The success of policies aimed at extending working life

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Introduction

Following several decades during which a consensus prevailed on encouraging early retirement, the challenge facing many industrialized countries is now one of how to succeed in keeping workers older than age 50 in employment. Extending the working life has become a strategic objective, particularly in the light of demographic ageing. The European Union and the Organization for Economic Co-operation and Development (OECD) have encouraged this new trend by publishing reports, making recommendations and sometimes setting specific targets (see Box 1).

Box 1. *Employment targets for older workers in Europe*

The increase in labour force participation of older workers is an integral part of the European employment strategy. In March 2001, the European Council of Stockholm set a target to increase the employment rate among workers aged between 55 and 64 years, in the European Union (EU), by 50 per cent. In 2005, eight of the 25 EU Member states had achieved this target.

The main reason for this change in policy relates to budgetary concerns facing industrialized countries, not least within the context of globalization. Countries face extremely high levels of expenditure on social security, and particularly their retirement and early retirement programmes. And in a situation of international competitiveness, stabilizing expenditure is a crucial objective. Another reason is linked to the sustainability of retirement pension schemes. Over the past 50 years life expectancy has continued to rise while birth rates have fallen. According to United Nations projections, by 2050, 26 per cent of the total population in the most developed countries will be older than age 65, and for every retiree there will be only two workers (in 1950, the ratio was one retiree to 10 workers; currently the ratio is one to four). Reforms are therefore essential in order to address a situation that will see more retirement pensions being paid and for longer. Finally, there is the question of economic growth. In a context of globalization, in order to maintain and stimulate growth, it is necessary to increase employment rates. Governments have understood that economically inactive workers aged between 55 and 64 years represent a significant underutilized work force. Nevertheless, in 2005, in the OECD area, only one out of two older people was in employment.

Older workers have thus been identified as a target for public interventions. Encouraging the recruitment of older workers and keeping them in employment improves public finances (public expenditures linked to early retirement decrease, whereas tax receipts increase), helps to offset the negative impact of ageing on economic growth, and increases the size of the working population.

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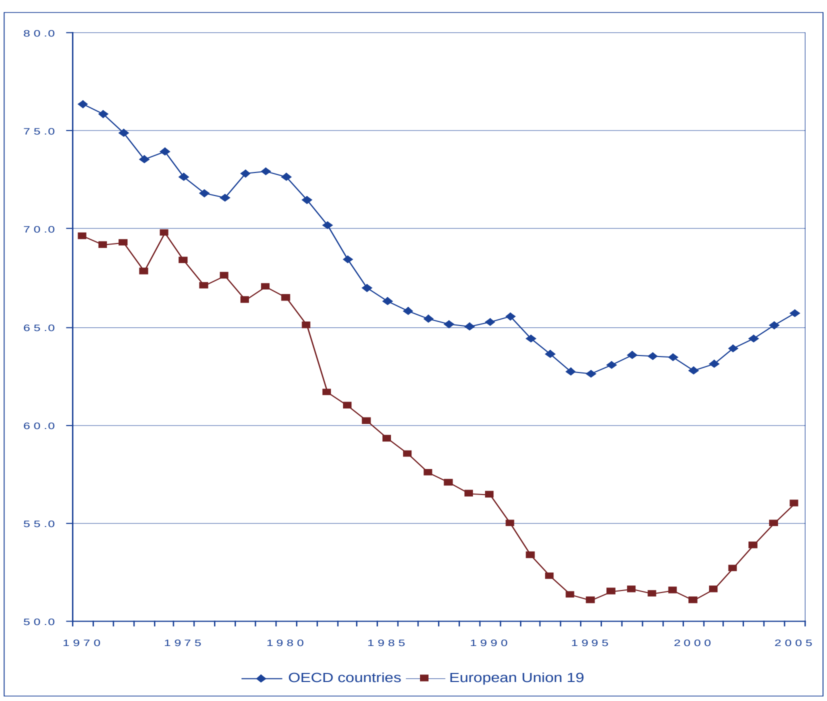
A reversal in trend

In the 1970s, almost 80 per cent of men aged between 55 and 64 years in all OECD countries were in employment. Since the 1970s, the labour force participation of older male workers[3] declined (see Figure 1), hitting its lowest point in 1995 (62.7 per cent). The fall in economic activity after the age of 55 is one of the most important phenomena of the past 25-30 years in all OECD countries (see Figure 2). The major reason for this fall is the widespread use of the possibility of early retirements; from the 1970s onwards, early retirement was perceived as a solution to employment problems (particularly youth unemployment) and was accepted by the social partners. In a number of countries in continental Europe, where social security schemes have been particularly generous, the labour force participation of men aged between 55 and 64 years was practically halved.

The decline in labour force participation among older workers appeared to be irreversible. However, from the mid-1990s onwards, a significant reversal in trend has been observed. This change in trend becomes apparent when the entire group of OECD countries is analysed (see Figure 1): around 1995, labour force participation starts to increase slightly, and continues to increase steadily from 2000 onwards. In fact, between 1995 and 2000, a total of 21 of the 30 OECD countries succeeded in increasing the labour force participation of male workers aged between 55 and 64 years (see Figure 3). This reversal in trend is particularly noticeable in certain countries (the Czech Republic, Finland, Hungary, the Netherlands, Slovakia), where labour force participation has increased more than 10 percentage points in the past decade. It is also significant in some countries within continental Europe where there had been a significant fall in labour force participation over a 25-year period (Belgium, France, Germany, Spain). However, in countries that experienced high rates of activity (Iceland, Japan, Switzerland), there has been no such reversal in trend, and they continue to have the highest rates of activity among OECD countries.

Figure 1. *Labour force participation of males aged 55-64 years, 1970-2005, OECD countries and European Union (19 countries)*

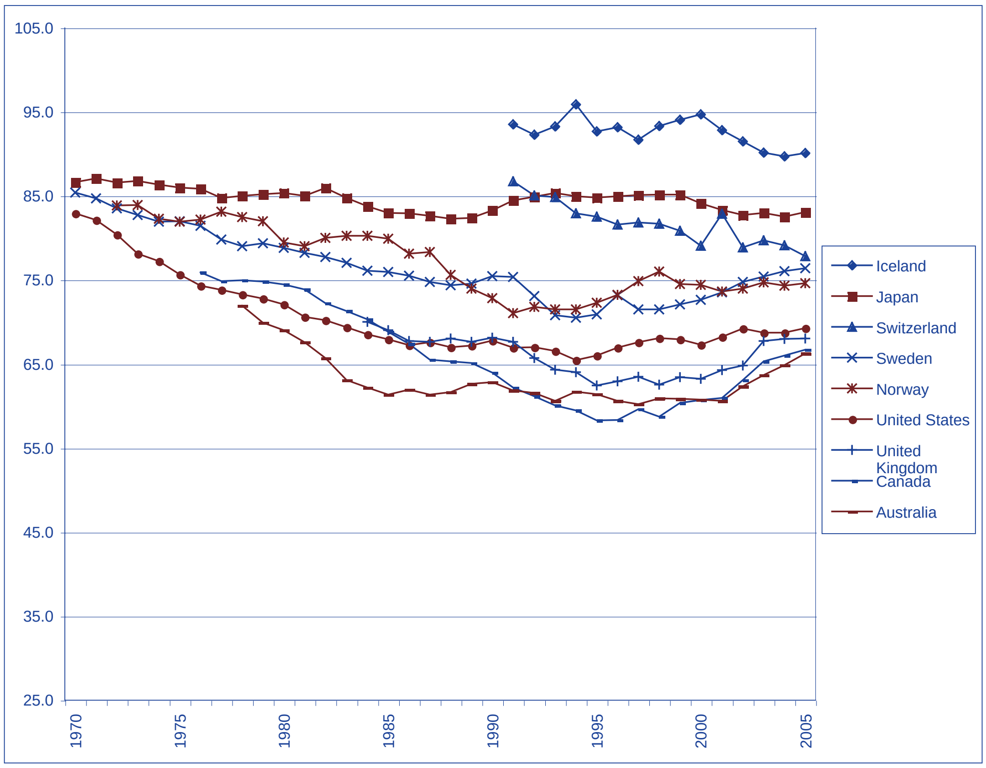


Source: OECD: *Working population database.*

[3] The point of reference here is labour force participation of males, because the labour force participation of older women has only increased since the 1970s. In so far as women are concerned, the phenomenon of early retirement has coincided with the emergence of a new generation of female workers in the labour market. Interpreting the trend in labour force participation of females (and of the global rate, which comprises both males and females) is therefore more complex.

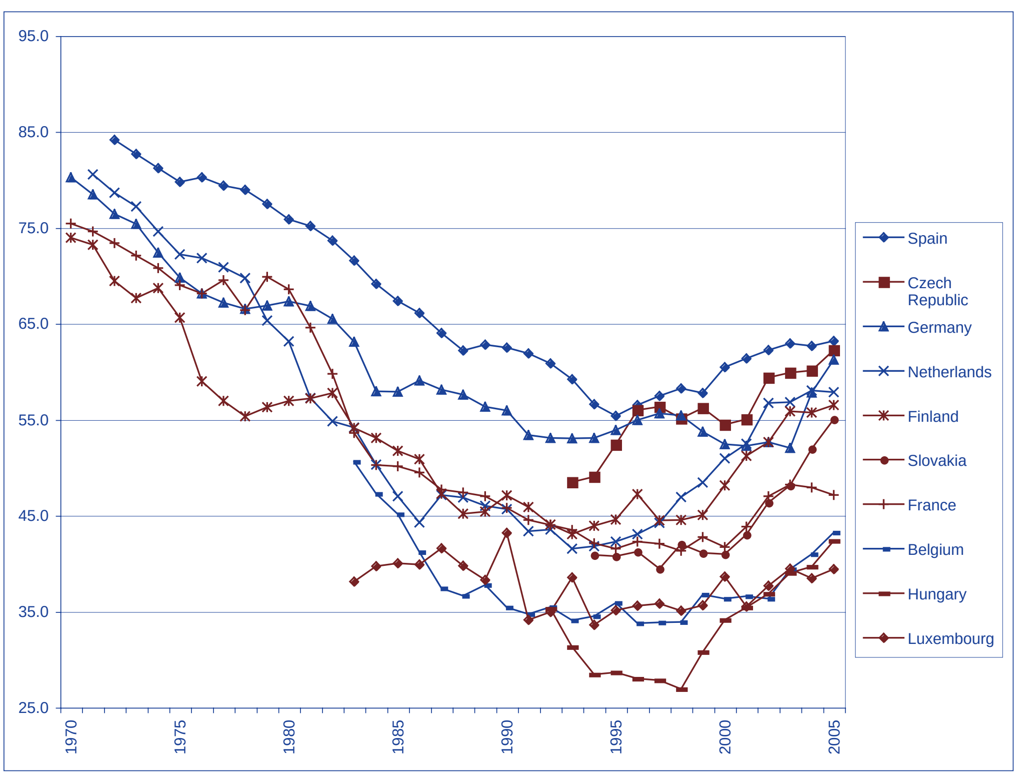
Figures 2a and 2b. *Labour force participation of male workers aged 55-64 years, in a selection of OECD countries that have registered an increase in older male workers since 1995*

2a.



Source: OECD: Working population database.

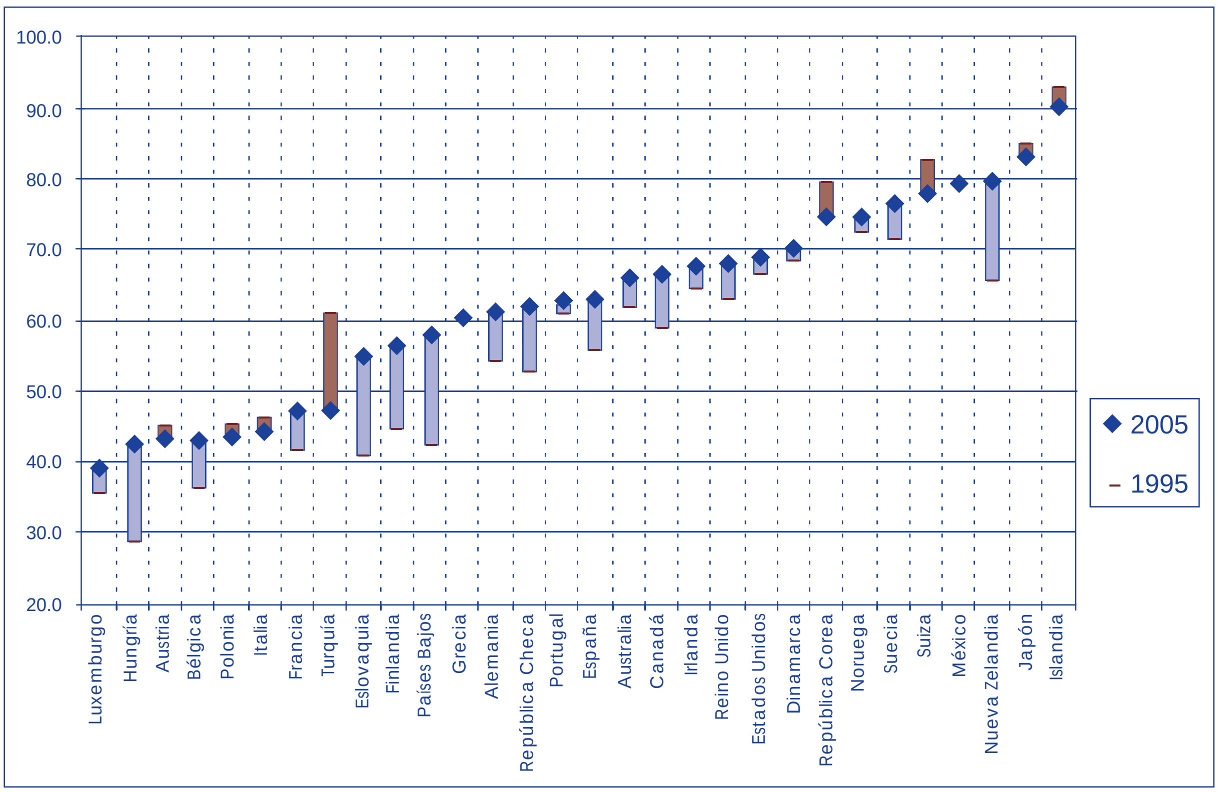
2b.



A change in trend is undoubtedly under way. Nevertheless, three aspects require highlighting:

- The size of the increase in labour force participation is dependent upon the initial labour force participation of a country: a "limited" increase of 2 percentage points for Denmark (where the labour force participation of older males is approximately 70 per cent) does not have the same significance as an increase of almost 14 percentage points for Hungary (where labour force participation is 40 per cent).
- There are still countries where, despite increased labour force participation, less than one older male in two is in employment (Belgium, France, Hungary, Luxembourg).
- Finally, despite the clear reversal in trend, the majority of countries have not succeeded in reaching the labour force participation levels of the 1970s.

Figure 3. *Changes in labour force participation of males aged 55-64 years, 1995-2005*



Source: OECD: *Working population database*

Explaining the reversal in trend

A change in trend is not a very common phenomenon in social security. Why, since the mid-1990s, have older workers been remaining in employment longer? One explanation frequently offered is the effect of economic growth. A strong economy increases employment opportunities for all workers (and, consequently, for older workers), whereas an economic crisis and high unemployment rates reduce the opportunity for workers to remain in employment, forcing them to take retirement.

Since mid-1990s, the majority of industrialized countries have experienced a period of relative growth, which could explain the increased labour force participation of older workers. Another potential explanation is the cohort effect: an increase in the population of one particular age group of older workers is likely to have an effect on the overall labour force participation of 55-64 year olds. In other words, an increase in labour force participation among the younger workers in the 55-64 age group will increase the overall labour force participation of older workers. A Eurostat study demonstrates that a 20 per cent increase in the employment rates of workers aged 55-64 years between 2000 and 2005 was attributable to the change in population age structure in Europe.

These two factors only partially explain the change in trend. Economic growth cannot sufficiently explain the more than 10-point increase in certain countries. And while there are undoubtedly some structural effects that are age-related, these differ from one country to the next in countries where there has been a significant increase in labour force participation among older workers. It is, therefore, necessary to look beyond these factors for the reasons behind this reversal in trend.

The first explanation is a change in attitude towards older workers. As far as public authorities are concerned, increasing labour force participation among older workers has a number of positive effects, the most important being a reduction in pension expenditure. Employers also seem to have realized that to release older workers prematurely costs the enterprise in terms of social planning. Also, it is difficult to replace older workers with younger workers.[4] Finally, there are strong indications that there is a significant change in attitude among older workers themselves. Reforms introduced to pensions systems no longer allow early retirement to provide a sufficient standard of living. Moreover, late entry into the labour market, resulting from longer periods of education and training, makes it more difficult to accumulate the required number of contributory years to be able to retire before the age of 60 years.

The second explanation behind this reversal in trend lies in the recent reforms introduced by countries. As will be seen, the increase in labour force participation has been encouraged by targeted public policies which have sought, in one way or another, to make it more difficult to take retirement and more financially viable to remain in employment.

Policies aimed at extending the working life

Policies introduced by enterprises to retain older workers can be split into three major categories: restrictive policies; incentive policies; and policies intended to promote a more positive image of older workers.

Restrictive policies

Restrictive policies are policies which target retirement pensions paid out by pension schemes to make them less generous. A frequently implemented policy has been to raise the retirement age, as in Japan, where the retirement age will rise from 60 to 65 years by 2030, and the United States, where the official retirement age will rise to 67 by 2027. Another way of reducing retirement pensions is to integrate the demographic factor into the pension calculation. For example, Finland, Germany, Italy, Norway and Sweden have introduced mechanisms that adjust pension rights to reflect increased life expectancy. Several countries are also in the process of adopting systems that take into account, when calculating pensions, the salary paid over the entire working life and not only the best or final salary (Austria, Portugal and Sweden, among others). The major objective of these reforms is to cap expenditure, but they also have a direct effect on retirement.

[4] Data presented in different studies demonstrate that there is a positive rather than a negative correlation between changes in the employment rate of young and older workers, which indicates that the two groups are not interchangeable. See OECD. 2006. *Live longer, work longer*. Paris, OECD Publications.

Other restrictive measures have specifically targeted early retirement systems. Several countries have withdrawn the possibility of taking early retirement or have made it more difficult to take (for example, Belgium, Denmark, Finland and Germany). A large number of countries have also made it more difficult to take *de facto* early retirement by curtailing access to unemployment benefits, disability benefits or long-term sickness benefits, which are often used as transitional payments leading to retirement pensions (Denmark and the Netherlands, among others).

Incentive policies

The objective of incentive or activation measures is to offer a framework that encourages older workers to remain in employment longer. A frequently implemented measure is one which introduces incentives for deferring retirement. For example, in Italy, until 2008, private sector workers who have the right to a full pension but who continue to work are exempt from paying basic pension contributions. Another way to encourage older workers to remain in employment is to introduce phased retirement, by means of a transitional period between full employment and complete retirement, which will allow workers to reduce the number of hours they work while at the same time enabling them to receive a compensatory pension. Austria, Norway and Spain have recently introduced phased retirement systems.

There are also activation measures that seek to improve working conditions or the training of older workers to enable them to access sustainable employment. In Australia, the objective of the National Occupational Health and Safety Strategy (in force from 2002 to 2012) is to reduce the number of occupational deaths and accidents. In France, the social partners concluded a national agreement in 2003 to increase the financial contributions by enterprises for occupational training.

Other incentive policies affect the labour market and frequently operate under the principle of "mutual obligations": older unemployed workers are obliged to actively seek work and, in response, governments provide them with employment services and career guidance. Australia, Canada and the Czech Republic have experimented with pilot schemes to increase older people's access to employment services, whereas Japan and the Republic of Korea have set up specialist agencies to help older workers back into employment. In the United Kingdom, the government programme to help unemployed workers aged 50 years or older provides individual counsellors and mentoring services to individuals who subscribe to the programme.

Activation policies also encourage employers to recruit older workers by subsidizing the salaries of older workers or allowing for a reduction in social security contributions. In Sweden, employers who recruit older workers on long-term contracts are entitled to a subsidy of up to 75 per cent of the older worker's salary. In Austria, employers are exempt from unemployment insurance contributions when they recruit a worker aged 50 years or older. Given that older workers find it more difficult to re-establish themselves in a career, some governments have imposed financial penalties on enterprises that dismiss older workers: the payment of a tax or increased social security contributions (for example, the Netherlands and Spain) or financial assistance to help workers find employment (for example, Belgium and the Republic of Korea).

Policies intended to promote a more positive image of older workers

A third type of policy challenges the stereotypical image of older workers. A frequently adopted measure is an information or public awareness campaign, such as the big media campaign launched in France in 2006 to change the image of older workers and to break definitively with the culture of early retirement. To complement these public information campaigns, codes of conduct have been introduced that specifically target employers and suggest good practice for age management in enterprises. In 1999, for example, the United Kingdom government published a *Code of Practice on Age Diversity in Employment* to assist employers in understanding the advantages of an older work force. Another way of tackling stereotypes is through age discrimination legislation. Currently, numerous countries have their own age discrimination legislation, following the age discrimination directive issued by the European Commission in 2000 that all EU countries are required to adopt.

Efficacy of national measures

An analysis of measures introduced on a national level reveals two major types of reform:

- The most common type of intervention has been to reform the pension system through policies that seek to cap expenditure by measures which are essentially restrictive and which have only a marginal impact on employment sector policies. This type of reform has been introduced in countries with substantial deficits in their pensions systems. These interventions enable labour force participation to be increased, and demonstrate that social security institutions are aware of the issues. However, they are insufficient to eliminate the obstacles to employing older workers.

- The second type of reform, which is much more ambitious and which has been introduced in a small number of countries only, seeks to trigger a real "cultural revolution" through a comprehensive employment policy that provides global support for older workers. Such reform encompasses both retirement and employment policies, and relies on the cooperation of the social partners. Countries which have followed this pathway have simultaneously introduced punitive, incentive and positive age-discrimination policies targeting workers, employers and the general public. This strategy, while more difficult to implement, appears to be more effective: countries that have implemented these policies have a considerably higher labour force participation of older workers (see Box 2).

Box 2. *Finland and the Netherlands: Successful comprehensive reforms*

Finland

In the mid-1990s, labour force participation of older workers in Finland was low, at around 40-45 per cent. The reasons for low participation were a series of factors related to both the economic recession of the 1990s and the opportunities for retirement offered by the social security system. However, between 1995 and 2005, labour force participation of men aged between 55 and 64 years rose by over 12 percentage points (see Figures 2(b) and 3). The rise in labour force participation was directly correlated with economic growth and, more importantly, as in the case of the Netherlands, with the comprehensive strategy introduced by the public authorities.

The principal intervention undertaken by the Finnish government, in cooperation with the social partners, was the introduction of a national programme to promote older workers (the national programme on ageing workers). The programme ran from 1998 to 2002, and its objective was to maintain the productive capacity of older workers, recognizing that older workers form an essential resource for the competitiveness of the country. The programme comprised some 40 measures, targeting both the general public and employers. These measures included an extensive information campaign to promote the advantages of employing older workers, amendments to occupational health and safety legislation, measures to promote vocational training, and actions to rehabilitate older unemployed workers. In 2003, the government introduced major reforms to the pension system in order to increase fiscal incentives for postponing retirement and reduce opportunities for taking early retirement. The measures adopted in Finland are interesting because they are simultaneously punitive, incentive and long term. They appear to have made extending labour force participation a more attractive option.

The Netherlands

The Netherlands recorded not only one of the sharpest drops in labour force participation of male older workers since the 1970s (from 81 per cent in 1971 to 42 per cent in 1993), but also the sharpest increase among OECD countries since 1995 (more than 16 percentage points). The fall in labour force participation is attributable to a generous social security system that has actively promoted early retirement through a range of pathways. The change in trend in the 1990s, while linked to economic growth, is the result of enterprise reforms that have sought to move away from collective insurance rights towards mechanisms that encourage labour force participation and prevent the loss of employment. Reforms started to be introduced in 1995 and involved a series of comprehensive actions which targeted employers, workers and the general public: anti-discrimination legislation, information campaigns, age-sensitive human resources management, promoting part-time working, withdrawal of early retirement options, and restricting access to unemployment and disability benefits. The Dutch approach has been marked by close cooperation between the public authorities, employers and trade unions. This has facilitated the drawing up of practical measures and a change in employers' attitudes towards older workers.

Opportunities and challenges

Extending working life, along with other measures, are essential in meeting the challenges of demographic ageing. An analysis of the reversal in trend in the labour force participation of older workers demonstrates that to successfully extend the working life, five objectives must be met.

- Countries must, first, envisage a comprehensive and integrated reform that will affect all aspects of social security (disability, unemployment, etc.) and beyond (labour market, training, discrimination, the working environment, etc.). Demographic ageing is a global problem and a response to this problem cannot be limited to changing the retirement system.

- Interventions could be punitive (to encourage workers to stay in employment longer) but, above all, should act as incentives. Where measures fulfill both these conditions, results are visible, not only in financial terms but also in the behaviour of older workers.

- It is important to have a long-term objective, in other words, to target not only the older workers of today but also the older workers of tomorrow. A new life-course approach should be adopted, which will enable work capacity and employability to be maintained throughout the working life.

- It should not be forgotten that older workers form an heterogeneous category in terms of profession, education, age group, health, family situation and remuneration. Consequently, policies which provide incentives to remain in employment should also provide exit strategies and safety nets.

- Finally, enterprises can play a significant role in encouraging older workers to remain in employment and in recruiting workers aged over 50 years. In future, it will be essential to rely on the cooperation of employers in conceptualizing and implementing policies.

An analysis of policies demonstrates that social security institutions have been dynamic in adapting to new social realities. In the majority of OECD countries, reforms have reversed the decline in the labour force participation of older workers. Much, however, still remains to be done. The majority of countries have yet to commit themselves to undertaking comprehensive reforms, and the global labour force participation of older workers is still very low.

Suggested reading

Guillemard, A.-M. 2003. *L'âge de l'emploi. Les sociétés à l'épreuve du vieillissement*. Paris, Armand Colin.

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