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Pension reform at the expense of the health of older people

PERSPECTIVES

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Older people who retire early will now be punished with lower pensions. Many will delay retirement to avoid poverty, even when their health is not up to it.

The purpose of reforming the Norwegian national insurance state pension scheme was to reduce government spending while also getting people to stay in work longer (1, p. 8). The Pension Commission established by the Stoltenberg government in 2001 proposed a new state pension scheme in 2004 (2). The Norwegian parliament adopted the main principles in 2005. From 2011, new pension rules were phased in with transitional arrangements starting with the age cohort born in 1954. The age cohort born in 1963 is the first to be covered solely by the new pension rules.

The current state pension scheme differs from the old scheme by using *financial incentives to work*, i.e. financial penalties or rewards to encourage later retirement from working life. The younger the age of retirement, the lower the pensioner's annual pension. If many people have to extend their working

life for financial reasons, this raises concerns about negative health consequences and in turn greater social inequalities in the health of older people.

Neither the Norwegian Pension Commission, the Research Council of Norway's EVAPEN project (Evaluation of the pension reform, 2011–18) nor the Pensions Committee that evaluated the first ten years in 2022 (3), have considered the health-related consequences of the reform. It is now time for the Norwegian Medical Association to enter the pension debate and call for an investigation into health consequences.

The pension reform follows the same socio-political thinking as corresponding reforms in other European countries in recent decades. In Norway, it is called '*arbeidslinja*', a term which in the past referred to the goal of work for all, but it took on a new meaning in the 1990s. Now welfare programmes are supposed to motivate people into paid work by curbing the benefits available to those out of work (4, 5, p. 85). The Pension Commission made it costly to retire early: 'The main principle is that the individual themselves should cover the majority of the costs if they choose to retire early, while at the same time a person receives a correspondingly higher pension by working longer' (1, p. 9). People who would have retired early if it were not for the reform can now only achieve an acceptable pension if they 'choose' to remain in work longer. The problem is that most people cannot choose their retirement age. Academic and managerial professions have a high retirement age. Other groups, such as retail workers, industrial workers and cleaners, have a low retirement age. Figure 1 shows the distribution of people who are economically active for the age group 55–66 years.

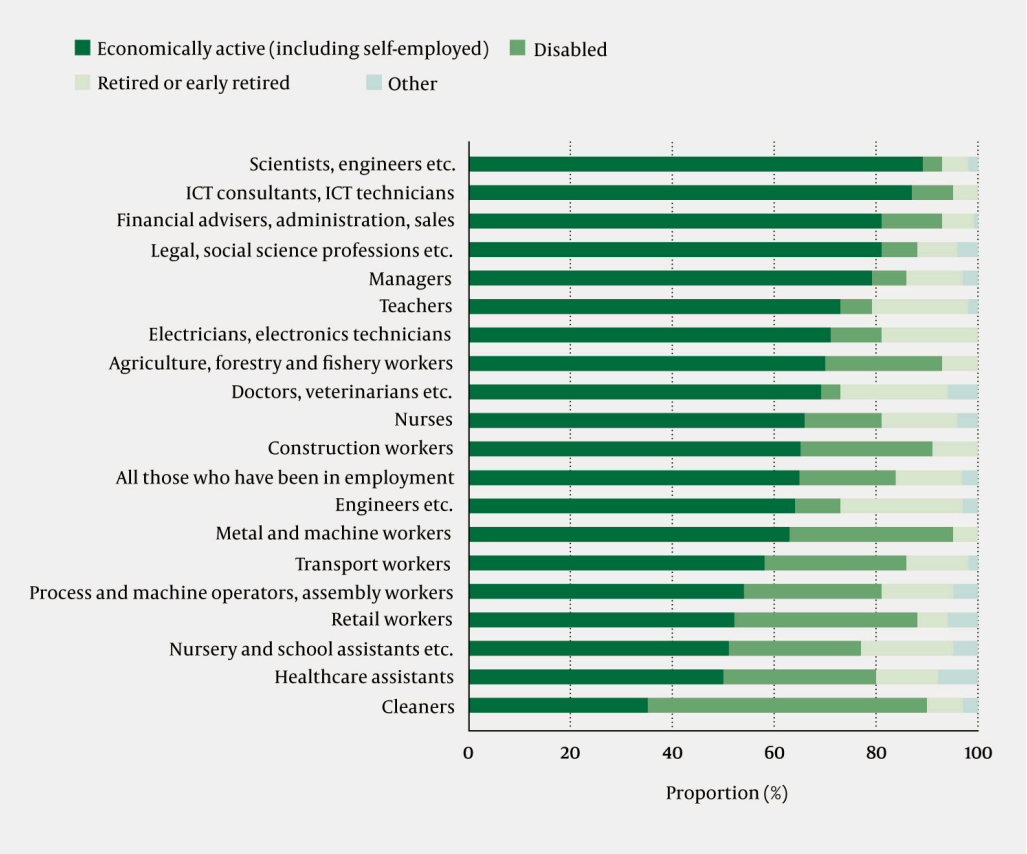

Figure 1 Distribution of people who are economically active, disabled and retired or early retired in the age group 55–66 years for various occupations, based on the

Norway Survey of Living Conditions in the Work Environment in 2019. Source: Statistics Norway.

Based on unrealistic assumptions

The reform's main cost-cutting measure is the *life expectancy adjustment*: The pensioner's annual pension is calculated by dividing the total accrued pension by the number of years that the pensioner's age cohort is expected to have left at the pensioner's retirement age. As the average life expectancy increases, each new age cohort will be paid slightly less in their annual pension than the preceding cohort received at the same retirement age. The idea behind the life expectancy adjustment has been that new cohorts can compensate for the downward adjustment by staying in work slightly longer. However, this assumes that increased average life expectancy comes with more years of good health and job opportunities for all, which is quite unrealistic (6). Some people will have more years of poor health (expansion of morbidity), while others will have fewer years of poor health (compression of morbidity) or the same number of years of poor health as before (postponement of morbidity). Variations in morbidity follow social gradients. In isolation, the fact that average life expectancy is increasing says little about the future of older people in the labour market (7).

> ***«The idea behind the life expectancy adjustment is that increased average life expectancy should come with more years of good health and job opportunities for all, which is quite unrealistic»***

In its evaluation report (3), the Pension Committee discusses the assumption that new age cohorts can compensate for the life expectancy adjustment by continually working longer. They point to a study from Nord-Trøndelag county in Norway in which 70-year-olds in the period 1995–2017 had almost the same increase in the number of disability-free years as the increase in total years lived (8). They think that if this trend continues, it will be possible for older people to be encouraged to work longer by the life expectancy adjustment (3, p. 151). However, the study does not back up this optimism. The fact that 70-year-olds were 'disability-free' only meant that they could eat, get dressed and wash themselves, as well as pay bills and go shopping. Capacity for work is something else. The Committee has overlooked a more relevant study from the same research group, which reports that the opportunities to work longer may not be as great and are not equally distributed. The study looked at health and life expectancy for 30-year-olds in Nord-Trøndelag, with data from three cross-sectional surveys over three decades (9). Life expectancy increased both in total and when measured as lifetime in self-rated good health. However, there was little increase in expected lifetime without longstanding limiting illness, and thus potential lifetime with capacity for work, and the increase was least of all for individuals with low educational level.

The Pension Committee also claims that the increase in workforce participation in the first few years following the reform was not dependent on previous income, educational level, occupation or health (3, p. 295–6). However, the studies referred to by the Committee demonstrate the opposite, that economic activity increased most in groups with low life expectancy, low educational level or poor health (3, p. 297, 10, 11). These groups often have low accumulated pension rights, particularly women. They have to work longer to avoid poverty and are not able to give much consideration to their health. One member of the Committee thinks that it is good news if worse-off groups increase their economic activity most (12). The Committee had been concerned that it would be more difficult for them than for other groups. It should not have surprised the Committee that financial incentives to work associated with the state pension have greatest effect on people who worry about low pensions. Besides, it is not good news at all, but rather a warning signal for the risk of negative health consequences in this age group.

Working conditions can cause disability and exclusion

Retirement can lead to significant health benefits, particularly for those with demanding working conditions. In Norway, Astri Syse et al. studied changes in self-rated health following retirement. Economically active people aged 57–66 years answered a questionnaire in 2002 and again in 2007, when around half of them had retired with a pension. The pensioners reported improvement in mental health more often than those still in work, as well as mental health deterioration less often. The pensioners also reported an increase in physical activity and weight loss more often (13). Westerlund et al. found health benefits associated with retirement in workers from the French national gas and electricity company. Far more of them reported poor health before retirement than afterwards. The health benefits were greatest for those with the worst working conditions (14). The incidence of common chronic diseases (respiratory disease, diabetes and cardiovascular disease) increased with age, irrespective of retirement, but after retirement far fewer were affected by physical and mental fatigue and depression, and the improvement was greatest for those with chronic disease (15).

If older people are to be able to remain in work for longer and maintain their health, their working life must facilitate this. This was also recognised when the second Bondevik government addressed the Pension Commission's proposal: 'However, in order for the flexibility in the modernised national insurance scheme to work as intended, conditions must also support those who want to continue their working life. Employers must both seek out and take care of older employees' (1, p. 109). A comprehensive Norwegian literature review concluded that autonomy at work and a reduction in physical demands of work were key in keeping older people in work (16). However, the pension reform has not been followed by reforms to make working life more age-friendly.

The contractual early pension scheme in place before 2011 meant that employers benefitted from creating working conditions in which older people chose not to take early retirement but instead continued to work until pension

age. For example, older people could be given shorter working days with full pay, or have work duties changed. Since 2011, the pension system has had no equivalent incentives to make it financially attractive for employers to support older people. All the incentives used are targeted at the employees.

> ***«The pension reform has not been followed by reforms to make working life more age-friendly»***

In Norway, disability benefit acts as an early pension scheme for many people with chronic, disabling diseases and in occupations in which the demands of the job are inconsistent with normal changes associated with ageing. Many occupations with a low retirement age also have disproportionately high early retirement on disability benefit (17). Previously, the state pension was the same whether one worked until pension age or was given early retirement on disability benefit a few years before pension age. After all, the need is the same. The new state pension scheme follows the modernised welfare-to-work approach: being in work must always lead to a better pension than being out of work. Therefore, people who are given early retirement on disability benefit now receive a much worse pension than their colleagues who remain fit to work. Many people who should have applied for disability benefit will now postpone it as long as they can in order to avoid the poor state pension for those on disability benefit.

Blind to social inequalities

The main problem with the new state pension scheme with *incentives to work* and *life expectancy adjustment* is that it overlooks the major social inequalities in older people's health and opportunities to work. Some people can and will work longer. Others cannot afford to retire when they should following the reform, and have to relegate health considerations to second place. Those who *must* retire early, such as those who are disabled or unemployed, now receive a pension close to the minimum level. It is far below the EU's low-income threshold (60 % of the median income), which in Norway is approximately NOK 250,000 for a single person in 2021 (18). As a result of the life expectancy adjustment, the minimum pension level will only get lower for each new age cohort. Those in the worst position are immigrants and refugees who have lived in Norway for less than 40 years. They receive a reduced minimum benefit corresponding to the residence time accrued (19, p. 63–70). At the same time, they obtain least by working longer than others do. (20, p. 37). The Pension Committee had concerns about the support for the pension reform and its 'social sustainability' when the minimum benefit levels are falling so low (3, p. 11). They propose raising the pension age, but that will only make it even more costly to retire early and increase the risk of negative health consequences.

Life expectancy in Norway has been increasing for as long as we have had state pensions, but it has never been used as a reason to raise the pension age before. By contrast, lowering the pension age from 67 to 60 was considered as recently as in the 1980s. There were concerns about the right to leisure and a wish to

extend the work-free period in older age (21, p. 110). This would also free up jobs and make company restructuring easier. It was known that the proportion of older people would increase, but the lower pension age could improve the health and well-being of older people and reduce the need for assistance.

We need a cost-benefit analysis as proposed by researchers at the Norwegian Institute of Public Health (7). Is time in older age best spent in paid work or taking care of one's own (and often other people's) health?

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