The world braces for retirement crisis

December 30 2013, by David Mchugh

In this Sept. 9, 2013 photo, Dong Linhua, 59, speaks at his home in Shanghai. Dong, a former Shanghai factory worker and now a real estate investor, who owns three apartments and two small shop spaces says, "I heard that the authorities might postpone the age of the retirement, but I sure hope not, since I've already worked for almost 42 years." (AP Photo/Eugene Hoshiko)

A global retirement crisis is bearing down on workers of all ages. It will play out for decades, and its consequences will be far-reaching.

Many people will be forced to work well past the traditional retirement age of 65. Living standards will fall and poverty rates will rise for the elderly in wealthy countries that built safety nets for seniors after World War II. In developing countries, people's rising expectations will be frustrated if governments can't afford retirement systems to replace the tradition of children caring for aging parents.

The problems are emerging as the generation born after World War II moves into retirement.

"The first wave of under-prepared workers is going to try to go into retirement and will find they can't afford to do so," says Norman Dreger, a retirement specialist with the consulting firm Mercer in Frankfurt, Germany.

The crisis is a convergence of three factors:

— Countries are slashing retirement benefits and raising the age to start collecting them. These countries are awash in debt since the recession hit. And they face a demographics disaster as retirees live longer and falling birth rates mean there will be fewer workers to support them.

— Companies have eliminated traditional pension plans that guaranteed employees a monthly check in retirement.

— Individuals spent freely and failed to save before the recession and saw much of their wealth disappear once it hit.

Mikio Fukushima, who is 52 and lives in Tokyo, worries that he might need to move somewhere cheaper, maybe Malaysia, after age 70 to get by comfortably on income from his investments and a public pension of just $10,000 a year.

People like Fukushima stand in contrast to many who are already retired.

Many workers were recipients of generous corporate pensions and government benefits that had yet to be cut.

UNDER SIEGE

Germany established the world's first widely available state pension system in 1889. The United States introduced Social Security in 1935. In the prosperous years after World War II, governments expanded pensions. Companies began to offer pensions that paid employees a guaranteed amount each month in retirement—so-called defined-benefit pensions.

The average age at which men could retire with full government pension benefits fell from 64.3 years in 1949 to 62.4 years in 1999 in the relatively wealthy countries that belong to the Organization for Economic Cooperation and Development.

As the 2000s dawned, governments—and companies—looked at actuarial tables and birth rates and realized they couldn't afford the pensions they'd promised.

The average man in 30 countries the OECD surveyed will live 19 years after retirement. That's up from 13 years in 1958.

In this Sept. 9, 2013 photo, Dong Linhua, 59, picks towel gourds in his backyard in Shanghai. A global retirement crisis is bearing down on workers of all ages. Spawned years before the Great Recession and the 2008 financial meltdown, the crisis has been significantly worsened by both. "I heard that the authorities might postpone the age of the retirement, but I sure hope not, since I've already worked for almost 42 years," says Dong. (AP Photo/Eugene Hoshiko)

The OECD says the average retirement age would have to reach 66 or 67, from 63 now, to "maintain control of the cost of pensions" from longer lifespans.

Compounding the problem is that birth rates are falling just as the bulge of people born in developed countries after World War II retires.

Populations are aging rapidly as a result. The higher the percentage of older people, the harder it is for a country to finance its pension system because relatively fewer younger workers are paying taxes.

In response, governments are raising retirement ages and slashing benefits. In 30 high- and middle-income OECD countries, the average age at which men can collect full retirement benefits will rise to 64.6 in 2050, from 62.9 in 2010; for women, it will rise from 61.8 to 64.4.

In the wealthy countries it studied, the OECD found that the pension reforms of the 2000s will cut retirement benefits by an average 20 percent.

The fate of government pensions is important because they are the cornerstone of retirement income. Across the 34-country OECD, governments provide 59 percent of retiree income, on average.

FINANCIAL CRISIS MAKES THINGS WORSE

The outlook worsened once the global banking system went into a panic in 2008 and tipped the world into the worst recession since the 1930s.

Government budget deficits swelled in Europe and the United States. Tax revenue shrank, and governments pumped money into rescuing their banks and financing unemployment benefits. All that escalated pressure on governments to reduce spending on pensions.

The Great Recession threw tens of millions out of work worldwide. For others, pay stagnated, making it harder to save. Because government retirement benefits are based on lifetime earnings, they'll now be lower.

The National Institute on Retirement Security estimates that Americans are at least $6.8 trillion short of what they need to have saved for a comfortable retirement. For those 55 to 64, the shortfall comes to $113,000 per household.

THE ASIA CHALLENGE

In Asia, workers are facing a different retirement worry, a byproduct of their astonishing economic growth.

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Traditionally, Chinese and Koreans could expect their grown children to care for them as they aged. But newly prosperous young people increasingly want to live on their own.

China pays generous pensions to civil servants and urban workers. They can retire early with full benefits—at 60 for men and 50 or 55 for women.

But the elderly are rapidly becoming a bigger share of China's population because of a policy begun in 1979 and only recently relaxed that limited couples to one child.

THE END OF TRADITIONAL PENSIONS

Corporations are cutting pension costs by eliminating traditional defined-benefit plans. They've moved instead to so-called defined-contribution plans that shift responsibility for saving to employees.

But people don't always enroll. They don't contribute enough. They dip into the accounts when they need money.

Several countries are trying to coax workers to save more.

Australia passed a law in 1993 that makes retirement savings mandatory. Employers must contribute the equivalent of 9.25 percent of workers' wages to such retirement accounts.

In 2006, the United States encouraged companies to require employees to opt out instead of choosing to opt in. That means workers start saving for retirement automatically if they make no decision.