Welfare Regimes and Retirement Ages: Reform Options and Policy Choices in Canada, Germany and South Korea, 1995-2005

— First Draft —

Comments are welcome!

Martin Hering
Department of Political Science &
Department of Health, Aging and Society
McMaster University
Hamilton, ON, Canada
heringm@mcmaster.ca

Thomas Klassen
Department of Political Science
York University
Toronto, ON, Canada
tklassen@yorku.ca

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Abstract[*]

This paper analyzes policies to raise the age of retirement in the period from 1995 to 2005 in three industrialized countries: Canada, Germany and South Korea. Over the next five decades, the populations of advanced industrialized countries are expected to age. As a result, governments are confronted with important policy challenges: how to provide income security, and how to cover large increases in pension spending. Retirement age increases are one of the key policy responses to these challenges, since raising the average pension age by only 2 or 3 years would enable governments to finance most of the costs of population aging. In this paper, we will analyze cross-national differences in governmental policies designed to raise the age of retirement, such as increases in statutory retirement ages, reductions of the generosity of benefits or closure of the pathways to early retirement. In order to explain differences among Canada, Germany and South Korea, we focus on the roles of the state, market and the family in pension provision and on the role of pension policy legacies. The three countries differ significantly along these dimensions: in Canada, the market plays a key role, in Germany, the state, and in South Korea, the family. In addition, they differ with regards to eligibility conditions, benefit levels and the existence of pathways to early retirement. We argue that these differences significantly conditioned the policy choices that governments made.

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Introduction

The issue of raising the age of retirement in now a subject of considerable debate in academic circles, among policy-makers and in the broader public in OECD countries. But restrictions of early retirement and increases in the retirement age remain highly unpopular among citizens, trade unions and employer organizations. Thus, governments face major obstacles in reforming existing policies. This paper analyzes the reform options and policy choices with regards to raising the age of retirement in the period from 1995 to 2005 in three industrialized countries: Canada, Germany and South Korea. Over the next five decades, the populations of advanced industrialized countries are expected to age significantly. In Canada, Germany and Korea, the ratio of retirees to workers is projected to rise from less than 1:4 to almost 1:2. As a result, governments are confronted with important policy challenges: How can they ensure that citizens receive an adequate income in retirement? And how can they either cover or contain large increases in pension spending? Canada, Germany and Korea are expected to experience an especially large growth of public pension expenditures, ranging from 5 to 8 percent of GDP (Casey et al. 2003).

One of the key policy responses to these challenges is an increase of the age of retirement. If governments succeeded in raising the average pension age by only 2 or 3 years, they would be able to finance most of the costs of population aging (OECD 2001; von Nordheim 2004). In addition, a higher retirement age would allow citizens to achieve higher pension benefits, and thus contribute to the maintenance of their standard of living. Raising the retirement age has been on the reform agenda in most industrialized countries during the past 10 years not only because it is an effective policy solution to the

problems of pension adequacy and fiscal sustainability, but also because it could reverse the early retirement policies that many governments enacted or encouraged in the 1970s and 1980s.

The paper seeks to contribute to the ongoing debate in the pension policy literature about the development of different types of pension systems. So far, this debate has focused mostly on the question of whether advanced industrialized countries increasingly privatize the provision of pensions, and thus gradually converge towards the multi-pillar model (Holzmann and Hinz 2005; Holzmann, Orenstein, and Rutkowski 2003; Stiglitz and Holzmann 2001). Even though international organizations and national governments increasingly seek to raise the age of retirement (OECD 2001; OECD 2004; OECD 2005), there is still little comparative research on the similarities and differences in governments' retirement age policies. Do governments increase the standard retirement age, move to lifetime contribution principles, restrict mandatory retirement or make partial retirement more feasible? If cross-national differences exist, which factors explain them?

Focusing specifically on policies to raise retirement ages, this paper has two limited goals. First, it explores cross-national similarities and differences in governmental policies designed to raise the age of retirement, such as changes of the statutory retirement age, the generosity of benefits and the pathways to early retirement. Second, it seeks to develop and refine hypotheses about the role of pension policy legacies in the reform of welfare states (Hinrichs 2000; Myles and Pierson 2001; Myles and Quadagno 1997; Schludi 2005; Weaver 2004). In order to analyze the potential effects of these institutional arrangements, this paper will study not only changes in public social

programs, but also on those in private welfare schemes, especially in occupational pension schemes.

Paradigm Shifts, Policy Legacies and Reform Options

In the mid-1990s, a paradigm shift began among governments from encouraging or tolerating early retirement to raising the retirement age (OECD 1998; OECD 2000). There were three major policy challenges that led governments to rethink their approach to early retirement: the fiscal sustainability of public pensions, the increase in non-wage labor costs, and the negative effects of early retirement policies (Ebbinghaus 2006). First, in the face of increasing life expectancies, decreasing birth rates and the associated long-term growth of pension spending, governments looked at effective measures to lower expenditures and raise more revenues. Second, they pursued reductions in spending not only to balance pension finances, but also to encourage employment growth through lowering the cost of labor, which in many countries is determined to a significant extent by social contributions for pensions, health care and unemployment insurance programs. Finally, governments learned that extensive early retirement policies did not have their intended effect of improving employment opportunities for younger workers.

Like in most countries, the issue of raising retirement ages has been on the agenda of governments in Canada, Germany and South Korea in the past decade. In these three countries, average retirement ages stood at historically low levels in the mid-1990s: at about 62 years in Canada, 60 years in Germany and 65 years in Korea (Béland and Myles 2005; Ebbinghaus 2000; Kwon 2002; Trampusch 2005; Yang 2004) . In recent years, the Canadian government considered measures to try to increase the mean retirement age by 3 years (Policy Research Initiative 2004), the German one committed itself to increasing

the average pension age by 5 years (von Nordheim 2004), and the Korean one sought to prevent a fall of the effective retirement age to below 65 years (OECD 2004).

Even though governments held broadly similar policy objectives about changing the retirement age since the mid-1990s, they faced different institutional opportunities and constraints in achieving their goals, primarily due to cross-national variations in policy legacies (Esping-Andersen 1990; Gough 2001). Canada, Germany and Korea significantly differed in terms of the design of their pension programs and early retirement provisions. Each country represented one of three ideal-typical combinations of state, market and family provision that existed among the advanced industrialized countries in the mid-1990s. First, Canada had a multi-pillar pension system in which most employees depended on a combination of income from public and private pension schemes for maintaining their standard of living in retirement (OECD 2001). Since public pensions played a comparatively small role for middle-income and high-income workers, they also played a limited role in the regulation of retirement ages. By contrast, occupational pension schemes provide strong incentives to retire before the age of 65 in pension systems like Canada's, mostly because most of them contained favorable options for early retirement. Second, Germany had a single-pillar pension system in which public pensions were the dominant source of income after retirement not only for lower-income employees, but also for middle-income ones (OECD 2001). Unlike in Canada, the age of eligibility for public pension benefits thus was a key determinant of employees' options to retire. Another difference between these two countries existed with regards to occupational pensions: since their importance was relatively low in Germany, they did not constitute a significant pathway to early retirement as in Canada. Third, Korea had an

immature and underdeveloped system of pension provision by the state and the market (World Bank 2000). An earnings-related, yet also redistributive public pension system was introduced only in the late 1980s and covered only about half of the working population. A private occupational pension system did not exist, with the exception of company plans in the public sector and a few private ones such as education. Unlike in Canada and Germany, pensioners in South Korea had little income from public or private sources, forcing them to work until a comparatively high average age of 65 years for industrial workers. The main source of support for retirees was neither the state nor the market, but a third important source that is frequently neglected: the family. In terms of their institutional arrangements, Canada, Germany and South Korea thus represented three different combinations of market, state and family provision of retirement benefits (see Table 1). The market ranked highest in Canada, second in Germany and a distant third in South Korea. The state played the largest role in Germany, but only a secondary role in Canada, and a small one in Korea. Finally, the family was an important provider of old age security in South Korea, but an unimportant one in both Canada and Germany.

Table 1. ***Importance of Retirement Income Sources***

	Canada	*Germany*	*South Korea*
State	Medium	High	Medium
Market	High	Low	Low
Family	Low	Low	High

Since the three cases varied significantly in terms of the role of public, occupational and family benefits, they also differed in terms of their institutional options

for effectively reversing or preventing early retirement. Governments in OECD countries held broadly similar policy paradigms, but based on the above analysis of policy legacies, we would expect those in Canada, Germany and South Korea to try to regulate the age of retirement in different ways. In order to raise pension ages, Canadian governments had to change the conditions for eligibility and benefits as well as the special early retirement rules that were found in private occupational pension plans. Changing the rules of public plans would not have been effective enough. German goverments had to reform similar rules and conditions, only in public pension programs. Targeting occupational pension schemes would have been a less useful reform strategy. Because of the comparatively low importance of either state or company benefits in South Korea, governments in that country had fewer tools for regulating retirement ages than Canada and Germany. In order to prevent a fall in the retirement age in an expanding and maturing public pension system and slowly emerging company-based one, South Korean governments had to define rules and conditions that did not provide early retirement incentives for generations of retirees who would retire in the coming two or three decades, thus avoiding Canada and Germany's history of widespread early exit from the labor market. Since South Korea's public pension system was much more significant than its private occupational one, governments had to focus their preventative efforts on the former.

Through an analysis of the relative importance of state, market and family provision, one is able to develop hypotheses regarding the broad areas that governments are likely to target for reforms, but one cannot form expectations about the specific policy changes that they are likely to adopt. A closer examination of Canada, Germany and South Korea's pension policy legacies sheds some light on this question. In Canada, there

was a statutory retirement age of 65 years which was the norm in most OECD countries throughout the past three decades (see Table 2). Even though Canada's flat-rate, tax-financed basic pension (OAS) could not be accessed before that age, its earnings-related, contribution-financed program (CPP/QPP) offered the option of access to much lower and actuarially neutral benefits at the age of 60 years. For each year of retirement before the normal age of 65 years, CPP/QPP benefits were reduced for the rest of a pensioner's life by 6 percent. The level of benefits of Canada's public pension programs were quite low by international standards. The maximum CPP benefit amounts to about 25 percent of average wages. In combination with the OAS, an employee with an average income could expect a replacement rate of about 40 percent (OECD 2005). Since OAS benefits could not be received before the age of 65 years and CPP/QPP benefits were significantly reduced if an employee retired before that age, there were few incentives for early retirement in the public system. In addition, unlike most European countries, Canada did not have significant pathways to early retirement: there was no special early retirement benefit, and alternative pathways such as disability and unemployment programs had strict eligibility conditions and low levels of benefits (OECD 2005). In the private pension system, Canada had generous tax subsidies both for occupational and personal pensions, but few regulatory restrictions with regards to retirement age and early retirement benefits. A few Canadian provinces had restricted the practice of mandatory retirement at age 65 (Gillin, MacGregor, and Klassen 2005). However, mandatory retirement rules had not encouraged early retirement, but only prevented continued employment after the age of 65.

Table 2. ***Pension Policy Legacies in Canada (Mid-1990s)***

	Eligibility	*Benefits*	*Pathways*
Public	Statutory retirement age of 65 years Earliest retirement age of 60 years, with actuarial adjustments of 6 percent per year	Relatively low replacement rates of 40 percent of average income	No significant public pathway to early retirement
Private	Mandatory retirement age of 65 years in parts of the private sector and most of the public sector, but restricted in a few provinces	Generous tax subsidies for occupational and personal pensions	Early retirement pathways provided by many occupational pension plans

Similar to Canada, Germany had a statutory retirement age of 65 years (see Table 3). But the latter had much more favorable conditions than the former for early eligibility for pension benefits: the actuarial adjustments were only 3.6 percent per year which many experts do not consider a sufficient reduction for actuarial neutrality. Germany's public pension benefits were nearly twice as high as those in Canada. The earnings-related, contribution-financed public pension program (GRV) replaced about 70 percent of the income of an employee who earned average wages throughout his or her career. Unlike Canadian retirees, German ones could receive all of their publicly provided pension benefits before the age of 65 years. That and the small benefit reductions for earlier retirement created strong incentives for employees to withdraw from the labor market. In contrast to Canada, Germany had several pathways to early retirement (Ebbinghaus 2006; OECD 2005): women could receive full benefits from the age of 60, and persons who paid contributions for 35 years were allowed to retire from the age of 63 without benefit reductions. In addition to these regular pathways, German employees had two important

alternate pathways to retirement. First, older workers who became unemployed at age 58 were eligible to unemployment benefits and then for an early retirement pension at age 60. Second, persons who had a reduced ability to work could access disability pensions from age 60. In part because of Germany's high public pension benefits and widely available public early retirement options, private occupational pension plans had few incentives for early withdrawal from the labor market: occupational benefits were only a small supplement to public pensions, not an essential source of retirement income as in Canada. In addition, generous early retirement provisions in company plans, which were the rule in Canada, were rare in Germany until the mid-1990s (Trampusch 2005).

Table 3. ***Pension Policy Legacies in Germany (Mid-1990s)***

	Eligibility	*Generosity*	*Pathways*
Public	Statutory retirement age of 65 years Earliest retirement age of 60 years, with actuarial adjustments of 3.6 percent per year	Relatively high replacement rates of 70 percent of average lifetime income	Older unemployed persons or older part-time workers from age of 63 years Women from age of 60 years Long-term insured persons from age of 63 years Disabled persons from age of 60 years
Private	No significant mandatory retirement provisions	Very low benefits levels of occupational pensions	No significant private pathways to early retirement

The design of South Korea's public pension system had a few characteristics that were similar to Canada and Germany's, but also had distinctive features. Most

importantly, the statutory retirement age was very low by international standards: 60 years (see Table 4). Like the Canadian and German system, the Korean one allowed retirement 5 years before the official age. Like Canadian early pensions, South Korean ones were subject to large adjustments (reductions of 5 percent per year) which were approximately actuarially neutral. The earnings-related, contribution-financed public pension program (NPS) offered a relatively high benefit level. Employees who earned average wages could expect a benefit level of 60 percent, which was much higher than in Canada and not much lower than in Germany. But since the Korean pension program was gradually introduced between 1988 and 2008, retirees did not receive full benefits in the mid-1990s. In addition, NPS coverage remained at the low level of 50 percent of the working population. Since the Korean system was not mature in the mid-1990s, it provided few incentives for retirement at the statutory retirement age of 60 years: most employees continued to work until age 65 or higher (OECD 2004; World Bank 2000). The system provided even fewer incentives for early retirement due to the significant reductions of early pension benefits. Like the Canadian system, the South Korean one opened no pathways to early retirement: unemployment benefits were very low, and eligibility for disability benefits was highly restricted, which was reflected in an extremely low disability benefit recipiency rate of .1 percent of the population (OECD 2004). Since a private pension system was almost non-existent in South Korea's private sector in the mid-1990s, it had only a minor impact on the average retirement age. The only program that played a small role in providing retirement income was one for mandatory severance payments that employers made as a lump-sum when an employee retired, not when he or she left the company. Like Canada, South Korea did not impose

restrictions on company policies on retirement ages. Mandatory retirement, usually at age 55, was a common practice in most sectors of the economy. But since few employees benefited from the new public pension schemes and few occupational pension plans existed in the private sector, mandatory retirement at age 55 did not lead to widespread early retirement, but to job changes and new employment at lower wages.

Table 4. ***Pension Policy Legacies in South Korea (Mid-1990s)***

	Eligibility	*Benefits*	*Pathways*
Public	Statutory retirement age of 60 years Earliest retirement age of 55 years, with actuarial adjustments of 5 percent per year	Relatively high replacement rates of 60 percent of lifetime income, but low coverage	No significant public pathways to early retirement
Private	Mandatory retirement age of 55 in most companies, but re-employment at lower wages common	Mandatory, lump-sum severance payments	No significant private pathways to early retirement

Considering the different pension policy legacies of Canada, Germany and South Korea, which reform measures were governments likely to adopt in order to raise the age of retirement? First, as we argued above, we hypothesize that Canadian governments focus mostly on private sector pension plans. From the analysis of Canada's policy legacies, we further expect that they either impose age restrictions for access to occupational pensions or reduce the tax subsidies for pension plans that give employees the option of early exit. If Canadian governments tried to use the less effective approach of reforming public pension programs, we would expect them to either raise or abolish

the earliest retirement age of 60 in the CPP/QPP program, thus bringing it into line with that in the OAS program. Second, we suggest that German governments target public pension programs for reforms of retirement ages. Due to Germany's policy legacies, we expect them to increase the statutory retirement age beyond 65 years, increase or abolish the earliest retirement age of 60 in the GRV, or at least introduce higher actuarial adjustments of early pension benefits. Most importantly, we expect Germany governments to restrict or close most existing special and alternative pathways to early retirement. Since occupational pensions were only of minor importance in Germany, we expect no reforms designed to increase retirement ages. Finally, we hypothesize that South Korean governments introduce preventative reform measures especially in the maturing NPS and perhaps also in occupational pension plans. More specifically, we expect them to raise the statutory retirement age from 60 to 65 and either raise or abolish the early retirement age of 55. If South Korean governments decided to change the incentives in occupational pension arrangements despite of their relatively low importance, we would expect them to raise or abolish the mandatory retirement age of 55.

Table 5. ***Expected Reform Choices (Mid-1990s)***

	Eligibility	*Benefits*	*Pathways*
Canada	Increase or abolish age for early access to public pension benefits	Reduce tax subsidies for occupational pension plans with early retirement provisions	Impose age restrictions on access to occupational pensions
Germany	Raise statutory retirement age for public pensions Increase or abolish age for early access to public pension benefits Increase actuarial adjusments for early receipt of public pensions	—	Restrict or close most public early retirement pathways (unemployment, disability etc.)
South Korea	Raise statutory retirement age for public pensions Increase or abolish age for early access to public pension benefits Increase age for or abolish practice of mandatory retirement	—	—

Reform Choices in Canada, Germany and South Korea, 1995-2004

Which reforms to raise the age of retirement did Canada, Germany and South Korea adopt in the 1995 to 2004 period? Most importantly, did these reforms support or contradict the hypotheses that we derived from the analysis of pension policy legacies?

First, the case of Canada does not conform to our expectations. Even though the Canadian government enacted a major pension reform in the mid-1990s, that reform did not focus on occupational pensions as we expected, but on public ones. Moreover, few of the implemented changes had an effect on the access to public pension benefits. The most important change of eligibility rules was the restriction of access to CPP disability benefits legislated in 1998. It reduced the number of new beneficiaries by about 50 percent: from about 1 percent of the population to about .5 percent. As a result, the percentage of disability benefit recipients among older workers declined within a few years from about 8 percent of the population to about 6 percent (OECD 2005, 77-78). From a policy legacies perspective, the Canadian government's disability reform is surprising since disability pensions were not a significant pathway to early retirement. In fact, Canada has one of the lowest disability benefit recipiency rates among the OECD countries, and only half of all recipients retire from work. Contrary to our expectations, Canadian governments did not use a more promising measure to raise retirement ages: restrictions of access to early CPP benefits. Even more unexpected is the absence of reforms of occupational pension regulations, including a differentiation of tax subsidies.

Second, the German case supports a few of our hypotheses, but contradicts others. During the past 10 years, governments enacted legislation that gradually phased out several of the existing early retirement pathways (Trampusch 2005). Early retirement for women at age 60 will be phased out by 2016. Early retirement for older workers who are unemployed will be indirectly phased out by 2016 through a gradual increase in the eligibility age from age 60 to 63. The incentives for early retirement for disabled persons were restricted in 2003. The age for receipt of full disability benefits was increased from

60 to 63, and reductions were introduced for receiving disability payments from age 60. But the decrease of the early retirement age for long-term insured (35 years of contributions) by one year was unexpected. Also surprising was the absence of efforts to increase the statutory retirement age from 65 to 66 or higher, the earliest retirement age for regular public pensions and the actuarial reductions for early receipt. An unexpected development in the private pension arena was the creation, albeit temporarily, of a new, private pathway to early retirement ("old-age part-time work") which is in part subsidized by the state.

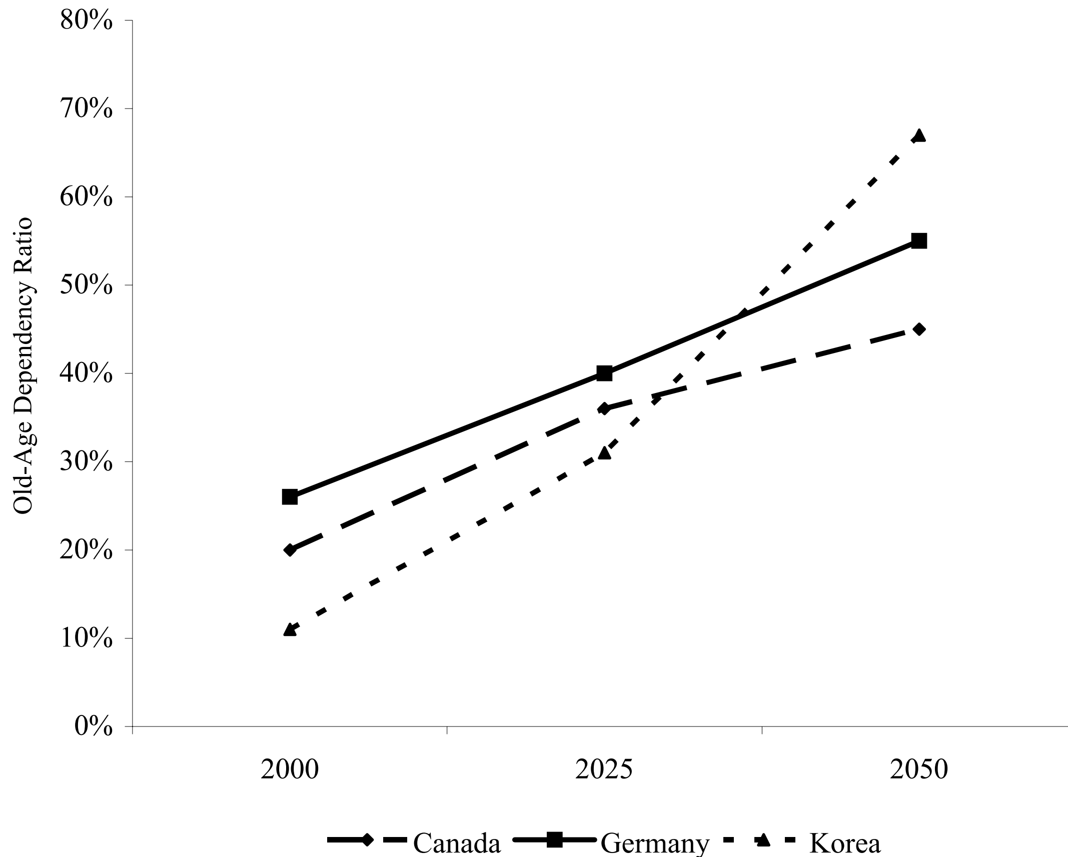
Third, the South Korean case largely supports our expectations, with a few qualifications. In the 1994-2005 period, the government adopted legislation that raises the statutory retirement age for public pensions from age 60 to 65 (OECD 2004). That change will be phased-in gradually between 2013 and 2033. In addition, South Korean governments tried to encourage companies to voluntarily increase the mandatory retirement age from age 55 to 60. Contrary to our expectations, Korea did not abolish the option of early access to public pensions before the statutory age. With regards to private pensions, a surprising development in Korea was the creation of an occupational pension system that allows employees to access benefits at the low age of 55 years.

Table 6. ***Actual Reform Choices, 1995-2004***

	Eligibility	*Benefits*	*Pathways*
Canada	—	—	Restriction of eligibility for CPP disability benefit
Germany	—	Reduction of replacement rates from more than 70 percent to less than 60 percent	Phasing-out of early retirement for women and older unemployed persons Introduction of actuarial adjustments for early retirement pensions for disabled persons
South Korea	Increase of statutory retirement age from 60 to 65 (phased in between 2013 and 2033)	Reduction of replacement rates from 70 percent to 60 percent	—

In the 1995 to 2004 period, a policy legacies perspective thus succeeds in accounting for key reforms in Germany and South Korea, especially the closure of early retirement pathways in the former and the increase of the statutory retirement age in the latter. But fails to explain the Canadian case and a number of contradictory developments in Germany and South Korea. In order to understand better the reform trajectories in the three cases, other factors need to be taken into account. We suggest that, in addition to policy legacies, two factors may have played a role: first, the timing and magnitude of demographic pressures, and second, political opportunities and constraints.

Diagram 1. ***Old-Age Dependency Ratio in Canada, Germany and South Korea***



Sources: (OECD 2004; OECD 2005; OECD 2005)

Demographic changes are often seen as a key pressure for reform, compelling governments to adjust their large social programs including their public pension schemes. Since these challenges vary significantly across countries, they may explain at least the differences in reform efforts across our three cases: the minor ones in Canada, the medium ones in Korea, and the major ones in Germany. First, even though Canada is affected by demographic pressures, they are much less severe than those in most other OECD countries. Canada's population is currently significantly younger than Europe's. The old-age dependency ratio, the ratio of the population aged 65 and over to the

population aged 25-64, is currently 20 percent compared to 25 to 30 percent in most European countries (see Diagram 1). Due to a comparatively high level of immigration, Canada's population is expected to remain younger than the OECD average: in 2050, the old-age dependency ratio is projected to reach 45 percent, which is 10 percentage points lower than the ratio projected for most European countries. Thus, both the short-term and long-term demographic pressures that Canada faces were only medium. That could explain why Canadian governments initiated only small reforms to increase retirement ages. Second, Germany's population is already much older than Canada's and is expected to age significantly faster. In 2000, the old-age dependency ratio amounted to 26 percent, and in 2050, it is projected to reach 55 percent (see Diagram 1). That projection is likely optimistic, because it assumes a net migration of 200,000 persons per year. Since Germany, compared to Canada and the OECD average, began to age earlier and will likely age faster in the coming decades, both the short-term and long-term demographic pressures were relatively high. These pressures may account for the fact that German governments were particularly active in iniating retirement age reforms during the 1995-2004 period. Third, South Korea is a very unusual case with regards to the age structure of its population. In 2000, Korea had one of the youngest populations in the OECD: the old-age dependency ratio was about 10 percent, which meant that for every pensioner, there were 9 workers (see Diagram 1). But over the next 50 years, in part because of extremely low immigration, Korea is expected to become one of the oldest countries in the OECD, with a dependency ratio of almost 70 percent. Thus, even though Korea currently faces very weak demographic pressures, in the long-term it will likely face very strong ones. This pattern of rapid change could potentially explain why Korean

governments undertook reforms to raise retirement ages even in the absence of short-term challenges.

Table 6. ***Timing and Magnitude of Demographic Pressures***

	Short-Term	*Long-Term*	*Reform Efforts*
Canada	Medium	Medium	Minor
Germany	High	High	Major
South Korea	Very Low	Very High	Medium

Variations in demographic pressures, both short- and long-term ones, may account for different levels of reform activity, but they neither explain why governments initiated particular types of reforms such as changes in eligibility, or why they succeeded or failed in passing reform legislation. For example, even though one can explain Canada's limited reform record by below-average demographic pressures, one cannot account for the tightening of eligibility criteria for disability pensions. Likewise, even though one can account for Germany's extensive reform record by strong pressures from population aging, one cannot explain why German governments focused on closing public pathways to early retirement, not on raising the statutory retirement age and increasing actuarial adjustments. Part of the reason why governments' reform choices cannot be "read off" countries policy legacies is that policy-makers have different political opportunities and contraints. For the Canadian government, the restriction of access to disability pensions was a good opportunity for cutting pension spending without alienating the majority of voters. Raising retirement ages was not the main goal. By contrast, a Canadian government would be politically constrained in imposing age

restrictions on access to occupational pensions because of opposition from a majority of employees and many large employers. For German governments, the closure of public early retirement pathways was an opportunity to shift costs from the state to employers and employees without provoking strong opposition from voters. An increase of the statutory retirement age from 65 to 66 years or higher would have generated much dissatisfaction considering that it is by far the pension reform option that is least favored by the public. Finally, South Korean governments had an opportunity to raise the statutory retirement age from 60 to 65 years because of both the immaturity of the NPS and its low coverage rate. By contrast, the political constraints for raising or abolishing the mandatory retirement age of 55 years in many companies would have been strong: it was an important mechanism for employers for stopping or reversing earnings increases with age. Even though most older workers were re-hired after the age of 55 years, their new job paid substantially less.

Conclusion

In this paper, we analyzed the differences among Canada, Germany and South Korea in terms of welfare regimes and pension policy legacies in order to develop hypotheses with regards to governments' approaches to raising retirement ages. In addition, we studied the policy choices that Canadian, German and South Korean governments made in the 1995 to 2004 period and compared them with the expectations that we had formed based on our analysis of institutional arrangements. Our analysis showed that a country's policy legacies explain some of the cross-national differences, for example the initiatives of German governments to close public pathways to early

retirement and those of Korean ones to raise the statutory retirement age. We also showed that the application of a policy legacies perspective to the cases of Canada, Germany and South Korea raises a number of interesting questions for further research. Why did Canada not attempt to change the rules and incentives in occupational pension schemes? Why did German governments not raise the statutory retirement age? Why did Korea not restrict the practice of mandatory retirement at an early age? We suggested that some of these questions can be answered through an analysis of two additional factors: demographic pressures and political opportunities and constraints. Nonetheless, in order to answer the questions that remain unresolved, one probably has to take a fourth factor into account and revisit a key assumption of our analysis: that the policy paradigms of governments converged in the mid-1990s and were broadly similar in the past decade. Even though the Canadian, German and Korean governments were all committed to raising the age of retirement, the intensity of their preferences and their beliefs about the causes and effects of early retirement may have varied to a significant extent.

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