective as they coast to retirement, third the organisation want to bring in a new dynamic workforce, and finally to facilitate succession/forward planning. Thus, in relation to older workers employment, there is a tension in human capital investment as capital can depreciate as well as increase as workers age and employers balance the input-output ratio of investment such as pay levels, training and development and future productivity.

Flexible retirement policies

Some companies as highlighted previously have made progress in implementing more flexible retention and recruitment policies and processes that accommodate an older workforce and which help it with its forward planning. Even before the formal abolition of DRA, many UK firms, particularly in the finance sector did not impose a specific retirement age, pre-empting the regulatory changes that followed. The number of people choosing to continue working into their 70 s is small but this is substantially more relevant for those over 60 (Employers Forum on Age, 2010). Employees' reasons for continuing work often cite financial security or wanting to be mentally or physically engaged (Beck, 2010: 350). Many older workers want challenging and stimulating work opportunities while for others the financial element is more important and this fact influence choices about flexible retirement. Here flexibility in terms of optional part time work can be welcomed by the employees as a way to transition out of work. But it is only one aspect within individuals' decision-making process which includes life-style, well-being, and familial circumstances.

Transitions into flexible retirement

Part-time working and flexible hours can help assist the transition to retirement (Beck, 2010; Manfredi and Vickers, 2009). Part-time working can also be a transition into work for those older unemployed, perhaps because they stepped out of the labour market for caring responsibilities or because of poor health (Smeaton *et al.*, 2010). Or they may see it as a new opportunity to follow up an interest to start a new business and create jobs i.e. a person following up a hobby such as photography. Others may embark on a portfolio career that combines voluntary activities with work activities (Saga, 2011). However, a major concern is the occupational narrowness and low-paid nature of UK part-time work, which could worsen structural gender inequalities that already exist in the labour market. Presently stepping out of the labour market is a risk for individuals and this risk can increase as they age. Nevertheless, age reform around retirement permits women to have more time to build up pension income and help alleviate the prevalence of women in poverty in retirement (Gender Impact Assessment Report, 2007; Vickerstaff, 2006). Indeed, part-time work can provide both men and women with higher-paid skilled work (Hardoy and Schone, 2006). However, this situation may also require a re-evaluation by employers of the value of part-time and flexible workers as indicative of low-skilled, less committed workers. For example, McDonald's have a part-time worker of 69 who works two days a week but dedicates two evenings to his main passion, which is judo. He has become the face of McDonald's campaign to celebrate older workers contribution to the business and encourage more to apply.

Organisations who employ large numbers of full-time blue collar workers, who are low paid and conducting heavy physical work in all weathers, argue that for them flexible retirement is more problematic. Here it is going to be in the employer's interests to make sure that their older employees are actually fit and healthy, although how this will be achieved is less clear although it is suggested that organisations should integrate employee assistance and health promotion (Gonyea and Maiden, 2009). But the Finnish example does often a way to improve this as they have linked policy to extend worker's working lives to occupational health initiatives such as training 5,000 workplaces representatives in the same events as occupational therapists about work ability, ultimately helping to reduce organisations' sickness and absence costs and increase retention. Approaches taken will have to differ from country to country, sector to sector in relation to how employers see this as a priority (Beck, 2010, p. 350). However, in the UK workers are training younger employees in performing their work safely. Or someone with specific knowledge and experiences like an engineer may be informally approached by his former employer after retirement and asked to help out on an *ad hoc* basis. These examples can provide a pathway to flexible retirement for some individuals. In the logistics industry organisations deliberately recruit temporary older workers to pack or process mail part-time with some becoming permanent in time. These pathways rest on the employee's willingness to want to continue working. For someone who has spent a life-time in a demanding physical environment their will and physical capability may be lower than someone used to working in a desk-bound environment and often they choose to retire (Saga, 2011).

Labour market, human capital, education and training

A review of other initiatives in reforming pensions and retirement ages indicates how training and education reform has to be considered alongside pension reform in order to facilitate retention and recruitment. In both Australia and New Zealand there have been government initiatives such as the New Zealand Positive Ageing strategy to help improve opportunities within the labour market for older people running alongside statutory retirement changes which improved the participation of older workers in a more flexible labour market (Wood *et al.*, 2010).

Organisations that have been market leaders in introducing flexible retirement in the UK have seen an increase in the numbers of older workers targeting them for employment, thus winning the "war for talent". Organisations argue that it is essential to offer all employees including the older cohort not only access to learning but also offer multiple learning delivery approaches to suit different individual's preferences in learning styles. They claim that this approach has helped them to recruit and retain employees beyond 65 without a reduction in performance (Employers Forum on Age, 2010). Age has been proven a negative factor – and in some cases older age led to better performance, though age may reflect a change in goal focus (Kooij *et al.*, 2013).

Older workers were recognised as a disadvantaged group in the UK Public Service Agreement (2007) which targeted older workers in order to maximize employment opportunities for all. Manfredi (2011, p. 75) analysis of legal judgments around age discrimination and age reform acknowledges that different age groups in the labour force have "diverging but legitimate interests" in the distribution of employment opportunities. Here legal judgments seem to suggest that collective bodies who negotiate on behalf of workers help employers reach decisions that are more likely to stand up to legal examination than those adopted by employers alone. Subsequently, collective bodies like trade unions and also community groups have a role not only to protect the interests of low-paid unionized older workers, who might find it more of a challenge to continue working (Ebbinghaus, 2011).

Greater retirement flexibility has to be linked to the labour market. Here a structural change in approach towards educating and training older workers could widen the pool of potential candidates for jobs, which ultimately could increase competition and raise standards. Thus the effect of increased mobility within the labour market could be a substantial factor in transferring organisational culture and knowledge from one organisation to another (Higgins, 2005).

In recruiting older workers, the business case argument is that it enables organisations to more closely match staff representation to their client base. However, structural change may be constrained by the operation of other legislation such as outlined in Manfredi and Vicker's (2009) research into retirement in the higher education and the impact of age discriminatory legislation on retirement practices. Health and safety legislation around age classifications also has to be reviewed as it may be open to challenge under age discrimination law. For example, In US there is no legal age requirement for holding a bus license, but in UK bus drivers are not permitted a license to drive public transport after the statutory age (65/66) when they can claim state benefits although many are in good health. The significance of considering the interaction of legislation is underpinned when one examines contexts where no statutory retirement age exists like in the US.

Organizational recruitment and training

Beck (2010, p. 344) outlines the contradiction between employers and organisations, being aware of the public debate about demographics and retirement that underpins age reform, but do not address how these changes will influence recruitment and training patterns (see Conen *et al.*, 2010). As previous examples have illustrated, there is a variety in the level of proactivity within industrial sectors in acknowledging and acting on related HRM issues of recruitment and training. Construction, engineering and logistics among other sectors continue to focus training on a younger work cohort which indicates that they are not embracing a mindset that includes lifelong learning. From an organisational human capital perspective the argument about retaining and recruiting older workers often narrows to what kind of skills and knowledge are available and what skills do organisations need and how much does it cost. Older workers with low levels of literary and numeracy and poor skills in particular will find opportunities to continue working or to find new employment difficult (Beck, 2009).

One theoretical perspective that addresses the mobility aspect of age reform perceives labour markets as eco-systems (Higgins, 2005). An Eco-system is "a system that contains a large number of loosely coupled (interconnected) actors who depend on each other to ensure the overall effectiveness of the system" (Iansiti and Levien, 2004). It acknowledges that there is movement flow of human capital within a labour market and that this is shaped by spiral learning processes and ongoing change processes that influence the directions and magnitude of human capital flow. A recent contribution manifested how certain labour market like the academic labour market act like an eco-system where push and pull factors influence flow of talent (Baruch, 2013). Traditionally the movement flow or mobility of human capital of older cohorts has been out of jobs (Greller and Stroh, 2003). Now we argue it needs to be "into" as well as "out" of employment. Factors such as experience, knowledge and motivation compensate against the norm of early departure of older people from the labour market. An eco-system can accommodate individual wish to remain in or rejoin the labour market during their period of retirement. Players with different view of job change can then make their choice accordingly (Owen and Flynn, 2004). Societal norms play critical role in shaping the atmosphere where employment of older people is perceived agreeable and contributing rather than a negative force against youth employment.

This perspective encourages people and organisations to consider life-long learning to increase productivity (Lisenkova *et al.*, 2010). However, we recognise that some older employees might avoid learning opportunities either because of their life-time experience or because they are planning to withdraw from the labour market. This indicates a need for further academic research into older worker's motivation to continue working. It is not easy to identify whether individuals have chosen to withdraw from the labour market or have been pushed to withdraw because of lack of opportunities (Smeaton *et al.*, 2010).

Choices about investing in increasing one's human capital of older workers may also need to recognise that individuals' choices are not only impacted by one's chronological age but also by their position in the life cycle, as their economic, family and other circumstances change. Thus while structural changes such as abolishing DRA may impact social relations, the dynamics of social location, and the social institutions (welfare services such as State and occupational pensions). This, in turn, will influence how people interact with these institutions and their choice of whether to carry on working or retire.

The lack of support such as training and advice for the labour market's older workforce also has consequence for people's agency when making decisions about retiring. Within the changing nature of family life-cycles and modern social relations, the new "risk society" as conceptualised by Beck (1992) is influential here because individuals have to weigh up the risks of changing jobs or taking lower-paid work in older age against the reality of greater unemployment for the older workers. For them the "risk" of choices about taking education or training courses to enhance their own human capital may be higher. The reasons are the higher levels of older age unemployment and perceptions of organisational resistance to older worker's recruitment and seeing older workers being made redundant as organisations consider the cost benefit of reducing older workers headcount (Vickerstaff *et al.*, 2003).

Discussion and conclusions

A combined human capital and labour market theorizing approach was used as a theoretical framework to help us understand pension age reform and suggest a global abolition of the DRA and what this outcome means for individuals, organisations and policy-makers at a national and HRM level (Burke and Ng, 2006; Kooij *et al.*, 2013; Taylor and Walker, 2006). This was coupled with financial analysis manifesting the un-sustainability of the current system to underpin the structural pressures such as age discrimination and lower pension incomes and rising State pension ages that organisations have to respond to when performing age management. As industrial relation systems evolve, new thinking is required (Clarke *et al.*, 2011). The issue of older workers is gaining a deserved attention in recent literature (Gonyea and Maiden, 2009) and there is clear recognition that old stigmas and stereotyping (Nelson, 2002) should be replaced with new, open and realistic views regarding the prospect of contribution from this niche of the labour market.

Theoretically we contributed evidence for human capital theory (Becker, 1975) and combine it with financial analysis, arguing the idea that labour markets are not straightforward and that employment entry and differences are linked to individual capital such as education and skills and organisational context. Our argument suggests that old age does not necessarily mean rapid loss of human capital certainly Finnish initiatives of linking work ability to occupational health and organisational planning and training indicate the opposite. However, when organisations respond to an older labour market, this situation becomes more complex as individual's motivations to work have to accommodate their financial, social and work contexts when making decisions about retirement.

Another theoretical contribution is made by addressing the mobility aspect of age reform and changes to the older age labour market via the examination of labour markets as eco-systems (Iansiti and Levien, 2004; Higgins, 2005). We add a further perspective, that of a section of the labour market that instead of departing, may remain and be active – this manifests that the theory is valid and provide strong explanatory power to it. An eco-system approach acknowledges that there is movement flow of human capital in a labour market but that this is shaped by spiral learning processes and ongoing change processes that influence the directions and magnitude of human capital flow. We argue that the mobility of human capital of older cohorts needs to be extended to include moving into jobs as well as out of them. At a policy level we recognise that structurally linking training and development to changes in the labour market will help to enhance older worker's human capital and challenge cultural norms about older worker's productivity and requirements.

In a more flexible scenario of retirement ages employers and employees also need to exchange more information about what each other expects. Individual decisions depend on work-related variables that influence older workers' intentions to continue working like the perceived importance of work, flexibility, interests outside of work, as well as organisational factors such as attitudes to older workers (Saga, 2011; Shacklock *et al.*, 2009; Shacklock and Brunetto, 2011). However, organisations need to develop policies in respect of this and communicate this to employees and this needs some elements of reciprocity. Nations should revise their legislation system in relation to outdated retirement ideas. Otherwise, as our financial analysis showed, the system is due to collapse, in line with early warning as presented by Collins (2003). This reflects how individuals work choices in this matter are also financially and socially driven. There are new social legitimized particular ways of growing old and individuals may become engaged in work activities to different extent, subject to their state (Sargent *et al.*, 2013). We argue that an increased flexibility in retirement ages needs increased flexibility in the labour market "into" as well as "out" of employment even after retirement into different types of work and job patterns.

One caveat we wish to add (we thank one reviewer for making this point): Different countries show very different pictures with regard to their pension systems, degree of sustainability and extent of reforms, so a global abolition of DRA may have very different implications on different national labour markets. For example, in some Southeast Asian countries, the AIDS epidemic cause a deterioration in the middle generation population size. This may necessitate more older people to remain in the labour market. Also, some countries are more affluent than others, and may be better positioned to stretch the current system longer than others.

In many developed countries research seems to indicate that there is a duality to employers' interpretation of flexible retirement. In principle they agree for reasons of equality to the change but in practice they consider that reducing the numbers of older employees helps to reduce costs and in the present unstable economic climate this has made older workers more vulnerable. This vulnerability is worsened because of the greater difficulty that older workers face in finding new employment and this too makes choices about engaging in training around skills more risky. This has implications for human capital and individual's choices in embracing flexible retirement as they might find themselves "economically inactive" not through choice but through lack of opportunities and thus placed into greater reliance on welfare. However, this situation needs to be balanced with employer's experiences of offering flexible retirement opportunities. Smeaton *et al.*'s (2010) research and the experience of financial organisations who have pioneered flexible retirement suggests that there is demand for extended working life by older workers and that some organisations are responding to this demand by increasing their recruitment of older workers. But how this is to be supported in the labour market is less clear although the Public Service Agreement (2007) to maximize employment opportunities offers a platform to build on and improve older age employment.

Notes

1. The derivation of equation (3) can be obtained from the authors on request.
2. Note given that N is expressed monthly in equation (3), one year is represented by $N = 12$.

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Further reading

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Appendix

$$P = \frac{A}{r} - \frac{A}{r(1+r)^n} = \frac{A}{r}\left[1 - \frac{1}{(1+r)^n}\right]$$

We derive the percentage change in the present value of pensions (P) in the previous equation, over alternative annual time horizons (N). In order to derive the results we assign preset positive values of the A and r parameters, set at 10 and 2 per cent respectively. The percentage changes in P over alternative N periods can be seen in Table AI.

In order to demonstrate how we obtained the simulation results in Table AI, we show the calculation when we reduce the compulsory retirement age in the pension scheme by one year.

Price of pension for one year:

$$1.057534 = 5^*\left[1 - \frac{1}{(1+0.02)^{12}}\right]$$

Price of pension for two years:

$$1.891393 = 5^*\left[1 - \frac{1}{(1+0.02)^{24}}\right]$$

Per cent change in reducing N from year 2 to year 1.

(1.891393-1.057534)/1.057534 = 0.79

Reduction in years	Percentage change in P
1	0.79
2	1.41
3	1.90
4	2.29
5	2.59
6	2.83
7	3.02
8	3.17
9	3.29
10	3.38

Table AI. The financial impact of pensions if the compulsory retirement age is eliminated

Corresponding author
Yehuda Baruch can be contacted at: y.baruch@soton.ac.uk