Committee: Youth Assembly

Issue: Ameliorating the effects of the pension age rise in the global workforce

Student Officer: Theodore Dimitras

Position: Co-Head

PERSONAL INTRODUCTION

Dear delegates of the Youth Assembly,

My name is Theodore Dimitras and I am a DSA student of the 10th grade. This conference will be my first ACGMUN conference, and I am eager to help any delegate with any problem or dilemma they might face. To contact me, please do not hesitate to send an email to the following address: theodimitras@gmail.com .

This study guide will provide you with useful information about the second topic of the agenda, namely ''Ameliorating the effects of the pension age rise in the global workforce''. However, you are highly encouraged to extend your research beyond the study guide at hand and provide new information to the debate.

TOPIC INTRODUCTION

In an economy that in its nature is rarely if ever stale, there are countless factors that can alter the state of today's market, and the recent demographic transformations are no exception. As governments and society as a whole attempt to adapt to these radical changes, more and more reforms in previously existing sectors have to be made in order to keep up to date. One of the aforementioned changes is the rise in pension age, implemented by governments with the aim of partially alleviating the pension system.

In 2022, there were estimated to be approximately 3.32 billion people employed worldwide, compared to 2.28 billion people in 1991 - an increase of around 1.04 billion people[1]. However, the age of the average employee has also increased. This is because in addition to the average life expectancy being at an all-time high, older people are encouraged to work longer and retire later. Consequently, the global workforce could face a significant challenge due to the increasing pension age. After all, the implementation of pension age rise has caused major civil unrest on multiple occasions, as it is a controversial topic.

[1] "Global Employment Figures 2022." Statista, www.statista.com/statistics/1258612/global-employment-figures/#statisticContainer.

The rise in pension age comes with a hefty toll, as the side effects of such a reform are not minimal. Firstly, the health issues attached to raising the pension age are very serious, as the risk for stress related illnesses, cardiovascular problems and much more is going to increase. Furthermore, the competition for positions among different age groups is expected to increase, as younger individuals might face difficulty entering the active workforce, as more positions will be ‘’occupied’’ by the older generations.

In light of the aforementioned negative effects, it is of great importance that we develop strategies to effectively stabilize economic productivity in response to the increase in pension age. These strategies could extend to reforming the pension system as a whole, enforcing both individual and societal measures to mitigate the effects of pension age rise.

DEFINITION OF KEY TERMS

Old age Pension

A pension is a monetary sum paid by the Government to the people who have stopped working due to old age.

Public employment services (PES)

Public employment services (PES) are government services whose aim is to connect job seekers with employers in order to combat unemployment.

Pension

A state-funded payment to citizens of or above retirement age, disabled people and some widows.

Workforce

The term workforce refers to the sum of the working individuals in a specific sector, state, company or industry. Workforce demographics play a vital role in the development and alterations of the pension system as well as the pension amount, criteria for pension eligibility etc.

Pension Gap

Pension gap is the gap between the high pension some individuals receive due to benefits or longer work duration and the low pension some others receive. The pension gap is one of the major problems and flaws in most of the pension systems around the world, and its minimization or avoidance altogether is a major aim of any.

Employee

An employee is an individual employed for a specific salary, usually without executive function

Employer

The term employer refers to an executive position where an individual has authority over employees.

Social Security System

A social security system is a government organization providing monetary assistance to citizens that fit specific criteria.

Financial Literacy

Financial literacy is the knowledge an individual possesses that allows them to comprehend or understand how to manage specific aspects of their financial life. Financial literacy includes financial skills too, concepts such as budgeting, saving, debt management and more. Financial Literacy is a very prominent topic in the rise of pension age, as a big percentage of today's pensioners seem to lack the necessary skills to adapt to the changes of pension regulations or to generally adapt to them by altering some of their financial decision.

BACKGROUND INFORMATION

The topic of pension age is one that has been highly debated upon in recent years. It is a controversial adjustment, but one that seems necessary in order to preserve a healthy economy and adapt to the circumstances of the reality of the 21st century.

Pension Systems

A pension system can be seen as a benefit provided to employees with the aim of providing the citizen with legitimate funds in the years of their retirement. The most common type of pension system is the 'public pension system'. This system relies on a few key factors, the first one being mandatory contributions. Having that said, both employees and employers are required to contribute a percentage of their salary to the public pension fund.

Both the parties of the employee and employer need to contribute for a plethora of reasons, the most important one being the current and future reduction of strain on state welfare programmes such as social security. The contributions are used to pay the pensions of the current retirees instead of being collected on an individual basis, partly to combat the issue of inflation. This issue is a prevalent one, as most of the earnings of the average retiree will have been significantly devalued by the time they are deemed eligible to receive pension. The system relies on the assumption that the contributions of the future generations will cover the future retirees.

In order to qualify for old age pension, a citizen must have specific requirements, which are thoroughly explained in various articles of the law. The following will be analyzed using Greece as an example.

The first is old age. One must have completed a minimum insurance period of 15 years as well as their 67th year of age in order to receive full pension. The circumstances differ for reduced pension, as the requirements are 62 years of age as well as a recent insurance connection.

The second is for citizens subject to the "Regulation on Heavy and Unhealthy Occupations". For the aforementioned citizen, the completion of the 62nd year of age as well as 4500 days of employment are required.

As for beneficiaries upon the death of a pensioner, those being the surviving spouse or member of a cohabitation agreement or in some cases the divorced spouse will be receiving 70% of the deceased for the first three years after the death if they are unemployed. In the case of employment, the percentage of the pension drops down to 50%, whilst the legal unmarried children of the deceased will be receiving a death pension until they complete their 24th year of age.

Overall, the pension fund is more often than not controlled and managed by the government, which also means they are eligible to adjust the pension amount, benefits and criteria if they deem necessary. Moreover, the distribution is defined by a formula that is usually calculated based on the individuals' earnings during their working years, as the goal is to replace the employee's pre-retirement income to the best of the system's ability.

The Negative Effects of Pension Age Rise

The pension age rise has had many side effects on the economy as a whole. One of those problems is unemployment and job market pressure. Older people working for longer also means they occupy a job for an extended amount of time, and thus preventing the newer generation from obtaining it. In other words, young job seekers are going to face significant difficulties in the job market due to the previous generations detaining the current job opportunities. Unemployment rates in the younger generations will rise, which will, in turn, put strain on other government services, like public employment and welfare, as they will be forced to serve a larger number of people.

One the other hand, employment age discrimination will likely be another prominent issue with the rise of the pension age. Employers will prefer hiring younger individuals, and with good reason, as it is likely that older people will find difficulties in adapting to the technological advancements and changes in job requirements, which will result in difficulties for older workers in finding suitable employment opportunities. Social security systems and government employment services will suffer from this as they will have to be responsible for an ever-rising number of unemployed citizens or citizens in need.

In addition, this change brings negative effects on the personal level as well. Older individuals are expected to face declining health as they keep working, with an increased risk of stress related illnesses, cardiovascular problems and many more issues. This phenomenon will be especially threatening to individuals in physically demanding fields of work such as construction.

Another factor to consider is retirement planning. Many people have a concrete plan of retirement and have calculated savings, funds and mortgages all to fit their retirement at the predetermined age. Evidently, changes to the pension age means changes to the aforementioned people's plans. This is a problem because the financial Literacy among the future retirees is many times outdated or simply nonexistent. It is not certain that they will be able adapt to the changes to the pension reforms effectively.

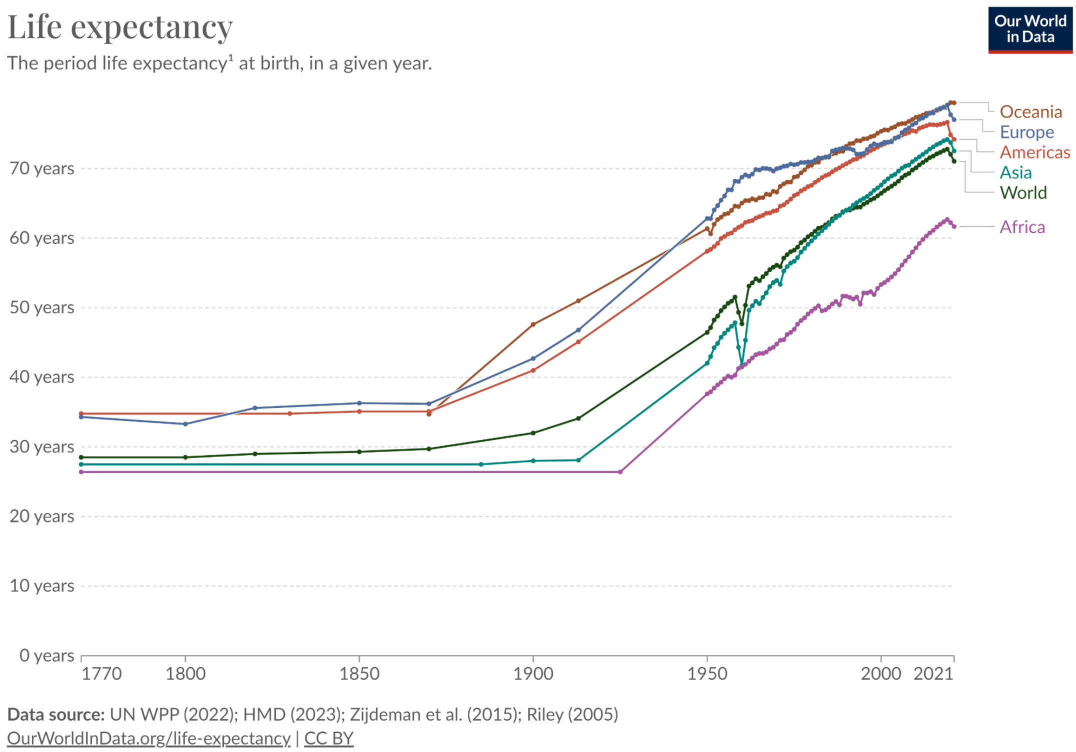
Harm is another possible impact on the physical as well as mental health of older people. Pension age rise requires older people to work beyond the expected age, which will decrease workplace morale, motivation and productivity. As a result, reduced job satisfaction is something one has to expect when considering pension age rise. The quality of life for the average person will also decrease, as extending the working years may limit the time one dedicates to family, personal pursuits and overall leisure.

As the average life expectancy increases and people live longer, the government is responsible for longer and longer pensions. This is another strain put on pension systems, as the extended support of older individuals comes with a hefty price tag.

Reasons for Increasing the Pension age and Civil Unrest

Some reasons for the rise of the pension age are economic considerations of governments. The costs associated with pension age programs are large, and so governments may raise the age in order to keep the costs in control. Especially with demographic shifts such as increasing life expectancy (as depicted in the following graph) and declining fertility rates.

[2]



Graph 1 illustrating the increasing life expectancy
Source: UN WPP (2022); HMD (2023); Zijdeman et al. (2015); Riley (2005)[2]

Cost cutting in pension programs is especially prominent in governments that are going through an economic recession or generally facing economic problems. Countries like France, which are not currently facing any economic problem or recession are very dissatisfied with the drastic decisions of their government, namely the increase of the pension age from 62 to 64 and have taken to the streets to protest as of January 2023. As professor of Economics at HEC Paris Business School Tomasz K. Michalski put it, 'At the end of the day, we will need to have an increase in the retirement age, but it doesn't have to be now'. [3]This is just one of the many examples of civil unrest caused by pension age rise.

[2] "Life Expectancy." Our World in Data, 2019, www.ourworldindata.org/grapher/life-expectancy.

[3] Ward-Glenton, Hannah. "Germany's Pension System Will Collapse without Reform, Influential Lobby Group Says." CNBC, www.cnbc.com/2022/10/31/germanys-pension-system-will-collapse-without-reform-influential-lobby-group-says.html.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

France

France has had a long history of pension reforms and unfortunately, the protests following them. In 2010, the French government raised the minimum legal retirement age from 60 to 62 and pension age from 65 to 67, respectively. Nationwide protests and strikes were taking place shortly after the change, and consequently, President François Hollande partially rewound the reform in 2013, bringing the minimum legal retirement age back to 60 for certain workers. With the already existing tension in mind, it is no surprise that the further pension reforms proposed by President Emmanuel Macron in 2019, which included retiring the already existing 42 pension scheme system and replacing it with a universal points-based pension system, were met with fierce social resistance. The protests were especially prevalent in the time period between late 2019 and early 2020. The French government withdrew the reform in early 2020, leaving a gap in the legislation and the need for further consultation.

Germany

Germany has had to face one of the most difficult pension situations in Europe with multiple reform attempts. The first of which came in 2001 in the form of the Riester Pension Reform, which supplemented the traditional pension by introducing private pension plans. The next change came just two years later in 2003, adjusting the pension system to address the recent demographic challenges, those being a rapidly ageing population as well as increasing life expectancy, a historically prominent problem in Germany's pension history. In 2004, the pension benefits were linked to demographic factors, an attempt to combat the aforementioned challenge. In 2007, the retirement age was raised from 65 to 67, proving how serious the demographic shifts were. In addition to that, the financial stability concern was ever growing. Additional challenges are presented in the future, where a pension reform is foreseen by experts, considering that the generation of ''baby boomers'' (people born during the temporary increase of birth rates right after WWII) will mostly be in retirement by 2030, meaning a new big wave of retirees for the system to support.

Chile

Chile is a very interesting country when it comes to pension history, as its pension system is very much different from any other country. The pension reform of 1981 under the military government of Augusto Pinochet was a privatized individual account system known as the "Administradoras de Fondos De Pensiones" (AFP), where the worker contributes to his own individual retirement account, which was heavily criticized. The biggest problem the critics pointed out is that the system did not guarantee sufficient pensions for all retirees, especially those with low income. The AFP's reliance on individual investments proved to be quite ineffective. Therefore, in the 2000s, the pension system was adjusted. The addition of the solidarity pillar was meant to supplement low pensions along with other measures to improve the general inequality. The solidarity pillars included additional support for low income retirees by government contribution, assistance programs, and improvement of pension equity.

International Labour Organization (ILO)

The International Labour Organization (ILO) is a United Nations agency whose goal is to set international labour standards and advance social and economic justice. The ILO has influenced a big portion of the legislation on pension age rise, as they are known for providing member states with policy guidance, especially on matters such as pension systems and social security policies. Furthermore, the ILO is often responsible for organizing and planning international conferences and forums where experts and policymakers discuss legislation. For example, pension systems and potential reforms are discussed at the World Social Forum, one of the worlds biggest platforms for experts to debate upon such topics.

World Bank (WB)

Since the mid 1980's, the World Bank has played a vital role in strengthening social insurance and contractual savings systems providing old age income support in in developing as well as developed countries. The financial assistance of the World Bank has massively helped member states in their attempts at pension reforms. Additionally, the WB cooperates with said member states and develop strategies to adapt to demographic shifts. One of the earliest examples of this was when the world bank assisted Ukraine in their pension reform in the early 2000s, just as they were exiting their major financial crisis of the 1990s.

Organization for Economic Cooperation and Development

The Organization for Economic Cooperation and Development (OECD) is an intergovernmental organization cooperating with nations in order to stimulate economic progress and world trade. As of 2024, it is an organization comprising of 38 member countries. There are many benefits a member state of the OECD enjoys, some of those being access to funding and resources, direct access to data and research, policy recommendations and advice and many more. The OECD's reports, analyses and policy recommendations have played a significant role in shaping the pension reforms of many countries, and they continue to help form legislation even to this day. One of the ways in which the OECD provides assistance, is that the OECD are the leading source of global pension statistics, which are also largely available to the public.

TIMELINE OF EVENTS

Date	Description of event
15th July 2005	The World Bank Pension Conceptual Reform, a structured framework on how pension systems can be improved based on 4 main pillars.
5th April, 2007	‘Rente mit 67’ reform in Germany, gradually increasing the pension age from 65 to 67
18th October, 2019	‘Estallido Social’ or social outbreak in Chile, protesting for numerous things, pension being one of them
26th October, 2019	Proposal of the point-based pension system in France by President Emmanuel Macron
5th December, 2019	A strike in France, protesting against the pension reform proposal of Emanuel Macron

RELEVANT UN RESOLUTIONS, TREATIES AND EVENTS

- UN-DESA Policy Brief: Tackling insecurity in old age: the challenge of universal pensions, September 2007 [4]
- Pension reform and the development of pension systems: an evaluation of World Bank assistance, 2006, IBRD(02)/P418 [5]
- GA resolution on the United Nations Pension System, A/RES/67/240, 14 February 2013, [6]

[4] https://digitallibrary.un.org/record/3858738?ln=en
[5] https://digitallibrary.un.org/record/583386?ln=en
[6] https://undocs.org/en/A/RES/67/240

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Emmanuel Macron's Point-Based Pension System

The pension system proposed by Emmanuel Macron in 2019 differs from the usual pension system, as it sought to create a universal system applicable to all regardless of field of work rather than the more well known 42 scheme system.

The central idea is that instead of using the existing system, meaning calculating pensions based on the average wages in the final years of the employee's career, the new system would calculate each day an individual worked and assign points based off of them. The aforementioned points would be used to calculate the pension amount of the individual.

This system was created with flexibility and pension inequality in mind and was designed to solve the aforementioned issues. Pension inequality was addressed by the universal system because a day of work in every profession and field of work was worth the same points. This would eliminate part of the pension gap problem, meaning pension differences between higher and lower paying jobs.

The problem of pension inflexibility in the sector of retirement timing was largely addressed with the change of the system. Workers could, in theory at least, choose to retire at any point in time they desired and start receiving pensions based on their acquired points.

Although the new system had a lot to offer in theory, the practicality of it was highly questionable. For example, the point-based system puts certain worker-groups at a significant disadvantage. Workers in physically demanding sectors and individuals with irregular career paths suffered the most from this system. In conclusion, the proposed system has a lot of potential, however, it is not a practical reform, at least in the state it was used in.

Linking Pensions to Life Expectancy

Over 10 countries including Italy, Slovakia, Greece and Denmark have adopted legislation that links pensions to life expectancy. This link essentially adjusts pension amounts and benefits based on demographic shifts in the average life expectancy. As the life expectancy of the average person grows, the government has to support retirees for longer and longer, which oftentimes does not fit the national budget for pension, and governments will have to lower each individual's pension benefits in order to account for the added years. In light of the constant demographic changes, this link is a reasonable adjustment.

A central aim of this legislation is to increase the flexibility of pension systems and avoid unnecessary reforms. With this measure, the pension system can evolve to handle the ever-changing needs of the population.

However, unintended side effects have been observed in the application of this measure. Factors one has to consider along with life expectancy is quality of life and physical as well as mental condition of the average citizen of old age. There are no guarantees that the years in which the average person is fit to work are going to increase along with their life expectancy.

Along with health inequality, social inequality might be a prevalent issue with the implementation of this expedient. Individuals from lower-income regions and backgrounds are historically known to have a lower life expectancy than others, potentially leading to pension distribution imbalance.

POSSIBLE SOLUTIONS

Gradual retirement programs

It is undeniable that the decline in human health is gradual. The idea of gradual retirement works on the concept of slowly working less and less in order to transition more smoothly to the individual's retirement as well as to maximize the work hours of each future retiree. In addition to that, gradual retirement programs could operate as programs ameliorating the intergenerational competition in the job-market caused by pension age rise. Intergenerational competition is a unique problem, however gradual retirement could solve or at the very least improve the situation. The aforementioned could extend to programs added to already existing pension legislation that allow the individual to reduce their working hours little by little in order to allow younger jobseekers to replace them in a more efficient manner. Gradual retirement programs could be applied on a national as well as an international level, excluding pension systems that largely differ from the traditional. All in all, the implementation of gradual retirement programs would especially help those in physically or mentally demanding work sectors.

Public re-employment service

It is no secret that some jobs are more demanding than others, either mentally or physically. As people grow older, they might be unfit to continue working in the sector they did when they were younger. This leads to alot of people changing professions late in their career, which can pose a major problem for some. A Public re-employment service could be a partial solution to the problem of inability to continue working in a specific sector due to declining health caused by aging. The goal of a public re-employment service would be to redirect older workers ineligible to continue to work in their sector due to old age, and would work similar to the already existing employment service.

Pension Eligibility adjustments

Not every worker has the same retirement needs, because they don't work in the same environment. Individuals in sectors that take a toll on health, whether that would be physical or otherwise, deserve different treatment than others. A solution to the aforementioned problem would be pension eligibility adjustments, meaning adjustments allowing older individuals in demanding sectors to retire early if not fit to work. This would also contribute to the preservation of good health among the aforementioned workers. In order to determine who is and is not fit to work, governments could test workers yearly and adjust their status as fit or not fit accordingly by moving them on a spectrum. According to their results, their time of retirement and/or pension benefits could be adjusted.

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