

Work longer, retire better

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The aging population and economic uncertainties have cast doubt over whether we will still be able to rely on a state pension when we retire.

As workers approach retirement age, few want to hear they may have to work for a few more years before they can claim their prize. But what if this guaranteed the viability of the pension system for the rest of their lives?

Social security systems in many developed countries are going broke. An aging population coupled with declining birth rates means there are fewer workers paying into the system. In Spain, the current pension system is predicted to start running a deficit in 2016 and go bust by 2028.

In "[Delaying Early Retirement in Spain](#)," published in the Review of Economic Dynamics, [Javier Díaz-Giménez](#), a visiting professor of economics at IESE, and Julián Díaz-Saavedra considered reforms to the Spanish public pension system, and found that delaying retirement by three years (from the age of 65 to 68) could keep the system from bankruptcy.

To study the consequences of social security reforms, the authors used a state-of-the art, overlapping generations model economy with heterogeneous households. The model takes into account immigration, education, early retirement, life expectancy, disability and other aspects reflecting the current real-life retirement decision.

Three years, a lifetime difference

Delaying the retirement age by three years would bring about several important changes.

According to their model, the first deficit in the system would appear 14 years later, in 2030 instead of 2016. More importantly, the reform increased the sustainability of the system, extending it by 23 years until 2050. In addition, the authors found that the reform was moderately expansionary, and social welfare would improve from the year 2015 onwards.

So how accurate is the model?

"The modelling and computational advances that have taken place in recent years allow us to include so many of the relevant margins and so many of the institutional details of real economies, that we are convinced that the results of the fully dynamic general equilibrium models should be given serious consideration in the political decision-making process," the authors state.

The authors conclude that policy makers should seriously consider delaying the statutory retirement age as soon as possible in Spain. While workers may not like the idea of toiling three years longer than expected, they may change their minds if it means they can retire under a better managed pension system.

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