Will Europe Raise the Retirement Age?

By Leo Cendrowicz / Brussels

For Europe's millions, it's apt that their home is known as the Old Continent. Europe is aging. Thanks to higher life expectancies and lower birth rates, overall population growth is slowing and the average age of Europeans is creeping upward steadily. All of which is putting intense pressure on Europe's generous state-pension systems. On Wednesday, the European Commission announced plans to reverse the drift threatening the continent's social model, in a move that could see Europeans forced to stay in work longer.

Although the population of the European Union passed the 500 million mark last summer, it is peaking: the numbers are projected to plunge over the next 40 years by 50 million, the equivalent of the current populations of Poland and Greece combined. At the same time, life expectancy has been rising by two or three years for every ten that pass. By 2050, Europe will have almost twice as many people aged over 65 as under 15.

The consequences of this social time bomb are predictable. Europe's pay-as-you-go pension schemes that force today's workers to finance yesterday's workers' retirements are now equal to more than 7% of GDP, and that could double by 2050. If pensions systems continue to be based on the assumption that workers hugely outnumber retirees, they are headed for collapse. (…)

Martin Gasche, from Germany's Mannheim Research Institute for the Economics of Aging says there are essentially four pension policy options facing Europe: raising contribution rates to the pension system; cutting pension benefits; cutting the share of pay-as-you-go pensions in favor of private funds; and raising retirement age. "All these changes are extremely unpopular with workers and voters," he says. "But while pension reform is the third rail in politics, it is a necessity." (…)

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