THE CONCEPT OF RETIREMENT AGE: A COMMENTARY by Monica Were, Research & Development Department, RBA

Since the coming into being of the Retirement benefits Authority, an outfit designed and tasked to reform, streamline, develop and safeguard the retirement benefits sector, Kenyans have had a plethora of opportunities to get informed, sensitized and educated on concepts of retirement benefits savings such that when any policy or matter touching on retirement benefits is introduced, Kenyans have courageously come forth to express strong views.

Of the recently introduced policy to generate strong debate is the northward revision of the **Retirement Age** for the members of the Civil Service Pension Scheme. With effect from April 1 2009, the civil service normal retirement age increased to age 60 years from 55 years that was since the inception of the scheme. This implies that employees of the civil service legitimately have additional 5 years of work if they choose not opt for early retirement as early as 50 years but before age 60 years. Retirement age above 55 years is not a new phenomenon. A few occupational schemes such Universities, Government Research Organisations revised their retirement ages to the high of 70 years recently.

Revising of "retirement age" especially with regard to the pay as you go (PAYG) structured schemes is very common in the developed countries. Majority of the western countries with sound and established retirement benefits sector have revised the retirement age upwards albeit gradually in line with the population growth path. United States of America was among the first countries to increase the formal retirement age from age 65 years to 67 years in the early 1980's across a period of five years.

Globally, reviewing of age retirement has often been a source of good fodder for debate. In Kenya the debate is about increasing the retirement age to 60, in the western countries the contention is about retiring employees in their advanced years despite increased baseline retirement ages. Retiring workers at the normal retirement age is perceived as removing workers from employment by force and perceived as discriminatory and cruel. These two scenarios portend that the debate on retirement age is not close to being resolved. Consequently, more and more old and aging population will continue to constitute a relevant and significant component of the workforce in the coming future.

The debate on the topic of increasing the retirement age in Kenya bears different meaning across different age strata and working groups. The mature cohort in the formal sector close to retirement have lauded the move claiming ages between 50 to 60 years constitute their peak performance ages when they are best fit for work since most of their family responsibilities that diverted and conflicted with their full attention to office demands get naturally reduced. "Life begins at 50" some pre-retirees have expressed. Increasing the retirement age therefore stands as beneficial to them.

On the other hand, the younger cohorts perceive those at the age of 55 years as old and unfit to perform to expectations. Increasing the retirement age for the employees of the civil service is therefore tantamount to denying them the scarce employment opportunities and a subjection to slow and pitiable service delivery from the government institutions.

Retirement Age to the self employed does not carry so much weight. Retirement is an inventible outcome of natural process of ageing that is

unstructured. To them they will continue working until restraint by incapacitation emanating from advanced age.

There are two reasons that the government has given to justify the revised age of 60 years.

1) **Brain Drain**: it is deemed that most civil servants attain their peak performance in their 50's after years of training and exposure and were valuable resource to the government. Retiring civil servants at that 55 at the state when they competitive earned them oversees posts thus denying Kenya the much need services from the people it helped train.

2) **The Spirit of the East African Integration**: The retirement age of government employees within the East African region is the lowest at 55. In the spirit of East African integration, Kenya needed to harmonise its retirement age with that of its counterparts at some point in time. The niversal retirement age recognised International Labour Organisation (ILO) is age 60 years

With all these variant views on retirement age, does retirement age really matter? Who determines retirement age and what guides the setting of retirement age? What led the government to review the retirement age for their scheme?

Setting retirement age ceases to make retirement a natural factor instead it makes it a policy issue. Setting of Retirement Age is the prerogative of sponsors of the retirement benefits schemes who who establish retirement benefits schemes. However, governments may set up a universal applicable mandatory retirement age. In such instances the private sector

players are subjected to set similar and choice of selecting an age below the government stated age of retirement. In such instances, setting a lower retirement age would be considered as discriminatory and raise employment issues. Governments may also set a retirement age that may not necessarily be mandatory. In such cases, the set age usually act as a benchmark for the private sector players. Following the increase in civil service pension scheme, some schemes have also increased the retirement age to equal that of the civil service pension scheme.

The concept and notation of old age, retirement and pension was first introduced in Germany by Chancellor Bismarck at the beginning of the twentieth century. Chancellor Bismarck set the retirement age 65 years at time when Germany's life expectancy at birth was 45 years. Even though the prospect of many Germans of attaining the stipulated retirement age was low at that time, the concept of retirement age was not easily embraced. Many of the workers did not envision being retired from work.

The success of the formalization and eventual acceptance of retirement age are attributed to three factors. Firstly, wide spread believe that workers efficiency was perceived to decline with age; secondly, the industrialisation age changed the production process to automated mass production and scientific management replaced the manual skills the older cohorts had acquire. The younger and youthful were then more preferred by employers. Thirdly, the great depression of the 1930's resulted in rising youth unemployment. The old were then retired and paid benefits to replace their pre- retirement income in order to open up opportunities for employment for the youth. However, it was only when the benefits became generous and corresponded to the pre-retirement incomes did retirement

and old age become accepted as a period of rest in good health, enjoyment and creative experience as a reward for lifetime of labor.

Several factors are considered when determining the age of retirement. Demographic factors looks at life expectancy of retirees, population growth rates and how the society is aging. If the number of years retirees are expected to live in retirement is short, then there is a tendency to have a low retirement age. If retirees are expected to live longer then the retirement age too is to have a high retirement age. In the case of an aging society where the old aged cohort is growing at a faster rate than the population growth rate the tendency generally adjust the retirement age upward to reflect the trend. In the western countries the demographic shocks of aging population, retiring of the baby boomers and the decrease in fertility rates and therefore reduced births have been some of the reasons behind the common upward revisions of retirement ages.

Germany which was the first country in the world to set up formal retirement benefits scheme arrangement in the 1920's, set a retirement age at 65 years even though the life expectancy at birth was 45 years at that time. Currently however, based on the report, entitled 'Pensions at a Glance', increasing life expectancy raises the cost of pensions, prompting many OECD governments to raise the statutory age of retirement or in some cases abolish a fixed retirement age altogether.

The actual cost to governments of pensions depends on the amount of pensions paid and also how long they are paid for which depends on a person's age at retirement and life expectancy at that age. Looking ahead to 2040, and basing its calculations on 2040 mortality rates, the OECD predicts average life expectancy for men aged 65 in OECD countries of 83.1 years

and for women of 86.6 years. Meaning that pension has to be paid for a longer time.

Economic factors also play a sizeable role. In the recent times, many countries have increased their retirement ages as one the parametric measures of managing the scarce available funds to pay for the pension promises. Increasing the retirement age delays the number of people retiring at an expected time and subsequently delaying the funds for paying the people retiring. For example on average OECD countries given baseline retirement age of 65 for both men and women, each additional year of work after 65 without drawing a pension reduces the cost of a government's pension obligations by more than 3%.

The Background of the Civil Service Pension Scheme

The civil service pension scheme as the name reads is a **pension scheme** that promises to provide periodic monthly pension payment to its members upon meeting some qualifying conditions one of them being normal retirement age for the length of the time the member shall live after retirement until death. It does offer a death in service payment in cases of the untimely death of members. The civil service is designed as a defined benefits (DB) scheme which predefines the amount of benefits a member will earn at any one time upon retirement retire using a set and known formula.

The Civil Service Pension provides pension coverage to 400,000 Kenyans comprising of teachers in the public education sector, all employees of the various ministries and members of the discipline forces. Of these majority 53 percent are teachers, 30 are employees of the ministries and minority 17

percent disciplined forces. Pensioners constitute 21% or approximately 100, 000 of the total membership.

Unlike occupational schemes, the Civil Service Pension scheme is not **prefunded.** It is a post funded **pay-as-you-scheme** using the tax revenue collections. Going by statistics, 12,000 employees of the civil service retiree every year and who must be paid benefits. To fulfill its promise of satisfactorily pay pension, the government cumulatively government sets aside more than Kshs 26 billion of total revenue to both new retiring employees and the pensioners. This amount has been increasing every year from a low of Kshs 6.1 billion in 2001 to the current amount. Taking everything constant without the upward adjustment of the retirement age, the rate of growth of pension payment is projected to increase to some insurmountable amounts not affordable to the government. This means that many civil service retirees may have little hope of securing a reasonable retirement standard of living as promised by their employer. Even at present, the Civil Service Scheme is tainted with not dutifully meeting its obligations in time. According to an actuarial valuation of the civil service pension scheme in 2002, the implicit pension debt stood at Kshs. 176.5 billion.

Whereas the retirement age has been increased to sixty years, it is not compulsory for all to retire at that age. Members of the scheme can retire as early as age 50 years of age. Subordinate officers in police, prison and forest guards can even retire earlier upon completion of 12 to 20 years of service.

The notable benefit of increasing the retirement age to sixty years is that the government will definitely have some room to delay paying "new" pension promises which then provides room for the government to work

out a more robust plan for civil servant pension scheme. It is important for the government to secure a more reliable source of funds to meet growing pension obligations. In the Kenyan context this can be affirmed by conducting a cost benefit analysis.