Ageing and Employment Policies

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Foreword

Employment and social policies and practices that discourage work at an older age effectively deny older workers choice in when and how they retire. Moreover, in an era of rapid population ageing, they result in a waste of valuable resources that business, the economy and society can ill-afford. This has to stop. Policy reforms are needed to reverse the trend towards ever-earlier retirement. But what can governments do to bring about changes that are often unpopular with many voters? How can workers, employers and governments work together to guide our ageing society to a prosperous future?

This report seeks to answer these questions. It is the final report in the OECD's thematic review of policies to improve employment prospects for older workers. Altogether 21 countries participated in the review over a four-year period. For each country, a report was prepared which identified the main work disincentives and employment barriers confronting older workers, and which put forward specific policy recommendations for action by the public authorities and social partners. This report draws out the main lessons that have emerged from the country reviews. It also incorporates the principal conclusions of the High-Level Policy Forum on Ageing and Employment Policies held in Brussels on 17-18 October 2005, which concluded the review and which was jointly organised by the OECD Directorate for Employment, Labour and Social Affairs and the Belgian Federal Public Service Employment, Labour and Social Dialogue.

The key message that has emerged from the thematic review and the Forum is that population ageing is both a challenge and an opportunity. If nothing is done, population ageing poses serious economic and social challenges. But it is also a tremendous opportunity if longer and healthier lives are matched by longer working lives.

However, if working longer is to be an attractive and rewarding proposition for older workers, action on both the demand side and supply side will need to be taken in co-operation by government, employers, trade unions and civil society. First, there must be strong financial incentives to carry on working, and existing, subsidised pathways to early retirement have to be eliminated. Second, wage-setting and employment practices of firms must be adapted to ensure that employers have stronger incentives to both hire and retain older workers. Third, older workers must be given appropriate help and encouragement to improve their employability. Finally, a major shift in attitudes to working at an older age will be required on the part of both employers and older workers themselves.

I hope that this report will help to advance this new agenda of age-friendly employment policies and practices. We are living longer and healthier lives on average than previous generations: longevity should promote activity, and activity, in turn, wealth and well-being.

Berglind Ásgeirsdóttir
Deputy Secretary-General of the OECD

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Executive Summary

In the face of population ageing, a new agenda for reform is urgently required to improve job prospects of older workers

Population ageing is one of the most important challenges facing OECD countries. Over the next 50 years, all OECD countries will experience a steep increase in the share of elderly persons in the population and a large decline in the share of the population of prime working-age (Chapter 1). Consequently, in most countries, the number of workers retiring each year will increase sharply and eventually exceed the number of new labour market entrants. If there is no change in work and retirement patterns, the ratio of older inactive persons per worker will almost double from around 38% in the OECD area in 2000 to just over 70% in 2050. In Europe, this ratio could rise to almost one older inactive person for every worker over the same period.

Ageing on this scale would place substantial pressures on public finances and reduce growth in living standards. For instance, on the basis of unchanged participation patterns and productivity growth, the growth of GDP per capita in the OECD area would decline to around 1.7 % per year over the next three decades, about 30% less than its rate between 1970 and 2000.

It is sometimes argued that these negative consequences of ageing could be offset by policies to encourage greater immigration, higher fertility or faster productivity growth. While these developments would all help offset the negative effects, they need to go hand-in-hand with attempts to mobilise all available labour reserves in order to sustain economic growth. One of the most significant sources of additional labour supply is older people who are currently inactive. Hence this report focuses on policies to improve the employment prospects of older workers, drawing on the lessons learned from 21 country reviews.

The report makes the case for a new agenda of reform which would not only help offset the negative potential effects of population ageing on public budgets and economic growth, but would also promote choice for older workers. More fundamentally, this new reform agenda is intended to convert the process of population and workforce ageing into an opportunity for society and older workers themselves.

Less than 60% of those aged 50-64 have a job, reflecting early exit from the labour market ...

There is substantial scope for promoting employment of older workers, although the situation varies across countries (Chapter 2). In 2004, less than 60% of the population aged 50-64 had a job, on average in the OECD, compared with 76% for the age group 24-49. The figure varies from less than 50% in certain countries to more than 70% in others. There are numerous work disincentives and employment barriers facing older workers (Chapter 3) which often result in early exit from the labour market. It is indeed remarkable that, despite sustained increases in longevity, the effective age at which workers retire has tended to follow a downward trend in virtually all OECD countries, at least until recently. Thus, the number of years that workers can expect to spend in retirement has risen considerably – for men, from less than 11 years on average across the OECD in 1970 to just under 18 years in 2004 and, for women, from less than 14 years to just under 23 years.

The main pathways for exiting early from the labour market differ across countries. In some countries, this occurs mainly through provisions in the pension system or through formal early retirement schemes. In other countries, it is through disability and other welfare benefits. In all countries, early exit from the labour market tends to be a one-way street, with very few older workers returning to employment – in general, fewer than 5% of those inactive aged 50-64 are in jobs one year later.

... difficulties for older workers to keep their jobs...

Older workers also face a number of difficulties keeping their jobs. On the side of employers, these factors include: negative perceptions about the capacities of older workers to adapt to technological and organisational change; wages and non-wage labour costs that rise more steeply with age than productivity; and the difficulties firms may face in adjusting employment as a result of employment protection rules.

On the side of older workers themselves, they may experience a depreciation of their human capital. At the same time, they may also not get much help to upgrade their skills and may not be very motivated to take up available opportunities for training. Indeed, the incidence of training in all of the review countries declines with age, which partly reflects shorter expected pay-back periods on investments in the training of older workers as well as their lower average educational attainment.

Ill-health and difficult working conditions may also play a role – several studies report that blue-collar workers and less-qualified workers are more likely to retire earlier than white-collar workers and more highly-qualified workers. Constraints on changing working hours may also be "pushing" workers into retirement; in several countries, more than 20% of older male workers report working more than 50 hours a week.

... and poor job prospects for older job seekers

Moreover, older workers who lose their job often face considerable difficulties finding a new job and large potential wage losses. On average across the OECD, the hiring rate of workers aged 50 and over was less than half the rate for workers aged 25-49. The low re-employment rates among older job seekers partly reflect employer reluctance to hire older workers. But the weakness of job-search requirements or the limited support provided by the public employment service also contribute. Indeed, reflecting the strong focus on tackling high youth unemployment, older job seekers are under-represented in active labour market programmes in nearly all of the review countries.

The strategy requires getting financial incentives right ...

Given the range of factors that prevent older people from carrying on working, pension reform alone will not be sufficient to promote employment opportunities of older workers. Nevertheless, financial incentives embedded in pension systems and other welfare benefits play an important role in work-retirement decisions and it is essential that older people do not face a large implicit tax if they chose to continue to work.

Almost all review countries have been carrying out reforms to tackle work disincentives and increase flexibility in work-retirement decisions (Chapter 4). A number of common elements to these reforms include reductions of pension replacement rates, increasing the official and earliest ages of retirement, and introducing or changing actuarial adjustments in pension benefits for early and late retirement.

But there are also some notable country differences in reform strategies. Some countries are in favour of a *neutral* framework which makes it possible to claim a pension at a relatively young age (but with the appropriate downward benefit adjustment) and to reward later retirement through an upward benefit adjustment. Other countries prefer to reduce the possibilities for taking up a pension before the official retirement age, even with a reduced benefit. This means bringing the minimum retirement age as close as possible to the official retirement age – on the grounds that individuals need to be guided in their choice. There are also important differences with respect to the treatment of workers who have been in arduous jobs or who started work at a young age.

The extent to which these reforms will effectively change retirement behaviour depends on a range of factors. First, in many instances, reforms are only being phased in over a very long transition period. Second, the speed of demographic change is such that it may necessitate further reform in the near future. In this respect, some countries have carried out major pension reforms to switch to a system that is based on notional defined-contributions with adjustments to benefits in line with increases in life expectancy – thus making the system endogenous to demographic change. Third, the parameters used to adjust pension benefits in the event of early or later retirement vary considerably across countries – though in most cases they are believed to be "neutral". It is therefore likely that the pension systems of certain countries continue to be biased in favour of retirement, instead of work. More generally, it is difficult to find the appropriate balance between encouraging later retirement and increasing flexibility in work-retirement choices. For example, partial pensions have been introduced in several countries (and subsequently abandoned in some) but, if reductions in working time are heavily subsidised, there is a risk that they could involve reductions rather than increases in effective labour supply of older workers.

The country reviews also show that, at the same time as reforms are being made to the pension system or early retirement schemes are eliminated, it is also essential to ensure that *unemployment, disability and other welfare benefits* are not used as alternative pathways to early exit from the labour market. These welfare programmes should be used for their original purpose and not to facilitate early retirement for those still able to work. This is an increasingly difficult task. Indeed, as early retirement through the main pension system becomes less attractive, there is growing pressure to use these pathways instead. But, as the experience of disability benefit reform in some countries shows, it can be done.

... changing employment practices ...

Employers are key stakeholders in the new agenda for reform as they play a crucial role in shaping the employment prospects of older workers (Chapter 5). To counter negative employer attitudes, countries have introduced age-discrimination legislation or information campaigns. Both approaches should be pursued, but with an emphasis on the benefits of age diversity in the workplace in order to avoid stigmatising older workers.

As part of these initiatives, it is time to question the practice of *mandatory retirement* in firms. While in the past it may have been part of an efficient arrangement to encourage greater work effort by workers, mandatory retirement is incompatible with a general policy thrust towards removing age barriers to employment and to offering greater choice to workers over the work-retirement decision. In any case, it may not be sustainable as workforces age.

Countries have also been taking action to tackle the more objective factors which are preventing employers from hiring and retaining older workers. The importance of *seniority* in wage-setting has diminished significantly over time in many countries or is being gradually eroded. A number of countries have introduced wage subsidies to reduce the cost of employing older workers. To be effective, however, these subsidies need to be well targeted (age alone is not a valid target). Moreover, countries need to look closely at whether it is more appropriate to give wage subsidies to employers or to older workers themselves in the form of an earnings top-up.

Special *employment protection* rules to protect employment of older workers can be counterproductive. Policies that penalise firms for laying-off older workers can have a negative impact on reducing hiring rates of older workers or may lead to substitution between workers of different ages. Firms may also seek to avoid these penalties through various early retirement arrangements and schemes. Ultimately, the best form of employment protection for older workers is to improve their employability and increase the range of job opportunities more generally.

... promoting employability of older workers ...

As larger cohorts of workers move into the older age groups, it will become increasingly important to ensure that older workers have up-to-date skills, good access to employment services and better working conditions (Chapter 6).

This is a challenging task. It has proved particularly difficult to reduce inequalities in training participation by age and skill. Three approaches need to be pursued together. First, there should be increased investment in *lifelong learning at mid-career*. Second, the attractiveness of training and its potential returns for older workers can be improved by *adapting teaching methods and content to their needs*, by the provision of short, modular courses and through the recognition of prior learning and experience. Third, *promoting later retirement will itself encourage greater investment in training of older workers* by raising the potential return on this investment through longer expected pay-off times.

Providing greater employment assistance to older people has not always been a priority for *private and public employment agencies*. But this is beginning to change. Some countries have introduced dedicated programmes for older workers. Other countries have been experimenting with a range of pilot projects to determine what works best for older workers and job seekers. Another approach has been to give special incentives for private employment agencies to place older job seekers in jobs. One issue that is likely to become increasingly important is to develop measures for targeting and encouraging older inactive people, including those who are not on any form of income support, to move (back) into the workforce. There is also an increasing need to help older workers be better prepared for greater job mobility at the end of their careers. These transitions may require greater resources being devoted to public and private employment agencies to provide career counselling, job-search assistance and, if necessary, help for older people to set up their own business.

Improving *working conditions* for older workers is the other key area where countries have begun to take measures. Facilitating access to part-time jobs and developing flexible work arrangements are ways to give older workers greater choice and smooth work-retirement transitions. Information campaigns and the dissemination of good practice regarding working conditions at the workplace have also been undertaken in some countries. These efforts should be placed within a more global strategy to improve workplace safety and health and to improve the quality of jobs more generally. And unions and employers need to be involved in this task.

... and removing resistance to reform by challenging a number of myths

It is important to dispel a number of myths in this area, as these may be hampering reform efforts and the adoption of age-friendly employment practices. For example, the claim that fewer jobs for older workers results in more jobs for younger workers, though unfounded, is proving especially stubborn.

There is also scepticism regarding the ability and willingness of older workers to stay in the labour market. Thus, some argue that working capacity systematically deteriorates with age. However, many studies of employers and older workers cited in the country reviews show that older and younger workers each have relative strengths and weaknesses and that they can contribute to the workforce. Likewise, there is little evidence to support the assertion that work intensification in existing jobs is exerting pressure to retire early, or that older workers are just “too tired” to carry on working. Many older workers are in fact capable and willing to carry on working if given more flexible working-time options and suitable opportunities to change jobs.

Finally, there is concern that reforms will be forcing older workers to continue working and will de facto result in major cuts in pension and other welfare benefits. Instead, it is past arrangements that have given workers little choice about when to retire. More fundamentally, it is the lack of reforms which will threaten the sustainability of public budgets, eventually forcing a drastic downsizing in social protection.

Taking the agenda forward

The recommendations for each of the 21 countries that were reviewed shows that more needs to be done to remove age-barriers to employment and to encourage greater participation after the age of 50. This will mean taking well co-ordinated action on many fronts (Chapter 7). Thus, some countries have found it useful to undertake these reforms as part of a broader strategy for responding to the challenges of population ageing. More generally, strong macroeconomic conditions, well-functioning labour markets and policies to encourage greater labour force attachment over the lifecourse are especially important for underpinning higher participation rates among older people.

From challenges to opportunities

The bottom line is that population ageing is both a challenge and an opportunity. It will put upward pressure on public expenditures while dragging down economic growth. But it is also a tremendous opportunity for all of us to spend more rewarding years at work and in retirement. Seizing this opportunity will require the co-operation of government, employers, trade unions and civil society to adopt and implement a new agenda of age-friendly employment policies and practices.

Introduction

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and workplace practices pose serious barriers to older workers continuing to work or create strong incentives to retire early. Many of these policies and practices are relics from a bygone era and are no longer sustainable in an era of rapid population ageing, which is placing strains on public finances and putting downward pressure on the growth in living standards. Thus, there is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work longer given appropriate incentives, policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with population ageing. As part of these reforms, financial incentives to remain longer in work must be strengthened, including removing disincentives in other welfare schemes and private pension arrangements that may be acting as alternative and publicly-subsidised pathways to early retirement. However, this may not be enough to encourage later retirement. Older people also need to be given better job opportunities. This will require a range of measures to be taken by government, employers and trade unions to: adapt wage-setting practices to ageing workforces; tackle age discrimination; improve the job skills and working conditions of older workers; and provide better employment services for older job seekers. In addition, older workers will need to change their own attitudes towards working longer and acquiring new skills.

Relatively little is known about what countries have been, or should be doing, to improve job opportunities for older workers. Therefore, in spring 2001, the OECD Employment, Labour and Social Affairs Committee decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both the supply-side and demand-side factors that drive work and retirement decisions.[1] Altogether 21 countries participated in the review – and in this report are sometimes referred to as the review countries. For each country, a separate report was prepared for publication as part of the OECD series on Ageing and Employment Policies. Each country report contains a review of labour market trends for older workers, a survey of the main work disincentives and barriers to employment for older workers, an assessment of the adequacy and effectiveness of existing measures to overcome these disincentives and barriers and a set of policy recommendations for further action by the public authorities and social partners.

This report provides a synthesis of the main lessons which have emerged from the review. It begins with an overview of the challenges facing OECD countries as a result of population ageing and the vital contribution of older people to coping with these challenges. The large diversity that exists both across and within countries in the labour market situation of older workers is highlighted in Chapter 2. Chapter 3 sets out the key work disincentives and barriers to employment that older people face. An overview of the measures countries have taken to tackle these disincentives and barriers as well as the key issues facing policy makers is provided in the following three chapters. Chapter 4 discusses the key measures and strategies that countries have put in place to tackle work disincentives and increase flexibility in work-retirement decisions. Measures to encourage employers to retain and hire older workers are addressed in Chapter 5 and policies for improving the employability of older workers are discussed in Chapter 6. The report concludes in Chapter 7 with some general remarks on policy implementation.

Notes

1. For the review and in this report, older workers are defined as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not, but it does correspond to the age after which labour force participation rates begin to decline in many countries.

Chapter 1

The Challenge Ahead

Key messages: Population ageing is both a challenge and an opportunity for all OECD countries. There are significant cross-country differences in the rate of population ageing and some countries face much bigger challenges than others. Therefore, the scale of the measures required is not the same across countries nor is the urgency with which reforms need to be put in place. Nevertheless, all countries will need to mobilise more fully the potential labour resources of older people as the key policy response to population ageing.

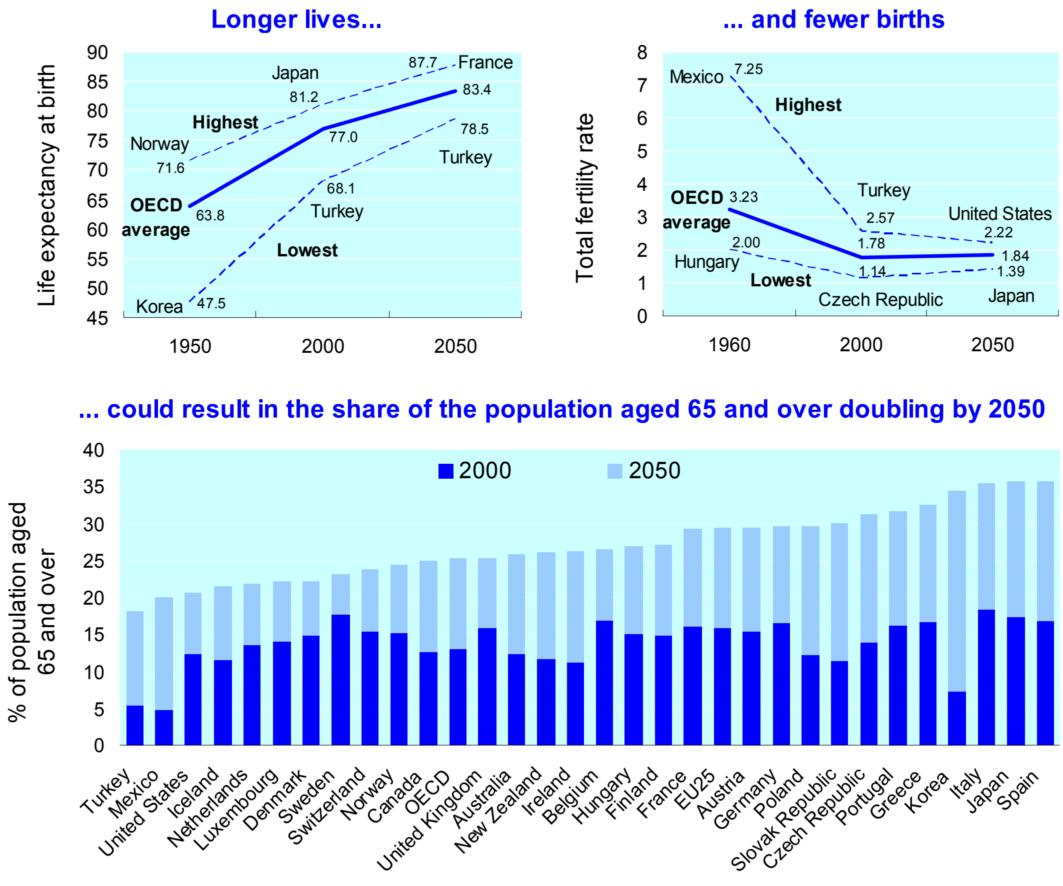
All OECD countries face a range of economic and social challenges over the next few decades as a result of population ageing. The purpose of this chapter is to map out some of the main demographic trends over the next few decades and show how mobilising the potential labour supply of older people can play a key role in attenuating the negative impact of population ageing on economic growth. However, the scale of these challenges is larger in some countries than others not just because they are facing a more pronounced process of population ageing but also because current rates of labour force participation are low among the older population.

In Section 1, the main demographic trends across OECD countries over the next 50 years are traced out. The potential impact of these trends on public finances and economic growth is discussed in Section 2. The importance of promoting work at an older age is identified in Section 3 as the key policy response to population ageing.

1. The magnitude of the demographic challenge

All OECD countries are experiencing population ageing as a result of both a steep drop in fertility rates and an increase in longevity (Figure 1.1). However, this is more pronounced and occurring at a faster pace in some countries than others.[1] For example, by 2050, more than one-third of the population is projected to be aged 65 and over in Italy, Japan, Korea and Spain compared with around one-fifth or less in Mexico, Turkey and

Figure 1.1. **All OECD countries are ageing but some faster than others**



Source: OECD Demographic and Labour Force Projections Database.

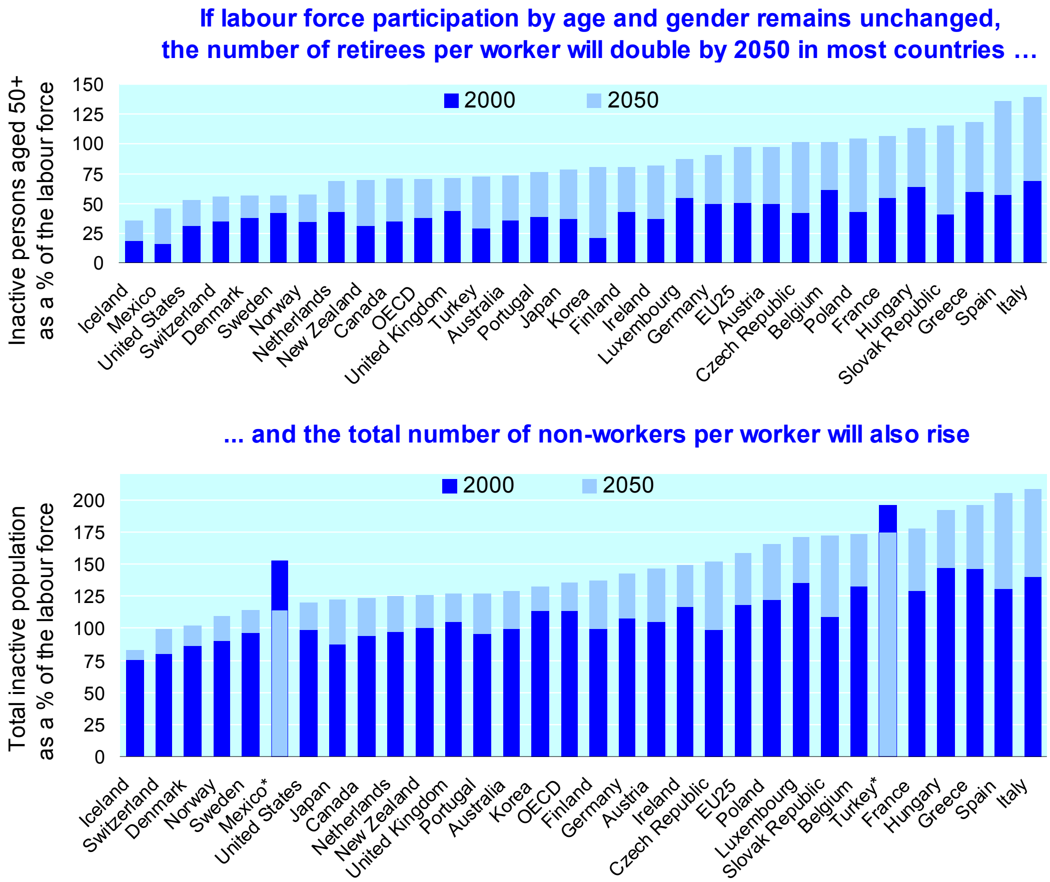
the United States. The pace of ageing in Korea is particularly remarkable given that its share of the population aged 65 and over is currently one of the lowest in the OECD area but is projected to be one of the highest in 2050.

For many countries, much of this increase will be concentrated over the next three decades as the baby-boom generation moves into the age group 65 and over. However, in the absence of a rebound in fertility rates and as a result of further gains in longevity, old-age dependency ratios are likely to continue to rise, even after the impact of the baby-boom generation on each country's demographic profile begins to fade.

2. The economic consequences of population ageing

One indicator of the potential economic burden of the elderly on the working population is the ratio of "retirees" (i.e. the inactive population aged 50 and over) to workers.[2] In the case where participation rates by age and gender would remain unchanged at their current levels, this ratio is projected to almost double from around 38 retirees per 100 workers on average in the OECD area to just over 70 retirees per 100 workers in 2050 (Figure 1.2, top panel).[3] In Europe, this ratio is projected to be close to one retiree for every worker.

Figure 1.2. **Population ageing will place a growing economic burden on workers**



* For Mexico and Turkey, the total economic dependency ratio may even be lower in 2050 than in 2000 because of a much larger projected fall in the number of dependent children relative to the rise in the number of elderly people.

Source: OECD Demographic and Labour Force Projections Database.

An increasing strain on public finances

Such large increases in the number of retirees per worker are likely to place increasing strain on public finances in most OECD countries. For example, expenditure on public pensions, as well as on long-term care, is projected to increase significantly as a proportion of GDP in most countries over the coming decades (OECD, 2001). At the same time, population ageing will contribute to a significant rise in public health expenditures given that per capita spending on health is higher for older people.[4] Thus, in the absence of any significant change in labour force participation patterns, these projected rises in public expenditures will have to be financed by either an increase in social security contributions and other taxes or by a cut in the generosity of benefits or by some combination of the two.

Some countries face much bigger adjustments than others

Changes in the ratio of retirees per worker will be driven both by changes in the size of the population in the older age groups relative to the younger age groups, especially as the baby-boom generation moves into retirement, and by the proportion of the older population that are participating in the labour market.[5] A summary of the demographic pressure that population ageing is placing on countries can therefore be constructed by comparing participation rates in the older age groups with changes in the old-age dependency ratio over the next half century. Thus, in those countries where participation rates among the older population are already relatively high and where a moderate increase in the old-age dependency ratio is projected, more modest adjustments may be required than in those countries with low participation rates and facing a large increase in the old-age dependency ratio. In Table 1.1, each OECD country has been placed into one of three groupings along each of these two dimensions according to whether they have high, average or low participation rates, on the one hand, and moderate, large or very large projected increases in the old-age dependency ratio, on the other hand.

Table 1.1. **The size of the challenge ahead**[a]

	Projected change in the old-age dependency ratio, 2000-2050[b]		
Participation rate of 50-64 year olds, 2004	*Moderate*	*Large*	*Very large*
High	Denmark, Iceland, Norway, Sweden, Switzerland, United States	Canada, New Zealand	Japan
Average	Netherlands, United Kingdom	Australia, Finland, France, Germany, Mexico, Ireland	Czech Republic, Korea, Portugal
Low	Belgium, Luxembourg, Turkey	Austria, Hungary	Greece, Italy, Poland, Slovak Republic, Spain

a) Countries have been ranked into the three categories for each variable according to whether they are more than one-half of a standard deviation away from the mean for all countries.

b) Ratio of the population aged 65 and over to the population aged 20-64.

Source: OECD estimates based on data on participation rates from OECD *Labour Force Statistics* and old-age dependency ratios from the OECD Demographic and Labour Force Projections Database.

Thus, using this simple two-way classification, it would appear that the largest adjustments may need to be made in countries like Greece, Italy, Poland, the Slovak Republic and Spain and the smallest ones in countries like Denmark, Iceland, Norway, Sweden, Switzerland and the United States. Countries in the lower rows in the same column face somewhat greater adjustments than countries higher up because of lower participation rates and similarly countries further to the right in any row face greater potential adjustments because of more pronounced population ageing.

Of course, this simple framework tells only part of the story. For example, some countries such as Belgium and France already have a relatively high old-age dependency ratio and so may find it difficult to cope with even a moderately large increase in this ratio. In addition, those countries which already have very high rates of public expenditure such as the Nordic countries may have less room for manoeuvre and thus may also have to make considerable adjustments to ensure public finances are sustainable.

An increase in public expenditures associated with a growing elderly population is also likely to be partly offset by a reduction in the share of public expenditure devoted to child support and education as a result in the decline in the population share of children and youth. However, the latter declines will generally not be sufficient to offset completely the rising numbers of non-working older people. On the basis of current rates of participation by age and gender, the total economic dependency ratio (*i.e.* ratio of the total inactive population to the labour force) is projected to increase in all countries, except Mexico and Turkey (Figure 1.2, bottom panel). The rise will be less dramatic than the increase in the ratio of retirees to workers but will nevertheless be substantial in most countries, ranging from an increase of about one-fifth to around one-half. Consequently, in all countries, with the notable exception of Iceland, more than half of the population is projected to be inactive in 2050.

Labour force growth and economic growth will decline

Apart from the rapidly rising number of elderly people, the other aspect of population ageing is the slowdown in the growth of the population aged 20 to 64 where participation in the labour market is concentrated. In many OECD countries the population aged 20-64 is not only projected to decline relative to the total population but also in absolute terms over the next two decades. Indeed, this is already occurring in Germany, Japan and Italy, and is likely to occur within the next 10 years in many other European countries. These developments are likely to lead to a sharp drop in labour force growth and, thus, to slower economic growth, especially in per capita terms. Thus, not only will pressure on public finances and taxes on the working population increase as a result of a shrinking number of working people in relation to the non-working population, but much slower rates of economic growth per capita are also likely to occur unless slower labour force growth is offset by substantial increases in labour productivity growth.

A benchmark estimate of the impact of population ageing on the growth in GDP per capita can be obtained by assuming for each country unchanged participation patterns by age and gender and a continuation of labour productivity growth at the same rate as observed over the period 1970-2000. On this basis, the growth of GDP per capita in the OECD area would decline to around 1.7% per year over the next three decades, about 30% less than its rate between 1970 and 2000.[6] The potential magnitude of this slowdown differs considerably across countries and could lead to a reversal of the long-term trend towards convergence across OECD countries in the level of GDP per capita. For example, on the basis of a continuation of recent cohort patterns of labour force participation, it is projected that the current gap in GDP per capita between the leader, the United States, and the other major OECD economies is likely to widen over the next 50 years (Oliveira Martins *et al.*, 2005). Particularly large gaps of over 20% and 30% are projected for Germany and Japan, respectively.

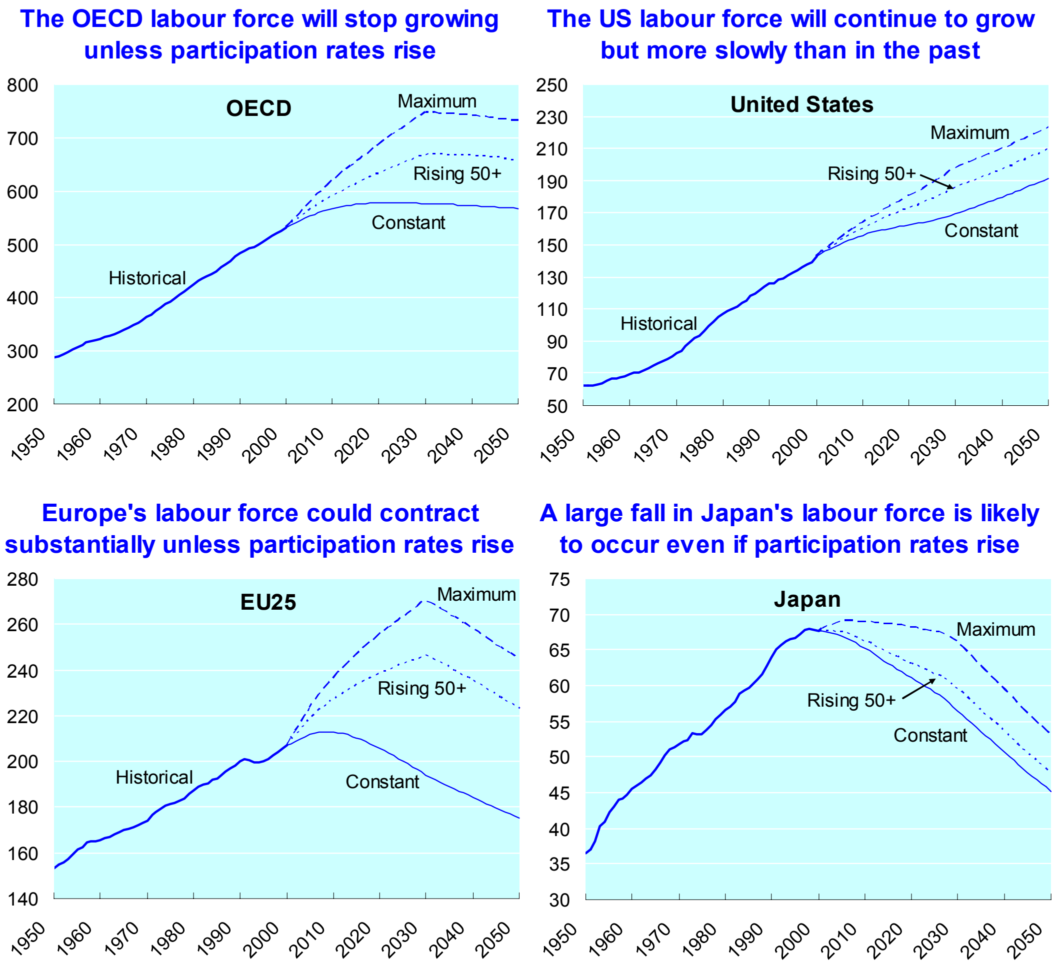
The potential contribution of higher participation rates among older people to offset the negative impact of ageing on labour force growth, as well as on economic growth more generally, can be illustrated by comparing a scenario where participation rates by age and gender remain unchanged at their current levels (the "constant" scenario) with an alternative scenario where participation rates for older people gradually increase (the "rising" scenario). In the "constant" scenario, participation rates by five-year age groups and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the "rising" scenario, but for the older age groups (50 and over) they rise progressively to reach in 2030 the maximum participation rate observed in each age and gender group across OECD countries in 2000 (excluding the two outliers of Iceland and Mexico). Of course, there is potential for participation rates to increase further in the younger age groups too, especially among women. Therefore, a third scenario can be constructed where participation rates by gender for all age groups gradually rise to a maximum value ("maximum" scenario).

The results of these scenarios show that different assumptions about the future path of labour force participation rates for older people can lead to large differences in the growth of the labour force over the next 50 years in the OECD area (Figure 1.3). Under the constant scenario, the OECD labour force is projected to reach a maximum of 570 million around 2020 before contracting thereafter. Under the rising scenario, labour force growth would be much faster and the labour force reaches a maximum level of 660 million around 2030. Thereafter, the labour force would follow the same pattern of decline as in the constant scenario because of the assumption of constant participation rates by age and gender after 2030. Of course, even greater labour force growth is projected under the maximum scenario with participation rates rising for both the younger and older age groups. However, the bulk of the increase in the labour force relative to the constant scenario is accounted for by higher participation rates in the older age groups, which reflects the fact that it will be in these age groups that the population will be rising fastest and it is also among these groups where the scope for higher participation rates in the future is the greatest.

Within the OECD area there are likely to be substantial differences across the major economies in the future path of labour force growth according to each scenario. Some of these differences reflect low participation rates among older people, and so raising participation rates would imply a much larger impact on future labour force growth. For example, the US labour force is expected to continue to expand over the next 50 years, albeit at a slower pace, under all three scenarios. In sharp contrast, unchanged participation rates by age and gender would lead to a significant contraction of the labour force in Europe and Japan. If participation rates increase as projected under the rising and maximum scenarios, this contraction would be postponed in Europe until after 2030 but not in Japan where the labour force is still projected to contract both in the near future and over the longer term. This is because participation rates in Japan are already among the highest across OECD countries, especially among older people, and so the scope for further increases is more limited than in other countries.

Figure 1.3. **Increased participation of older people would boost labour force growth**[a]

Millions



a) Three scenarios are shown for future labour force growth: the "constant" scenario assumes that participation rates by age and gender remain unchanged from their levels in 2000; the "rising 50+" scenario assumes that participation rates by gender for the age groups 50 and over rise over the period 2000-2030 towards the maximum rates observed in 2000 across OECD countries (excluding Iceland and Mexico) and remain constant thereafter; and the "maximum" scenario extends the same assumptions as for the "rising 50+" scenario to all age groups.

Source: OECD Demographic and Labour Force Projections Database.

Large flows of workers will be retiring

Underlying these projected net changes in the size of the labour force are much larger gross flows of workers entering and leaving the workforce. Therefore, employers will face even greater adjustments to their workforces than is indicated by the projected declines in overall labour force growth. Once the baby-boom generation approaches retirement age, increasingly large cohorts of workers will be retiring relative to the number of new labour market entrants available to replace them. Assuming unchanged participation behaviour by age and gender across the OECD as a whole, the number of labour market exits among older people (aged 50 and over) could rise from around 8.5 million per year during 2000-2005 to around 12 million per year during 2025-2030. Over the same period the annual number of new labour market entrants (younger than 30) could decline from around

12.9 million to 11.9 million. For Europe (OECD countries only), the number of retirees is projected to exceed the number of younger entrants by the year 2015 and by almost one million persons annually around the year 2030. An even larger gap relative to the total size of the labour force is projected for Japan over the same period.

These imbalances could result in large adjustment costs for employers in terms of managing an increased number of workers retiring while trying to recruit from a shrinking pool of labour. It could lead to labour shortages in certain areas, especially in the provision of health care and long-term care. In many countries, a substantial number of public-sector workers will be retiring over the next couple of decades, and replacing these workers could worsen recruitment difficulties in the private sector (Hoj and Toly, 2005).

3. The key role of promoting work at an older age

A key factor in meeting these economic challenges will be to remove barriers to labour force participation, especially with respect to older people. If older workers could be encouraged to remain in work longer, this could result in a triple dividend: it would boost labour force growth and help offset the negative impact of population ageing on economic growth; it would improve public finances through reduced public expenditures associated with early retirement while increasing tax revenues; and it would also help employers by smoothing the pace at which they will have to replace retiring workers with new entrants. Furthermore, early retirement is not always a voluntary choice and may cause hardship for many older workers in the form of social exclusion and reduced opportunities to ensure an adequate income in retirement. Thus, policies that help older workers to remain longer in the work force can also have a more direct impact on improving welfare at an individual level.

Turning back the tide of early retirement is only one of several possible responses to ageing; other policies that result in either faster growth in the working-age population (*e.g.* through increased immigration) or an increase in productivity growth (*e.g.* by investing in skills and human capital and R&D and innovation) would also help to offset the negative impact of ageing on public finances and growth in GDP per capita. But each of these approaches has its strengths and limitations and should be seen as playing a complementary role to policies that seek to encourage greater labour force participation as a way of coping with population ageing (see Box 1.1).

Box 1.1. **The three Ps to coping with population ageing**

Growth in GDP per capita can be decomposed into three main factors, which have sometimes been called the three “Ps”: Population; Productivity; and Participation. The negative impact of population ageing on growth can therefore be potentially offset by policies which seek to change the future path of each of these factors.

Population. The principal reason for the negative impact of ageing on the growth of GDP per capita is the decline in the size of the prime working-age population (20-64) relative to the population in the younger and older age groups. Therefore, one response to ageing is to seek to change the age structure of the population through increases in either fertility or migration. However, there are several limitations to this approach. First, even if fertility could be increased – and there is considerable debate on how this could be best achieved – this would only begin to have a favourable impact on reducing the economic burden on the working population in the medium to longer term. In the short term, it would actually lead to a rise in the economic dependency ratio. Conversely, an increase in immigration, if substantial, would have an immediate impact on lowering economic dependency ratios, especially if it is limited mainly to labour migration, *i.e.* immigration for the purposes of employment. However, its impact on dependency rations over the medium to long term is less clear cut since the demographic behaviour of migrants and their descendents tends to converge to national patterns of fertility and mortality. Thus, a sustained and potentially large increase in the rate of migration would be required to alter significantly the long-term age structure of the population. This may be difficult to achieve both politically and socially and could entail large costs (as well as benefits) in terms of helping larger numbers of migrants to integrate successfully into each receiving country’s economy and society. Nevertheless, as suggested in the European Commission’s Green Paper on managing economic migration (EC, 2005), there is undoubtedly a role for some increase in immigration to cope with potential labour shortages.

Productivity. A permanent increase in the rate of growth in labour productivity would help offset the negative impact of population ageing on economic growth – essentially, a decline in the number of workers relative to the total population could be offset by faster growth in each worker’s productivity. However, its impact on public finances is likely to be less substantial than its impact on economic growth. In essence, it would tend to be matched by a bigger increase in real wages which in turn would feed through to a larger rise in public expenditures since these are either directly or indirectly linked to wage growth (*e.g.* as a result of the public-sector’s own wage costs or through the provision of services that have a large labour input or because welfare benefits and pensions are indexed to wages). Thus, although workers (and non-workers) would experience a larger increase in their gross incomes if productivity grows more rapidly, this would be offset to some extent by higher taxes to finance bigger increases in public expenditures.

Participation. If labour supply can be more fully mobilised, this would reduce economic dependency ratios and would improve public finances as well as increase potential economic growth, both in the short term – depending on the speed of the increase – and over the long term. Moreover, there is potential for sustained increases in participation rates to occur among the older age groups in line with increases in disability-free life expectancy. Nevertheless, given the scale at which the population in the core working-age groups (20-49) is likely to decline relative to the older population, even quite large increases in participation rates in the older age groups are likely to have only a modest impact on economic growth per capita, although the impact on public finances would be much larger.

Source: This box is based on a number of studies, including: Australian Productivity Commission (2005); Finnish Prime Minister’s Office (2005); and Oliveira Martins *et al.* (2005).

Notes

1. These country differences partly reflect the wide range of national assumptions about future changes in fertility, migration and longevity that underlie the projections in Figure 1.1, as well as current and past differences in these demographic factors.

2. A more traditional indicator has been the old-age dependency ratio which refers to the ratio of the population aged 65 and over to the population aged 20 to 64 (or more traditionally 15 to 64). However, not all people in the younger age group are working and not all older people have retired, and these proportions vary considerably across countries.

3. The denominator used in Figure 1.2 refers to the labour force rather than employed persons as scenarios were only constructed for the size of the future labour force. Thus, the number of retirees per worker or the number of all inactive persons per worker is underestimated by the inverse of one minus the unemployment rate. For example, if the unemployment rate is 5%, the ratio of retirees to workers is higher by around 5% than the ratio of retirees to the labour force and it would be around 11% higher if the unemployment rate was 10%.

4. However, the bulk of the rise in health expenditures is likely to come from a continuation of the long-term trend towards a rising share of GDP being devoted to health independently of demographic trends – partly reflecting the introduction of expensive new drugs and new types of medical interventions and techniques.

5. Differences across countries in the level of the ratio will also be determined by participation patterns in the younger age groups and by gender in each country.

6. These estimates, while crude, correspond in terms of their order of magnitude with more sophisticated national estimates. For instance, in Australia, it has been estimated by the Productivity Commission (2005) that if labour productivity growth remains unchanged, GDP per capita growth could slump to around 1.25% a year by the mid 2020s – roughly half its rate in 2003-04.

Chapter 2

Working after 50

Key messages: In all countries, older workers face a range of work disincentives and barriers to employment which need to be tackled by a comprehensive agenda of reform. However, there is also considerable diversity in the labour market situation of older people both across countries and within countries which needs to be factored into this agenda. A number of factors are working in favour of better employment opportunities for older workers in the future but there is no room for complacency.

In Chapter 1, it was argued that mobilising more fully the labour resources of older people will play a key role in coping with the economic and social challenges arising from population ageing. This chapter examines in more detail the current and prospective labour market situation facing older workers. The diversity of country situations with respect to work, unemployment and inactivity is presented in Section 1. However, as shown in Section 2, there is also considerable diversity among older people in their work and retirement decisions within each country. Future labour market prospects for older workers are discussed in Section 3.

1. Diversity across countries

In this section, differences across countries in the labour market situation of older workers are highlighted. These cross-country comparisons not only serve to provide a benchmark for measuring the extent to which the labour resources of older people are underutilised but also to identify particular areas where there older workers may be facing work disincentives and barriers to employment.

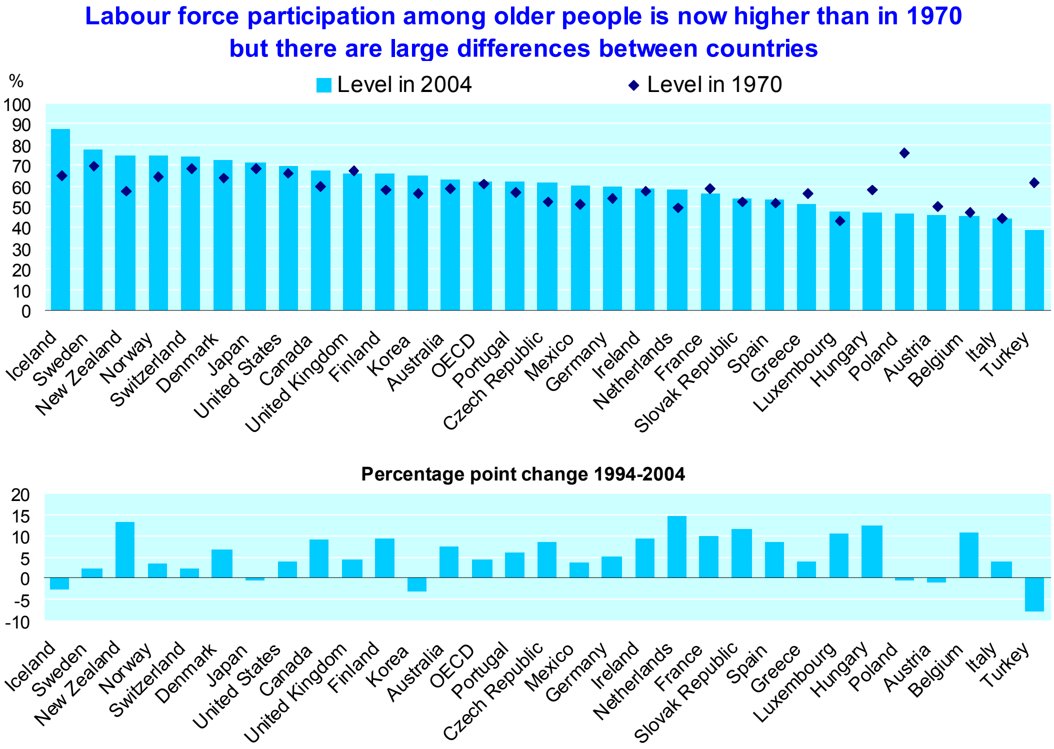
Participation

Currently, the extent to which people continue to participate in the labour market after the age of 50 varies substantially across OECD countries, ranging from less than 50% to more than 70% (Figure 2.1). Since 1970, most countries have experienced a rise in the proportion of older people aged 50-64 who are working, with the notable exceptions of Hungary, Poland and Turkey. However, in many countries, this reflects increases in participation rates since the mid-1990s following declines over the 1970s and 1980s. Indeed, over the period 1994-2004, participation rates among older people rose in almost all OECD countries with a particularly large increase in New Zealand.

Underlying the changes over time in participation rates for all older people aged 50-64 are very different trends by gender (Figure 2.2). Participation rates for older men have fallen substantially since 1970 in nearly all OECD countries but by much more in some countries than others. Thus, whereas there was substantial similarity across countries in 1970, there are currently substantial differences. For the OECD area as a whole, whereas fewer than 1 in 6 older men were not in the labour force in 1970, this had risen to more than 1 in 4 in 2004.

In stark contrast, there has been a large trend rise in the participation of older women in virtually all OECD countries, which accounts for the rise over time in the participation rate for all persons aged 50-64. This reflects a general trend towards higher participation in successive cohorts of women such that rises in participation rates in the younger age groups have subsequently fed through to an increase in the older age groups. This increase has been much bigger in some countries than in others. Consequently, there is a substantial gap between the bottom range of OECD countries where the participation rate of women aged 50-64 is 35% or less (Belgium, Greece, Italy, Luxembourg, Spain, Turkey) and those at the top of the scale where it is 65% or higher (Denmark, Finland, Iceland, New Zealand, Norway, Sweden).

Figure 2.1. **The labour force participation rate of older people varies considerably across OECD countries**[a]

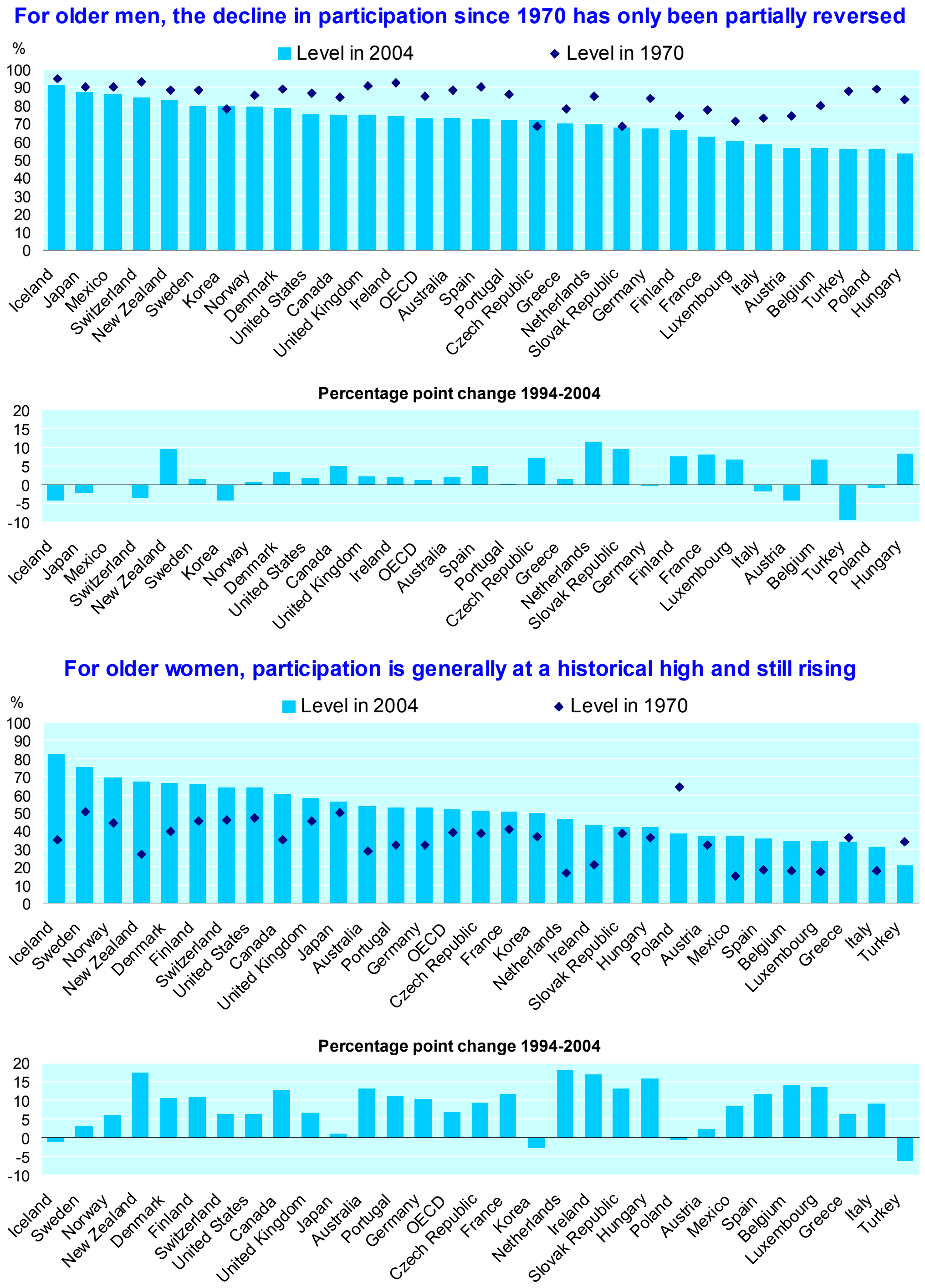


a) The data refer to labour force participation rates of all persons aged 50-64. The data for 1970 refer to: 1975 for Iceland; Czechoslovakia for both the Czech and Slovak Republics; and Western Germany only for Germany.

Source: OECD estimates based on the European Union Labour Force Survey, other national labour force surveys and census data for 1970 for some countries.

These large cross-country differences in participation rates of older men and women may reflect more general differences across countries in participation rates in all age groups. This can be checked by comparing across countries the level of participation rates for the older age group 50-64 with the corresponding level for the age group 25-49 (Figure 2.3). For men, there is no significant correlation between the two age groups; this suggests that cross-country differences in the participation of older men can largely be explained by differences specific to the labour market for older workers, *e.g.* retirement behaviour. However, for women, there is a reasonably strong (and statistically significant) positive correlation between the two age groups, which suggests that lower participation rates for older women in one country than in another reflect not only differences in retirement behaviour but also lower participation rates for women more generally.

Figure 2.2. **Participation rate trends differ for older men and women**[a]



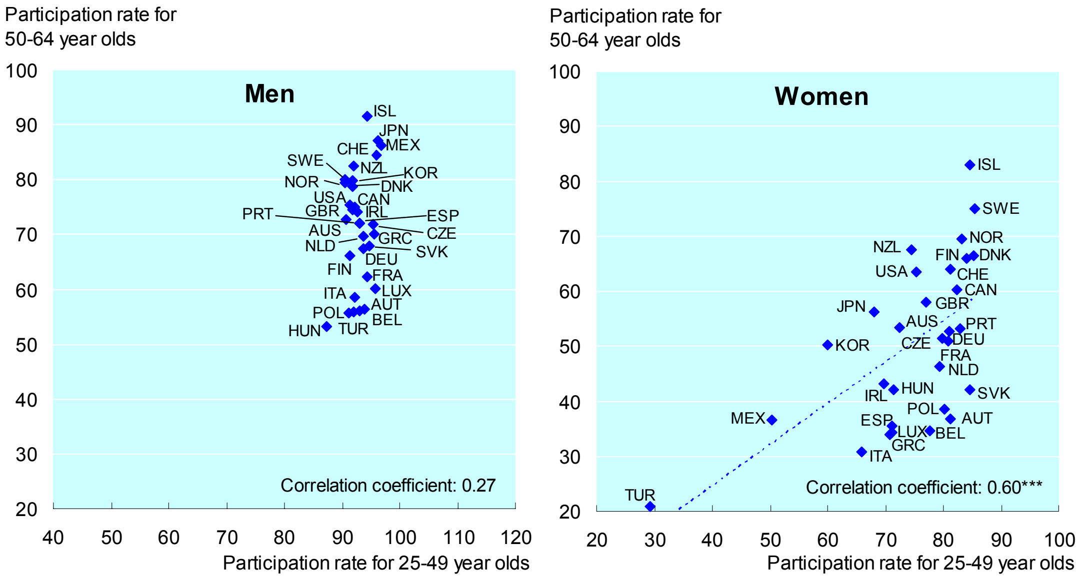
a) The data refer to labour force participation rates of men and women aged 50-64. The data for 1970 refer to: 1975 for Iceland; Czechoslovakia for both the Czech and Slovak Republics; and Western Germany only for Germany.

Source: OECD estimates based on the European Union Labour Force Survey, other national labour force surveys and census data for 1970 for some countries.

Figure 2.3. **The link between participation at younger and older ages[a]**

Percentages

Across countries, higher participation for women at younger ages is strongly associated with higher participation at older ages, but for men there is no such connection



*** statistically significant at 1% level.

a) The data refer to the year 2004.

Source: OECD estimates based on the European Union Labour Force Survey and other national labour force surveys.

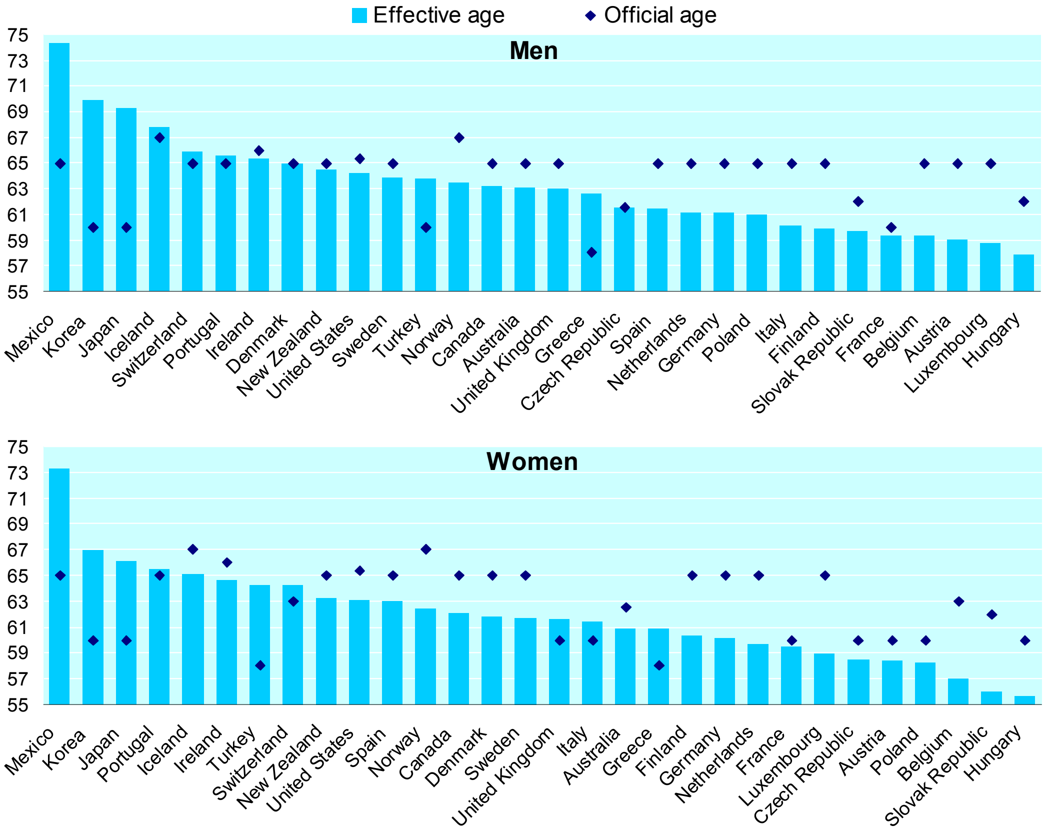
Thus, any explanation of low participation rates among older women needs to take account of the reasons for low participation rates of women in the younger age groups as well as the various work disincentives and obstacles to employment that are facing older workers more generally. Even within each country, changes over time in participation rates for older women will reflect both a cohort effect of rising participation rates for women across generations as well as changes in retirement behaviour.[1]

Retirement before the (official) age of retirement

One indicator of retirement behaviour that abstracts from more general factors affecting the level of participation rates is the average effective age at which older workers withdraw from the labour force – for the sake of brevity, this will be referred to as the effective age of retirement.[2] In most countries, the effective age of retirement is well below the official age for receiving a full old-age pension (Figure 2.4). Japan and Korea are notable exceptions where the effective age of retirement is close to 70 for men despite an official retirement age of 60. In other countries, men on average are still in the workforce at age 65 in Denmark, Iceland, Ireland, Portugal and Switzerland, but have left work by their 60th birthday in Austria, Belgium, France, Hungary, Luxembourg and the Slovak Republic. Women, in general, retire around one to two years earlier than men.

Figure 2.4. **The effective age of retirement versus the official age[a]**

In many countries, workers withdraw from the labour market well before the official age of retirement



a) The effective age of retirement refers to the average age at which persons aged 40 and over left the labour force during the period 1999-2004. The official age of retirement refers to the earliest age in 2004 at which workers are entitled to a full old-age public pension irrespective of contributions and work history.

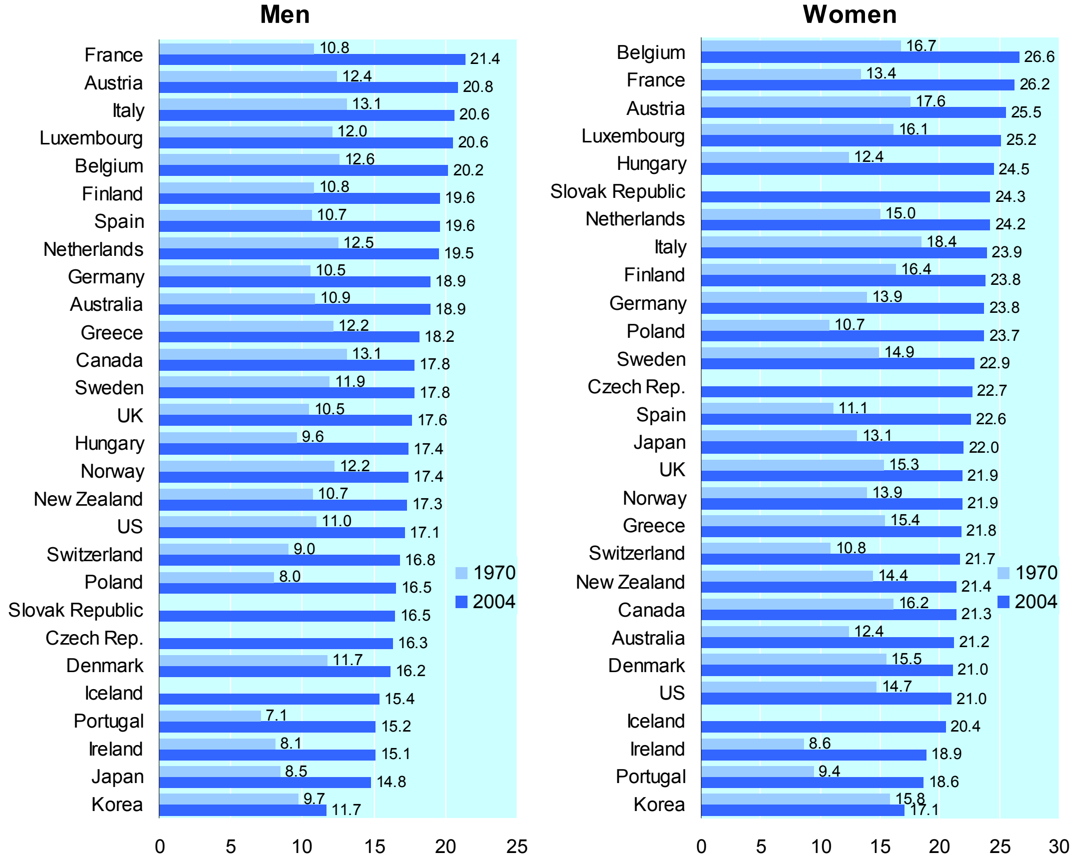
Source: OECD estimates based on the European Union Labour Force Survey and other national labour force surveys.

In almost all countries, the effective retirement age has declined substantially since 1970. But the trend decline has been interrupted recently. Over the past decade, most countries have either experienced a flattening out of the trend or a small upturn. But apart from Japan and Korea, the effective retirement age remains well below the levels of the 1960s and 1970s. These changes over time in the effective retirement age have mostly occurred in parallel fashion for both men and women, despite the trend increase in female participation rates.

The long-term decline in the effective retirement age, together with increases in longevity, has led to a considerable increase since 1970 in the number of years that workers can expect to spend in retirement (Figure 2.5).[3] Whereas men on average in OECD countries could expect to spend less than 11 years in retirement in 1970, this has risen to just under 18 years in 2004. For women, the corresponding increase has been from around 14 years to 22½ years. There are considerable country differences around these OECD averages, which have grown larger over time. For example, French men retiring in 2004 could expect to spend more than 21 years in retirement compared with less than 12 years for Korean men – in 1970, the corresponding difference between these two countries was only around one year. Given that longevity is projected to continue to increase, the number of years that workers can expect to spend in retirement is likely to rise further which suggests a need for some urgent rethinking about the whole meaning of retirement as well as the official age of retirement that underpins each country's pension system.

Figure 2.5. **Expected years in retirement**[a]

In most countries, both men and women can now expect to spend considerably more years in retirement than in 1970



a) The data refer to life expectancy at the average effective age of retirement.

Source: OECD estimates.

Extensive versus intensive adjustments in labour supply

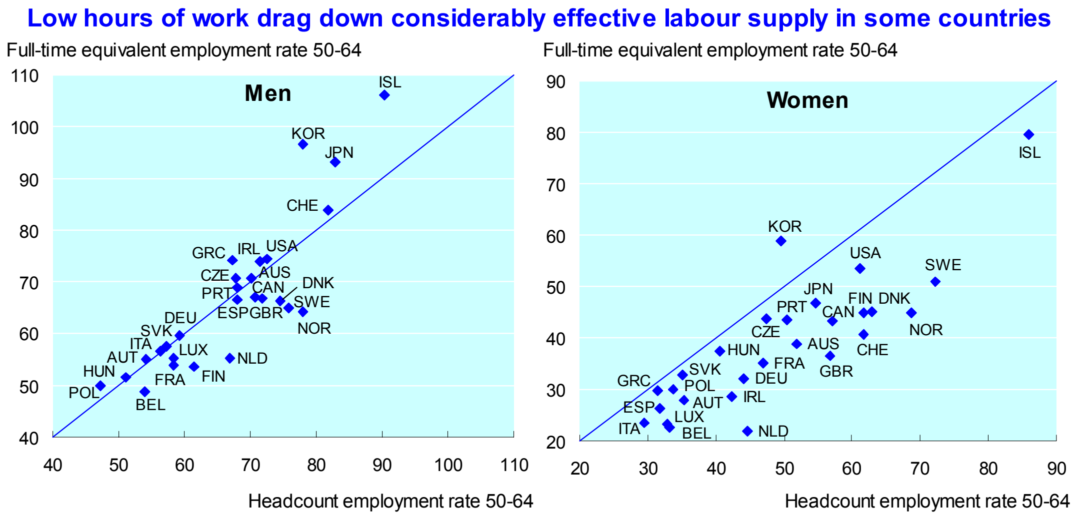
So far, labour supply has been looked at in the "extensive" dimension, *i.e.* in terms of a headcount of older persons who are still active in the labour market. However, the other aspect of labour supply is the "intensive" dimension, *i.e.* the number of hours that are effectively worked. The relationship across OECD countries between these two aspects of labour supply for older people is shown in Figure 2.6, where the standard employment rate on a head-count basis (*i.e.* the employment-to-population ratio) is compared with the employment rate adjusted to a full-time-equivalent basis (*i.e.* adjusted by the ratio of average actual weekly hours of work in all jobs to a full-time work week of 40 hours).[4] Countries below the diagonal are those where average actual weekly hours of work are less than 40.

For older men, the countries shown in Figure 2.6 are evenly grouped around the diagonal. Just a few countries (Korea, Iceland and Japan) are significantly above the diagonal because of long average hours of work. In contrast, there is a considerable drop in the adjusted employment rate in the Netherlands and the Nordic countries. For the Netherlands, this reflects a high incidence of part-time work (OECD, 2005a), but in the Nordic countries it mainly reflects substantial work absences, especially because of sickness in Norway and Sweden (OECD, 2003a, 2004a). Thus, even if the labour supply of older people appears to be highly mobilised on a head-count basis in the Nordic countries (except in Finland), there may be scope nevertheless to increase labour supply at the intensive margin by increasing the average number of hours worked.

For older women, there is a drop in employment rates on an adjusted basis in all countries, apart from Korea. On average, older women work fewer hours per week than older men in all countries and consequently much less than 40 hours per week, especially in the Netherlands, the Nordic countries, Switzerland and the United Kingdom. Thus, there may also be some scope in most countries to mobilise more fully the effective labour supply of older women as well.

Figure 2.6. **Headcount versus full-time-equivalent employment rate for older people[a]**

Percentages



a) The data refers to the year 2004 (2003 for Germany and Luxembourg and 2002 for Iceland). The headcount employment rate is the ratio of employment to the population. The full-time equivalent employment rate adjusts the headcount rate by the ratio of average actual weekly hours of work in all jobs to a full-time work week of 40 hours.

Source: OECD estimates based on the European Union Labour Force Survey and other national labour force surveys.

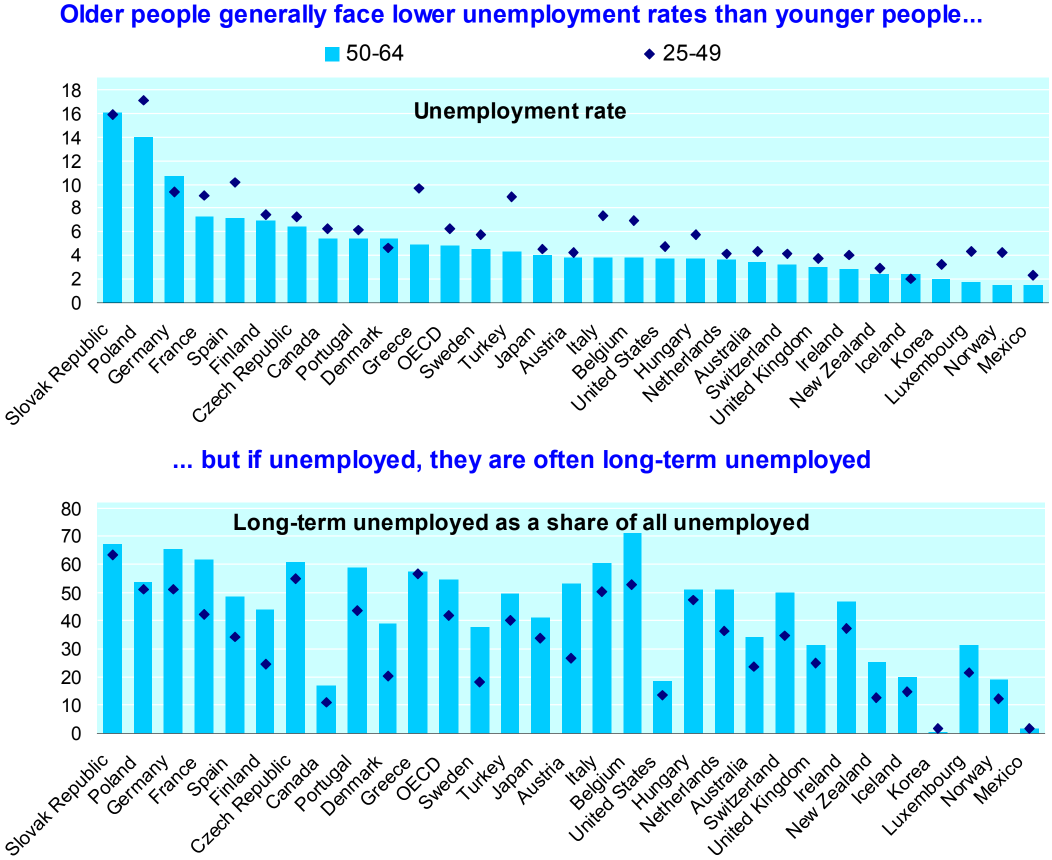
Unemployment among older workers

Policies that attempt to reverse the tide towards early retirement will not be very effective in boosting economic growth if higher participation rates among older people are not translated into higher rates of employment but instead into higher rates of unemployment. How likely is this? In 2004, the unemployment rate for older workers was lower than for workers aged 25-49 in most OECD countries with the notable exception of Germany (Figure 2.7), and much lower than for youth. However, if the risk of unemployment is lower for older workers, the consequence of job loss appears to be more severe in terms of a longer duration of unemployment. In almost all countries, the incidence of long-term unemployment is higher – and often substantially higher – for the older unemployed than for the unemployed aged 25-49.

Moreover, relative to their previous jobs, older job losers may suffer substantially greater wage losses in their new jobs than younger job losers. For instance, among displaced workers in the United States, older workers not only face a lower probability of re-employment than younger workers but experience much larger wages losses (OECD, 2005b). The country reviews for Japan and Korea also suggest that older workers face particularly steep declines in earnings following job loss (OECD, 2004b, 2004c).

Figure 2.7. **The older unemployed**[a]

Percentages



a) The data refer to 2004 (2002 for Iceland). Long-term unemployment is defined as a current spell of unemployment of one year or longer.

Source: OECD estimates based on the European Union Labour Force Survey and other national labour force surveys.

Labour dynamics among older workers

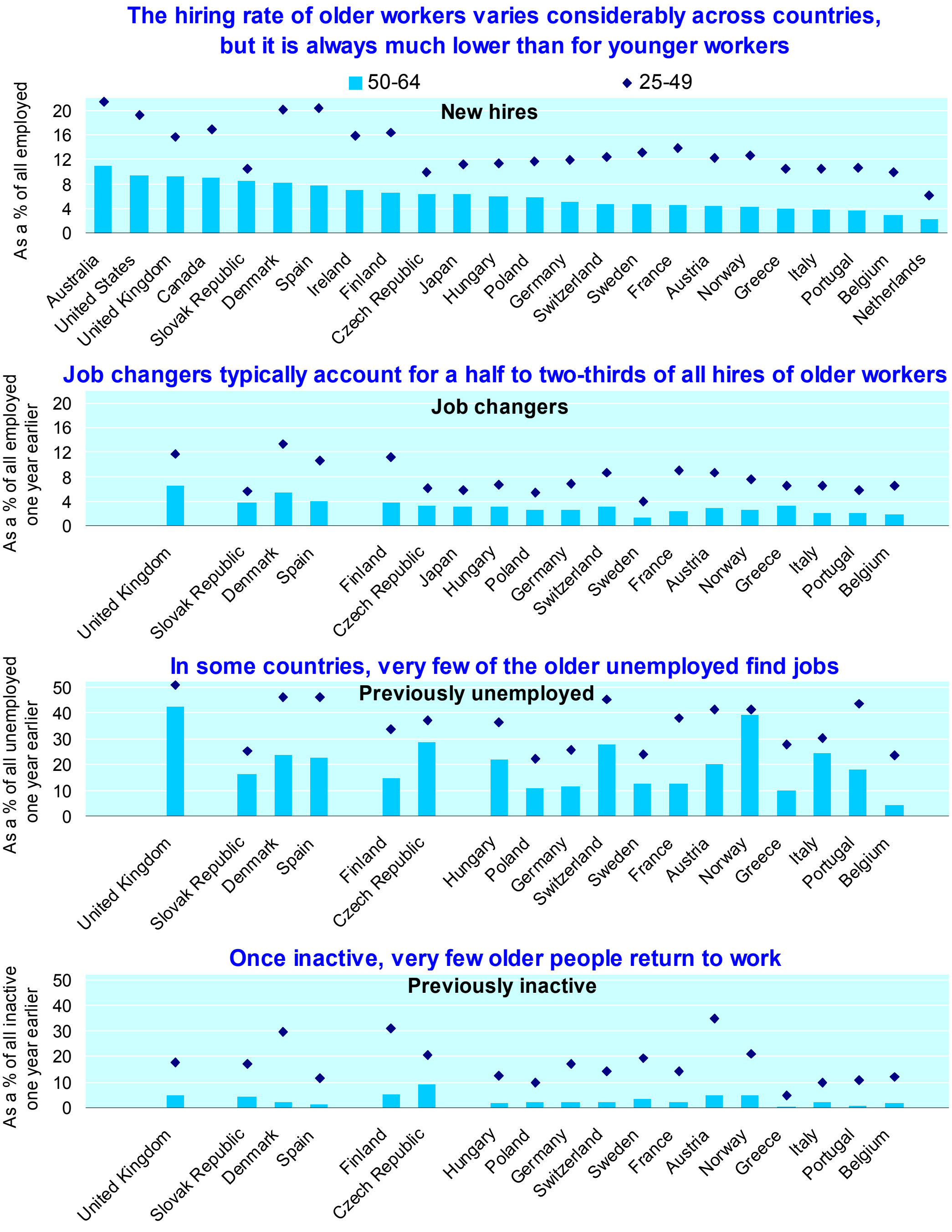
A lower unemployment rate for older workers relative to younger workers does not necessarily mean that older workers face a lower risk of job loss than younger workers; it may reflect instead that older workers are more likely to withdraw from the labour market altogether following job loss. Similarly, a relatively high incidence of long-term unemployment may indicate that the older unemployed face greater barriers to finding a job than their younger counterparts or, as discussed in the next chapter, it may also reflect weaker incentives to find work in some countries because of less stringent eligibility requirements for benefits for the older unemployed. These different possibilities can be explored using data on labour market transitions over the course of a year. These data can also be used to examine more generally how well the labour market functions for older workers in terms of labour mobility. If there are relatively few older workers switching jobs, this could imply that older workers are mostly locked into their current jobs and have little possibility to shift to other jobs as they approach retirement. And if there are relatively few transitions from unemployment or inactivity into employment, this could indicate that older workers are locked out of jobs once they leave their existing jobs.

A snapshot of one aspect of labour mobility is provided in Figure 2.8, which shows a cross-country comparison of the overall hiring rate for older workers ("new hires"), decomposed into job mobility ("job changers") and the probability of finding a job for older unemployed or inactive people. It focuses on the age group 50-64 since after this age most people will have retired and so no longer be actively looking for work. "New hires" are proxied by the number of workers with less than one year of job tenure.[5]

A number of points emerge from these comparisons:

- In all countries, labour market mobility in terms of new hires is lower for older workers than for workers aged 25-49. However, in a number of countries such as the Netherlands, Belgium, Italy and Portugal, the hiring rate of older workers is particularly low at around 4% percent or less. In contrast, it is well above the cross-country average in Australia, Canada, the Slovak Republic, the United Kingdom and the United States.
- Most new hires among older workers are accounted for by "job changers", *i.e.* older workers who were working one year previously, rather than by shifts into employment by older workers who were either previously unemployed or inactive.
- In nearly all countries, once unemployed, the probability of finding a job is much lower for the older unemployed than for those aged 25-49 (and lower still relative to youth). In a number of countries, less than 15% of older people who reported being unemployed a year earlier were currently working (Belgium, Finland, France, Germany, Greece, Poland and Sweden). This compares with over 40% in the United Kingdom.
- Finally, for older workers in all countries, the shift into inactivity is very much a one-way street. Once inactive, typically 5% or less of older people move back into work in contrast with 10 to 20% or more rates of transition among prime-age workers.

Figure 2.8. **Hiring of older workers[a]**



a) New hires refer to all workers at the time of the survey with job tenure of less than one year. Job changers refer to those newly hired workers who were also employed one year before. Previously unemployed/inactive refer to all persons employed at the time of the survey but who were unemployed/inactive one year before. The data refer to 2004 (2002 for Japan and 2003 for Canada). For Australia and Canada the data refer to employees only.

Source: OECD estimates based on the European Union Labour Force Survey, other national labour force surveys and, for Japan, the Structure of Employment Survey.

The other face of job mobility is moves out of employment. In Figure 2.9, exits from employment are distinguished between those that occur for voluntary reasons (job quits) and those for involuntary reasons (job loss).[6] Several broad patterns can be distinguished:

- In almost all countries, the rate of job exit is much higher for older workers than for workers aged 25-49. However, this is mainly explained by higher quit rates for the older age group than for the younger age groups, which may reflect transitions into early retirement[7] or into normal retirement in those countries with a relatively low official age of retirement.

- In terms of job-loss rates, the differences between younger workers and older workers are smaller. Job loss is generally somewhat more common for workers aged 25-49 than for older workers in most countries, with the notable exceptions of Poland.[8]

- To some extent, country differences in job-loss rates for workers aged 25-49 match those for workers aged 50-64.

A comparison across countries along both the hiring and firing dimensions suggests that the flip side to a more dynamic labour market for older workers in terms of above-average hiring rates is above-average rates of job loss (Figure 2.9). Thus, across countries there is a positive and statistically significant relationship between hiring and firing rates for both men and women.[9] The relationship can be used as a rough guide to whether the hiring rate for older workers in each country is particularly low or not given the risk they face of job loss. It identifies countries such as Austria, Belgium, France, Luxembourg, the Netherlands (for men) and the Slovak Republic as ones where hiring rates appear to be on the low side. This could reflect greater employer reluctance in these countries to hire older workers. Conversely, countries such as Denmark, Iceland, Spain, the United Kingdom and the United States appear to have hiring rates for older workers that are higher than "warranted" with respect to their firing rates.

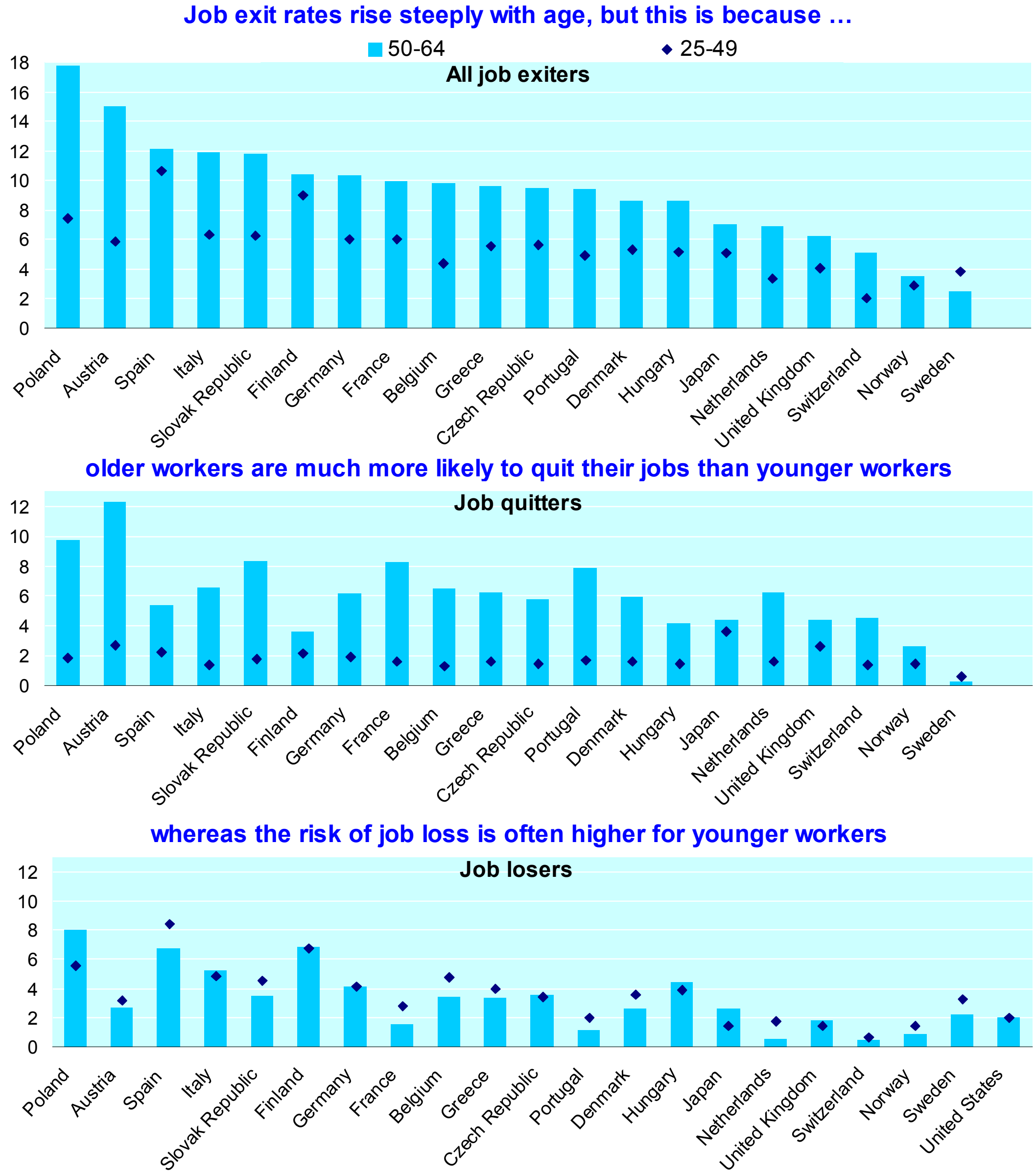
Overall, these comparisons of labour mobility suggest that in those countries such as Austria, Belgium, France, Luxembourg and the Netherlands, where employment rates among older people are particularly low, the labour market for older people is not very dynamic. While the risk of job loss is low, hiring rates of older workers are also low, there is little mobility from one job to another and the chances of older inactive or unemployed people returning to work are minimal. Faced with this situation, early retirement may be the only realistic option that older workers in these countries face following job loss.

In contrast, the labour market for older workers in Denmark, the United Kingdom, and to some extent in Spain (possibly because of greater use of temporary work), appears to be more dynamic. Relative to the other countries shown in Figure 2.10, the hiring rate for older workers is higher than average and the probability of older people returning to work from unemployment or inactivity is also higher than average.

Not all countries conform to either of these two patterns, however. In the Czech Republic for instance, participation rates of older people are low and yet the labour market for older workers appears to be more dynamic than in Belgium – the overall hiring rate of older workers is higher, as is the probability of finding work for the older unemployed. There also appear to be some signs of labour market rigidities in countries such as Norway and Sweden with relative high employment rates among older people but where both hiring and firing rates of older workers – especially for women – are low relative to many other OECD countries.

Figure 2.9. **Job quits and job loss among older workers[a]**

Percentage of all employees (including former employees)

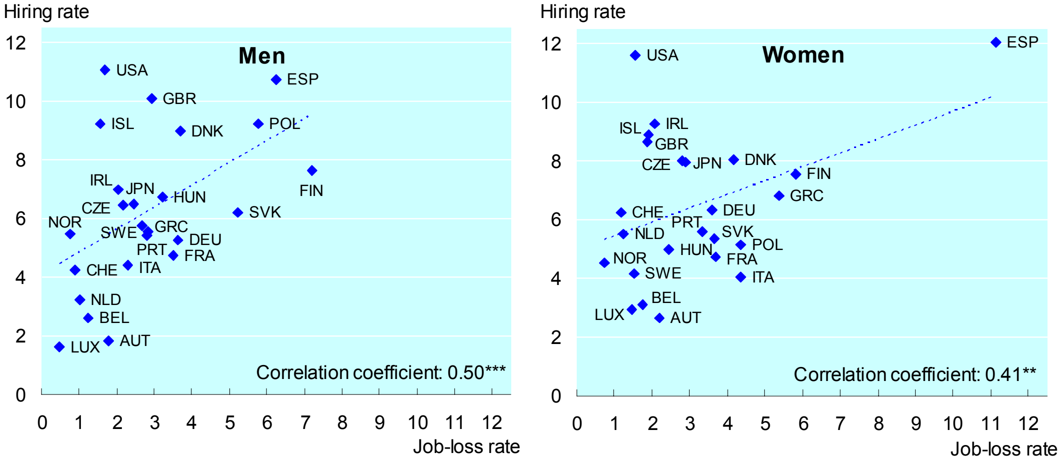


a) The data refer to all persons aged 50-64 who are currently not employed but who had been working in a wage and salary job during the previous 12 months. Job losers refer to workers who lost their jobs involuntarily and job quitters to those who left their job voluntarily. The data refer to 2004 (2002 for Japan).

Source: OECD estimates based on the European Union Labour Force Survey, other national labour force surveys and, for Japan, the Structure of Employment Survey.

Figure 2.10. **Hiring versus firing of older workers**[a]

Controlling for differences across countries in firing rates, hiring rates of older workers are very low in some countries



***, ** statistically significant at 1% and 5% levels, respectively.

a) The data refer to older workers aged 50-64. The hiring rate refers to the proportion of all employees with less than one year of job tenure. The firing rate refers to the proportion of all persons currently not working but who were working as employees during the previous 12 months and lost their jobs involuntarily. Where possible, the data refer to 10-year averages over the period 1995-2004, except for Japan where the data refer to 2002 only.

Source: European Union Labour Force Survey for the European countries; 2002 Employment Status Survey for Japan and the Current Population Survey for the United States.

Where do older workers go when they leave work?

Given that many older workers leave the labour force altogether once they leave their jobs, it is of interest to identify the pathways they use to withdraw from the labour force. This can be examined by considering the reasons given in labour force surveys for not working. Four important reasons for not working are:

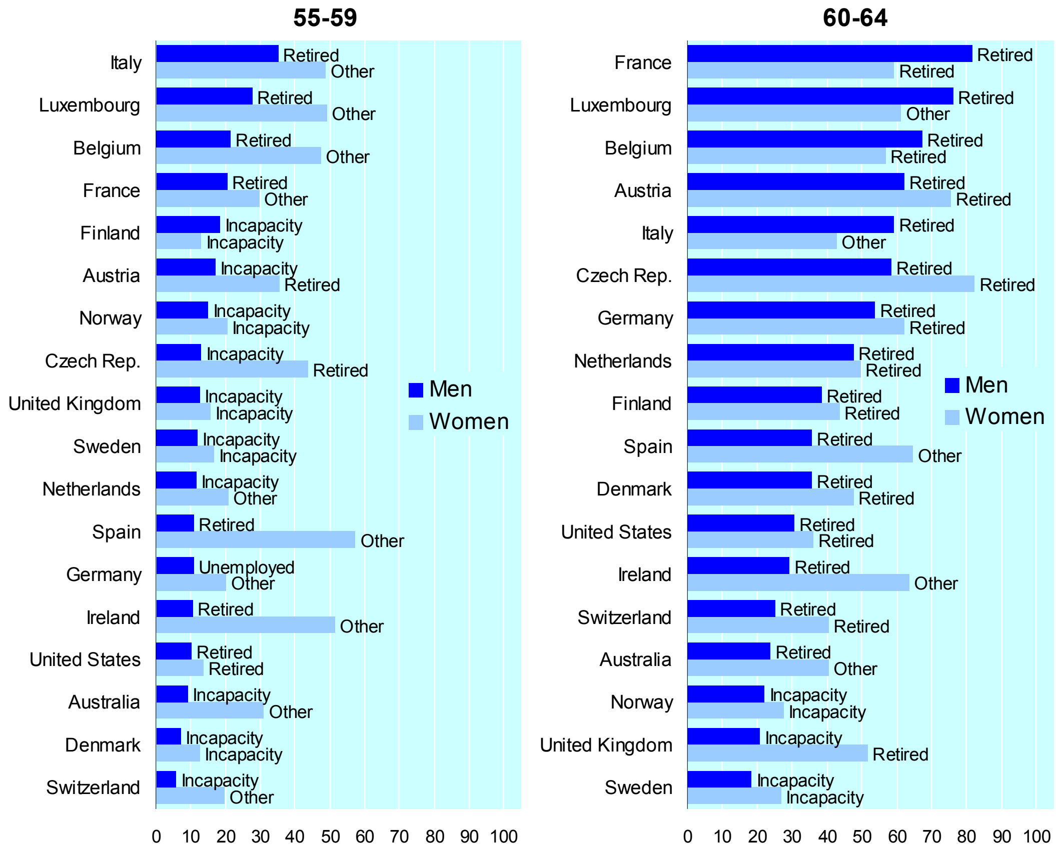
- *Sickness or disability*, where someone is considered not to be fit for work;
- *Retirement*, where a person has withdrawn permanently from the workforce;
- *Other reasons*, including household or caring roles that keep someone voluntarily out of the workforce; and
- *Unemployment*, where an older person is actively seeking work but unable to find it.

It is not always easy to distinguish clearly between these reasons in ways that are internationally comparable. For example, older persons who have been out of work for a long time may be more likely to classify themselves as disabled rather than unemployed in systems where it is easier to access disability benefits than unemployment benefits in such circumstances. Similarly, people who have in reality withdrawn permanently from the workforce may be influenced in whether they describe themselves as "retired" by the timing of entitlement to a pension. Nevertheless, these comparisons provide a useful snapshot of the orders of magnitude of the importance of the different pathways used across the review countries to leave the workforce at a relatively young age.

Figure 2.11. **The main reason why older people are not working differs across countries**[a]

Older people not working by main reason as a percentage of all older people

In some countries the main reason given is retirement, in others it is because of incapacity or, especially for women, family duties



a) The data refer to 2004.

Source: European Union Labour Force Survey for European countries; national labour force surveys for the other countries.

Based on Figure 2.11, the following observations can be made:

- Explicit early retirement plays an important role from the age of about 55. In the EU-15 countries, 50% of people aged 60-64, and 14% of those aged 55-59 report that they are retired; but in the Czech Republic and Italy, for example, over a quarter of people in their late 50s report that they are already retired.
- Sickness and disability, together with associated benefits, play an important role in some countries in keeping people out of work. For example, in the United Kingdom, about a third of men outside the labour market in their 50s would like to work, but the great majority of these say that they are not looking for work because of long-term illness. In Sweden, two-thirds of all men and women in their late 50s outside the labour market report they are not working because of illness or disability. This represents 12% of all Swedes in their late 50s.

- In some countries, *e.g.* Italy, Ireland and Spain, traditional gender roles continue to influence labour market participation strongly. For example, in Italy, 43% of women say that they do not work because of family responsibilities and other personal reasons – compared with only 6% in Finland.

One limitation of these comparisons is that they do not capture directly the transitions older workers make between work and non-work. Some older people may have initially left a job because of illness or disability but are currently retired on an old-age pension. Others, such as housewives, may never have worked previously. Therefore, more direct measures of transitions between work and non-work are required. In the absence of internationally comparable longitudinal data,[10] one way to approach this is to use the information available in those labour force surveys where respondents who are not working record the length of time since they last worked.

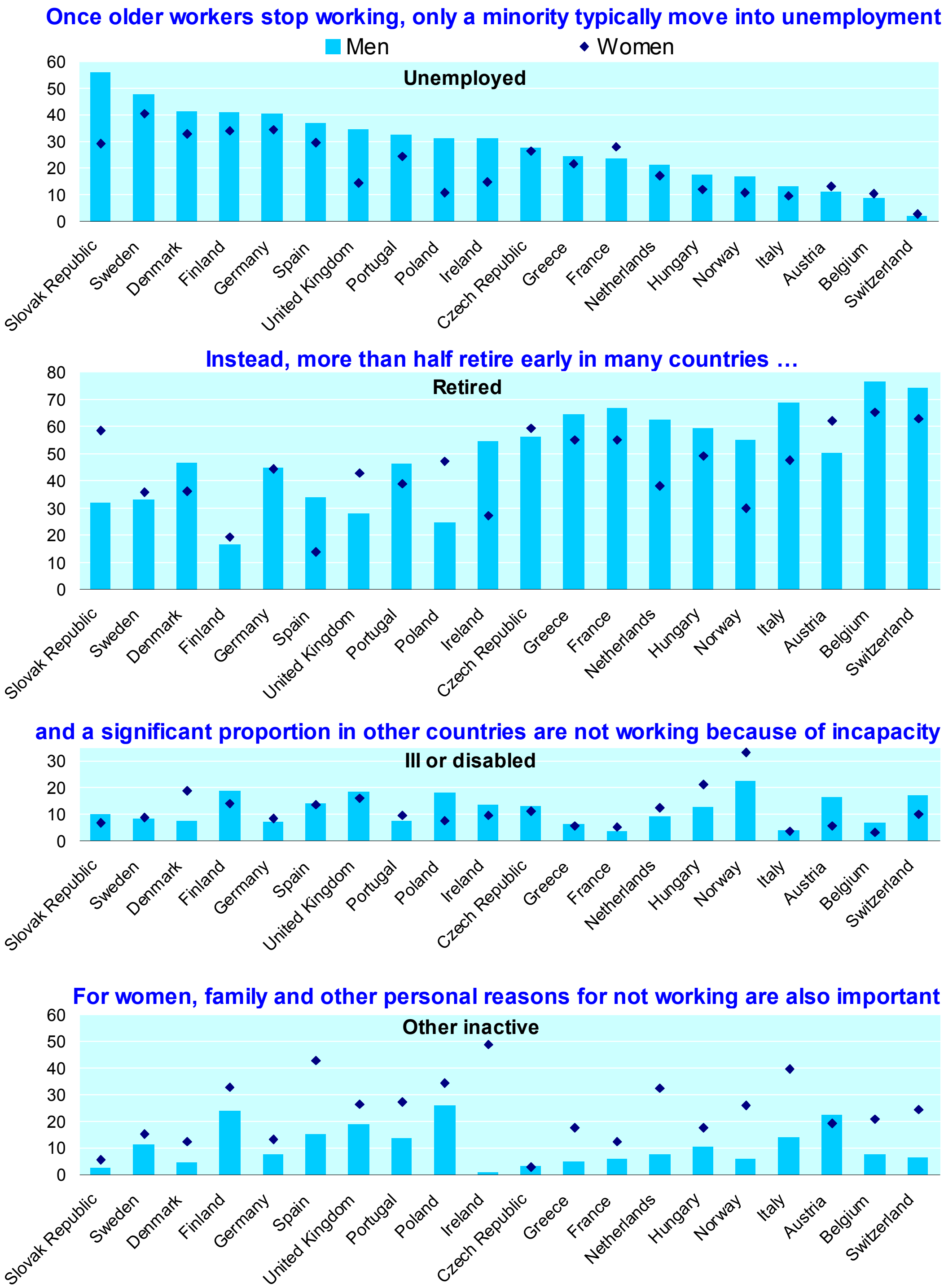
In Figure 2.12, the various destinations are shown for older job leavers, *i.e.* older workers (aged 50 to 64) who reported that they were not currently working but who had left a job during the previous 12 months. As shown in the top panel, except for the Slovak Republic, less than half of this group reported that they were currently unemployed. This proportion varies considerably however, from less than 10% in Belgium and Switzerland to around 50% or more in Sweden and the Slovak Republic. In all countries, this proportion is also much smaller than for workers aged 25-49, which would partly explain why unemployment rates are typically lower for older workers than for younger workers. Thus, while job loss rates are not too dissimilar for prime-age and older workers, inflow rates into unemployment are much lower for the older age groups. This helps to hold down unemployment rates and, for most countries, is only partly offset by the high average duration of unemployment for the older age groups.

Instead of moving into unemployment, the bulk of older job leavers quit the labour market altogether and, typically, the largest proportion of these workers report being retired. Thus, even in countries like Austria, Belgium and the Netherlands, where the official age of retirement is 65, more than half of all older job leavers (aged less than 65) end up as retired within a year of leaving employment. This pattern of early retirement also occurs even among the relatively younger age groups among the older job leavers. In France, for example, where a full pension can be obtained at 60 (for workers with a long insurance record), the bulk of job leavers aged 55-59 are retired and this is also the case in Italy even for the age group 50-54.

The high proportion of older job leavers shifting into retirement well before the official retirement age reflects a variety of formal early retirement schemes. However, in other countries such as Finland, Norway and the United Kingdom, these transitions also point to the importance of other informal pathways into early retirement such as sickness and disability benefits.

Figure 2.12. **Pathways out of employment for older workers**[a]

As a percentage of all persons not working but who left a job during the previous 12 months



a) The data refer to 2004 and to persons aged 50-64.

Source: OECD estimates based on the European Labour Force Survey.

2. Diversity within countries

Not only does the labour market situation of older people vary considerably between countries but there is considerable diversity within each country. Thus, labour force status, pay, working conditions and retirement decisions vary widely among older people in each country according to their age, skills, work experience, geographical location, household status (*e.g.* whether married or single) and a range of other personal factors.

Not surprisingly, labour force participation in all countries declines after the age of 50 (Figure 2.13, top panel), but in some countries the decline is particularly large and very few people are working after the age of 65. For instance, whereas between a quarter and a half of all persons aged 65-69 were still working in Iceland, Japan, Korea, Mexico, New Zealand, Portugal and the United States, this proportion falls to less than one in 20 in many European countries.

In nearly all countries, participation rates are also lower on average for older women than for older men, but this gender gap is much larger in some countries than others (Figure 2.13, middle panel). Thus, in some countries, further efforts to reduce the gender gap in participation rates will need to be an important part of any strategy to mobilise more fully the labour supply of older people.

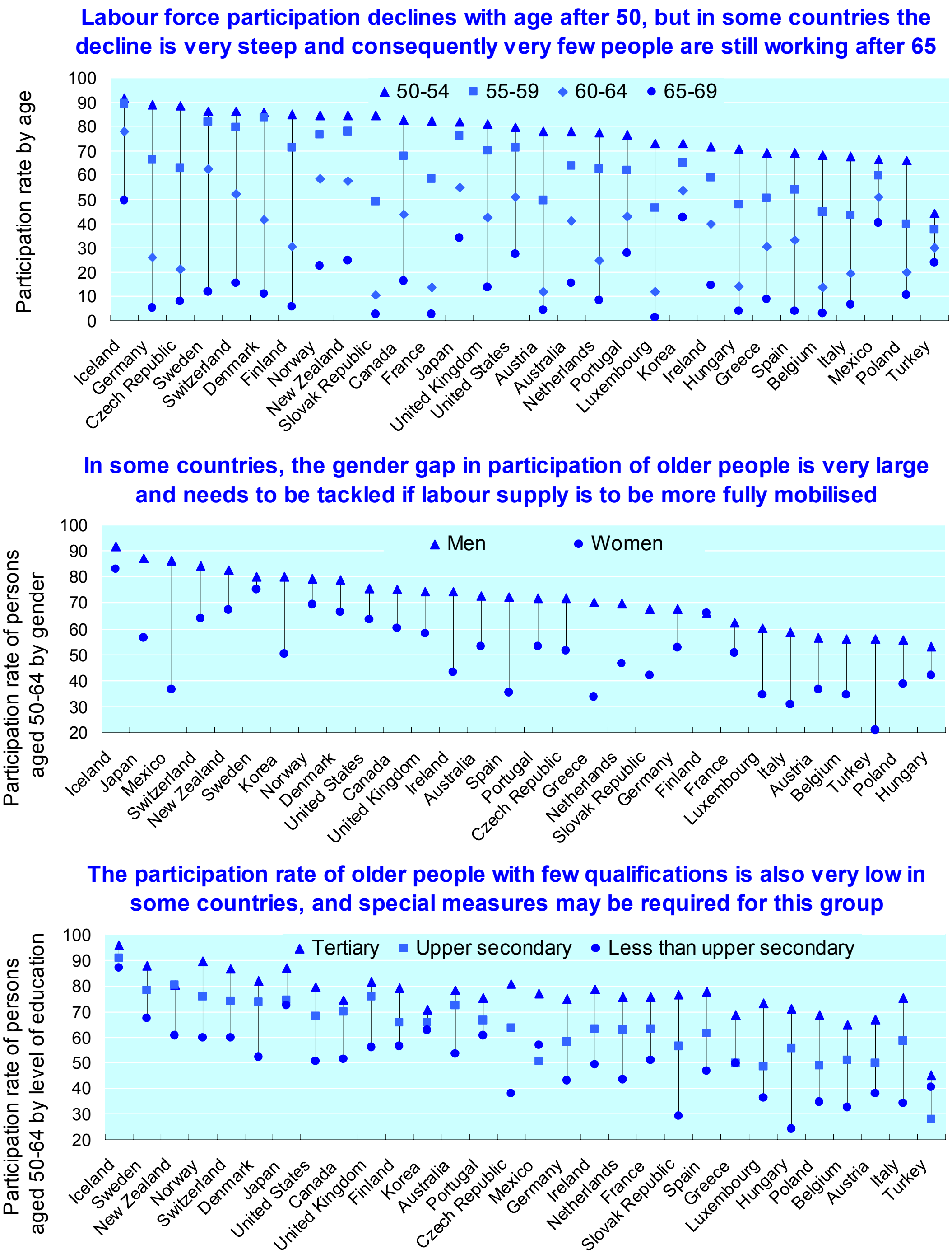
In all countries, there are also marked differences in participation rates by level of education (Figure 2.13, bottom panel). Generally, participation rates are much lower for older people with a lower level of educational attainment than for those with a higher level. Thus, special measures may be required to address the barriers which less-educated workers face and which may be preventing them from carrying on working, especially in those countries where the participation rate of this group is particularly low.

Partly reflecting these differences in personal characteristics, older workers are spread throughout the economy in terms of the types of jobs they are performing. Across the countries under review, no clear pattern emerged as to whether older workers are concentrated in particular sectors. For example, whereas in France, Japan and Luxembourg, there was some indication that older workers were more concentrated than younger workers in declining industries, this was not the case in either Australia or the United States. By occupation, however, older workers are more likely than younger workers in all countries to be employed in managerial positions and less likely to be employed as construction workers or labourers.

Geographical differences in participation rates among the older population are also large in several countries such as Australia, Canada, Finland, Germany and Italy. In some cases, such as Australia, Canada and Finland, this has been associated with a long-term decline in rural and remoter areas in employment in traditional industries such as agriculture, forestry, hunting, fishing and mining.

Figure 2.13. **Diversity within countries in the labour force participation of older people**[a]

Percentages



a) In the top two panels, the data refer to 2004. In the bottom panel, the data refer to 2002 for Iceland, Italy, Japan and the Netherlands and to 2003 for the other countries.

Source: OECD estimates based on the European Union Labour Force Survey and other national labour force surveys.

3. Future prospects for older workers: some things will never be the same again

History is not always condemned to repeat itself and in many ways the labour market situation facing future cohorts of older workers is likely to be very different than the situation facing the current generation. This will reflect both a continuation of long-term trends in the types of jobs that are being created and changes in the characteristics of older workers in terms of their health, skills, labour market experience and attitudes towards work. Market forces will also work towards balancing changes in the supply of labour with changes in the demand for labour.

The changing world of work

The world of work has been changing in a number of respects which should favour the employment of older workers. As a result of technical change, growth in trade and changing consumer preferences, employment shares in agriculture and manufacturing have declined substantially over time in all OECD countries accompanied by a rise in the employment share of the services sector. This has no doubt reduced on average the exposure of workers to so-called "3-D jobs", *i.e.* dangerous, dirty and demanding jobs, although these types of jobs also exist in the service sector. Partly reflecting this shift in employment across sectors, but also a shift within each sector, manual work has been increasingly replaced by non-manual work.

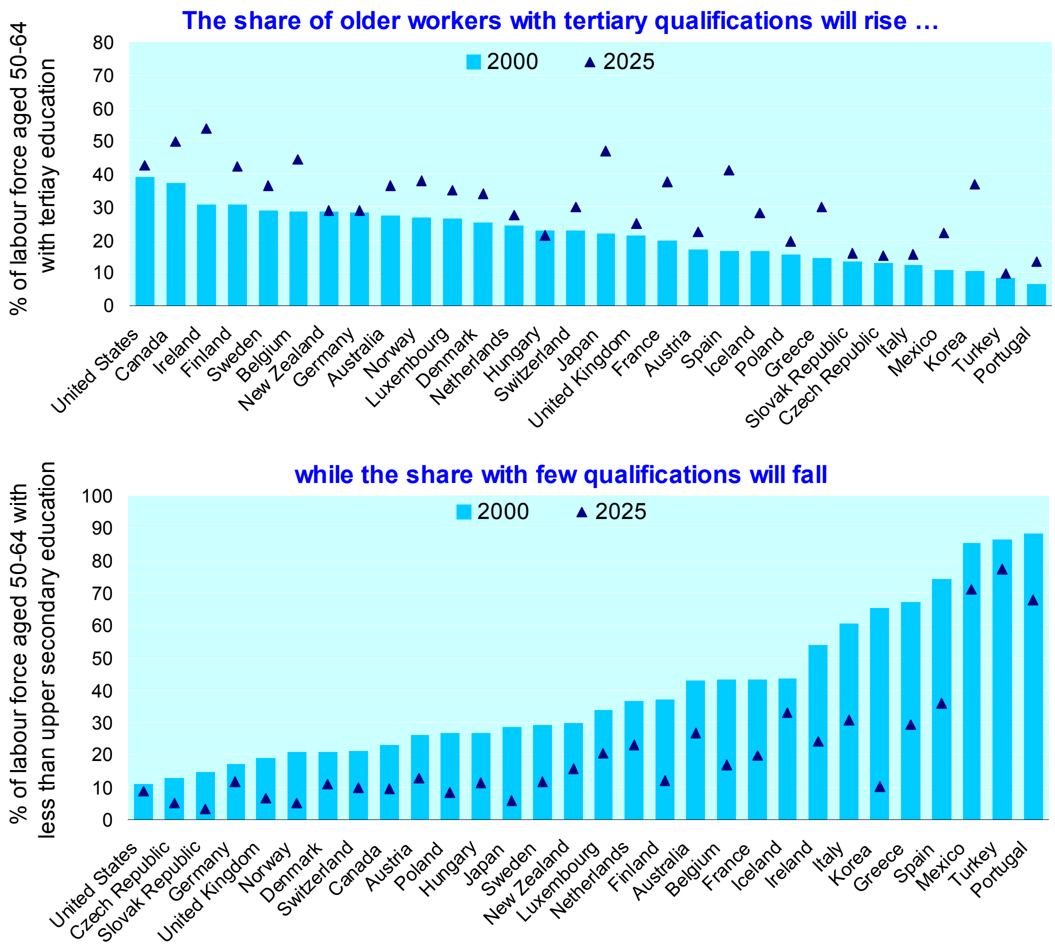
Thus, the proportion of older workers whose jobs are physically demanding has probably declined over time in most countries, and this trend is likely to continue in the future. At the same time, more flexible work arrangements such as part-time employment and flexible work schedules have also increased in importance in many countries, which could create greater opportunities for a more phased transition to retirement. However, not all of these changes have served to improve working conditions and make longer working lives both more attractive and more feasible. For example, self-reported levels of stress at work appear to have increased.

An older workforce but more feminine, better educated and in better health

Changes in the characteristics and work experience of the younger generation of workers are also likely to contribute to higher participation rates relative to previous generations as these workers age. First, there has been a secular increase over time in women's participation in the labour market at all ages in nearly all OECD countries and this is likely to continue into the future. Given the reasonably strong correlation across countries between participation rates of younger and older women, further increases in participation rates of women in the core working-age of 25-49 are likely to feed through to higher participation rates in the older age groups too, especially in those countries where there is still a large gender gap in participation.

Second, future cohorts of older workers are likely to be substantially better educated than the current generation of older workers (Figure 2.14). Whereas around 40% of older workers on average across OECD countries had less than an upper-secondary level of education in 2000, this is projected to decline to around 21% by 2025. Conversely, the share of older workers with a university or equivalent level of education is projected to rise from 22% to 31% over the same period. This should help to raise average labour productivity but by more in some countries such as Korea and Japan where the gap in educational attainment between older workers and younger workers is currently very large than in countries such as Canada and the United States where this gap is relatively small. Given that participation rates rise in line with educational attainment (see Figure 2.14), this development should have a positive impact on the participation of future cohorts of older people.[11]

Figure 2.14. **Older workers in the future will be better educated**



Source: For 2000, OECD, *Education at a Glance – OECD Indicators*, published in 2002; for 2025, OECD extrapolations of the 2000 data.

Lastly, the health situation of older workers has also improved over time and is likely to improve further over the next half century, which will help to underpin longer working lives. Increased life expectancy over the past few decades has generally been accompanied by increases in the number of years people can expect to live in good health or free of disability.[12] For example, the proportion of Americans aged 50-64 reporting that they are in either excellent or very good health has risen from 45.6% in 1982 to 54.5% in 2001.

The role of market forces

The other key factor is the role of market forces, which are likely to respond to changes in the demographic profile of the potential workforce in ways that should lead sooner or later to greater employment opportunities for older workers. For instance, if wages are flexible, larger cohorts of older workers relative to younger workers should lead to downwards pressure on their relative wages and hence raise the demand for their services.[13] At the same time, as employers may find it increasingly difficult to obtain the skills they require through the hiring of younger workers, they may be increasingly willing to offer greater training opportunities to older workers as well as to adapt working conditions closer to the needs of an ageing workforce.

No room for complacency

Of course, while there are grounds for some optimism that future developments in the labour market should work in the direction of promoting longer working lives, there is no guarantee that this will actually occur. For instance, greater levels of work stress could offset the health benefits of less physically demanding jobs. Further increases labour market participation may be impeded by a lack of opportunities for combining work and family life. Similarly, there may be constraints on market forces which prevent the necessary adjustments from taking place to balance labour demand with the increased supply of older workers. For example, as discussed in the next chapter, seniority-wage systems or strong financial incentives to retire early may impede wages from adjusting to changes in the demographic profile of the workforce.

Population ageing may also be more pronounced than implied by the projections presented in the Chapter 1. These projections are based on the central or middle variants of national projections. As argued in Oliveira Martins *et al.* (2005), the assumptions underlying these central variants about future gains in longevity appear to be on the conservative side given historical trends. If this does indeed turn out to be the case, the elderly and very-elderly population will make up an even larger proportion of the total population in OECD countries than is currently being projected. This would reinforce the need to remove disincentives and barriers to employment of older people and for a fundamental re-think about the notion of a fixed standard age of retirement.

Notes

1. For older men, there may be cohort effects operating too. The participation rate for men in the core age groups has declined over time in many OECD countries but on a much smaller scale than the rise in participation rates for women in the same age group.

2. This indicator is constructed using changes in participation rates as workers age, *i.e.* it is based on the difference between participation rates by gender and five-year age groups and the corresponding rates five years later by gender for the age groups five-years older. Thus, it also abstracts from changes in participation rates across different cohorts and, because it is conditional on being in the workforce initially, it abstracts from other more general factors apart from retirement behaviour which affect the overall level of participation rates.

3. These estimates of the average number of years that workers can expect to spend in retirement are likely to be underestimates. They are based on "period" estimates of life expectancy which do not take into account future declines in mortality rates but only contemporaneous mortality

rates by age and gender. Cohort estimates of life expectancy are consistently higher when these declines are taken into account.

4. Fixing a different number of hours other than 40 for the full-time working week will affect the level of the adjusted employment rate but not the country rankings.

5. The labour force status of workers prior to being hired is based on their answers to retrospective questions in labour force surveys about their status one year earlier. Clearly, there will be some recall error and so the estimates should be seen as indicating broad orders of magnitude rather than precise measures of labour mobility. Moreover, not all new hires that occurred during the year are covered in these transitions since they only refer to respondents who were in employment at the time of the survey and who had been less than one year in their current job.

6. In these comparisons, voluntary reasons refer to: "Personal or family responsibilities"; "Own illness or disability"; "Education or training"; "Early retirement"; "Normal retirement"; "Compulsory military or community service"; and "Other reasons". Involuntary reasons refer to: "Dismissed or made redundant"; and "A job of limited duration has ended". Again, these data are based on answers to retrospective questions about each respondent's previous job and so are subject to recall error. Moreover, they do not cover all job exits that occurred during the year since they only capture job exits of those respondents who were unemployed or inactive at the time of the survey and who had left their job during the previous 12 months.

7. In some cases, a transition into early retirement may not have been entirely voluntary.

8. The difference in job-loss rates between older and younger workers may be understated since, by construction, the data exclude some shorter spells of unemployment which are likely to be more frequent for younger people and which may have involved job loss.

9. The hiring and firing rates are ten-year averages to minimise cyclical effects.

10. Of the few international longitudinal datasets available, each has a number of drawbacks: *e.g.* there is the European Community Household Panel (ECHP) Survey but this covers only some of the EU countries and involves small sample sizes; and there is a new European survey, SHARE (Survey on Health, Ageing and Retirement in Europe) but with only limited country coverage.

11. However, the impact of rising educational attainment on overall participation rates may not be as large as is suggested by the current gap in participation by level of education, since some of this difference is associated with other factors apart from educational attainment (see the discussion of this point in Chapter 3 of Australian Productivity Commission, 2005).

12. See references cited in Oliveira Martins *et al*. (2005). Nevertheless, research in Finland suggests that, even if the secular improvement in health continues, there will still be a significant increase in the number of elderly with some form of disability simply because of the considerable growth that will occur in the overall size of the elderly population (Finnish Prime Minister's Office, 2005).

13. The potential adjustment in relative wages will be larger, the less substitutability there is between younger and older workers.

Chapter 3

Work Disincentives and Barriers to Employment

Key messages: Older people face a range of work disincentives and barriers to employment. First, there are penalties or low rewards for carrying on working in old-age pensions and other parts of the tax and welfare system. Second, employers are often reluctant to hire older workers or retain them in their jobs for a variety of reasons. Finally, older workers themselves can find it difficult to stay in their jobs or to find new ones. The challenging task of lowering these barriers and disincentives to work is magnified by the legacy of public and private early-retirement schemes that have created an expectation of early retirement. Given the many factors at work, pension reform alone will not be sufficient enough to promote employment opportunities for older workers.

In order to explain the considerable diversity of labour market outcomes across older people both within and across countries, this chapter looks at the main factors which appear to drive work and retirement decisions. The chapter begins with a brief review of the literature which has looked at this issue (Section 1). This analysis, as well as the results of the country reviews themselves, suggests that there are three main factors which may be preventing older people from extending their working lives. Each of these is discussed in turn in Sections 2 to 4. First, there are various disincentives or penalties to carry on working which may be embedded in each country's pension system and in other aspects of the tax and social welfare system. Second, there are the barriers facing employers which may be preventing them from retaining or hiring older workers. Third, there are the barriers facing older workers themselves, which make it difficult for them to either stay in their existing job or find a new one. The challenge for policy to tackle these work disincentives and employment barriers is discussed in Section 5.

1. What determines work and retirement decisions?

A considerable number of studies have examined the factors driving work and retirement decisions as workers approach the traditional age of retirement. A selective review of these studies is provided in Box 3.1. Most studies point to the complexity of work and retirement decisions and to a range of institutional settings and socio-demographic characteristics of individuals that are correlated with earlier or later retirement, which helps to explain why there is considerable diversity both across and within countries in the labour market situation of older people.

There are also a number of factors which will have a more general impact on participation in the labour market. Strong macroeconomic conditions and well-functioning labour markets are especially important for underpinning higher participation rates among older people. By encouraging younger women to participate in the labour market, family-friendly employment policies may also eventually lead to increased participation of older women.[1]

The following sections discuss in more detail the key disincentives and barriers to carry on working that have emerged from the country reviews in each of the following areas: retirement incentives; employer barriers; and barriers on the side of older workers.

2. Retirement incentives

Old-age pensions and other parts of the tax and welfare system often provide financial incentives for older people to leave work and disincentives for them to remain in or return to work. One way they do this is through an "income effect": the higher are old-age pensions, the more attractive retirement is. People are richer and so can "afford" more leisure time. The second is through a "substitution effect", *i.e.* how much or how little an extra year's work affects the flow of income both from earnings and from old-age pensions and other benefits? Table 3.1 summarises the ways in which different public policies affect incentives to retire early. These can be grouped into four main areas (and are discussed below): public pension schemes; private pension schemes; official early-retirement schemes; de facto early retirement schemes.

Box 3.1. **The key factors driving work and retirement decisions**

Within the work-and-retirement literature, a basic distinction is often made between "push" and "pull" factors.

Pull factors: These primarily consist of financial incentives which are "pulling" older workers into retirement. Studies based on micro-data at the individual country level (Gruber and Wise, 1999; Gruber and Wise, 2004; Schils, 2005) as well as cross-country studies using aggregated national data (Blöndal and Scarpetta, 1998; Burniaux *et al.*, 2003; Duval, 2003) concur that financial incentives embedded in both public pensions and in other formal and informal early retirement schemes play an important role in determining retirement decisions. These decisions will be influenced by the age at which (early) retirement benefits can be first accessed, the generosity of replacement rates and the implicit tax on continuing to work in terms of changes in the present value of net pension wealth from working an additional year (Cremer and Pestieau, 2003). Early retirement schemes and other de facto early retirement schemes such as unemployment and long-term sickness and disability benefits have also played an important role in some countries in facilitating early retirement. Private pension arrangements play a large role in pension provision in some countries and so can also shape retirement decisions. Finally, a number of studies point to the importance of joint retirement decisions among couples, thereby leading to some co-ordination in the timing of retirement of each partner (Gustman and Steinmeier, 2004; Blau and Riphahn, 1999; Jimenez-Martin *et al.*, 1999).

Push factors: These consist mainly of factors which restrict the available set of attractive job opportunities open to older workers and thus "push" them into retirement. On the side of employers, these factors include negative perceptions about the capacities of older workers, the age profile of labour costs relative to productivity and the difficulties firms face in adjusting employment as a result of employment protection rules. On the side of older workers themselves, as a result of technological change and other structural changes in labour demand, they may experience a depreciation of their human capital and obsolescence in their skills and experience (Behaghel and Greenan, 2005). Both older workers themselves (Gautié, 2004) and their employers may see little or no benefits to investing in on-the-job training beyond a certain age. Older workers may also not get much help via active labour market programmes to either train or find new jobs. The importance of working conditions is reflected in strong differences in retirement behaviour according to various socio-demographic characteristics of older workers. A number of studies find that blue-collar workers and low-skilled and less-qualified workers are more likely to retire earlier than white-collar workers and more highly-skilled and highly-qualified workers (as summarised in Blöndal and Scarpetta, 1998). Health also has a strong impact on retirement decisions (Bound *et al.*, 1999; Kerkhofs *et al.*, 1999) and workers in jobs with little autonomy appear to be particularly at risk of suffering from poor health (Blekesaune and Solem, 2005). Finally, a few studies also highlight the importance of constraints on changing working hours which may be "pushing" workers into early retirement (*e.g.* Gustman and Steinmeier, 2004).

Table 3.1. **Early retirement incentives**

Country	**Old-age pension and early-retirement schemes**	**Other early-retirement pathways and work disincentives (UB=unemployment benefits)**
Australia	Little incentive to work after official pension age (65 for men). Female pension age previously low at 60. Prior to 2005, early retirement scheme for older unemployed (60-64).	Substantial early exit through disability benefits. Incentives to retire early will increase once mandatory occupational pensions mature.
Austria	Several widely-used early-retirement schemes previously available. Low female pension age of 60. Restrictions on combining work and pensions.	Substantial early exit through disability benefits, and through old-age part-time employment scheme.
Belgium	Few incentives to work after eligibility for pension at 60 (with long insurance record). Female pension age previously low at 60.	Active job-search not required for receipt of UB after age 58 (previously 50). Collectively agreed pre-retirement schemes subsidised through UB.
Canada	Early age of eligibility for earnings–related pension (60) but with actuarial reduction. Lack of flexibility in combining work and pensions.	Mutual obligations for UB are weak.
Czech Republic	People with disabilities and 25 years of service can retire up to two years early with full rate afterwards (until end 2006).	Sickness and disability benefits have been a key pathway into early retirement.
Denmark	Widely-used early retirement pension (VERP) available from age of 60. Long work hours required to qualify for deferred pension.	UB available for nine years from age 51. Job search not required for persons on UB aged 58-60, who are transferred to VERP at 60.
Finland	Several widely-used early-retirement schemes.	Workers can retire effectively at age 55 through extension of UB from 57 joined to early retirement schemes.
France	Weak incentives to work after eligibility for pension at 56 or 60 (with long insurance record). Several widely-used early-retirement schemes previously available.	Active job-search not required for UB after age 57.5 (for unemployment assistance 55).
Germany	Several widely-used early-retirement schemes.	Collectively agreed pre-retirement schemes subsidised through UB. Early exit through old-age part-time employment scheme.
Ireland	Early retirement scheme at age 55 for those on UB for over 390 days. No incentives to work after pension age (65).	Substantial early exit through overly complex system of disability benefits
Italy	Earliest age for pension is still low at 57 (with long insurance record) and was even lower previously.	
Japan	Early age of eligibility (was 60). Earnings test introduced for working pensioners aged 65-69.	
Korea	Current age of eligibility is low at 60. Risk of lower effective retirement age once system matures.	
Luxembourg	Earliest age for pension is low at 57 or 60 (with long insurance record). Replacement rates high. Frequent use of early-retirement schemes.	Substantial early exit through disability benefits.
Netherlands	Several widely-used early-retirement schemes previously available.	Previously, massive early exits through disability benefits.
Norway	Early retirement scheme from age of 62 (AFP) for some groups of workers (subsidised by the State after age of 64).	High rate of sickness absence and early exits through disability benefits.
Spain	Age of eligibility is still low (61 with long insurance record) but now with actuarial reduction.	Sickness/disability schemes often used to exit early.
Sweden	Weak incentives for low-paid or irregular workers to increase lifetime earnings and to work up to or beyond 65 because of the pension guarantee	High rate of sickness absence and significant early exits through disability benefits
Switzerland	Lower retirement age for women (was 62, now 64). Retirement possible two years before 65 under mandatory occupational pension schemes but with actuarial reduction.	
United Kingdom	Complexity of system and means-testing may have adverse impact on incentives to work and save. Female pension age low at 60 (but will rise to 65).	Substantial early exit through disability benefits. Prior to 2006, restrictions on combining income from (part-time) work and occupational pension.
United States	Early age of eligibility (62) but with reduction. Restrictions on combining (part-time) work and occupational pension.	

Source: OECD series on *Ageing and Employment Policies*.

Interactions between public pension schemes and work incentives

Pensions will affect retirement decisions in a number of ways, all of which interact with each other. First, the age at which retirement benefits become available can exert a powerful influence on retirement behaviour. Second, the generosity of pensions is also important. Other things equal, high levels of pension benefits, by increasing lifetime future income for older workers, encourage earlier retirement through the income effect. Third, retirement decisions will be affected by the degree of flexibility in combining income from work and pensions. In some countries, pension benefits are partly or wholly withdrawn as a function of earned income which may discourage work after reaching the pension age. These three factors will jointly determine the extent to which working an extra year increases pension wealth, *i.e.* the discounted sum of the future stream of pension income in retirement. If the change in the net present value of pension wealth from working an additional year is negative, this acts as an effective tax on working and so will discourage later retirement.

Official and early pension-eligibility ages

In the majority of the review countries, the official age at which men can obtain either a full public pension or a minimum guaranteed pension is 65 (Table 3.2).[2] However, even among these countries, the earliest age at which workers can obtain a full pension is often effectively lower either in the case of women or for all workers with a sufficient number of years of social security contributions. For instance, in a number of the review countries, women have traditionally had a lower pension age than men (Australia, Austria, Belgium, Czech Republic, Italy, Switzerland, United Kingdom) which may explain part of the large gap in participation rates between older men and women in these countries. In other countries (Austria, Belgium, Czech Republic, France, Italy, Japan, Korea, Luxembourg), both men and women are entitled to receive a full pension well before 65, although sometimes subject to a minimum number of years of social security contributions. Only in Norway, and the United States (for those born in 1960 or later), is the normal pension age higher than 65 at 67.

Even where it is not possible to obtain a full public pension before the age of 65, a reduced pension can be received at an earlier age in Canada, Finland, Spain, Sweden and the United States. This will eventually be the case too for all workers under Italy’s reformed pension system, and not just for those workers with long insurance records. However, for Canada, Sweden and the United States, workers are only entitled to receive a minimum guaranteed pension or income from the age 65. In the case of Australia, mandatory occupational pensions can be accessed as early as 55 – well before the age of eligibility for the basic means-tested public pension at 65 – but this has not affected retirement decisions significantly in the past because most workers have only built up limited pension entitlements since coverage became mandatory in 1992.

Table 3.2. **Official retirement ages are low in some countries**[a]

Age	Official retirement age	Earliest retirement age
55		Australia[b], Korea
56		Italy[c]
57		Luxembourg[d]
58		Czech Republic[e]
59		
60	Korea	Belgium[f], Canada, France[g], Japan[h], Netherlands[i], Spain, United Kingdom
61	Czech Republic[j]	Sweden
62	Japan[k]	Austria[l], Finland, United States
63		Germany[k], Switzerland[m]
64		
65	Australia[n], Austria[k], Belgium[o], Canada, Denmark, Finland, France[p], Germany, Italy[k], Luxembourg, Netherlands, Spain, Sweden, Switzerland[q], United Kingdom[k] United States[r]	Ireland
66	Ireland	
67	Norway	

a) These retirement ages refer to workers retiring in 2005 under the main mandatory pension schemes and exclude special arrangements for public-sector workers and other workers such as the long-term unemployed or disabled. Where there is a different retirement age for women, this is noted separately.

b) The earliest age from which mandatory occupational pensions can be accessed.

c) With 35 years of actual and imputed contributions, retirement is possible at age 56 for manual workers, 57 for non-manual workers and 58 years for the self-employed.

d) Requires 40 years of actual contributions.

e) For men and women, retirement is possible three years earlier than their respective normal retirement ages.

f) Requires 35 years of actual or imputed contributions.

g) Requires 40 years of actual and imputed contributions. Retirement is possible at age 56 with 42 years of actual contributions.

h) Earning-related part of the pension for men and both flat-rate and earning-related components for women.

i) In some mandatory occupational pension schemes, retirement is possible from 55 onwards.

j) 61⅔ for men and 56⅓-60⅓ for women, depending on the number of children.

k) 60 for women.

l) 57 for women.

m) 62 for women.

n) 62½ for women.

o) 63 for women.

p) A full pension can be obtained prior to 65 (*e.g.* at 60 or even 56) but only with sufficient years of contributions.

q) 64 for women.

r) 65½.

Source: OECD series on *Ageing and Employment Policies*.

In many of the review countries, the earliest age for receiving a pension for certain categories of workers is lower than in the main public pension schemes. This can include a non-negligible proportion of the workforce such as public-sector workers as well as smaller groups of workers in particularly onerous or dangerous occupation such as miners.

As discussed below, in some countries, there is a large implicit tax on working beyond the earliest age of eligibility for the pension since additional years of work are not compensated by higher future pension entitlements. In this case, retirements are likely to be heavily bunched at this age (in the absence of other early-retirement possibilities). However, even where there are so-called "actuarially equivalent" increases in pension entitlements for working additional years, a large number of retirements may nevertheless occur around the earliest age at which workers can obtain a pension.[3] This possibility is highlighted by the case of the United States where benefits can be first obtained at 62 and where a marked spike in retirements also occurs at this age (see Figure 3.6, p. 87 in OECD, 2005b). This arises even though there is no large implicit tax on delaying the receipt of benefits beyond the age of 62 and hence no strong financial incentive to retire at that age. Most likely, it reflects considerable diversity across individuals in their time preferences, *i.e.* in the rate at which a future stream of income is discounted to obtain its equivalent present value.[4] Thus, the earliest age at which pension benefits can be first accessed remains potentially an important determinant of retirement decisions both in traditional pension systems with a fixed retirement age as well as those with a variable retirement age, with corresponding actuarial reductions and increases in benefits for earlier and later retirement, respectively.

Pension entitlements

The primary purpose of public old-age pensions is to ensure an adequate income in retirement of older people. However, in order to ensure that pension systems are financially sustainable and inter-generationally fair, a balance needs to be struck between guaranteeing an adequate retirement income and maintaining appropriate work incentives. On the one hand, more generous benefits imply higher taxes that must be paid by the current working population and weaker work incentives. On the other hand, lower replacement rates imply lower taxes and stronger work incentives, but at the risk of greater poverty among pensioners.

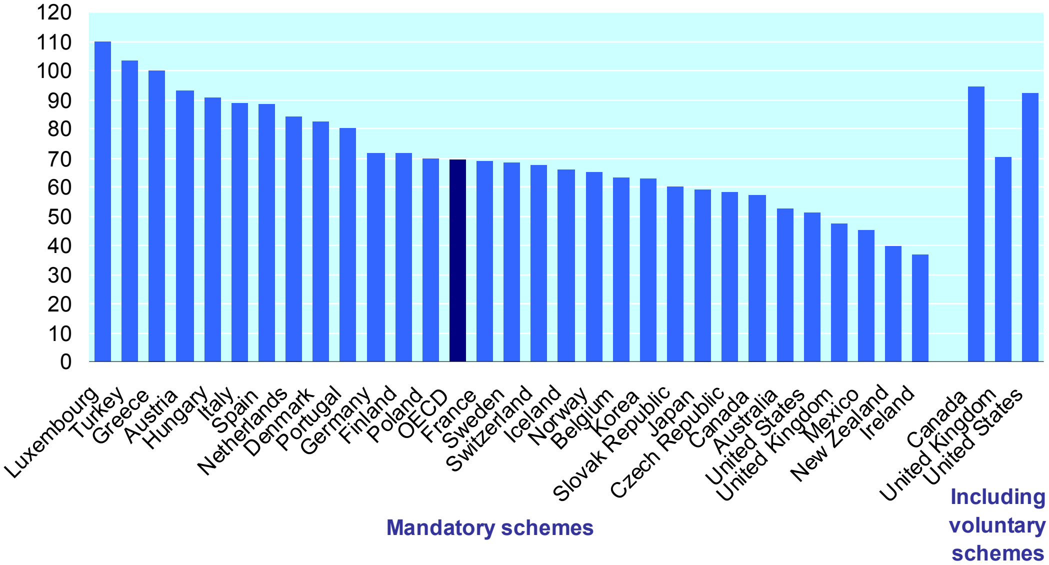
Across the review countries, there is a substantial variation in the generosity of public pensions, as captured by the OECD indicator of the net replacement rate for full-career workers on average earnings (Figure 3.1). The net replacement rate is highest in Luxembourg at around 110% and lowest in Ireland at under 40%. Generally, these ratios are higher for retired workers with low-wage work careers and lower for retired workers with high-wage careers, reflecting either flat-rate benefits in some countries, contribution ceilings on earnings in earnings-related pensions or ceilings on the benefit level that can be obtained. The replacement rates are generally higher on a net basis than on a gross basis because of more favourable tax treatment of pensioner income than of earned income.[5]

In those countries such as Canada, the United Kingdom and the United States, where there is extensive coverage under voluntary occupational pension schemes, effective replacement rates are higher than shown under the mandatory public pension schemes for those workers who have access to these schemes. For these workers, their total replacement rate would be much higher than the OECD average in the case of Canada and the United States but it would be only close to the OECD average in the case of the

United Kingdom.[6] In Japan and Korea, effective pension replacement rates will also be higher than shown in Figure 3.1 because of tenure-based retirement allowances which firms pay workers when they leave the firm whether for reasons of retirement or not.

Figure 3.1. **Pensions are much more generous in some countries than others[a]**

Net pension replacement rates (%)



a) Net pension benefits as a percentage of net pre-retirement earnings at the level of 100% of Average Production Worker (APW) earnings. Mandatory schemes refer to benefits from the main public pension scheme and from occupational pension schemes where mandatory or where coverage is close to universal. Voluntary schemes include benefits from a representative voluntary occupational pension scheme.

Source: OECD, *Pensions at a Glance*, 2005 (Denmark has been reclassified to include occupational pensions in the mandatory schemes).

The replacement rates shown in Figure 3.1 are *hypothetical* replacement rates based on assuming that workers have accumulated pension rights entirely under the current pension system, including those reforms whose changes to the pension system are only being gradually phased in. Thus, they will not necessarily be representative of the actual replacement rates that workers are currently facing as they approach retirement. This is especially the case in Korea, where the public pension system will only be fully mature in 2008.

The way benefit levels are calculated may also affect work incentives:

- Work decisions at earlier ages well before the official retirement age may also be influenced by the degree to which pension benefits are linked or not to workers' entire working careers in terms of length and level of earnings. To the extent that there is little or no link, this discourages work effort throughout a worker's potential working career.
- There may be some encouragement to enter *de facto* pathways to early retirement if there are no or few penalties in terms of pension entitlements for periods of inactivity. The link between pension benefits and periods of employment and non-employment can also have different implications in terms of equity for different groups of workers. In Austria, for example, the time spent in post-secondary schooling can be credited towards a pension (OECD, 2005e). This not only

discourages students from completing their studies as quickly as possible but also means that at the same age of 60 they will have potentially the same pension rights (and potentially higher benefits because of higher earnings) with fewer years of actual paid work as workers who left school much earlier and who are more likely to have been working in physically demanding jobs. Luxembourg also provides pension credits for periods spent in post-secondary education (OECD, 2004g). In France, pension credits limited to three years can be purchased for periods of further studies or work that was paid below the earnings floor for generating pension rights (OECD, 2005f). More generally, a number of countries provide pension credits for periods on income support such as unemployment or disability benefits, and for child rearing and caring of other relatives.

- In a growing number of countries, it is possible to defer retirement and accumulate further pension rights. Such reforms will be addressed in detail in Chapter 4.

Flexibility in combining income from work and pensions

Working after the official pension age is discouraged by a number of other institutional arrangements in different countries, apart from the generosity of pension benefits. In Ireland, for example, workers are required to stop working in order to receive the Retirement Pension at age 65 (OECD, 2005g). In other countries, pensions are subject to either an earnings test or means test on pension benefits which may discourage work after the age of entitlement for a pension. In the United Kingdom, the potential coverage of pensioners who will be affected by means-tested benefits is set to increase significantly, which could reduce work incentives.[7] A means test also applies in Australia to non-pension income and less than 18% of Australians are working in the age group 65-69 compared with 30% in the United States where there is no earnings or means test for pensioners after the full-retirement age (formerly 65). There is, however, an earnings test in the United States that applies to pensioners *prior* to reaching the full-retirement age. Even though this is compensated for by a higher pension subsequently once workers reach the full-retirement age, Gustman and Steinmeier (2004) find that it still has a negative impact on employment rates of older workers.[8] In Japan, an earnings test is applied to workers aged 65-69 which could discourage some workers in this age group from continuing to work.

Private pension schemes

Occupational pension schemes play a large role in pension provision in a number of the review countries and thus, potentially, can have an important impact on work and retirement decisions. In Australia, France and Switzerland (within wage limits), they are mandatory and in countries like Denmark, the Netherlands, Sweden and Switzerland, close-to-universal coverage has been achieved through collective agreements. In Canada, the United Kingdom and the United States, even though these schemes are not mandatory and collective agreements cover only part of the workforce, between 40% and 50% of all employees are covered by some form of occupational pension scheme.

As for public pension schemes, the way these schemes are set up can encourage or discourage retirement at an early age. Where these schemes are defined-contribution schemes, retirement incentives may be fairly neutral at any given age. However, if considerable pension wealth has been accumulated in these schemes, this could still lead workers to retire early – through the income effect. Moreover, defined-benefit schemes may contain strong incentives to retire at a given age. For example, pension entitlements may not rise after a given age or number of years of contributions and thus there may be a strong incentive to retire at this age. Finally, in many countries, employers use private pension schemes to shed older workers, often supplementing these early pensions with bridge financing until the workers become eligible for the public retirement benefit.

The earliest age at which benefits can be accessed can vary considerably across schemes even within each country but is usually subject to some regulated minimum age for tax purposes. In the United Kingdom, the minimum age for receiving an occupational pension will be increased from 50 to 55 in 2010 and in Australia from 55 to 60 over the period 2015-2025.

The majority of occupational schemes in Switzerland and Australia are defined-contribution schemes. In Sweden, Norway and the Netherlands, both types of schemes are prevalent and depend on the types of workers covered, *e.g.* blue-collar workers versus white-collar workers. In Canada, Ireland, the United Kingdom and, especially, the United States, the coverage of defined-contribution schemes has increased over time while that of defined-benefit schemes has declined.

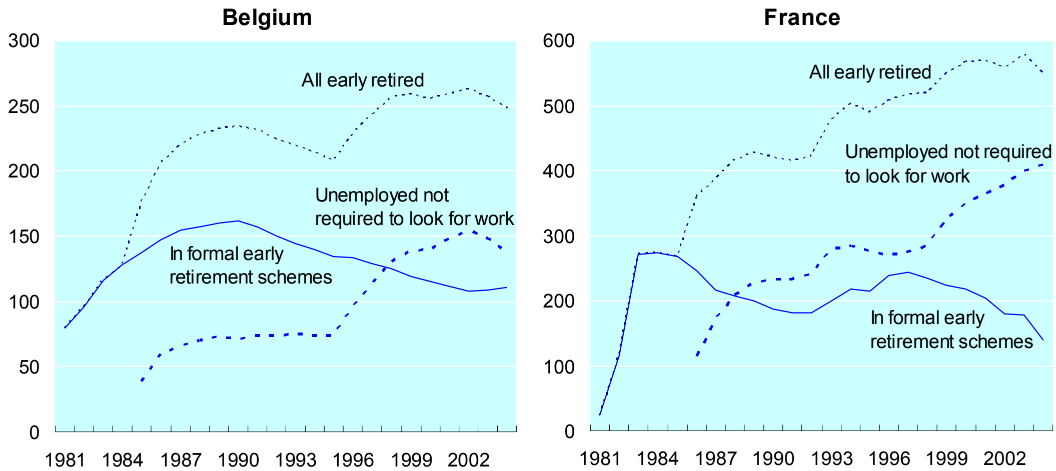
Official early retirement schemes

In the past, around half of the review countries (Australia, Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Spain) introduced large-scale, publicly-subsidised early retirement schemes in response to rising unemployment, especially amongst youth. Often these schemes were introduced with tacit collusion between the government, employers and trade unions. However, while these early retirement schemes led to a steep decline in employment rates for older people, they were not matched by better employment outcomes for youths and failed to reduce youth unemployment substantially in those countries where it was already quite high.

Figure 3.2. **Substitution between different early-exit pathways in Belgium and France[a]**

Thousand of persons

In Belgium and France, a decline in the importance of formal early retirement schemes has been offset by a rise in the use of unemployment benefits to exit early



a) Formal early retirement schemes refer to all state-subsidised early retirement schemes in Belgium and France. A small number of persons in some special schemes are excluded from the Belgium data. The number of unemployed refers to older persons receiving unemployment benefits who are not required to look for work. The French data exclude a small number of older persons exempted from job search in France in 1985 following the introduction of this possibility.

Source: Administrative data provided to OECD by national authorities.

The persistence of the schemes and the large inflows to them over time have had the effect of transforming early retirement into a quasi-entitlement in the countries in question (Guillemard, 2003). This situation has proved difficult to reverse, especially in the presence of other pathways to early retirement. While France has restricted or closed off access to early-retirement programmes, the decline in the proportion of older people retiring through these schemes has been more than compensated by an increase in the number of older people on unemployment benefits who are exempt from job-search requirements (Figure 3.2). It has also been offset by employer-sponsored early retirement plans and by a sharp increase in long-term sickness absence. The same pattern is observed in Belgium.

De facto early retirement schemes

Even where there are no formal early retirement schemes, other publicly supported pathways to early retirement have been extensively used in a number of countries, including: unemployment benefits (Finland and Spain), disability benefits (Australia, Austria, Ireland, Netherlands, Norway, United Kingdom) and long-term sickness benefits (Czech Republic, Norway, Sweden).

In the case of Finland, unemployment benefits link up with other formal early retirement schemes to create what has been sometimes called the unemployment "tunnel". Prior to 2005, it was possible for older workers to retire as early as 55 by first receiving unemployment benefits for the maximum duration of two years to 57, at which point these benefits were then extended a further three years. At age 60, long-term unemployed older workers are able to receive the "unemployment pension" until the official pension age of 65 or the "individual early retirement pension" for those workers with permanently reduced working capacity but with less strict eligibility criteria than for the normal disability pension. In a few other countries, a similar "unemployment tunnel" leading to early exit from the labour market also existed or still operates as a result of a general exemption from job-search requirements for the older unemployed which allows them to remain on unemployment benefits until they reach the official retirement age (see Box 3.2).

Taxing work

The extent to which the pension system and various early retirement schemes and pathways provide incentives to retire and discourage work beyond a given age – the so-called "implicit tax on continuing to work" has been estimated by Duval (2003) for various OECD countries. This synthetic indicator shows the implicit tax penalty of working an additional five years (on a gross basis). More specifically, it gives the change in the net present value of pension wealth entailed by a decision to work an additional five years, as a ratio of former earnings. In the same way as for the calculation of replacement rates, this can be constructed for hypothetical workers with a given working career in terms of the wages they have received and the length of time they have worked.[9]

The indicator suggests that, in several EU countries (notably Austria, Belgium, France, Finland, Germany, Italy and Luxembourg), there were substantial penalties to continuing to work for older people, especially after the age of 60. Estimates also suggest that these tax penalties were closely associated with higher probabilities of retirement before the age of 65.

Box 3.2. **Exemptions from looking for work for older unemployed workers**

Older people on unemployment benefits in some countries are effectively exempt from general eligibility requirements of having to look for work from a certain age. As of the end of 2005, this was still the case in Belgium, Finland, France and Germany. This was also the case previously in Australia, Austria and the Netherlands. In some countries (Australia and Ireland), job-search requirements for people on unemployment benefits are less demanding for older people than for younger people.

Australia: Formerly, the unemployed aged 60 and over who had been receiving welfare benefits for nine months or more were entitled to the Mature Age Allowance until reaching the pension age (65 for men, 60 for women prior to 2000) and were exempted from requirements to look for work or participate in training. The scheme was closed to new entrants in September 2003. At its peak in 1997, around 15% of men aged 60-64 were in receipt of the allowance and just over 8% were in receipt prior to its abolition. Currently, those aged 60 and over on unemployment benefits are subject to less stringent work-test and mutual obligations arrangements. For instance, they are only required to make a minimum of two job contacts every two weeks in contrast to four contacts every two weeks for those aged 50-59 who have been on benefits for 9 months or more.

Austria: Prior to 1997, the older unemployed could retire early and so were effectively exempt from job-search requirements. This scheme was abolished in 1996. However, an early retirement scheme for the older long-term unemployed was only abolished in 2004, with some transition arrangements for those who would have been eligible in 2005 and 2006.

Belgium: In 1985, the older unemployed from the age of 55 – or 50 for those with reduced ability – who had been unemployed for at least two years were exempted from job search. In January 1996, the minimum eligible age was lowered to 50 and the period of unemployment to one year. The result was a considerable rise in the number of people in this category to around 11% of the 55-59 age group in 2003. Since 2002, this exemption is gradually being phased out for all new entrants aged 50 to 57. Since July 2004, the age has been extended to 58 unless those concerned can testify to 38 years as wage-earners. However, in practice, these changes may not have much impact on the job-search behaviour of the older unemployed since the "activation" procedures that have been in force since July 2004 to assess the efforts that jobseekers are making to find work do not apply to unemployed people aged 50 and over.

Finland: While there are no formal exemption rules for the older unemployed, they have been, in practice, exempt from job search requirements as from the age of 55 onwards through what is known as the "unemployment tunnel" (see above). The unemployment pension will be phased out between 2009 and 2014 and replaced with ordinary unemployment benefits. The qualifying age for the unemployment tunnel has also been raised from 55 to 57.

France: The exemption from looking for work for the older unemployed on benefits was first introduced in 1984 for those aged 55 on social assistance. This was extended in 1985 to persons aged 57½ and over on regular unemployment benefits and then in 1999 to those aged 55 and over on unemployment benefits and with 40 years of credited old-age insurance contributions. In April 2005, there were 405 000 people exempt from looking for work.

Germany: The unemployed aged 58 and over can opt out from obligations to look for work and accept job offers. In March 2004, 392 000 of them had done so, representing 75% of the unemployed age 58 and over.

Ireland: After nine months of benefit receipt (Unemployment Assistance or Unemployment Benefit), only beneficiaries aged 25 to 54 are systematically referred to FÁS Employment Services for appropriate support and vocational guidance.

Netherlands: On 1 January 2004, the government reintroduced the requirement to look for work for the older unemployed on benefits aged 57½ and over with recent work experience and who still have a good chance of finding work. However, under the Work and Social Assistance Act, municipalities have the discretion to waive re-integration and job-search requirements for the unemployed aged between 57½ and 64 years old whose chances of returning to a regular job are evaluated to be very low.

United Kingdom: Unemployed persons aged 60-64 (mainly men since women are entitled to the pension at age 60) receiving either means-tested unemployment benefits or Pension Credit are not required to regularly report to a Jobcentre or prove they are actively looking for work.

3. Employer barriers

Employers play a key role in determining how easy it is for older workers to remain in their existing jobs or to shift to new jobs. As summarised in Table 3.3, three main types of barriers have been identified across the review countries which may make employers reluctant to hire or retain older workers: i) negative perceptions about the adaptability and productivity of older workers; ii) labour costs that rise steeply with seniority or age; and iii) strict employment protection rules.

Negative employer attitudes and age discrimination

Employer attitudes towards hiring and retaining of older workers will reflect both subjective and objective factors. As pointed out in Chapter 2, older workers are a very diverse group, and hence any characterisation or generalisation concerning their work ability, motivation and receptivity to training and change is likely to be misleading. To the extent that employers' views of older workers are stereotypes, they could give rise to age discrimination both in the hiring, firing, compensation, training and promotion of older workers. However, employers' hiring and firing decisions with respect to older workers may also be driven by more objective factors related to the cost of hiring older workers relative to their productivity as well by employment protection rules.

Employer attitudes

In virtually all of the review countries, there is some evidence that employers hold rather stereotypical views about the strengths and weakness of older workers. This appears to be the case not just in countries where employment rates for older people are relatively low but also in those countries where these rates are relatively high. For instance, in Sweden, 50% of all employers in a 2001 survey considered older workers to have less relevant skills than younger workers and to be more rigid and inflexible with respect to changes in the workplace (OECD, 2003a). Moreover, 70% of employers in the same survey reported that they never or only very rarely hired older workers. In the United States, a 1998 survey of employers revealed that while older workers were often seen as being more loyal and committed than younger workers, they were also seen as being less flexible, less willing to participate in training and less likely to have up-to-date skills (see OECD, 2005b, p. 19, for details). These findings for Sweden and the United States are similar to those reported in most of the other review countries for which surveys of employer attitudes towards older workers were available. One notable exception is Denmark, where in one survey, human-resource managers generally reported that competences did not differ systematically by age and that age had no importance in their hiring decisions (see OECD, 2005h for details).

Not all employers have negative attitudes towards employing older workers and, as discussed in Chapter 6, a number of best-practice employers are identified in several of the country reviews. Nevertheless, the evidence in Chapter 3 suggests that negative perceptions of employers about the abilities and productivity of older workers relative to younger workers are translated into lower hiring rates and into retention rates that decline sharply once workers reach their early to mid-50s.

Table 3.3. **Employer barriers to hiring and retention**

Country	Age discrimination and negative attitudes	Seniority wages and mandatory retirement	Strict employment protection legislation (EPL)
Australia	Age-discrimination legislation has not been very effective.		
Austria	Age discrimination appears to be widespread.	Wages for men after age 40 continue to rise steeply.	
Belgium	Negative employer attitudes. Few workers hired after 45.	Seniority wages common for non-manual workers.	Long notice periods and high severance pay for white-collar workers may have encouraged substantial use of early retirement schemes.
Canada	Age-discrimination legislation may not be functioning properly.	Mandatory retirement still permitted in some provinces.	
Czech Republic	Negative employer attitudes. Age-discrimination legislation is not well enforced.		Negative impact of strict EPL on demand for older workers and on their mobility.
Denmark	Evidence of age discrimination and negative employer attitudes is mixed.		
Finland	Evidence of age discrimination despite information campaigns.	Non-wage costs rise with age, *e.g.* for disability insurance.	Notice periods for laying-off workers rise with tenure.
France	Negative employer attitudes. Few older workers hired and explicit age limits in job offers despite its prohibition.	Wages rise steeply with age. Mandatory retirement at 65 but often as early as 60.	Strict EPL have been associated with substantial use of early retirement schemes.
Germany	Negative employer attitudes. Explicit age limits in job offers.		Strict EPL is seen as a key barrier to hiring by employers.
Ireland	Evidence of age discrimination and negative employer attitudes is mixed.	Mandatory retirement is still permitted.	
Italy	Negative employer attitudes.	Some evidence that seniority wages reduce retention of older workers.	
Japan	Hiring and firing heavily influenced by workers' age. Age limits in job offers still permitted in many instances.	Wages rise steeply with age. Mandatory retirement very common at 60 (55 previously).	Negative impact of EPL rules on employment opportunities for older workers.
Korea	Hiring and firing heavily influenced by workers' age.	Wages rise steeply with age. Mandatory retirement very common, often at 55.	Negative impact of EPL rules on employment opportunities for older workers.
Luxembourg	Large use of early retirement to restructure. Preference for hiring cross-border workers.	Wages rise steeply with age.	
Netherlands	Negative employer attitudes.		Strict EPL is seen by employers as a key barrier to hiring.
Norway	Negative employer attitudes, younger workers preferred when new work routines or technology introduced.		Stricter EPL for older workers leads to early retirement at younger ages and fewer hires.
Spain	Some evidence of negative employer attitudes – older workers over-represented in lay-offs.	Seniority wages still important despite some decline. High non-wage costs for part-time work.	Strict protection of permanent workers reduces hiring rates of older workers.
Sweden	Employer reluctance to hire older workers.	Mandatory retirement allowed at 67 (65 previously).	Last-in-first-out rule reduces mobility.
Switzerland	Legal provisions banning age discrimination insufficient. Explicit age limits in job offers.	Both wages and non-wage costs rise steeply with age.	
United Kingdom	Negative employer attitudes despite age-diversity guidelines. Slow adoption of age-discrimination legislation.	Mandatory retirement permitted after age 65 and in all cases where objectively justified.	
United States	Age discrimination persists despite legislation.	Non-wage costs rise with age, *e.g.* for health insurance.	

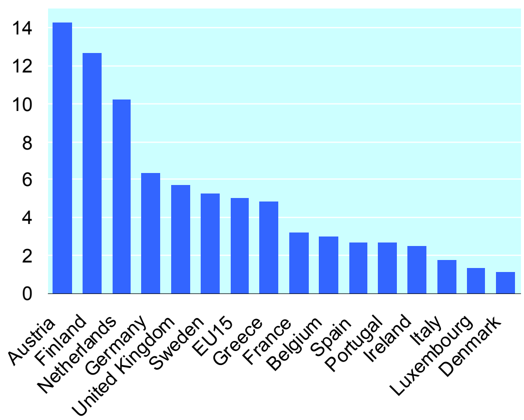
Source: OECD series on *Ageing and Employment Policies*.

Discrimination

In almost all of the review countries, survey evidence suggests that age discrimination in the workplace is an issue, although it is difficult to determine how pervasive this problem is. In one of the few international surveys available that touches upon this issue, workers aged 50 and over in the EU-15 countries were asked in the 2000 European Survey on Working Conditions whether during the previous 12 months they had either personally experienced age discrimination or witnessed it occurring at their workplace. Overall, the proportion reporting that age discrimination had occurred was only around 4% on average across the countries, but ranged from a low of around 1% in Denmark to a high of around 14% in Austria (Figure 3.3). Only 2.7% on average reported having personally experienced age discrimination. In the United States, a much higher proportion of around two-thirds of workers aged 45-74 reported in a 2002 survey that they had witnessed or experienced age discrimination in the workplace (OECD, 2005b, p. 41).[10] A much smaller but still quite high proportion of workers reported that they had personally experienced age discrimination. For instance, around 15% of older American workers reported not being hired for a job because of their age.

Figure 3.3. **Age discrimination at work**[a]

Percentages



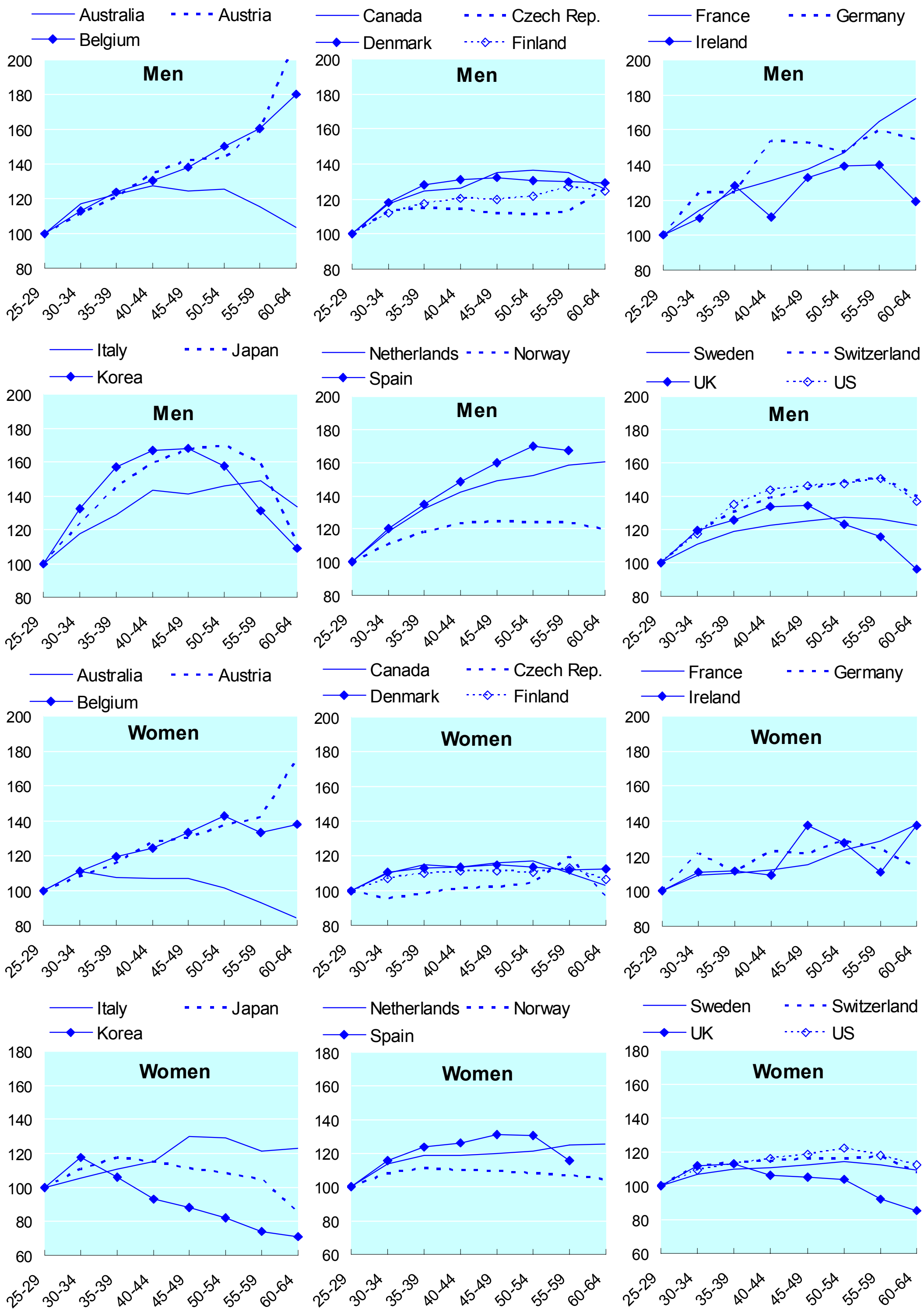
a) The proportion of all employees in 2000 who reported having directly experienced age discrimination or who reported having witnessed age discrimination in their workplace during the previous 12 months.

Source: European Survey of Working Conditions, 2000.

These large cross-country differences in workers' perceptions of the incidence of age discrimination based on the perceptions of workers do not necessarily indicate that age discrimination is more pervasive in some countries than others. They may partly reflect variation across countries in the extent to which there is public awareness of the issue. For example, the higher reported incidence of age discrimination in the United States than in Europe may reflect the fact that age-discrimination legislation has been in place in the United States since 1967 and so American workers are more conscious of their rights with respect to equal treatment on the basis of age. Similarly, campaigns to promote age diversity in Finland and the UK may have contributed to a greater awareness among workers in these countries about age discrimination in the workplace.

Figure 3.4. **Age-wage profiles of full-time workers by gender[a]**

Index (earnings for 25-29 year olds = 100)



a) The data refer to various years over the period 1998-2003.

Source: OECD Earnings Database.

Seniority wages and productivity

One objective factor that may be driving employer's hiring and firing decisions with respect to older workers is the extent to which older workers cost more to employ than younger workers. In most countries, cross-sectional data on earnings by age show a hump-shaped profile, especially for men (Figure 3.4). This profile may reflect the fact that the productivity of workers initially increases as they gain on-the-job experience but then flattens off or declines after a given age (see Box 3.3). However, in some countries earnings rise more steeply with age or show little tendency to decline in the older age groups. To the extent that labour costs of older workers rise faster than their productivity, employers may be reluctant to either retain workers beyond a certain age or hire older workers.

Box 3.3. **Does productivity decline with age?**

A basic distinction needs to be made between the individual productivity of workers as they age and the changes over time in the *value* of their skills. Thus, irrespective of whether at an individual level workers are able to continue to perform the same task equally well or better as they age, their skills may become depreciated or obsolete simply because the task being performed is no longer as highly valued. For example, older typists may be able to perform just as well as younger typists (as found in Salthouse, 1984) but may have found it harder to adapt to the new word-processing environment as a result of the introduction of personal computers. These two aspects are discussed below.

A useful survey of the vast literature on the relationship between age and individual productivity is provided in Skirbekk (2003). While not all studies agree, there is a range of evidence which suggest that there is a decline in several aspects of physical and mental abilities from around the age of 50. Among these are the dexterity of fingers, reasoning, numerical capabilities, and speed. However, this decline is often very progressive and with substantial variation across individuals. In contrast, some verbal abilities and communicative skills remain virtually unchanged over much of the life cycle. In terms of actual work performance, older workers can often rely on their professional experience to adapt and compensate for declines in physical and mental ability, and this can be assisted by suitable workplace adjustments (Volkoff *et al.*, 2000).

The second form of evidence comes from a number of recent studies using matched employer-employee data. Crépon and Aubert (2003) find that the productivity of workers in France declines after the age of 55 while earnings continue to rise, although the difference in profiles is not statistically significant. Based on data for the manufacturing sector in the United States, Hellerstein and Neumark (2004) also find that workers aged 55 and over are less productive than workers in either the 35-54 age group age or younger age group (less than 35). At the same time they, find that the lower productivity of older workers is not matched by lower earnings. However, these types of studies are subject to a selection bias where the workers who remain in the sample being studied may be more productive than those who have left the workforce. The results of Dygalo (2003) for France suggest this is indeed the case. There is also a potential simultaneity bias, although Crépon and Aubert attempt to correct for this. The direction of causality may not simply run from higher concentrations of older workers to lower productivity but it may also run in the other direction, *i.e.* older workers tend to be less mobile than younger workers and so may end up concentrated in less productive workplaces. Behaghel and Greenan (2005) argue that skill obsolescence as a result of organisational or technical change potentially affects all workers but estimate that in practice it appears to affect the productivity of older workers more so.

In sum, the evidence suggests that individual productivity does decline in some dimensions with age. However, this decline can be partly compensated for by experience, personal aids such as eyeglasses and suitable workplace adjustments. The French and US evidence at the firm level suggests that the productivity of workers declines after the age of 55 – which may be the result of skills obsolescence – but this is not matched by a decline in their relative wages.

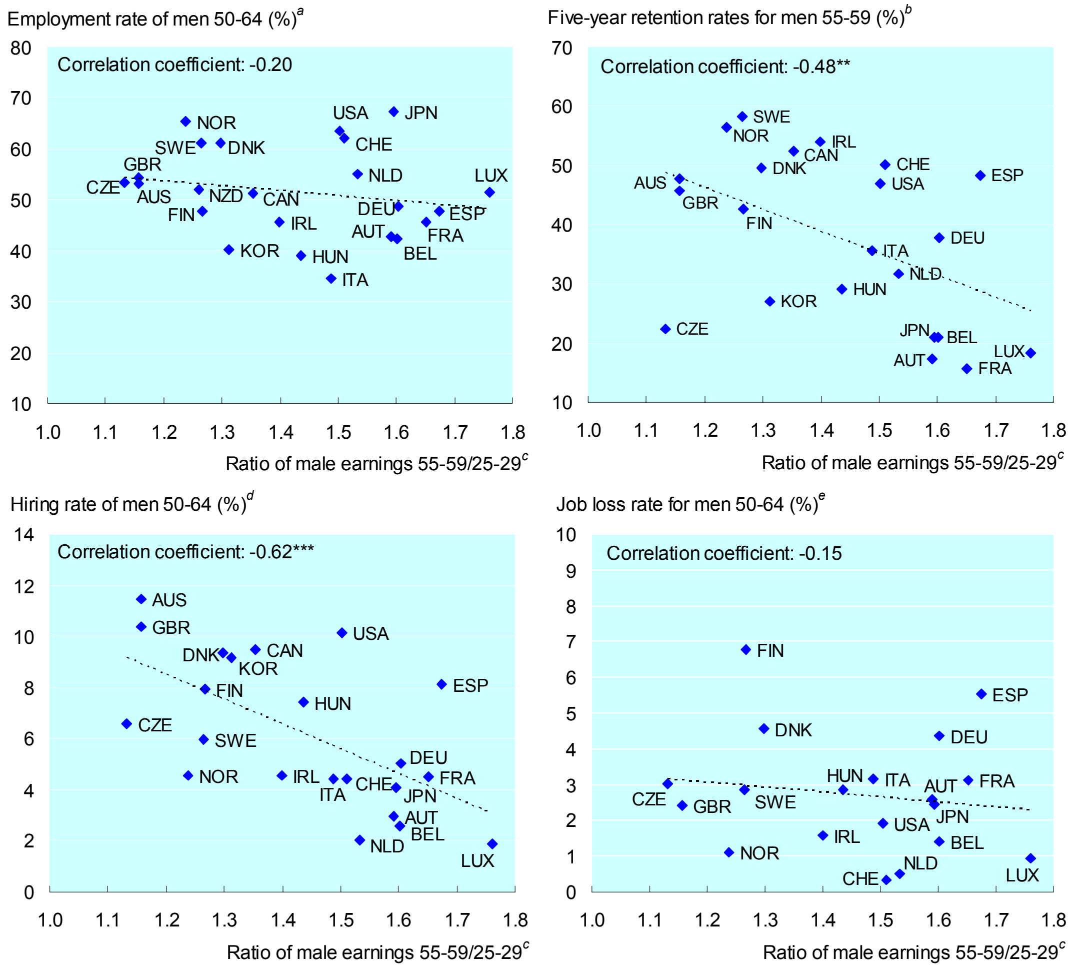
So why would employers accept to pay workers above their productivity? Lazear (1979, 1981, 1986) argues that in order to encourage work effort and enhance efficiency in situations where it is difficult and costly to monitor employee performance, employers and workers enter into implicit contracts whereby wages rise more rapidly with seniority in the firm than productivity. However, beyond a given age it will no longer be profitable for an employer to continue to employ an older worker. Therefore, employers will seek to terminate employment at that age through either mandatory retirement or pension arrangements such as defined-benefit schemes which penalise continued employment. However, in the same way that Pay-As-You-Go pension schemes may be unsustainable in the face of rapid population ageing, seniority wages are also unsustainable. Ultimately, a larger and larger number of older workers will end up being paid above their marginal productivity at the same time as a smaller and smaller number of younger workers are being paid below their productivity.

In some countries, these age-earnings patterns reflect explicit seniority wage-setting arrangements, usually in the form of collective agreements, where earnings rise in line with age and/or job tenure. In Korea and Japan, seniority wages are a deeply embedded part of their national wage practices, which has led to firms setting a relatively low age of mandatory retirement. Consequently, in both countries, few older workers are retained in their existing jobs after the age of 55 in Korea and around 60 in Japan. In Japan, many of them are subsequently re-hired either in other positions within the same company or transferred to a subsidiary or sub-contacting company, although often with a substantial drop in earnings and sometime with a shift to part-time or temporary work. This practice of “lifetime employment” is less common in Korea and, consequently, many older Koreans who lose their career jobs end up employed on temporary contracts or in part-time work and face a considerable reduction in earnings.

Seniority wages are also present, albeit less prominently, in the wage-setting practices of other countries, notably Austria, Belgium, France, the Netherlands and Spain, and have been identified in the country reports for these countries as a possible barrier to the employment of older workers. However, in some other countries non-wage costs relative to wage costs rise with age, and so the rise in total labour costs with age is steeper than in wage costs alone and may have a negative impact on job opportunities for older workers. In Finland and Switzerland (in the occupational scheme), for example, social security contributions rise with the age of workers. In the United States, employer-provided benefits such as health insurance and defined-benefit pension plans may result in non-wage costs that increase significantly with age.

Across OECD countries, there is some evidence of a negative impact of seniority wages on employment opportunities for older male workers (Figure 3.5).[11] For instance, there is a negative relationship between the employment rate of men aged 55-64 and the extent to which wages for male workers aged 55-59 are higher than those aged 25-29, although the correlation is not statistically significant. Japan is an obvious outlier where the employment rate for older men is still very high, even though seniority wages appear to be important.[12] There is a statistically significant (at 5% level) and negative relationship between the drop in retention rates that occurs for men aged 55-59 relative to men aged 45-49 and the wages of older men relative to those of younger men. Hiring rates of older workers are also negatively and significantly correlated with seniority wages. Thus, it would appear employers are more likely to hire and retain older (male) workers, all else equal, in countries where wages rise less steeply with age than they are in those countries where wages rise more steeply.

Figure 3.5. **Seniority wages and labour market outcomes**



, * statistically significant at 5% and 1% levels, respectively.

a) The employment rate refers to the ratio of employees to the population in 2004.

b) The retention rate refers to the estimated proportion of all employees in 1999 who were still with the same employer in 2004 (1995-2000 for Korea).

c) The earnings data refer to full-time workers only for various years over the period 1998-2003.

d) The hiring rate refers to the ratio of employees with less than one year of tenure to all employees. The data refer to 2004 (2000 for Korea).

e) The job-loss rate refers to all persons who are currently not working and who lost their job in the previous year for involuntary reasons as a ratio of all employees and former employees. The data refer to 2002 for Japan and to 2004 for the other countries.

Source: OECD Earnings Database for the earnings data and OECD estimates based on the European Union Labour Force Survey and other national labour force surveys for the other indicators.

The negative correlations shown in Figure 3.5 between seniority wages and certain labour market outcomes for older workers do not indicate causality. First, the cross-sectional wage profiles in each country may not correspond very well to actual wage patterns of workers as they age. Second, other factors may explain both poor labour outcomes for older workers as well as seniority wages. Nevertheless, as discussed in Box 3.4, even taking these factors into account, the weight of the evidence suggests that while seniority wages may promote worker loyalty and retention at younger ages, they are likely to lead to lower hiring and retention of older workers.

Box 3.4. **Wage profiles by age: what do they show?**

Interpreting the cross-country evidence

International comparisons of earnings profiles by age based on cross-sectional data need to be interpreted with caution. First, they do reflect the actual pattern of wage growth that workers experience as they age. This requires longitudinal data over many years but there are relatively few countries that can provide this type of data. Second, there is likely to be selection and compositional effects operating which may partly explain steeper age-wage profiles in some countries than others, especially those countries where early retirement is much more prevalent. For instance, if low-paid workers are more likely to retire early than high-paid workers, this will push up the average wage for all workers at higher ages. More generally, there are likely to be compositional effects because of the different characteristics across cohorts of workers, *e.g.* older workers tend to have a lower level of educational attainment than younger workers. These selection and compositional effects can be partly controlled for by examining wage profiles by age for different groups of workers by level of educational attainment. In all countries, wage profiles tend to be steeper as a function of age for more highly-educated workers (Figure 3.6). However, in countries where the profile for all workers is relatively steep, such as France and Japan, it also tends to be steepest at each broad level of education.

Within-country evidence

Several studies for individual countries using microdata have also found a negative relationship between seniority wages and employment outcomes for older workers. Hirsch *et al.* (2000) report for the United States that both the overall employment shares of older workers within narrowly defined occupations as well as their share of all hirings tends to negatively associated with the wage premium on experience. Similarly, using establishment data and controlling for various characteristics of each establishment, Aubert (2005) reports a negative correlation between the employment share of older workers and their wages relative to younger workers, especially after the age of 55 and when controlling for the level of qualifications of workers. A similar negative correlation also exists for hirings, except for highly-qualified workers. However, Aubert also reports that higher relative wages for older workers are generally associated with a smaller share of job losses rather than with a larger share.

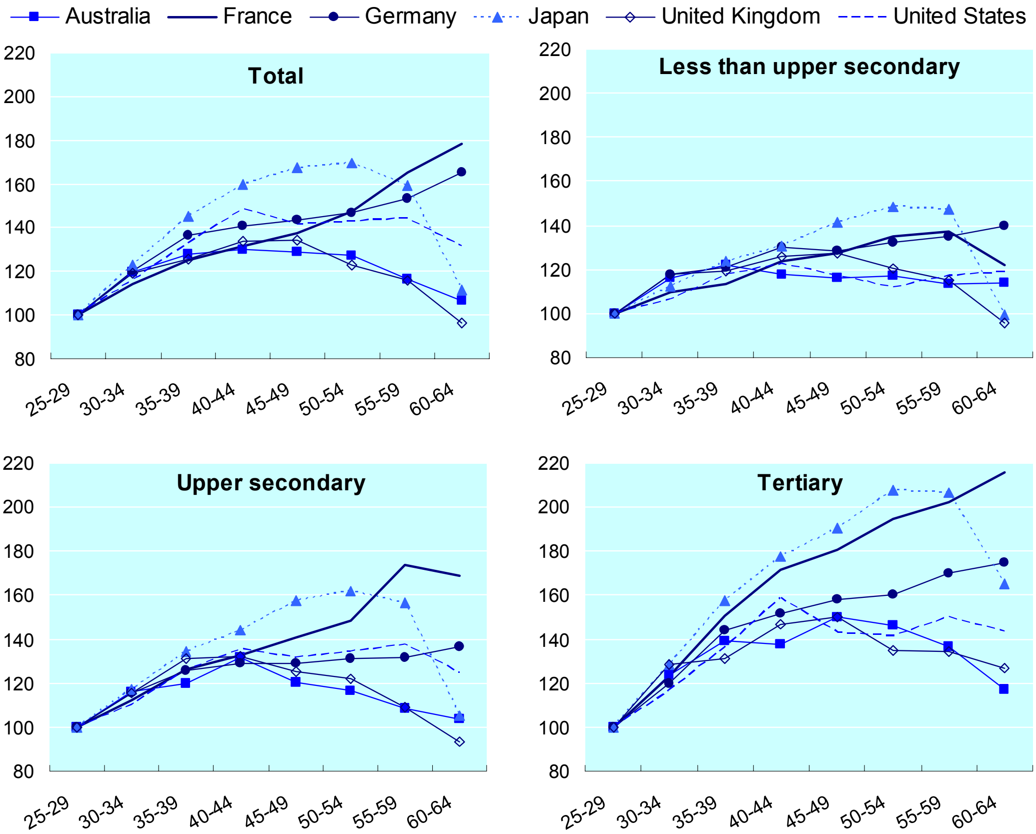
Employment protection provisions

Employment protection rules can also make it more costly to hire and retain older workers. In some countries (*e.g.* Belgium, Finland, Japan, Korea, Norway), it may be more expensive for firms to lay-off older workers because of longer notice periods or higher severance pay.

As discussed extensively in OECD (2004i), strict employment protection legislation (EPL) can have two opposing effects on labour market outcomes for workers. On the one hand, it can lead to greater retention of workers since it raises firing costs. On the other hand, it also raises the effective costs of hiring workers and so may reduce the number of hires. The net impact on employment rates is thus uncertain in theory. The cross-country evidence reported in OECD (2004i) suggests that stricter employment protection appears to be associated with lower employment rates in the case of youth and prime-age women but may even have a positive (although not statistically significant) impact on the employment rate of prime-age men. The evidence is less clear for older workers and it is difficult to draw any simple conclusion across countries about whether they are harmed or helped by strict EPL. In one of the few studies that have focused specifically on the relationship between EPL and labour market outcomes of older workers, it was found that stricter provisions tended to depress hiring rates at both ends of the age spectrum (Daniel and Siebert, 2004).

Figure 3.6. **Age-wage profiles of men working full-time by level of education**

Index (earnings of men aged 25-29 = 100)



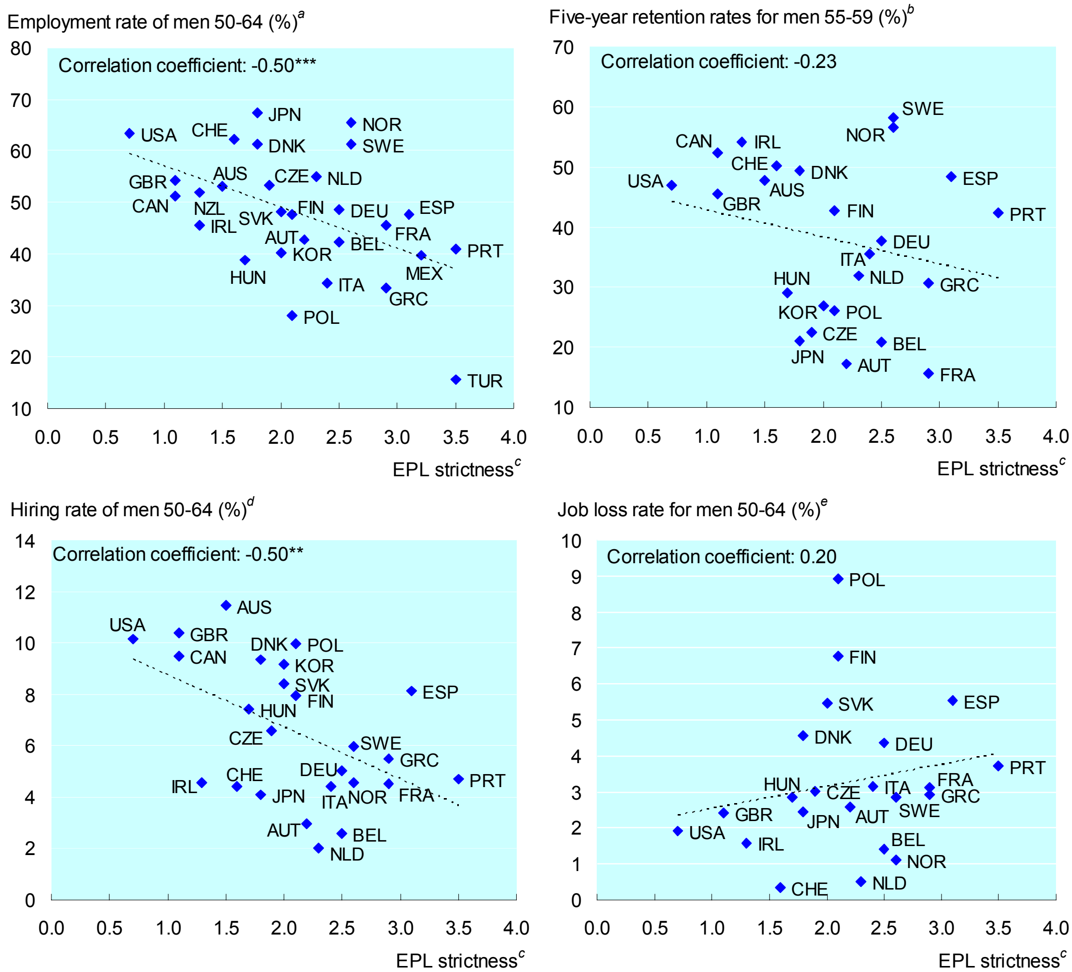
a) The data refer to various years over the period 1998-2003.

Source: OECD Earnings Database.

However, on the basis of the individual country reviews, strict EPL has been identified as a barrier to the hiring or retention of older workers in a number of individual countries (see Table 3.3). In Japan and Korea, where strict employment protection provisions do not apply to mandatory retirement, firms have made pervasive use of this feature for job separations. Similarly, in France and Belgium, the extensive use of early retirement schemes was certainly costly but may have allowed employers to avoid other costly firing procedures when wide-spread economic restructuring took place in the 1980s and 1990s. In Japan, Korea and Spain, strict EPL has also been associated with an increase in the incidence of temporary employment among older people. More generally, it appears to be associated with lower labour mobility in a number of countries, especially in terms of lower hiring rates (Czech Republic, Germany, Netherlands, Norway, Sweden).[13]

The relationship between the strictness of EPL and selected labour market outcomes for older workers is shown in Figure 3.7. Again, these comparisons are confined to outcomes for older men given that there are many other factors which may explain differences across countries in the case of older women. The top-left panel suggests that there is a statistically significant (at 1% level) and negative relationship between EPL strictness and the employment rate defined as the ratio of employees aged 50-64 to the population aged 50-64.[14] There are also negative correlations between EPL strictness and hiring and retention rates for older workers, although not statistically significant in the case of job retention rates.[15] The absence of any significant relationship between the strictness of EPL and job loss among older workers may be due to the way job loss is defined since it excludes job exits for reasons of normal and early retirement. Some of these exits may in fact have been involuntary and initiated by firms in response to strict employment protection rules.

Figure 3.7. **Does strict EPL protect older workers?**



, * statistically significant at 5% and 1% levels, respectively.

a) The employment rate refers to the ratio of employees to the population in 2004.

b) The retention rate refers to the estimated proportion of all employees in 1999 who were still with the same employer in 2004 (1995-2000 period for Korea).

c) EPL strictness is the OECD index for 2003 of the overall strictness of Employment Protection Legislation (EPL) with respect to individual and collective dismissals and temporary employment.

d) The hiring rate refers to the ratio of employees with less than one year of tenure to all employees. The data refer to 2004 (2000 for Korea).

e) The job-loss rate refers to all persons who are currently not working and who lost their job in the previous year for involuntary reasons as a ratio of all employees and former employees. The data refer to 2002 for Japan and to 2004 for the other countries.

Source: OECD, *Employment Outlook*, 2004 for the EPL index and OECD estimates based on the European Union Labour Force Survey and other national labour force surveys for the other indicators.

4. Barriers on the side of older workers

Improving financial incentives to remain in work longer and encouraging employers to be more receptive to an age-diverse workforce is only half the battle. If older workers lack the skills required by employers, suffer from poor health or face onerous working conditions, they may still be pushed into early retirement. A lack of access to good employment services and career advice will also reduce their options in terms of continuing to work longer. These aspects all affect an older worker's "employability". They are likely to become increasingly important as the number of older workers rises and more of them seek to continue working for longer.

The key barriers affecting the employability of older workers that have been identified in each review country are summarised in Table 3.4. Three main areas are identified: i) low training participation; ii) inadequate public employment services; and iii) inflexible work schedules and poor working conditions. Each of these is discussed in turn.

Training

As a result of technological and organisational change, and the ongoing shift out of manufacturing and into services, job requirements are continually changing. This means that workers are increasingly being required to acquire new skills and upgrade their existing ones. Hence, it is vital that workers of all ages have good access to vocational training and lifelong learning activities. Adult learning and training can play a fundamental role too in addressing the lack of formal education or acquisition of basic skills that may be a source of persistent labour market disadvantage for workers as they age. Thus, adult learning can enhance significantly an older worker's employability, not to mention wages and firm profits.[16]

In all of the review countries, improving training opportunities and the take-up of these opportunities have been identified as a key area for strengthening the employability of older workers. However, the current situation with respect to the incidence of training and the diagnostic about what needs to be done to improve this situation is not the same in all countries. As shown in Figure 3.8, the incidence of training declines with age in all countries. In some countries the gap between younger and older workers is particularly large and in others the overall incidence of adult training is very low.

To some extent a decline in the incidence of training with age may simply reflect fewer expected years left in the workforce and hence fewer years to recoup the returns on investment in training by both workers and employers. As shown in Figure 3.9 (left panel), there is a positive and statistically significant correlation across countries between the (adjusted) incidence of training for older workers relative to younger workers and the average effective age of retirement.[17] The figure suggests that the relative incidence of training for older workers tends to be higher in those countries where workers withdraw from the labour market at an older age.[18]

Table 3.4. **Barriers to improving employability**

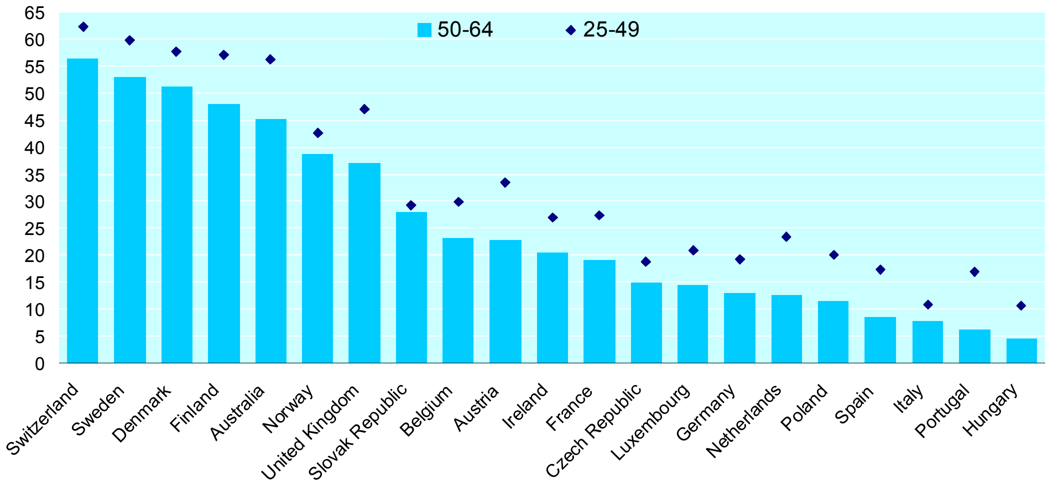
Country	Low training participation	Inadequate public employment services (PES)	Inflexible work schedules and poor work conditions
Australia	Participation in training declines after 50.	Job-search requirements less strict for older job seekers. Incidence of vocational rehabilitation is low for older disabled workers.	Long work hours. Working conditions not adapted to older workers.
Austria	Lack of training opportunities, especially for inactive people.	In the past, insufficient focus of the PES on older workers.	Inadequate incentives for sickness/disability prevention by employers.
Belgium	Low incidence of adult training.	Poor quality of PES measures for older job seekers.	
Canada	Low incidence of training among low-skilled workers.	Older adults are under-represented in ALMPs and only those on benefits eligible.	
Czech Republic	Education level of older workers is low. Provision of adult training is inadequate. No formal recognition of skills obtained on the job.	Resources allocated to PES are inadequate. Low participation of older people in these measures.	Substantial work-related health problems among older workers.
Denmark	Participation in training declines after 50.	Low incidence of vocational rehabilitation for older DB recipients.	
Finland	Participation in training declines after 50.	Low participation in ALMPs for those aged 60 and over.	
France	Low incidence of adult training, especially after 50.	Until recently, the PES did not give much assistance to older jobseekers.	
Germany	Low incidence of adult training, especially after 50.	Poor employment outcomes of PES measures.	Lack of part-time employment opportunities.
Ireland	Slow progress in introducing lifelong learning measures.	Unemployed on benefits aged 55 and over not obliged to contact PES.	Unpleasant working conditions common for older men.
Italy	Low incidence of adult training, especially in small firms.	Poor performance of PES. Measures targeted mainly at youth. In the past, active job-search not required.	Barriers to part-time employment and opportunities.
Japan	Low incidence of adult training, especially after 50.	Room for improvement in quality of PES interventions.	Long work hours. Unequal status of non-regular workers.
Korea	Low incidence of adult training, especially after 50.	Room for improvement in quality of PES interventions.	Long work hours. High rate of work injuries. Unequal status of non-regular workers.
Luxembourg	Low incidence of adult training, especially after 50.		Limited part-time work opportunities.
Netherlands	Steep fall in incidence of training after 50.	Older adults are under-represented in ALMPs.	
Norway	Participation in training declines after 50.		
Spain	Education level of older workers is low. Provision of adult training is inadequate.	Conditionality of unemployment benefits on active job search not effectively enforced for older job-seekers.	A high incidence of temporary work increases the risk of early exit from labour market.
Sweden	Participation in training declines after 50.	Older adults are under-represented in ALMPs. Formerly, some measures encouraged early labour market exit.	Improvements required in work environment and earlier return to work after illness.
Switzerland	Participation in training declines after 50.	Older adults are under-represented in ALMPs.	Lack of working-time flexibility.
United Kingdom	Lack of co-ordination in provision of training and adult career guidance.		Long work hours. Barriers to part-time employment.
United States	Low incidence of training among low-skilled workers. Lack of co-ordination in provision of training.	Older adults are under-represented in ALMPs.	Long work hours. Barriers to part-time employment.

ALMPs = active labour market programmes.

Source: OECD series on *Ageing and Employment Policies*.

Figure 3.8. **Training of older workers versus younger workers[a]**

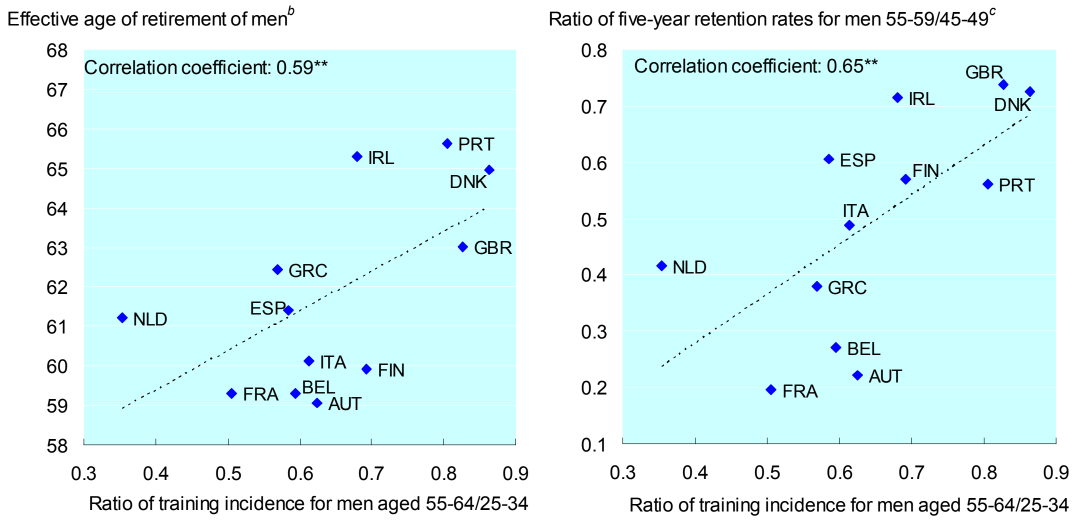
Percentage of employed who participated in education or training during the previous 12 months



a) The data refer to 2003 (2001 for Australia).

Source: European Union Labour Force Survey (2003 Lifelong learning module) and the Australian 2001 Survey of Education and Training.

Figure 3.9. **Training of older workers and expected pay-back period[a]**



** statistically significant at the 5% level.

a) The ratio of the incidence of training shown in this figure is adjusted for differences in the characteristics of older and younger workers apart from age which may explain differences in the incidence of training between the two groups.

b) The effective age of retirement refers to the average age at which persons aged 40 and over left the labour force during the period 1999-2004.

c) The retention rate refers to the estimated proportion of all employees in 1999 who were still with the same employer in 2004.

Source: The adjusted training ratio is from Bassanini *et al.* (2005) and is derived from the European Community Household Panel. The other variables are OECD estimates derived from the European Union Labour Force Survey.

From the firm's perspective, it is not the worker's entire expected remaining work life that will determine whether training is offered or not but the expected remaining time a worker will stay with the firm. In OECD (1998, Chapter 4), it was pointed out that, in some countries, older workers (45 and over) have a higher probability of remaining five more years with their current employer than younger workers, which should work in the direction of smaller age differentials in training. As shown in Figure 3.9 (right panel), there also appears to be a positive (and statistically significant) correlation across countries between the incidence of training for older workers relative to younger workers and the five-year job retention rate for men aged 55-59 relative to those aged 45-49.[19]

Another key finding that emerges from the country reviews is that even in countries like the United States where the overall incidence of training is relatively high in comparison with other OECD countries, some groups of workers such as the low-skilled receive very little training, irrespective of their age. This variation by education is greater than by age. Thus, for example, older workers aged 50-64 with some college or a university degree undergo training much more frequently than younger workers aged 25-49 with only a high school education. A similar pattern of large differences in training by level of education was also identified in the Australian review (OECD, 2005i).[20]

Several country reviews also highlight the potential impact of the way training is organised and co-ordinated on whether older workers train or not. In some countries, such as the United Kingdom and the United States, the lack of co-ordination in the provision of training was seen as a potential barrier to greater participation in training both for younger and older workers. The length of training courses and their content are also potential barriers, particularly for older workers. Given the shorter pay-off period they face in terms of any investment in training, they will have little incentive to enrol in long courses that do not build on existing skills or experience. A number of studies reported in the US review (OECD, 2005b, pp. 163-164) also suggest that training for older workers may need to take place at a slower pace, be more closely tied to the work context and involve self-directed learning rather than formal classroom training.

Employment services

In most of the review countries, older people appear to face a number of obstacles in obtaining adequate employment services to help them find a job. As discussed in Chapter 2, older workers do not necessarily face a higher risk of job loss relative to younger workers, but in most countries they face longer spells of unemployment when they do lose their jobs. While age discrimination and a general lack of job opportunities may account for some of the difficulties that older unemployed people face in finding work, the country reviews generally found that there was room to improve the employment services that are offered to them. This may become increasingly important as larger cohorts of older workers stay on longer in the workforce. It may also help to foster greater job mobility among older workers in the context of ongoing structural changes in the labour market but also as a way of giving older workers better opportunities to switch jobs as they approach retirement, especially if their current jobs are particularly onerous.

In most countries, there is scope to improve the range and intensity of employment services directed at older jobseekers. In particular, as noted in Box 3.2 above, eligibility rules for unemployment benefits that require active job search are either explicitly or implicitly waived for older jobseekers in a number of countries (Belgium, France, Germany, Ireland and, in some instances, the Netherlands), and thus the incentives and help given to them for job search are minimal or non-existent. In Finland, the older long-term unemployed are able to move onto an early-retirement scheme and so are exempted from any job-search or job-availability requirements. This was also the case until recently in Australia and Austria. In some other countries such as Sweden, while there was no formal exemption from job search for the older unemployed, it did not seem that job-search requirements were strictly enforced for them.

More generally, across the review countries, while access to active labour market programmes is only rarely restricted on the basis of age, older jobseekers are under-represented on them. For example, in the United States, the number of older people (50 and over) who exited the main active labour market programmes in 2003/04, *i.e.* Workforce Investment Act programmes and Trade Adjustment Assistance, represented 2.5% of all job losers during the same period (see Table 5.3, p. 144 in OECD, 2005b). The corresponding proportion for youth was 5% and the proportion for the age group 25-49 was slightly higher at 2.7%. A similar finding was also reported in many of the other country reviews.

Moreover, the level and type of support given to older jobseekers is not always the same as is given to younger jobseekers. Taking again the US as an example, older job seekers are less likely than younger workers to receive intensive assistance in the form of training. During the period 2003/04, only 33% of older exiters under Adult WIA programme received occupational skills training compared with 41% in the age group 25-49 and 42% for youth.

Working conditions and working-time arrangements

Poor working conditions are another important factor that may be pushing older workers into early retirement. A lack of flexibility in working-time arrangements for older workers is also an issue in most countries, including barriers to switching from dependent employment to self-employment.

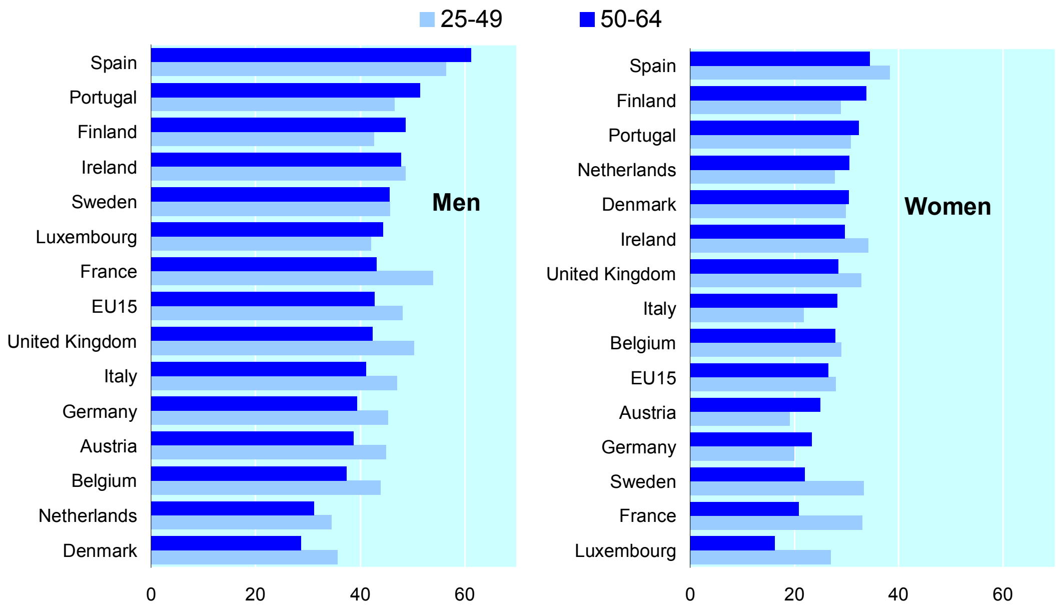
Working conditions and health

It is difficult to compare working condition across countries both because of the need to rely on subjective assessments of workers and because of the absence of comparable surveys. One of the few internationally comparable surveys available is the European Survey on Working Conditions.[21] According to this survey, 43% of men and 26% of women aged 50-64 are exposed on average across the EU-15 countries to physically unpleasant working conditions at least half the time (Figure 3.10). While this is slightly lower on average than for younger workers in most countries, the accumulated effect of working, for example, with vibrating machinery or exposed to loud noises may take a heavier toll on older workers. Perhaps even more important is the exposure to psychological pressures causing stress. It is notable that a high proportion of older people coming onto sickness benefits suffer from mental rather than physical conditions.

The toll taken on health by working conditions is summed up in Figure 3.11. In Finland, France, Italy and Luxembourg, at least one in ten men aged 50 to 64 experience substantial absences from work because of job-related health problems, and in Austria this is true of over one in ten women. This is just the visible tip of a much larger iceberg of work-related health problems since these data exclude individuals no longer at work, many of whom may have retired early because of health problems.

Figure 3.10. **Unpleasant working conditions by age and gender**[a]

Percentages of all employees by age and gender

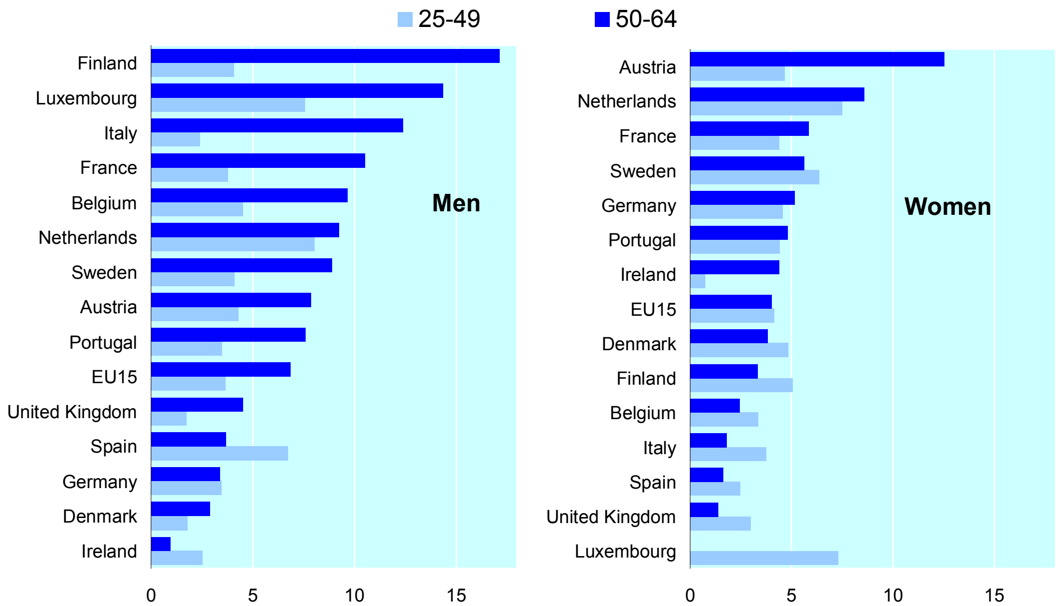


a) Workers were classified as experiencing unpleasant working conditions if they reported that for between one-half to all of the time they were exposed in their main job to at least one of the following: vibrations from hand tools or machinery; loud noise; high or low temperatures; breathing in vapours, fumes, dust or dangerous substances; handling dangerous products; and radiation such as X-rays, radioactive radiation, welding light or laser beams.

Source: European Survey on Working Conditions, 2000.

Figure 3.11. **Job-related health problems by age and gender**[a]

Percentages of all employees by age and gender



a) Percentage of workers with an absence of five days or more during the past 12 months because of work-related health problems.

Source: European Survey on Working Conditions, 2000.

Outside of the European countries, only limited information is available on working conditions. In the United States, for example, there appears to have been a small improvement in working conditions for older workers (aged 55-60) between 1992 and 2002 in terms of whether their jobs required much physical effort or heavy lifting (see OECD, 2005b). Nevertheless, a substantial minority of older workers in 2002 still reported that their jobs mainly involved much physical effort (28.3%), lifting heavy loads (9%) or stooping, kneeling and crouching (15.7%). There also appears to have been an increase over the period in non-physical job requirements such as intense concentration, skill in dealing with people and good eyesight. This may partly explain the increase in the proportion of older workers reporting that their current job was more difficult now than in the past or involves a lot of stress.

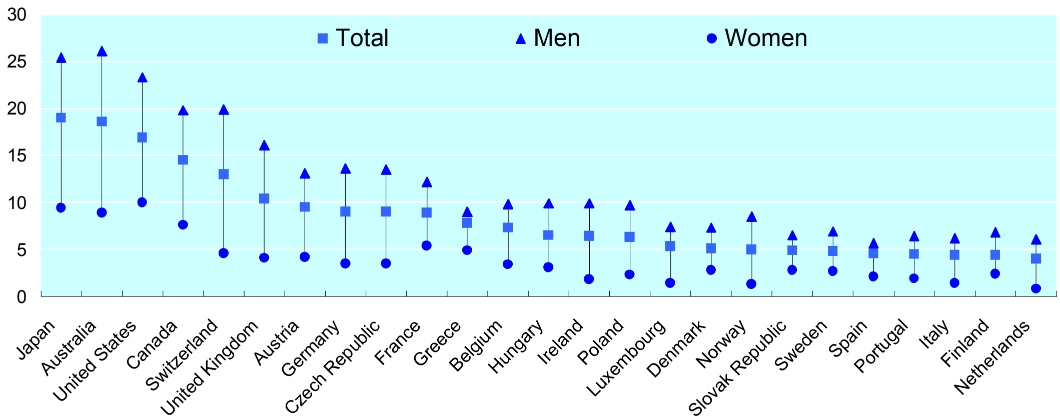
Occupational health and safety continues to be an issue in many of the review countries, despite improvements over time in the number of work-related injuries and fatalities. In particular, in the Korean review, it was pointed out that the incidence of work-related fatalities in the manufacturing sector was much higher than in several other major OECD countries as well as in Singapore (see Figure 5.6, p. 134 in OECD, 2004c). Even in the United States, the incidence of worker fatalities in manufacturing is still twice as high as in the United Kingdom, despite having declined substantially over time.

Working-time arrangements

Long working hours may also be particularly onerous for older workers and may be a factor pushing them into retirement. Among the country reviews, this was seen as a potentially important issue in Australia, Canada, Japan, Korea, the United Kingdom and the United States. As shown in Figure 3.12, the proportion of older male employees who work 50 hours or more per week is much higher in these countries than on average in the other review countries.[22]

Figure 3.12. **Older workers (50+) working 50 hours or more per week[a]**

As a percentage of all older workers



a) The data refer to 2004 (2000 for Japan) and to actual hours of work per week in all jobs.

Source: OECD estimates based on the European Labour Force Survey and other national labour force surveys.

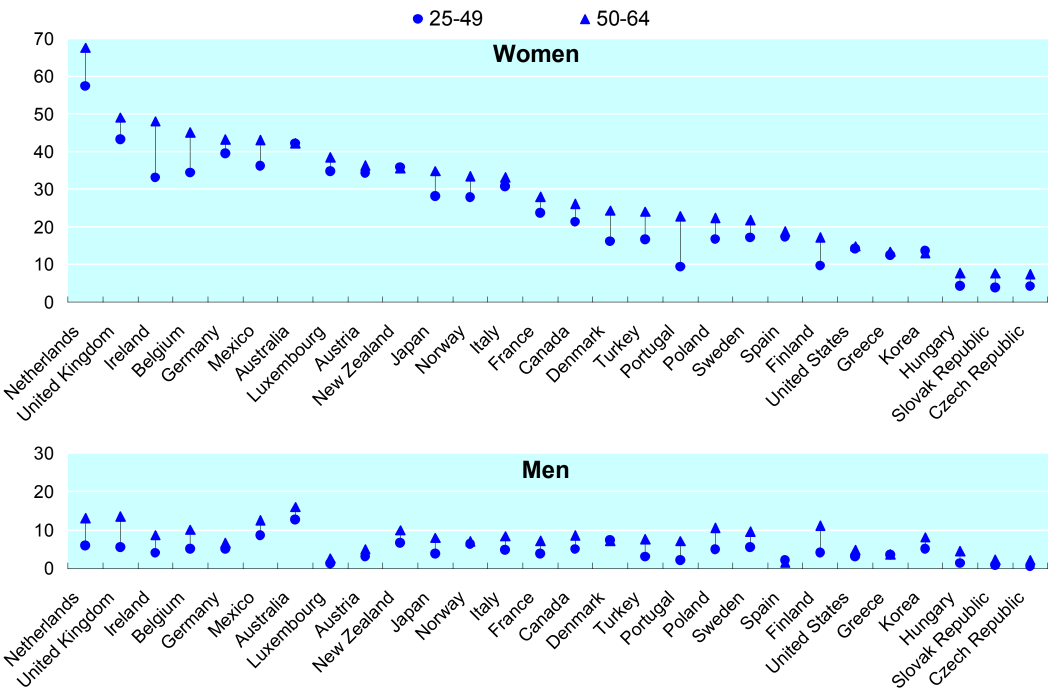
More generally, inflexible working-time arrangements may discourage older workers from continuing to work longer and result in a "cliff-edge" pattern of retirement where older workers go from working full-time to not working at all. In a study of older American workers who left their job between 1992 and 2000, Penner *et al.* (2002) find that around 13% would have stayed on in the job if their employer had permitted them to reduce their hours of work.

A number of factors may contribute to rigidities in working-time arrangements. Some of these are barriers affecting older workers specifically and others may be barriers to part-time work more generally. In the former case, these may include various pension rules restricting the right to combine pensions with income from work (see Chapter 4). More general barriers to part-time work may arise if there are substantial fixed costs for each person employed irrespective of the number of hours they work which would make it more expensive for an employer to hire two part-time workers rather than one full-time worker. In the United States, the risk of losing employment benefits that may only be associated with full-time jobs (*e.g.* employer-provided health insurance cover) is another more general barrier to older workers switching from full-time to part-time work.

Currently, the incidence of part-time work varies considerably across OECD countries but, in general, it is higher for older workers than prime-age workers (Figure 3.13). At an aggregate level across countries, there appears to be little evidence of any significant correlation between the incidence of part-time work among older workers and the overall employment rate for older people but there is a somewhat stronger positive and statistically significant correlation between the incidence of part-time work and the effective age of retirement (not shown). However, some microeconomic studies (*e.g.* Gustman and Steinmeier, 2004) suggest that easing barriers to part-time work could lead to a significant increase in the effective retirement age, although the net impact on effective labour supply would be smaller since some workers, who prior to the change would have continued working full-time, will also reduce their hours worked.

Figure 3.13. **Part-time work by age and gender**[a]

As a percentage of all workers by age and gender



a) The data refer to 2004. Part-time workers refer to workers whose usual weekly hours of work are less than 30. For Japan and Korea, the data refer to actual hours of work.

Source: European Union Labour Force Survey and other national labour force surveys.

5. Rebuilding work incentives and removing obstacles to employment

The thematic review has highlighted the fact that in all of the participating countries older people face multiple barriers and disincentives to carry on working or to rejoin the labour force if inactive. Thus, if work is to be an attractive and rewarding proposition for older workers, it will require action on a number of fronts. First, there must be strong financial incentives to carry on working. Second, wage-setting practices and employment protection rules must be adapted to ensure that employers have stronger incentives to both hire and retain older workers. Third, in the face of substantial technical and organisational change, older workers must be given appropriate help and encouragement to improve their employability. Finally, a major shift in attitudes towards working at an older age will be required by both employers and older workers themselves, especially in those countries where the legacy of substantial recourse to early retirement schemes during the 1980s and 1990s has been an entrenched early retirement culture.

Notes

1. Family-friendly employment policies in a number of countries have been extensively reviewed in the OECD series on *Babies and Bosses – Reconciling Work and Family Life* (OECD, 2002, 2003e, 2004j and 2005c).

2. For countries such as Sweden and the United States where the pension is increased for each year worked above the minimum pension age, the normal pension age corresponds to the age at which a minimum guaranteed pension can be first obtained. For other countries such as Austria, Belgium, France and Italy, the normal age has been defined as the age at which a full pension can be obtained irrespective of a worker's contribution record. Thus, for example the normal retirement age for France is shown as 65 in Table 2.2 rather than 60 as is usually reported.

3. An "actuarially equivalent" system is one in which an individual's pension wealth (the discounted stream of future pension payments) does not change when a worker retires earlier or later than a defined standard age.

4. Gustman and Steinmeier (2004) find that by allowing time preferences to vary across workers, they can reproduce the spike at the earliest eligibility age for Social Security.

5. These differences across OECD countries between net and gross replacement rates and how they vary at different levels of earnings are examined in more detail in OECD (2005d).

6. These replacement rates assume that workers have been covered by the same occupational pension scheme for their entire working career.

7. As cited in the UK country report (OECD, 2004d, p. 82), over 50% of the UK population aged 65 and over are currently eligible for the means-tested Pension Credit and this could rise to close to 75% by 2025 (Clark and Emmerson, 2002).

8. However, they also point out that while eliminating the earnings test would raise the employment rate of older workers, it would also raise the proportion of them claiming Social Security early and so in the short-term would put further strain on the financing of Social Security.

9. Of course, current retirement decisions reflect the rules of the pension system that apply to the current cohort of workers approaching retirement rather than the rules that will apply to future cohorts of older workers. Thus, the indicator refers to the older rules in force prior to 2000 and takes account of the normal public pension system and, where they exist, formal and informal early retirement schemes.

10. The US survey is not directly comparable with the European survey since it did not specify any time period during which age discrimination may have occurred.

11. For women, there is no relationship between their wage profiles by age and employment outcomes, which may reflect the fact that these profiles are generally much flatter than for men. This, in turn, may partly reflect the fact that woman, on average, tend to have more intermittent careers and shorter job tenure with the same employer.

12. The employment rate refers to the number of employees rather than all employed persons as a proportion of the population. If seniority wages have an adverse impact on employment, this should be on employees rather than on the self-employed.

13. In Sweden, Last-In-First-Out rules may impede mobility more generally since older workers will be reluctant to switch employers because they would lose their seniority status and hence face less protection from any subsequent dismissal.

14. This is in contrast with the finding in OECD (2004i) that there appears to be no strong relationship between employment protection rules and overall employment rates for older men. However, the earlier finding was based on multivariate regressions which controlled for other factors. It also used as the dependent variable the total employment rate including the self-employed, which can be a very important group among older workers in some countries.

15. If Norway, Portugal, Spain and Sweden are excluded from the correlation with respect to the job-retention and EPL, the correlation coefficient is -0.66 and statistically significant at 1% level.

16. Adult learning is also associated with various non-pecuniary benefits such as better health and personal satisfaction.

17. The adjusted ratio is taken from Bassanini *et al.* (2005) and controls for differences in the observed characteristics of older and younger workers apart from age which may explain differences in the incidence of training between the two groups.

18. The effective age of retirement may itself be influenced by the extent to which older workers receive training. However, Bassanini *et al.* (2005) report that there is also a negative correlation between the relative rate of training for older workers and the effective tax on continuing to work after a given age that is implied in each country's old-age pension and early-retirement schemes. This effective tax on continuing work is likely to be exogenous to training behaviour.

19. As with the effective age of retirement, there may be some reverse causality between retention rates and participation in training. Nevertheless, from a policy perspective, measures that increase older workers' retention in firms may encourage firms to provide greater amounts of training to them and, vice versa, measures that increase older workers' participation in training

may have a pay-off in terms of increasing their retention rates. Thus, both avenues should be pursued.

20. Although the differences in the incidence of training by level of education in Australia are not as great as in the US.

21. The figures may underestimate the true incidence of poor working conditions since they include only individuals still in employment, *i.e.* those exposed to the worst conditions may have left their job.

22. However, it should be noted that the countries with the highest incidence of long hours also have the highest effective retirement ages.

Chapter 4

Removing Work Disincentives and Increasing Choice in Work-Retirement Decisions

Key messages: Pension reforms can alter the incentives to work and influence workers' decisions on the timing of retirement. Reform measures include reductions of pension replacement rates, increasing the official and the earliest ages of retirement, and correcting the increments and decrements of pension benefits for early and late retirement. More flexibility in combining work and pensions could also help to increase labour-market participation of older people. Pension reform has been widespread across OECD countries, but a number of difficult issues remain in terms of finding the appropriate balance between, on the one hand, encouraging later retirement and, on the other hand, increasing flexibility in work-retirement choices. These issues include the appropriate design of more actuarially-neutral pension systems and whether countries should go beyond actuarial neutrality and take a more active stance in terms of promoting later retirement. Finally, while pension systems are being reformed, it is essential to ensure that other welfare benefits are not used unjustifiably as paths to early exit from the labour market.

Chapter 3 showed how pensions, as well as other welfare benefits and tax systems, can influence the relative incentive for someone of a given age to retire or to remain in the labour market. Governments would generally like to tilt such incentives more towards staying in work, both in order to contain overall pension costs and in order to improve labour supply. One thing that makes it legitimate to do so is that present systems are often perverse in terms of penalising workers by reducing their notional pension "wealth" if they continue in work beyond particular ages.[1]

Can countries adopt policies that reduce undue retirement disincentives, while improving choices for individuals over the way in which they make the transition from work to retirement? Today, many countries are carrying out far-reaching reforms to their pension systems, primarily to make them more financially sustainable, but also with the complementary aim of prolonging working lives. This chapter starts off by considering some of the ways in which pension reform is changing incentives that affect the timing of retirement (Section 1). It goes on to look at reforms to other welfare benefits for older people of working age (Section 2), and reviews some policies that can help create more flexible pathways to retirement (Section 3). It concludes with some general reflections on choices for policy (Section 4).

Policies affecting incentives in the transition to retirement have to strike a delicate balance between different policy aims. On the one hand, pensions should be sufficient to provide adequate standards of living in retirement, while on the other hand their cost should be affordable and they should not give undue incentives to leave work early. Another balance is between helping workers with diverse needs and preferences to pursue diverse pathways into retirement, while creating some absolute limits to their choice of retiring early. Even if such a private choice is fully paid for in a reduced pension, it can have negative public consequences, either because people end up in poverty and become entitled to means-tested benefits, or through the adverse effect on labour supply. Thus, the policy directions discussed below need to be interpreted in the context of each country's mix of priorities, and in the context of the current systems' strengths and weaknesses. Nevertheless, a clear message from the following review is that a wide range of measures is now being applied across many countries to reduce work disincentives for older people.

1. Pension reform and the timing of retirement

Most OECD countries have substantially reformed their pension systems over the past two decades. In some cases, the change has been a slow, evolutionary process; in others, there has been radical, one-off reform. The main motivation for these reforms has been a fiscal one: to improve the sustainability and affordability of public pension systems. But improving work incentives has also been a goal. The most common change affecting work incentives directly has been the closure of pathways to early retirement or restriction of access to them. But general measures to reduce pension promises, through the "income effect" described in Chapter 3, will also affect the incentive to retire early. Changes in pension entitlements and retirement age have been implemented in many OECD countries – see Box 4.1 for a discussion of how such measures may affect work incentives.

Box 4.1. **Pension reforms and work incentives**

As discussed in Chapter 3, several features of pensions affect the timing of decisions to stop work, most particularly age-of-retirement rules, the overall level and the rate of accrual with years of service or age. In this context, there are broadly three measures that can raise the incentive to work longer, as shown in Figure 4.1.

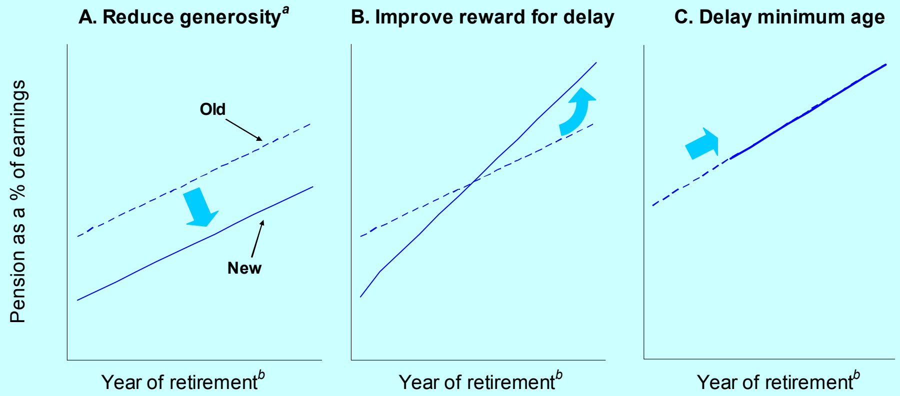
A first option (A in Figure 4.1) is to cut entitlements and costs, by making the pension less generous if taken at any given age. This can be done, for example, by reducing the value of the pension paid at the official retirement age, although potentially allowing people to maintain the same value of pension by working longer. Conversely, it is possible to maintain the basic pension value but raise the official age, potentially allowing people to retire at the previous official age but with reduced pension. The result of these two measures is effectively the same. Another option is to adjust contribution requirements so that many people will need to work longer to earn a "full" pension.

A second type of measure is to retain both the official age and the pension level at this age, but to introduce steeper rewards and penalties based on the timing of retirement. This can take the form of greater penalties for retiring early or higher bonuses for delaying retirement. Since few countries have in the past had so-called "actuarially-equivalent" adjustments (*i.e.* ones that fully reflect the shorter/longer period in which one can expect to draw a pension if one starts drawing it later/earlier), there is a strong case for reform in this direction. Note that it is possible to create a steeper trade-off between the timing of retirement and pension benefits without necessarily making a pension system more or less generous overall.

A third option is to raise the minimum age at which benefits may be drawn. This can help preserve the labour supply, particularly where large numbers have been taking advantage of early retirement. Note that while this does not necessarily save money, since in principle people retiring early could have their pension reduced to pay the full cost of drawing it for longer, in practice early-retirement pensions have not been subject to full actuarial reductions. Even if they were, the low pensions that would be paid may be insufficient to keep many older people out of poverty, and hence lead to extra public spending on social assistance benefits. Thus, in reality a restriction of minimum early-retirement ages can often remove a boost to pension wealth of those who retire early and remove a perverse incentive to leave work.

In practice, all three strategies shown in Figure 4.1 have become common in OECD countries, with reforms often involving a combination of more than one of them. Table 4.1 gives a summary of recent reforms in these directions. The common thread to all the changes shown is that they reduce the degree to which individuals can leave the workforce early without bearing at least some of the cost of doing so.

Figure 4.1. **Reforming pensions to reduce early-retirement incentives: three approaches**



a) Note that scenario A could arise either by a general cut in pension rates or by raising the "official" retirement age, so that people need to work longer to earn the same benefit (where this is possible).
b) These examples look at incentives from the point of view of any given individual: "If I retire today, or a year from now, what will my pension be?" The effects of years of service and age are thus combined.

Table 4.1. **Country examples of pension reforms affecting timing of retirement**

A. By reducing pension generosity for workers retiring at a given age with a given contribution history

Country	**Reform**	**Affecting whom**	**When**
(i) By raising the official pension age			
Australia	Official age: From 60 to 65 Earliest age: From 55 to 60 (for mandatory occupational pensions)	Women All	1995-2014 2015-2025
Austria	Official age: From 60 to 65 Earliest age: From 60 to 62 Earliest age: From 55 to 62	Women Men Women	2023-2033 2000-2005 2000-2027
Belgium	Official age: From 60 to 65	Women in private sector	1997-2009
Czech Republic	Official age: From 60 to 63 Official age: From 53-57 to 59-63	Men Women	1996-2012 1996-2012
Denmark	Official age: *Reduced* from 67 to 65, but in combination with other measures shown below	All	2004
Germany	Earliest age: *Reduced* from 63 to 62 Earliest age: From 60 to 62	Men Women	By 2010 2011-2016
Italy	Official age: From 60 to 65 Official age: From 55 to 60	Men Women	From 1992 From 1992
Japan	Official age: From 60 to 65 for flat-rate pension Official age: From 60 to 65 for flat-rate pension Official age: From 60 to 65 for earnings-related pension Official age: From 60 to 65 for earnings-related pension	Men Women Men Women	2001-2013 2006-2018 2013-2025 2018-2030
Korea	Official age: From 60 to 65 Earliest age: From 55 to 60	All All	2013-2033 2013-2033
Switzerland	Official age: From 62 to 64	Women	2000-2005
United Kingdom	Official age: From 60 to 65 Earliest age: From 60 to 65 (Pension Credit)	Women Men	2010-2020 2010-2020
United States	Official age: From 65 to 67 for full eligibility	All	2000-2027
(ii) Other measures that reduce overall replacement rates if retirement behaviour unchanged			
Austria	New formula, based on 40-year average of earnings rather than best 15 years, reduces replacement rates.	All	2003-2038
Finland	Life expectancy multiplier will reduce pension at a given age to reflect lengthening life expectancy.	All	From 2010
France	Increasing the required contributions for a full pension in line with changes in life expectancy. Gradually increasing the number of years for calculating pension entitlements from 10 to 25 best years.	All All	2008-2020 1993-2008
Germany	Gradual reduction in first-pillar replacement rates through indexation formula.	All	Ongoing
Italy	New notional accounts will yield less income for given retirement age as life expectancy increases.	All	Ongoing
Sweden	Switch from best 15 years to lifetime earnings basis, reducing replacement rates initially and adjusting coefficients to reflect life expectancy.	All	From 1999

Table 4.1. **Country examples of pension reforms affecting timing of retirement** *(cont.)*

B. By increasing rewards and penalties associated with timing of retirement

Country	Reform	Affecting whom	When
Australia	Lump-sum bonus for deferral up to five years	All	1998
Austria	Increase penalty for early retirement from 2% to 4.2% p.a.	All	1997
Belgium	Higher pension for deferring after 60 in public sector, up to 9% by age 65	All	2001
Denmark	Pension reduction around 10% for retiring age 60-62 Lump-sum bonus for working between 62 and 65 Higher pensions for deferring after age 65 (*e.g.* +7% if defer to 66)	All All All	1999 1999 2004
Finland	Flexible retirement age from 62 to 68 (7.2% bonus for delaying retirement to age 63 and 4.5% thereafter to age 68)	All	2005
France	A bonus of 3% for each year the pension is postponed beyond age 60 (for those already at the full rate) Workers can draw a fraction of the pension while continuing to work under the scheme of progressive retirement	All All	2004 2005
Germany	Pension 3.6% lower if retire aged 63-64; 6% higher for each year post-65	All	1997-2004
Italy	Actuarially equivalent reductions from age 57	All	2015-2033[a]
Spain	Higher pension for retiring after 65: 2% for each year with no limit (for individuals with 35 years of contributions)	All	2002
Sweden	Flexible retirement from age 61 with actuarially-based rewards/penalties for individuals with 35 years of Social Insurance contributions	All	1999
United Kingdom	Higher pension for retiring between 65 and 70: raised from 7.5% to 10.4% for each year, with lump-sum option added	All	2005

C. By restricting options for early retirement

Country	Reform	Affecting whom	When
Austria	From 60 to 61.5 From 55 to 56.5 From 56.5 to 61.5	Men Women Women	2000-2002 2000-2002 2018-2034
Belgium	Require 35 rather than 30 years contributions to retire early at 60.	All	1997-2005
Italy	Seniority pensions for employees available from age 57 or with 40 years of contribution (previously from age 54-56 or with 37 years of contributions).	All	2002-2008

a) For a full work career starting at age 20 and assuming retirement at age 57.
Source: OECD series on *Ageing and Employment Policies*.

Reducing pension entitlements

Political constraints have pushed OECD governments towards stiffening qualifying conditions for pension benefits and indirect, "backdoor" cuts in entitlements rather than direct reductions in pensions.

Many countries have changed the number of years of earnings used in the calculation of earnings-related pension benefits (Table 4.1). Some schemes used to measure individual earnings over a number of last (few) year(s) of employment or over a number of best years. When earnings increase with age, pension systems that use earnings in the final few years of employment yield higher benefits than those that include the worker's early years of work. Using only a few years also provides an incentive for workers to retire as soon as the earnings peak is reached which is often the case before the official retirement age. In the past, the last few years of earnings were commonly used to calculate public pension benefits. Today, most OECD countries have moved towards the use of life-time earnings.[2]

Pension benefits have also been reduced through changes in the way in which wages earned in the past enter into the benefit calculation. In all earnings-related public pension systems of OECD countries, past earnings are re-valued to take account of changes in living standards between the time pension rights accrued and the time they are claimed. While there is obviously no need for such valorisation in final-salary schemes, such provisions are common in defined-benefit schemes where the earnings measure in the benefit formula is calculated over a longer period. The majority of OECD countries with earnings-related schemes valorise past earnings in line with economy-wide wage growth. However, several OECD countries have recently moved from earnings to price-valorisation (*e.g.* France in 1993) or to a mix of wages and prices (*e.g.* Finland). Changes in valorisation can strongly influence benefit levels, depending on the differential between wage and price inflation.

Many countries have changed the indexation of pensions in payment. Indexation refers to the up-rating of pensions in payment from the point the pension benefit is claimed onwards. In recent years, most OECD countries have moved or are moving away from indexation of pension benefits based on earnings towards full or partial indexation to prices. This means that the purchasing power of pensions is preserved, but that pensioners are not participating fully in the increasing standards of living enjoyed by workers.

Increasing retirement age

A general upward trend in official retirement ages is being borne, in particular by women

The overall trend is for the official pension age to rise to 65 or a similar age if it is not already at that level. In Australia, Austria, Belgium and the United Kingdom, women's pension ages have risen from 60 to 65 to conform with men's. In Switzerland, there has also been a rise in women's pension age. As patterns of labour market participation between men and women converge in many countries, and in light of equal treatment in other respects, a continued difference between men's and women's retirement ages seems hard to justify – although Italy for example has retained such a difference despite widespread reform in other aspects of its pension system and a raising of the retirement age for both sexes. The Czech Republic, Japan, Korea and the United States have also raised both men's and women's official pension ages, which were already at the same level in these countries. Only Denmark has recently reduced the official retirement age from 67 to 65 years.

Such rises do not necessarily force people to work to later ages, since they are often combined with opportunities for earlier retirement on reduced pensions. Moreover, much depends on whether the pension accrual rate is also changed. In the United States, for example, a maximum of 35 years of earnings "count" for the calculation of the social security benefit, so the increase in pension age will not increase entitlements. However, a rise in the official retirement age can have a significant effect on retirement behaviour, as the experience of New Zealand (a country not covered in this review) suggests. In New Zealand, a rapid rise in the official pension age from 60 to 65 took place between 1992 and 2001. Following the reform, labour force participation rates aged 60-64 rose sharply – from 33% to 69% for males and from 16% to 46% for females between 1991 and 2004.

Some countries are choosing to restrict permitted retirement ages, although some have also extended flexibility

To achieve an overall objective of increasing employment rates among older age-groups, it may not be enough just to strengthen incentives to retire later. A central part of many countries' reforms has been a restriction of the options for taking early retirement, not just pension reduction for those who do so. Evidence suggests that significant numbers of people choose to retire at the earliest age available to them. While this may be seen as a legitimate choice for individuals, the availability of early retirement can also influence employer behaviour, and thus contribute to involuntary premature labour market exit. In addition, early retirement can have significant negative impacts on living standards in retirement.

This kind of rationale has been behind raising minimum retirement ages and the withdrawal of particular types of early retirement option, as shown in the last part of Figure 4.1. Such restrictions have so far been relatively cautious, starting to eliminate certain options to retire at about 60 or below. Measures of this kind work best when combined with restriction of other options for leaving the workforce early such as long-term sickness/disability and unemployment benefits, as described later in this chapter. As countries start to reverse a culture of expecting the option of early retirement as an entitlement, they may become more adventurous in this direction. This has applied both to public schemes and to private ones getting indirect subsidies from the state. The latter type of subsidy, typically in the form of tax exemptions on pension contributions to private schemes, may be justified in terms of the social desirability that people save in order to provide income for themselves in their post-retirement years, as well as preventing the double taxation of such income – once when it is earned, and again when it is drawn as a retirement annuity. A minimum age for drawing benefits from private schemes helps distinguish them from tax breaks on ordinary savings, and the United Kingdom and Australia have recently raised this minimum to encourage later retirement (from 50 to 55 in 2010 and from 55 to 60 over the period 2015-2025, respectively).

On the other hand, some countries have taken steps to offer more choice in the timing of retirement, not less. Spain, Sweden and Switzerland, for example, have all increased options in public schemes to retire earlier as well as later. They have done so in the framework of stronger incentives to choose a later retirement date, albeit not always on an actuarially-equivalent basis. It will be important for such countries – and others – to evaluate the outcomes of such a package of changes on actual retirement behaviour.

One potential hazard in setting absolute lower limits to retirement ages is that some people in arduous jobs may have reasonable arguments for being allowed to retire younger than others – especially in occupations where lower entry qualifications mean that the typical age of starting work is relatively low. On the other hand, there has been a tendency in many countries (*e.g.* France and Italy) for more and more occupations to acquire such an exemption, and indeed to retain it even when technical change makes the work less physically arduous. There is no perfect solution to this problem, but one alternative to creating ad hoc exemptions is to permit retirement at least partly on the basis of contribution years rather than just chronological age. For example, in France, reforms have increased to 40 the number of contribution years required for a full pension, while giving exemptions to the minimum retirement age of 60 to those who have started work very young.

The most radical reforms make the interaction between life expectancy, retirement age and sustainability clearer to the individual

Traditional public pension schemes, as well as many private occupational pensions, have formulated benefits in terms of guarantees, in some cases based on final income. The changing affordability or otherwise of such guarantees is not transparent to the user. This form of pension differs from individual private pensions and occupational schemes based on "defined contributions", where benefits depend on the performance of funds rather than preset guarantees. One approach to threats to the sustainability of public pensions resulting from shifting demography is to make pension benefits more clearly related to two economic realities: the actual amount that an individual has invested and the state of finances of the system at the time benefits are drawn. These conditions can make a public system feel more like a "defined-contribution" than "defined-benefit" scheme to the user, even if the primary source of pension payments continues to be "pay-as-you-go" taxes and contributions rather than pre-invested funds.

Italy and Sweden have adopted a so-called "notional defined contribution" (NDC) model, providing flexible retirement choices. An example of the characteristics of such a model is shown in Box 4.2. To the extent that NDC systems mimic actual defined-contribution pensions, they may involve stronger incentives to continue employment, since pension entitlements continue to grow with continued employment. In addition, countries such as Finland, Italy and Sweden have introduced mechanisms for continuing to adjust the pension entitlements as future life expectancy increases, as it appears likely to do.

Box 4.2. **Sweden's notional defined contribution pensions – key characteristics**

Fixed contribution rate of 18.5% of earnings gives people an earnings-related pension.

Individuals build up notional accounts, which accrue in line with a three-year moving average of real wage growth.

Benefits are based on lifetime earnings and age at retirement, as well as life expectancy, with a guarantee built in to avoid a very low pension. The earnings-related pension can be taken as early as 61 (65 onwards for the minimum guaranteed pension) with no upper age-limit on accruing further pension entitlements on earned income after this age.

The system is mostly is funded by a pay-as-you-go regime (86.5%); the rest pre-funded. Thus, the "accounts" are not based primarily on invested funds but on the call on future earning generations.

Provision for adjustment of indexation formula to keep system sustainable if the system's liabilities exceed its assets.

One long-term objective that many countries need to pursue is to make necessary adjustments more "endogenous" to the pension system. As shown in Box 4.2, Sweden has already gone some way down this route by linking pension benefits to changes in life expectancy and allowing for changes in the indexation formula of these benefits if changes in circumstances threaten the system with a deficit. Other countries where changes in the parameters of the pension system have been linked to future increases in longevity include Finland and Germany. However, many countries presently reforming their pensions are not building in such future adjustments. This could be problematic, both because ad hoc changes through further pension reform can be costly in time and political effort, and because today's projections of future life expectancy are imprecise and likely to underestimate future increases.

A particularly important balance for countries when adjusting benefits to reflect sustainability is between the guarantee and incentive elements of the pension system. A first pillar of pension support needs to provide targeted or minimum incomes to avoid poverty. However, badly designed or overly complex first pillars can potentially affect incentives to save and to continue employment for low-income earners. On the other hand, systems that combine minimum or targeted pensions with mandatory or quasi-mandatory pillars (*e.g.* Australia and Denmark) can in principle produce strong incentives in the defined-contribution segments of the system, provided that when these segments mature, they are large enough to dominate the minimum pension – see for example Box 4.3.

Box 4.3. **Australia's pension pillars separate protection from incentives**

Australia's first pension "pillar", the Age Pension, serves primarily to guarantee a minimum standard of living but is not supposed to be the main component of retirement income for most people. It is worth only about one third of average full-time earnings. Since 1992, the Superannuation Guarantee has provided a second pillar for most people. Employers must participate in this scheme or pay charges that are larger than the contributions. As a result, the number of workers in occupational schemes has risen from 39% in 1986 to over 90% today. Most superannuation schemes are on an accumulation rather than defined benefit basis, giving an incentive to people to work longer, particularly because most people now rely on such schemes, and one in three workers are on a third tier of private pensions and savings, rather than just on the Age Pension. However, offsetting these incentives are the relatively early age at which superannuation can be accessed currently (55, although rising to 60 between 2015 and 2025) and the withdrawal schedule of the basic Age Pension as a function of other income including superannuation.

Correcting the incentives to retire

The incentives to retire embedded in public pension systems have only come to the fore of the pension reform debate in recent years. In many countries, the way that pensions were calculated in pre-reformed systems discouraged older workers from staying in the labour market: benefits were not reduced much (or at all) when retirement was taken early, and working beyond the official retirement age did not add to the level of the pension, even when workers paid additional contributions.

To avoid such distortions, the parameters of the pension system need to be adjusted. Early pension benefits have to be reduced by an amount that corresponds to the lower amount of contributions paid by the worker and to the increase in the period over which the worker will receive pension payments. Under such conditions, it would make no financial difference to workers when they chose to retire. Early retirement would be fully reflected in a lower annual benefit level, while retiring later would result in a higher benefit.

In recent years, penalties and rewards for earlier or later retirement have increased in a number of countries. In general, the penalty rate has not been as high as the reward rate. Moreover, countries differ greatly in the incentives provided for working an extra year. The United Kingdom has sharply increased the reward for staying in work between 65 and 70, and at the same time has given people the option of taking it as a lump-sum rather than a higher pension – which could make it seem even more attractive to some people. Countries that are offering higher accrual rates for older workers include Finland (where accrual rates increase gradually from 1.5% up to age 52, to 1.9% up to age 62, to 4.5% for workers between 63 and 67) and Luxembourg (where the accrual rate varies between 1.85% and 2.05%, for workers over 55 and with long contribution careers).

Will such incentives be sufficient to encourage people to remain in work for longer? There are several considerations here. One is how many people actually have the choice of continuing to work beyond conventional retirement ages – their opportunities in the labour market are treated in Chapters 5 and 6.

A second consideration is whether the steepness of rewards and penalties fully reflects the shorter expected time spent drawing one's pension. This has not been fully achieved in most countries: Queisser and Whitehouse (2006) estimate that on average across OECD countries an actuarially equivalent defined-benefit pension adjustment for working an additional year would be 5.2% and 4.6% for men and women, respectively, at age 55, rising to around 8½% at age 69 for both men and women. A few countries including the United Kingdom appear to reward later retirement at this rate or more at some ages at least, but many countries fall far short of doing so. However, while this means that in many cases the expected net present value of "pension wealth" declines as a result of working longer, people do not always fully incorporate the results of this theoretical calculation into their retirement decisions. More simply, they are also likely to be influenced by whether they can attain a particular income to retire on comfortably.

Thus, a third factor is what age people need to work to in order to receive the level of pension that they require. Replacement rates at the official age of retirement vary from 40% in some countries to 90% in others (see Figure 4.1 above). Those in more generous systems may be less affected by incentives to work longer. For example, an Australian or UK worker for whom the public pension provides inadequate support may be more attracted by rewards offered for working into their late 60s than a German worker who already gets over two thirds of working income replaced if they retire at 63. Thus, in reforming their systems to improve incentives, governments need to consider simultaneously the steepness and level of the trade-off between age of retirement and replacement rate.

Implementing reform

Reforms can take many years to implement; there is scope to speed some of them up

Reforming pensions is never a rapid business, since people who have come to expect a particular settlement during their working lives should not be subject to sudden rule changes on the brink of retirement. Thus, any reform needs inevitably to be phased in over a number of years. However, some of the most radical and necessary changes presently being implemented in pension systems are coming in over a period that may be longer than necessary. Austria, Italy and Korea, for example, will not complete their present reforms until around 2030. Such glacial progress could put the reforms at risk, partly because the savings needed to make the system sustainable may not come soon enough, and partly because the assumptions around which the reforms are based risk being out of date before the reforms are even complete.

In terms of the particular feature presently under review, the need to delay the timing of retirement due to lengthening life expectancy, very slow-moving pension reform risks lagging behind the pace of demographic change. To put this in perspective, it is interesting to observe that Italian reforms designed in the 1990s and due for completion in the 2030s will delay retirement by five years, but Italian life expectancy is projected to rise by over seven years over that same period and, as noted above, thus could well be an underestimate. There is an extent to which other aspects of the reform make further adjustments based on anticipated change in life expectancy, but it is difficult to project accurately over such a long period. The sustainability of future systems will depend to a large degree on whether structural reforms make it easier to correct for change continuously – to make "in-flight corrections" based on changing demography. At the same time, the difficulty in financing systems that are becoming unsustainable today could be diminished if some reforms were sped up, and it is worth noting that some countries are managing to make changes over a 10-20 year period rather than taking 30-40 years.

Reforming pension incentives and changes in pension cultures

This brief review of reforms in pension incentives affecting the timing of retirement has shown that some countries are seeking to change not just the economics but also the psychology of their pension systems. They have recognised a need to alter a culture that had started to see early retirement as virtually a right, in which individuals had little encouragement to make links between the pensions they received and their own work histories and life expectancy, let alone the affordability of the whole system.

Two kinds of cultural shift are needed. One is an acceptance that ever-earlier retirement is not feasible, and that many people will in future have to work longer in view of lengthening life expectancy. This kind of shift is starting to make politically feasible a restriction in the age at which early retirement is available. However, a second, more radical culture shift requires individuals more consciously to bear some of the cost of changing demography and its effect on the economics of pensions, by starting to think in terms of when retirement is affordable not just when it is permitted. Added to this is the need to diffuse information to workers about the present value of their pension entitlements on a regular basis so that they can take steps themselves to save more if necessary.

In countries where a pension has been paid with little variation according to when retirement takes place, people have grown accustomed to thinking of taking a pension as early as rules permit, and may initially continue to do this even when it means a reduced pension level. On the other hand, some radical reforms that present a pension less as a right and more as a consequence of economic behaviour and demography might encourage people to think more carefully about the effects of retirement timing. Notional-defined-contribution schemes and provision to adjust benefits in accordance with changing life expectancy are examples of such changes. In principle, once people start thinking differently about the consequences of retiring early, it will become less risky to permit them to do so, since fewer people will presumably opt for retirement at the earliest opportunity.

In this context, it will be interesting to observe the consequences on behaviour of two different policy approaches presently being implemented in various countries. Which will raise the average age of retirement more – a country that focuses on age restrictions but has less steep rewards and penalties based on age and retirement, or one with a wider range of permitted ages but steeper incentives to retire later? Complexities due to the variety of policy mix and uncertainties of cause and effect may prevent a wholly clear-cut answer from emerging, yet it will be worth evaluating the impact of current reforms with this question in mind.

2. Reducing non-pension incentives to retire early

Any efforts to alter incentives for early retirement by reforming pensions cannot succeed if they are undermined by other tax and benefit conditions that encourage people to leave work prematurely. In particular, long-term sickness and disability benefits or unemployment benefits can provide alternative routes into effective early retirement, especially where they are relatively easy to access and to continue receiving for people who have drifted to the margins of the labour market. In addition, tax regimes influence the reward for working versus retirement, with people who are taxed relatively heavily in work having a greater incentive to take up a given level of pension.

Table 4.2 shows some examples of efforts to tackle non-pension incentives to leave work prematurely. So far, such efforts have mainly been tentative and limited in scope, in contrast to some of the radical changes that are being initiated in pensions themselves.

Despite a desire to curb the use of sickness and disability benefits as a route to early retirement, countries where this phenomenon appears most widespread have not generally managed to restrict access or replacement rates decisively (OECD, 2003f). There are a few exceptions, however. For example, Italy, which had the highest number on such benefits in 1980, but subsequently tightened up access and now has relatively few claimants. Both Canada and the Netherlands have also succeeded in reducing substantially inflows to disability benefits among older workers – although with some reversals in the case of the Netherlands – and the proportion of the population aged 50-64 on benefits has fallen considerably in both countries since the early-1990s. Some countries such as the United Kingdom have attempted to reduce inflows partly by tightening up assessment procedures. Denmark has abandoned its previous system of relaxing the degree of disability needed to access benefits for people over 50, and its new disability pensions consider whether a disability has a permanent effect on capacity to work and whether some form of protected employment is available. However, in general, countries have found it difficult to enact measures that risk penalising those who are genuinely too sick or disabled to work, or appearing to do so, which is politically uncomfortable. Rather, they have tended to rely on carrots rather than sticks to "activate" workers on such benefits, devising measures aiming to help them access jobs rather than cutting their benefits. One potential difficulty with relying on such a strategy is that it is hard to take preventative action to stop people moving onto benefits, since it is hard to identify at-risk groups early in the process. Another is that once they are out of work, reintegration becomes difficult and expensive.

Some countries have made somewhat more promising progress in reducing the use of unemployment benefits as a long-term form of support for older people who have effectively dropped out of the labour market. One way of doing this, as for example in Australia and the Netherlands, has been to reduce the degree to which unemployed people are exempted from job-search requirements on the grounds of age (see Box 2.2). However, if reductions in long-term unemployment are achieved only because disability benefits become an alternative mechanism for withdrawing from work, little will have been achieved. Any country therefore needs to look at the interaction between different types of benefit and pensions. This can be illustrated by the example of Finland where reforms have closed off or restricted some but not all early-retirement pathways (Box 4.4).

Table 4.2. **Country examples of changes to non-pension incentives to remain in work**

Country	Problem	Measure	When
Denmark	Over 50s being awarded disability benefits on less strict medical grounds.	New Disability Pension can only be granted on a full-time basis to people with a permanently-reduced working capacity who are neither able to work part-time nor in a subsidised job	2003
Finland	Unemployment benefit claims rise from 10% at age 50 to 24% at age 59, with unemployment pension available thereafter. Disability benefit claims rise from 8% to 22% between age 50 and 60. For 60-64s, 10% retired on early retirement pension, 20% on disability pension.	Unemployment pension scheme to be phased out. Early retirement pension abolished, but medical conditions for disability pension relaxed	2009-2014
Italy	In 1980, higher proportion of working-age population on disability benefits than in any other OECD country.	Access to benefit severely tightened, focusing solely on particular physical and psychological conditions. Percent of GDP spent on such benefits fell sharply in 1990s while elsewhere it rose.	1980s onwards
Netherlands	Generous and easy-to-access system of disability benefits attracts one of the highest claim rates in OECD.	Intensive screening of entrants and other reforms to insurance system succeed in cutting inflow	Ongoing reforms
Norway	Sickness benefits increasingly used as a step onto permanent disability pensions.	Introduction of temporary disability benefits for one to four years.	2004
Sweden	Sharp increase in number of long-term sick claims and disability pensioners since late 1990s.	Various efforts, *e.g.* restricting entitlement to disability pensions for labour market reasons, but none appear to have stemmed rise in caseload.	Since 1990s
United Kingdom	Incapacity Benefit an early exit route for a large proportion of population, with over one million claimants aged 50 to State Pension Age.	Activation measures for disabled claimants, plus prospective plans for new system requiring 80% of claimants to seek work or have benefit cut.	Pilot projects underway.

Source: OECD series on *Ageing and Employment Policies*.

Box 4.4. **Restricting early retirement pathways: the example of Finland**

Many countries have attempted to restrict the pathways to early retirement, through pension or benefits, but not all reforms always work in the same direction. For example, in Finland:

- Individual early retirement on the basis of sickness aged 60-64 has been abolished.
- The unemployment pension is being phased out between 2009 and 2014.
- An "unemployment tunnel" that allowed benefits to become permanent for long-term unemployed people at age 55 is now available only from age 57.
- But the rules for taking the disability pension are being relaxed for workers aged 60 to 64.

The risk for Finland is that, having curtailed some pathways to early retirement, pressures on remaining schemes such as disability are increased. In the 1990s, increased options for unemployment pensions appear to have counteracted some of the decline in disability pensions. In future, this substitution could occur in the opposite direction, given that the criteria for assessing the disability of older workers are now being relaxed.

Why have countries made so much little progress in tackling sickness, disability and unemployment benefits for older people? The most obvious explanation is that these benefits are designed for vulnerable people, and that any decisive restriction risks hurting weak individuals, so political resistance to change can be powerful. In order to address this issue, countries need to design benefits that robustly meet social needs, while providing appropriate incentives to work for those able to do so. One approach is to seek to maintain the integrity of disability pensions by making it harder for workers who have been long-term unemployed or long-term sick to move onto them. The United Kingdom is currently proposing to make a new distinction between different kinds of incapacity, reserving one kind of benefit for a minority with the most severe conditions, and putting greater pressure on the rest to re-enter work. On the other hand, in some countries it may well be the case that disability rolls will rise to some extent after pension reforms that raise retirement ages, because of the higher prevalence of disability at older ages.

Many countries now need to recognise that unless non-pension incentives to retire early are tackled, the effectiveness of their pension reforms could be put at risk. Past experience has shown that where one route out of the labour market is restricted, pressures to use other routes grows. This has been the case in some countries, for example in a shift from long-term unemployment to the use of sickness and disability benefits. In a similar way, increasing the minimum age for taking a pension could increase the number of people drawing health-related benefits before that age. Where early retirement options are withdrawn, therefore, governments need simultaneously to look at the other ways in which individuals are accessing income at those ages.

3. Flexible pathways to retirement

The timing of people's exit from the workforce depends not only on the incentives to work or to retire at a single moment, but on the unfolding of individual working lives over a period of time. Many do not wish to have a single abrupt departure from a full-time career job, but would prefer to wind down work commitments over a period of time. Their opportunities to do so will depend to a considerable degree on the willingness of employers and the capacity of individuals to negotiate new forms of working, whether through different employment contracts or through consultancy or temporary working arrangements. However, governments can play a role in facilitating and possibly encouraging a flexible transition to retirement.

The central issue here is the extent to which arrangements permit and/or reward part-time working during a period in between a full-time career job and full retirement. Pension systems can restrict opportunities to work part-time at the end of a career in a number of ways, in particular:

- By placing restrictions on the right to draw all or part of one's pension while still working. This can unnecessarily restrict opportunities to work part-time by people who would need to top up part-time earnings in order for this option to be financially feasible. The United Kingdom, for example, is in the process of removing a restriction that prevents people drawing an occupational pension from an employer for whom they are still working.
- By penalising people who work part-time in terms of their final pension entitlements. This can occur in final-salary-based pension schemes if people "down-shift" into lower-salary jobs and therefore have severe reductions in the final salary on which the pension is based. One way of avoiding this is to base pensions on lifetime average earnings rather than final salary.[3] As shown in Table 4.1 above, countries such as Austria and Sweden have switched to this system.

A basic objective in all countries should be to avoid conditions that discourage part-time work, in particular by assuming "cliff-edge" patterns of retirement in which individuals shift instantly from working full-time to working not at all. The reforms in the United Kingdom are removing such an anomaly which has been criticised over a number of years: the fact that restrictions have been placed on the right of private pension schemes to pay benefits to people still in their jobs. In the United States, because of provisions in the tax code, employers risk lengthy and costly legal proceedings if they rehire one of their own retirees as a part-time worker. One justification for such restrictions may be to prevent pension schemes from being used simply as a vehicle for tax-exempt savings, whose benefits can be drawn regardless of whether or not the individual has retired. However, this rationale ignores the desire of many workers to retire progressively, defining retirement in all-or-nothing terms. Provided a pension is taken mainly as an annuity rather than a lump-sum, it can be seen more flexibly as a means of replacing loss of income, through partial or full withdrawal from work in later life, rather than only an income in full retirement.

Two countries, Finland and Sweden, have gone further in recent years, not just by creating a permissive climate but giving active subsidies to encourage older people to work part-time (Box 4.5). However, while these initiatives may have encouraged some older workers to delay retirement, their impact on aggregate labour supply in terms of hours worked is less clear.

Box 4.5. **The experience of Finland and Sweden with part-time pensions**

In ***Finland***, the part-time pension has become an increasingly popular way of achieving a smooth translation from work to retirement. In 2001, 6% of persons aged 56 to 64 were in receipt of the part-time pension. It entitles workers aged 56 and over to 50% of the income loss due to a reduction in working time, paid through the pension system. Part-time workers of this age also get full accrual of future pension rights. Surveys show that most people receiving this payment subsequently move into full retirement, showing that it does help encourage older workers to exit the workforce gradually. However, it is not clear that this encouragement actually increases rather than reduces labour supply. One survey suggested that half of the recipients would have worked full-time were it not for the programme (Takala, 2003). The benefit of such a scheme in diverting people from premature early retirement must thus be set against the negative effect on hours worked among those who would have kept on working anyway plus the fiscal cost. From 2005, the partial pension will only be available from the age of 58 onwards with less than full accrual of pension rights.

In ***Sweden***, concerns about such negative effects has caused the replacement in 2001 of a subsidised partial pension in favour of more neutral conditions enabling people part-time who wish to work part-time to do so without unduly subsidising them. Results from surveys during the 1990s showed a growing interest for part-time work while drawing a pension. Research, however, shows that during the 1990s there was no strong positive correlation between the number of recipients of a partial pension and employment rates. Sweden has questioned the appropriateness of very generous rewards for working part-time that may at best be having a largely deadweight effect and at worst be reducing the number of hours worked overall. Under Sweden's new pension arrangements, a fairly generous partial pension is available in the state sector only. However, in addition, under reformed arrangements for pensions available to all workers, workers are permitted to draw a portion of their pension early while still working. In this case, however, there is not a special state subsidy to encourage individuals to take up this option. On the contrary, workers will themselves have to balance the value of working part-time with a top-up that may make this affordable, against the future impact on their pension in full retirement caused by taking part of the pension early with an actuarial reduction. In other words, a balanced economic decision is put in the hands of individuals, rather than the government actively promoting a particular option.

A number of other countries have a range of progressive retirement measures, mainly in the form of insurance-based subsidies to people reducing their working hours. However, many of these are little used, in large part because they do not produce a sufficiently different income to full retirement to make them financial attractive compared with the value of foregone leisure. The fact that only the expensive generosity of Finland's and Sweden's partial pensions have been sufficiently attractive to be used as a bridge to retirement does not mean, however, that such a strong subsidy to part-time working is justified. Rather, partial pensions need to be introduced in combination with reductions in full retirement incentives, as described earlier in this chapter. Particularly for people who have not reached the official pension age, stronger penalties for taking a full pension early will make a partial pension combined with part-time work more attractive. Such an intermediate option can offer something in between staying reluctantly in work in order to achieve a full pension and leaving work entirely at an age at which one's pension gets severely reduced.

Thus, flexible pathways, like new approaches to pensions themselves, depend on a changing culture, in which individuals face a range of options and see the financial consequences for themselves of whichever one they choose. In this scenario, people opt for partial pensions and part-time work not because it is an overly-generous offer paying nearly as much as full-time work, but because they have taken a balanced decision to draw down some pension wealth before full retirement and combine it with reduced earnings. Evidence shows that many people would value such flexibility, provided that the options on offer allow them to generate sufficient income by this method to make ends meet. Ultimately, therefore, the success or otherwise of partial pensions will depend on the effect they will have on replacement rates, and how this compares to the effect of full retirement. Each country needs to work out carefully these comparative incentives and take them into account if it wishes to design flexible pathways to retirement that are well taken up at the same time as remaining affordable.

4. Getting the balance right

There are many roads to pension reform and each country needs to find the appropriate one that corresponds to its own circumstances and choices in terms of striking the appropriate balance between providing for adequate incomes in retirement, maintaining work incentives and ensuring affordability. Ultimately though, all countries have to face the reality of substantial increases in longevity that are likely to continue in the future. Hence, living longer will need to be translated into working longer if the generosity and sustainability of each country pension system is not to be undermined. But encouraging older workers to carry on working longer involves not only tackling financial penalties to working additional years that may exist in the pension system but also those work disincentives that are embedded in other parts of the tax and welfare system. Finally, one objective of reform should be to give older workers greater choice about when they retire and whether this is done abruptly or progressively. However, any measure to promote a more phased transition between work and retirement – especially if it involves a public subsidy to reduce working time – should be carefully evaluated in terms of its expected net impact on the effective labour supply of older workers.

Notes

1. This does not mean reducing the level of a worker's eventual annual pension, but rather reducing the net present value of the expected flow of benefits over their lifetime. To preserve the pension wealth of someone remaining in work beyond the minimum pension age, accruals in their projected pension level must be great enough to compensate for any reduction in expected years of retirement.

2. Several OECD countries, however, still rely on earnings gained in a smaller number of years for their benefit calculation: France (progressing towards 25 years), Norway (best 20 years), Spain (last 15 years) and Greece (final five years). All other OECD countries use periods of 30 to 40 years, or life-time average earnings. In Austria, for example, the 2003 pension reform lengthened the period used for calculating benefits from the best 15 years to 40 years' earnings. Finland is moving from the last 10 years to life-time earnings; the same holds for Hungary and Portugal.

3. Average lifetime earnings will also fall if a workers takes a lower paid job later in his/her career but much less than in the case of calculations using final salary.

Chapter 5

Changing Employer Attitudes and Employment Practices

Key messages: Employer reluctance to hire and retain older workers partly reflects age discrimination and, thus, there is a need for information campaigns, guidelines and age-discrimination legislation. However, there are also a number of other, more objective factors driving employer behaviour. For example, this may include seniority wages or strict employment protection legislation. All of these factors will need to be tackled in order to encourage employers to provide older workers with more job opportunities. This will also require a change of attitudes on the part of trade unions and older workers themselves.

While older people generally exercise choice over whether or not to retire, their opportunities for remaining in the labour force are largely determined by employers. People change as they age. Their capacity for long hours may diminish and they may wish to change other aspects of the way they work and the type of work they do. However, to a large extent it is employers who decide whether job requirements change with the worker, or whether, as is so often the case, job requirements remain fixed forcing older workers to choose between retirement and a job that they find less and less satisfying. Employers also determine whether an older worker is hired into a particular job. Barriers to hiring may force older workers to choose new jobs from a small subset of the available jobs.

Across the review countries, public policy has taken two main avenues for encouraging employers to retain and hire older workers: first, as discussed in Section 1, by tackling age discrimination and negative employer attitudes, and, second, as discussed in Section 2, by addressing the objective factors that may be driving employers' hiring and firing decisions. These objective factors include the match between the productivity of older workers and their costs and the role of employment protection rules. The final section summarises the general lessons for policy and stresses the need for co-operation between government, employers and trade unions.

1. Changing employer attitudes

Two broad approaches can be identified to tackling age discrimination and changing negative employer attitudes towards older workers. The first consists of a voluntary approach through public information campaigns and guidelines. The second relies on legislation to ban age discrimination in employment. The measures which countries have taken as part of these two approaches are summarised in Table 5.1. In several of the review countries, both approaches have been pursued. Each approach has its strengths and weaknesses.

Information campaigns and guidelines

A number of countries have carried out large-scale government-sponsored information campaigns to tackle ageism in the workplace, including Australia, Finland, the Netherlands, Norway and the United Kingdom. In some cases this has included guidelines for employers in terms of good conduct or best practices as well as a general campaign to raise awareness of issues related to population ageing and work. One prominent example has been the UK Age Positive campaign (see Box 5.1). Another prominent example has been the Finnish information campaigns as part of its Finnish National Programme on Ageing Workers which adopted the slogan "Experience is a national asset" (see Box 6.5, p. 131).

Table 5.1. **Measures to tackle age discrimination**

Country	**Information campaigns and guidelines**	**Age-discrimination legislation (ADL) and other related legislation**
Australia	Information campaigns and guidelines by government and peak employer and trade union bodies.	ADL at both the federal (since 2004) and state levels. MR not generally permitted.
Austria	Website sponsored by peak employer and trade union bodies with information and guidelines.	ADL since 2004. MR permitted once pension age reached.
Belgium		ADL since 2004. MR no permitted in the private sector
Canada		ADL at both the federal and provincial levels. MR permitted, except in some provinces.
Czech Republic		ADL since 2001. MR permitted.
Denmark	Information campaign by peak employer body (Pro-Age initiative to raise awareness and promote best practice).	ADL since 2004. MR permitted from age 65 onwards or earlier if objectively justified.
Finland	Information campaigns by government and peak employer and trade union bodies (as part of National Programme for Ageing Workers).	MR permitted in public sector.
France		ADL since 2001. MR permitted from age 65 onwards or earlier subject to certain conditions.
Germany	Information campaign by peak employer body (Pro-Age initiative to raise awareness and promote best practice).	ADL will be introduced by end-2006. MR permitted after 65.
Ireland	Information campaigns by peak employer body (including Pro-Age initiative to raise awareness and promote best practice).	ADL since 1998. MR permitted.
Italy		No specific ADL apart from protection against discrimination under the Constitution and Labour Law.
Japan	Guidelines for setting age limits in job vacancies and for retaining workers between the ages of 60 and 65.	No ADL. Firms not permitted to set MR age lower than 60 rising to 65 in 2010.
Korea	Guidelines for retaining workers after mandatory retirement age.	No ADL.
Luxembourg	Government campaign against all types of discrimination at work.	ADL will be introduced by end-2006.
Netherlands	Government-sponsored action group Grey at Work to change employer attitudes and practices. Campaigns by peak employer and trade union bodies to raise awareness and promote best practice (including Agenda 2002 agreement and the employer Pro-Age initiative).	ADL since 2004. MR permitted from age 65 onwards or earlier if objectively justified (from end of 2006).
Norway	Government-sponsored information campaign (National Initiative for Senior Workers) run by NGO.	ADL was introduced in 2004. Workers do not automatically lose their right to employment protection once they reach the official retirement age at 67, but MR permitted in collective agreements.
Spain		Age discrimination at work forbidden by constitution of 1978 and Article 17 of the Workers' Statute. MR permitted at age 65 under certain conditions.
Sweden		ADL will be introduced by end-2006. MR permitted from age 67 onwards.
Switzerland		No ADL apart from protection against age discrimination under Constitution. MR permitted.
United Kingdom	Government-sponsored information campaign (Age Positive) and guidelines. Employer-sponsored NGO, the Employers Forum on Age, which serves to inform employers of the benefits of an age-diverse workforce.	ADL will be introduced by end-2006. MR will be permitted from age 65 onwards.
United States	Promotional campaign by the government (National Employ Older Workers Week) and annual awards by the AARP (NGO represent-ing older people) for best employers of older workers.	ADL at both the federal level (since 1967) and State level. MR not generally permitted.

MR = Mandatory retirement; NGO = Non-governmental Organisation.
Source: OECD series on *Ageing and Employment Policies*.

Box 5.1. **Promoting best practice in the workplace: the UK Age Positive campaign and guidelines**

The UK government has been running an information campaign since 1999, called the *Age Positive* campaign, to tackle age discrimination and promote the benefits of age diversity in the workplace. It has also issued a set of guidelines (originally called the Code of Practice on Age Diversity in Employment) to help employers recognise the business benefits of an age-diverse workforce and to promote best practice.

Age Positive campaign

The Age Positive campaign seeks to promote and raise awareness of the benefits of an age-diverse workforce among both business and individuals. It encourages employers to make decisions about recruitment, training and retention that do not discriminate against individuals because of their age, and it seeks to help employers prepare for legislation in 2006 to outlaw age discrimination in employment. It uses publications, research, press, various events and awards to get its message across. It has its own dedicated website with a range of information and links to other sources of information on best practices for employers and on labour market issues and pensions for individuals. In addition, over 120 Age Positive Champions have been identified, consisting of individuals, businesses, academic institutions and research and lobby organisations. These "Champions" serve as examples to other employers through their own employment practices or through research, campaigning and working in partnership with the Age Positive campaign team.

Age diversity at work – a practical guide for business

The UK government originally produced its guidelines in 1999 after consulting key employer and employee representative groups and other non-governmental organisations representing older people. The guidelines cover good practice in the following six areas of employment:

- *Recruitment* – recruit on the basis of the skills and abilities needed to do the job.
- *Selection* – select on merit by focusing on application form information about skills and abilities and on performance at interview.
- *Promotion* – base promotion on the ability, or demonstrated potential, to do the job.
- *Training and development* – encourage all employees to take advantage of relevant training opportunities.
- *Redundancy* – base decisions on objective, job-related criteria to ensure the skills needed to help the business are retained.
- *Retirement* – ensure that retirement schemes are fairly applied, taking individual and business needs into account.

Each section contains a detailed explanation of the guidelines and indicators for assessing conformity with these guidelines. A number of "best practice" examples among various employers are also provided.

Source: OECD, *Ageing and Employment Policies: United Kingdom*, 2004; www.agepositive.gov.uk.

In a number of countries, such as the Netherlands (see Box 5.2), there has been close co-operation between government, employers and trade unions in changing attitudes towards the employment of older workers and promoting best practices. Involving employers and the trade unions in the process of raising awareness about the labour market implications of demographic change would appear to be particularly important given the diversity across older workers and in their workplaces. Ultimately, it is employers and older workers themselves who are best placed to adapt employment practices to their own circumstances.

Box 5.2. **The involvement of the social partners and civil society in the Netherlands**

In June 2001, the government established the high-level Taskforce on Older People and Employment to identify factors that can help increase labour market participation among the 50-plus age group. It included representatives of employers' organisations and trade unions, the private sector, minorities, organisations representing older workers, researchers, politicians and the media. It delivered its concluding report, *And They Worked Happily Ever After*, in December 2003. In its conclusions with regard to employers, it advocates distributing among companies an "age mirror" checklist containing 25 key questions for stimulating awareness. Other suggestions included: the ongoing promotion of human resource management best practice (*e.g.* awarding the *Cum l'Oude* prize); encouraging career planning for those aged 50 and over by obliging employer and employee to discuss this every two years with the help of experts and trainers; and checking collective agreements with positive measures regarding health, training and mobility to see whether they are in conformity with the new ban on age discrimination.

To carry on the work of the Taskforce, the government established in December 2004 the Grey at Work action group. During the subsequent three years, the role of the action group is to promote the cultural change needed to keep older workers in work longer. Voluntarily continuing to work after the age of 65 is also to be discussed. This initiative went hand-in-hand with a new financial stimulus for companies, introduced in December 2004, to encourage age-aware human resource policies with a three year budget of EUR 21 million. The subsidy is available for temporary projects concerning older workers that fight prejudice, adapt human resource policies to their needs, experiment with changing job tasks or improve their labour market prospects.

Age-discrimination legislation

For many years, the United States was the pioneer among OECD countries in terms of having introduced specific legislation banning age discrimination (see Box 5.3). However, it is no longer unique and many countries have since introduced their own legislation (Table 5.1). For the EU countries, this has in part been spurred by the EU directive of 2000 on equal treatment in employment and occupation (2000/78/EC). This requires EU countries to put in place age-discrimination legislation in conformity with the directive by 2006 at the latest (see Box 5.3), although with considerable latitude as to how to transpose the directive into national law.[1] In some other countries, such as Japan and Korea, the emphasis has been on guidelines rather than on banning age discrimination altogether.

Age-discrimination legislation is not a panacea for stopping all forms of age discrimination. The US experience suggests that while it can put a stop to the more overt forms of discrimination such as age limits in job-vacancy announcements, it cannot eradicate age discrimination entirely. In addition, it also acts as a form of employment protection legislation and thus may have similar effects on employment. On the one hand, it raises the effective costs of firing older workers since employers must ensure that they are complying with age-discrimination legislation and so may lead to greater retention of older workers. On the other hand, this may lead them to reduce their hiring of older workers, especially since it may be more difficult to prove discrimination in hiring than firing. These effects may be magnified in the US because the legislation refers to workers aged 40 and over and so may lead to substitution/displacement effects between older and younger workers. The most recent empirical evidence to date on the impact of age-discrimination legislation in the US on employment outcomes for older workers suggests that both factors may be operating, but that the positive impact on retention is statistically more significant and stronger than the negative impact on hiring (Adams, 2004).

Box 5.3. **Age-discrimination legislation in the United States and Europe**

The United States Age Discrimination in Employment Act

The Act was originally introduced in 1967 and protects individuals who are 40 years of age or older from employment discrimination based on age. Under the Act, it is unlawful to discriminate against a person because of his/her age with respect to any term, condition, or privilege of employment, including hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training. The Act applies to employers with 20 or more employees, including state and local governments. It also applies to employment agencies and labour organizations, as well as to the federal government.

The Act generally makes it unlawful to include age preferences, limitations, or specifications in job notices or advertisements. A job notice or advertisement may specify an age limit only in the rare circumstances where age is shown to be a "bona fide occupational qualification" that is reasonably necessary to the normal operation of the business.

The Act was amended in 1978 to increase the upper limit on the protected class of employees to age 70, and thereby eliminated mandatory retirement for most workers below that age. In 1986, it was amended again and effectively prohibited mandatory retirement in most occupations by eliminating the upper age limit altogether.

The European Union directive on equal treatment in employment and occupation (2000/78/EC)

By the end of 2006, all EU countries are obliged to have put in place legislation banning age discrimination in conformity with the EU directive of 2000 on equal treatment in employment and occupation. The directive seeks to prohibit both direct and indirect discrimination, and not only covers discrimination on the grounds of age but also on the grounds of religion or belief, disability and sexual orientation. It states that "indirect discrimination shall be taken to occur where an apparently neutral provision, criterion or practice would put persons having a particular religion or belief, a particular disability, a particular age, or a particular sexual orientation at a particular disadvantage compared with other persons". Unlike the American legislation, it rules out discrimination at all ages.

Another specific issue concerning legislation is whether mandatory retirement should be allowed or banned outright. Even in countries where age-discrimination legislation is in place, mandatory is often permitted at the official pension age or earlier if subject to a collectively agreement or objectively justified.

A number of arguments can be put forward both for and against mandatory retirement. In those countries where mandatory retirement is still permissible, employers have often been keen to retain it but in some cases trade unions have also supported retaining it for fear that its abolition may signal a more general move to raising the age for receiving an old-age pension. In principle, mandatory retirement should be abolished since it represents a discriminatory practice based on age that may prevent some older workers who wish to do so from continuing to work. In practice, the issue is more complicated because of the interaction between mandatory retirement and other rules such as employment protection legislation. In the US, the abolition of mandatory retirement appears to have had a favourable impact on retention of older workers.[2] However, this is the context of relatively weak EPL rules where it may be easier for employers in the United States to dismiss older workers than in other countries where these rules are much stricter and where, in the absence of mandatory retirement, it may be difficult for employers to dismiss older workers who are no longer performing adequately. The optimal solution in this case may not be to keep mandatory retirement but to examine whether employment protection rules themselves are too inflexible with respect to the employment of older workers (see below). In some countries such as Austria, Japan, Korea and Spain, where seniority wages are still an important feature of their wage-setting practices, an even larger adjustment may be required. Before mandatory retirement can be abolished, it may be necessary for wages of workers to be aligned more closely with their productivity at all ages, together with adequate procedures for carrying out performance evaluations, since firms will have less control over ensuring that older workers whose wages exceed their productivity leave the firm at a fixed age (see below).

Another difficult area is the extent to which indirect forms of discrimination should be banned. For example, employment practices based on the length of time a worker has been with the company could be considered as discriminatory since older workers are more likely to have longer tenure on average than younger workers. At the same time, while legislation is intended to ban discrimination in hiring as well as in firing, most complaints raised in the context of the US age-discrimination legislation have been filed with respect to dismissals.[3] It is inherently more difficult to prove discrimination in hiring than in the case of dismissals, and this may be even more difficult if it is not possible to use evidence of indirect discrimination by showing that despite an appearance of neutrality, an employer's personnel policies have a disparate impact on hiring of workers according to their age. The US legislation does not specifically ban indirect discrimination whereas the EU directive states explicitly that both direct and indirect forms of age discrimination should be banned.

Age-discrimination legislation should not be viewed in isolation, since legislation banning discrimination on other grounds will also have an impact on job opportunities for older workers. For example, the incidence of disability rises with age and so legislation banning discrimination on the grounds of disability will also affect a significant minority of older workers. Again, the most extensive research of the employment affects of discrimination legislation in this area has been carried out in the United States following the introduction of the Americans with Disabilities Act (ADA) in 1990. The ADA not only prohibits discrimination against the disabled with respect to hiring, firing, promotion and wages but also requires employers to make "reasonable accommodation" for their disabled employees. However, the empirical evidence of the impact of ADA on employment rates for disabled people is not clear cut and depends on how this group is identified (Kruse and Schur, 2003).

Persuasion versus coercion

On the one hand, age-discrimination legislation can give a strong message that age discrimination should not be tolerated, but it may be less effective if not accompanied by information campaigns and guidelines to help employers implement good employment practices with respect to age diversity and to make older workers themselves aware of their rights in this regard. On the other hand, information campaigns and guidelines may also not be very effective on their own in changing employer behaviour if they are not backed up by sanctions for discrimination against workers on account of their age. Thus, it may be optimal to pursue both approaches. At the same time, it may be important to extend the focus of tackling ageism at work within a broader framework of age diversity. The role of civil society in promoting greater awareness of work and aging issues has also been important in several countries.

Extending the focus to age diversity

While age discrimination needs to be tackled, this should be seen as only one element in a broader strategy of promoting the benefits of an age-diverse workforce and encouraging employers to adopt employment practices that are appropriate for both younger and older workers. Many studies suggest that older and younger workers have relative strengths and weaknesses – the most obvious strengths of older workers are those that derive from maturity and experience whereas younger worker may have more up-to-date skills and may be more able to carry out more physically and mentally demanding work. This can give rise to positive externalities in the workforce between generations of workers. Older workers can share the benefits of their greater work experience with younger workers and younger workers can share their knowledge of new production techniques and ways of working with older workers. Thus, they may mutually reinforce each other's productivity. This points to the potential benefits of an age-diverse workforce that can draw on a range of strengths from different groups. At the same time, as workers age, they have different needs and family responsibilities. It is not just older workers who may have special needs in terms of how they work and at what rhythm but younger workers as well who may have their own specific needs in terms of balancing work and family commitments or requiring some form of mentoring. Emphasising age diversity rather than just concentrating on the needs of older workers also reduces the risk of older workers becoming a stigmatised group or reinforcing the myth that they are less productive and require special protection. This approach has been emphasised as part of the UK government's Age Positive campaign (see Box 5.1, p. 106).

The role of civil society

In many of the review countries, various non-governmental organisations (NGOs) have increasingly played an important role in lobbying governments and employers to remove barriers to the employment of older workers, as well as carrying out research into the causes and cures for these barriers. In a few countries they have become an indispensable partner in the government's strategy to encourage older people to remain longer at work. The largest of these organisations in terms of members is AARP, which was initially established to represent retired Americans but now represents the interest of all older Americans aged 50 and over, whether in work or retired. It has played an important role in raising the awareness of ageing issues and in encouraging employers to adopt more age-friendly employment practices through its annual awards to best practice employers. Similar organisations representing older people exist in most of the other review countries, and an umbrella group, AGE Platform, has been established to represent these organisations at the European Union level. Most of these organisations represent the general interests of older people in terms of employment, pension, housing, long-term care and health issues. However, in several countries, there are NGOs which focus more narrowly on employment issues for older workers. For example, in the UK, there is the Third Age Employment Network (TAEN), whose objective is to promote better employment and learning opportunities for older people, and, quite uniquely among the review countries, the Employers Forum on Age, which is an employers' lobby group to promote greater awareness of issues related to ageing (OECD, 2004d). In the Netherlands, there are several NGOs promoting the labour force participation of older people such as Age Proof or Netherlands Platform for Older People in Europe (NPOE) (OECD, 2005a).

2. Tackling the objective factors reducing the demand for older workers

In Chapter 3, it was suggested that one barrier that may be discouraging employers from hiring or retaining older workers is that they simply cost too much relative to their productivity. This has been addressed in a number of ways by countries either through wage subsidies or changes in wage-setting practices.

Matching costs to productivity

Few countries where wages rise steeply with age have tried directly to alter wage-setting practices in the private sector to tilt demand in favour of older workers. One exception is Korea where the government has been encouraging employers and trade unions to adopt a "peak-wage" system where there would be downward flexibility in workers' wages after a given age in exchange for greater employment security. However, in other countries, a number of policies have had an indirect effect on the wage structure over time. In Sweden, for example, wage-setting in the public sector has shifted over time from a seniority-based system to one based much more on individual qualifications and performance.

Instead, many countries have introduced various types of wage subsidies (see Table 5.2) which ultimately are designed to align more closely labour costs for older workers with their productivity. In some countries this has been through a special wage subsidy scheme that may be targeted at older workers or which may include older workers (sometimes with special or more generous eligibility conditions) as one of several target groups. In other countries it has been through a reduction in employer social security contributions.

Table 5.2. **Wage subsidy schemes to hire or retain older workers**

Country	Description of measure
Austria	Employers are permanently exonerated from paying unemployment insurance contributions (3.25% of wages) for hires of workers aged 50 and over. This "bonus" is the first half of Austria's Bonus-Malus system, where the "malus" is a penalty payment for dismissing workers over the age of 50. Employer social security contributions are also reduced for all older workers (men aged 58 and over and women aged 56 and over) by up to 12.7% of the gross wage for those aged 60 and over. Other wage subsidies of up to 100% of wages and for periods of up to two years are also available to eligible older jobseekers as well as other groups.
Belgium	Employers who hire job seekers aged 50 or over, who had been unemployed at least six months, can claim a 50% reduction in their social security contributions, for the first year following recruitment, and thereafter employers can get a 25% reduction for an unlimited period.
Denmark	Under the *Service Jobs Scheme*, municipalities hiring individuals who are more than 48 years old and have been unemployed for at least 18 months are paid an indefinite wage subsidy of DKR 100 000 per year.
Finland	Private firms and municipalities can claim subsidies for six months if they employ people aged 55-59 who have recently become unemployed.
France	Employers hiring an unemployed person aged 50 or above (as well as other target groups) are eligible for a subsidy under the "Contract to promote employment" (*Contrat Initiative Emploi*) programme. The subsidy consists of a total reduction in employer's social security contributions at the level of the minimum wage, *i.e.* amounting to around 40% of gross minimum wages. The subsidy is normally paid for 24 months in the case where a permanent employment contract is offered and indefinitely in the case of a person aged 50-64 who is disabled or has been either unemployed or on social assistance for more than one year.
Germany	An "integration" subsidy (*Eingliederungszuschüsse*) is available to employers for hiring individuals aged 50 and over who have been unemployed for six months or more. The subsidy corresponds to a maximum of 50% of wages for a period of up to three years.
Italy	Employers hiring older workers are exempt from paying social insurance contributions for one year.
Japan	A subsidy can be given to employers who either continue employment of existing older workers or who hire older persons. The amount of subsidy for continuing employment ranges from JPY 500 000 to JPY 250 000. Employers who raise the mandatory retirement age or introduce a continued employment system are eligible for subsidies of JPY 500 000 to JPY 3 000 000 for up to five years. Employers employing more than 15% of 60-64 years old among their total employees are eligible for benefits of JPY 15 000 per month. For small and medium-sized enterprises, additional 60-64 year old employees exceeding the 15% threshold can receive subsidies of JPY 20 000 up to maximum of five years.

Table 5.2. **Wage subsidy schemes to hire or retain older workers** *(cont.)*

Country	Description of measure
Korea	*Subsidy to Promote Employment for Many Aged Workers*. To be eligible, the proportion of workers aged 55 and over in the employer's workforce (excluding part-time workers) must exceed a given quota (formerly 6%) as determined by the Ministry of Labor according to the type of business. The subsidy in 2004 was KRW 150 000 per quarter (around 2.4% of average wages per month) and is paid for every older worker exceeding the quota who has worked for more than one year in the firm, and is available for five years. *Subsidy to Promote New Employment of Aged Workers*. To be eligible, an employer must hire an older unemployed person (aged 50 and over) who has been registered as looking for work with the Public Employment Service for at least three months. The employer must not lay-off any worker for economic reasons during the period of three months prior to, or six months after, applying for the subsidy. The subsidy in 2004 was KRW 300 000 per month (around 14% of average wages) and is available for six months (one year for small- and medium-sized manufacturing firms). *Subsidy to Promote Re-employment of Aged Workers*. Firms who continue to employ or re-hire retired workers are eligible for the subsidy. The retirement age must be set above 57 and the subsidised workers must have worked longer than 18 months before retirement. The subsidy in 2004 was KRW 300 000 per month (around 14% of average wages) and is available for six months (one year for small- and medium-sized manufacturing firms). *Subsidy for employment of middle- and old-aged workers completing training*. To be eligible, an employer must hire an unemployed person aged 40 and over who has completed either re-employment training for the unemployed or another training course designated by the Ministry of Labor. The employer must not lay-off any worker for economic reasons either during the period of three months prior to and six months after applying for the subsidy. The subsidy is restricted to firms with 500 workers or less. The subsidy in 2004 was KRW 600 000 per month during the first three months, KRW 400 000 during the next three months and KRW 200 000 during the last six months (around 28%, 19% and 9%, respectively, of average wages).
Luxembourg	Financial incentives are provided for employers to take on unemployed workers aged over 50.
Netherlands	As of 1 January 2004, employers are exempted from paying the fixed part of the disability benefit contribution for any existing employee aged 55 years and over and for all new hires aged 50 and over. The exemption is granted on the condition that the employee was not hired within six months of the end of a previous labour relationship.
Norway	Employer social security contributions are reduced for all older workers aged 62 and over by 4 percentage points (*i.e.* from 12.8% to 8.8%).
Spain	Lower social security contributions for companies hiring the older unemployed as follows: aged 45 to 54 years, 50% the first year and 45% during the rest of the contract for men and 60% and 55%, respectively, for women; and, aged 55 to 64 years, 55% and 50%, respectively, for men, and 65% and 60%, respectively, for women. Reduced social security contributions are also available to employers with workers aged 60 and over who have at least five years of seniority.
Sweden	The *Special Employment Subsidies* programme provides a subsidy to employers who hire persons aged 57 and over who have been unemployed for at least two years. The subsidy is paid for a maximum period of 24 months and covers up to 75% of wages subject to a ceiling (roughly half of the average salary of a full-time worker). In 2001, only around 1 900 persons participated in the programme.

Source: OECD series on *Ageing and Employment Policies*.

Public sector job creation programmes have also been a significant source of employment opportunities for older people in Korea and the United States. In Korea, large-scale public work programmes were used after the financial crisis in 1997 to employ significant numbers of older workers (OECD, 2000). In the United States, the Senior Community Service Employment Program (SCSEP) places low-income persons who are 55 years of age and older (with priority given to those aged 65 and over) in subsidised part-time community service positions, but with a target to place 35% of participants in unsubsidised employment.

However, wage subsidy and job creation schemes that are predominantly targeted on older workers raise a number of issues in terms of their effectiveness. First, they may involve substantial deadweight loss (*i.e.* a large proportion of subsidised workers would have been employed even without the subsidy) and substitution/displacement effects (*i.e.*

subsidised jobs for eligible workers lead to the loss of jobs or job opportunities for other groups of workers ineligible for the subsidy). As stressed in Chapter 2, older workers are a very diverse group. Therefore, wage subsidies which are targeted on age alone, such as some of the schemes in Austria and Korea, risk being quite blunt instruments and may result in small net employment effects at considerable cost. Second, subsidies for older workers as a group may lead to stigmatisation and reinforce negative attitudes on the part of employers to hiring and retaining older workers. Thus, a wage subsidy that is granted solely on the basis of age may not be a very effective measure as opposed to a subsidy that is targeted more narrowly at the older long-term unemployed or at low-income older workers.

The two sides of the equation for matching the productivity of older workers to their costs

Reforming wage-setting practices to reflect more closely individual performance and providing wage and employment subsidies are two strategies that work on the side of lowering the cost to employers of employing older workers. However, a closer match between productivity of older workers and their costs can also be achieved by raising the effective productivity of older workers by helping them to acquire new skills and update old ones. This aspect is discussed in the next chapter as part of a range of measures to improve the employability of older workers.

Protecting older workers

In many of the review countries, older workers are already protected to a greater extent than younger workers by job protection legislation as a result of tenure-related provisions. For example, workers with longer tenure (and thus more likely to be older workers) are often required to be given longer notice periods in the case of dismissals and higher severance payments.[4] In some case, these provisions are directly related to age, *e.g.* Austria and Norway. In the case of Sweden, there is the Last-In-First-Out (LIFO) rule which means that older workers are more protected in the event of lay-offs than younger workers since they usually have longer tenure.

To some extent the consequences of job loss for older workers are also cushioned in several European countries by more generous unemployment benefits than those available to younger workers or by the availability of early retirement schemes.

Despite this additional protection, there was concern in several of the review countries that older workers were bearing the brunt of layoffs as a result of company restructuring and bankruptcies and yet faced the biggest hurdles in terms of finding new jobs. The evidence presented in Chapter 2 also suggests that while older workers may be somewhat less likely to suffer job loss than younger workers, they are more likely to face greater difficulties finding a new job following job loss and larger earnings losses. This has prompted some governments to introduce additional "penalties" for firms that lay off older workers either in the form of having to pay a tax or higher social security contributions (*e.g.* Austria, Finland, France and Spain) or in the form of paying part or all of the costs of outplacement services to help workers find new jobs (*e.g.* Belgium and Korea). However, a policy that increases the effective costs of firing older workers may also lead to lower hiring rates of older workers and thus could make it harder for older jobseekers to find jobs.

Box 5.4. **Penalties on employers for dismissing older workers: the French experience**

The Delalande contribution

For any dismissals of workers aged 50 or over (excluding the end of temporary contracts) which give rise to a claim for unemployment benefits, employers are obliged to make a contribution, called the Delalande contribution, to the unemployment insurance administration (UNEDIC). This is to compensate for the longer time on average that older people spend on unemployment benefits relative to younger people. The amount is adjusted according to the age at which the dismissal took place. Since 1999 the amount has doubled for companies with more than 50 employees. In 2005, it corresponded to a maximum of 12 months of salary for a worker aged 56-57 in enterprises with 50 or more workers and 6 months of salary in smaller firms. For this age group, Behaghel *et al*. (2004) estimate that this is almost double the additional amount on average that firms must pay in terms of severance pay.

This tax was introduced in 1987 and initially covered workers aged 55 and over. Since July 1992, it covers dismissals of workers aged 50 and over, except those who were already 50 and over when they were first hired and who had been registered as jobseekers for more than three months. Since August 2003, this exemption has been extended to workers who were aged 45 and over when they were hired.

In some situations, the employer may be exempted. In 2003, around one-third of all dismissals that were potentially subject to the tax (*i.e.* excluding the end of temporary contracts) were exempted, mainly because they involved dismissals for reason of gross misconduct or for physical inability. The tax is reimbursed if the person concerned is reintegrated into the labour force with a permanent contract within three months after the end of the notice.

The impact of the Delalande contribution on employment of older workers

In theory, the net impact of the Delalande contribution on the employment of older workers is ambiguous. On the one hand, it should have a positive impact by reducing dismissals among older workers and hence increasing their retention. On the other hand, it may have a negative impact by reducing hiring of older workers since the contribution makes it more costly to fire them. This negative impact on hiring was the principal reason for the 1992 reform which exempted dismissals of workers from the contribution who had been hired when they were aged 50 and over (45 and over since 2003). In addition, there may also be substitution/displacement effects where dismissals of workers may rise for workers just below the age of 50 at which the tax bites (or at higher ages just before the larger penalties apply) and where hirings for this age group (and below 45 after the 2003 reform) may also fall.

The actual impact of the Delalande contribution on the employment of older people has been estimated empirically by Behaghel *et al.* (2004). In terms of the contribution's impact on dismissals, they conclude that it may only have had at best a marginal impact on improving the retention of older workers. In terms of hiring, they find that the contribution appears initially to have had a negative impact on the hiring of older workers which has been attenuated by the 1992 reform. However, they are unable to distinguish the extent to which an improvement after 50 in the hiring rate of workers aged just over 50 relative to those aged just under 50 reflected an increase in hirings of the older group or a decrease in hirings of the younger group (*i.e.* there may have been a substitution effect). The Delalande contribution may also have a negative effect on labour mobility. After the 1992 reform, older workers effectively have more security by remaining in their existing firm if hired before the age of 50 than shifting to a new job where they would not be covered by the tax and thus may face a greater risk of subsequent dismissal. Consequently, they may be more reluctant to switch jobs. However, to date, this possibility has not been studied empirically.

Few evaluations of the effectiveness of these measures in protecting the jobs of older workers have been carried out. One of the few measures that has been the subject of several studies is the Delalande tax in France which applies to dismissals of workers after the age of 50 (see Box 5.4). The results of these studies generally agree that, while the Delalande tax does not appear to have had a significant impact on reducing dismissals of older workers, it did have a negative impact on hiring of older workers prior to the reform in 1992 which exonerated employers from paying the contribution for dismissals of workers who had been aged 50 and over when hired.

Thus, the possible dynamics of policy interventions should be taken into account in terms of their impact on labour market flows and the resulting net gains in employment of older workers. More generally, measures which try to ensure that employers internalise the costs of job loss should not be based on age alone as they not only risk damaging the labour market prospects of the very groups they are trying to protect but can also lead to substitution effects that damage the prospects of other groups as well.

3. Helping employers to help older workers

Employers are part of the problem in terms of restricting job opportunities for older workers because of negative attitudes and through their use of early retirement schemes and mandatory retirement to get rid of older workers well before the official age of retirement. However, they are also a very important part of the solution in terms of improving job prospects for older workers. Well-articulated information campaigns with strong employer participation in their conception and implementation together with appropriate age-discrimination legislation can help to change employer attitudes and make them more receptive to employing older workers. However, this on its own is not enough, as there are also a number of objective factors that need to be tackled. First, there needs to be a better match between the costs of employing older workers and their productivity. Seniority wages can undermine this, while well-targeted employment subsidies can help to improve the match, especially for low-skilled workers. Second, the appropriate balance needs to be found between protecting jobs of older workers and enhancing labour mobility both in terms of improving hiring rates for older jobseekers as well as job-to-job moves for older workers.

But public measures only have a limited role to play in changing employer practices since in a market economy they cannot directly force employers to hire or retain older workers but must instead rely on more indirect levers to encourage employers to do so. Given that some of the barriers to the hiring and retention of older workers such as seniority wages and a mandatory age of retirement have been put into place through collective agreements, it is also important to seek to obtain the active involvement and co-operation of both employers and trade unions in adopting more age-friendly employment practices.

Notes

1. For example, they are not obliged to abolish mandatory retirement completely and may in some circumstances grant certain exemptions for setting age limits with respect to various employment and social assistance programmes.

2. The empirical evidence on the impact of age-discrimination legislation on employment outcomes for older Americans is briefly reviewed in OECD (2005b).

3. See Table 4.3, p. 125, in OECD (2005b).

4. These provisions are documented in more detail in OECD (2004i).

Chapter 6

Improving Employability

Key messages: Up-to-date skills, good access to employment services and better working conditions are three key aspects of employability that will affect the ability of older workers to find and keep a job and that will influence their retirement decisions. These three aspects will become increasingly important as larger cohorts of workers move into the older age groups and more of them stay on longer at work. Again, the responsibility for change needs to be shared between governments, employers, trade unions and older workers themselves.

Improving financial incentives to remain in work longer and encouraging employers to be more receptive to an age-diverse workforce is only half the battle. As discussed in Chapter 3, if older workers suffer from poor health, lack the necessary skills required by employers or face onerous working conditions, they may still be pushed into early retirement. A lack of access to good employment services and career advice will also reduce their options in terms of continuing to work longer. These are all aspects which affect an older worker's "employability".

The purpose of this chapter is to provide an overview of the range of measures that the review countries have been taking to improve the employability of older workers by: promoting training (Section 1); providing better employment assistance to older jobseekers (Section 2); and improving working conditions (Section 3). Some general lessons for policy are drawn out in the final section (Section 4).

1. Promoting a training culture

An important requirement for improving the employment prospects of older workers is to upgrade their skills. Older people in the workforce tend both to have lower prior levels of education and to engage in less training than younger workers. Tackling this double disadvantage is not an easy task, and no country has yet found an ideal way of doing so. Yet countries are starting to develop some measures both to improve adult training overall and to make learning more attractive and accessible to older workers. Governments now need to build on and co-ordinate such measures to create a multi-faceted strategy to address shortfalls in the knowledge and skills of older workers.

Such a strategy may need to operate simultaneously at several levels. One change that will improve things in the very long term is the raising of the educational attainment of the adult population, fed in particular by higher completion rates of upper secondary and tertiary education by today's young people. A faster and more direct means of compensating for low educational attainment among today's older age groups is through adult basic skills programmes. Similarly with job-related training, one can distinguish between measures that will help improve things for tomorrow's and today's older populations. Measures that seek to raise overall participation in skill training, but which often are taken up in the first instance by younger adults more than older adults, can nevertheless have important long-term effects on older workers. If a greater proportion of the working population, and in particular those with relatively low initial educational qualifications, develops a learning habit and updates their skills regularly, they may be more likely to continue learning through their 50s and 60s and beyond. On the other hand, there is also a case for targeting today's older workers in efforts to improve participation rates, by addressing some of the barriers that seem to prevent many people from engaging in job-related learning later in life. Experience shows that this is a tougher task.

Educational levels for older people will rise in the years ahead

One effect of the rapid expansion of initial education systems in recent decades is that older generations of workers, educated in an earlier era, are on average much less well qualified than younger ones. The other side of this equation, however, is that the number of people over 50 with a weak educational background is certain to fall. Nevertheless, improvements in attainment are of their nature slow to arrive. Thus, much can be done, and needs to be, to improve the human capital of less well educated adults, through a variety of forms of lifelong learning.

Targeted approaches to improving basic skills

A first task confronting governments who want to upgrade the skill level of the adult population is to ensure that more people gain a basic foundation of literacy and other basic skills on which to build. Second-chance education has been much stronger in some countries than others, with for example some Nordic countries systematically offering adults courses at municipal upper secondary schools that allow them to gain equivalent qualifications to young people. In modernising such systems, countries such as Norway (see Box 6.1) are recognising that effective participation may depend much on appropriate course design and recognition of competencies gained from life, rather than treating adults as if they were simply being sent back to school.

Box 6.1. **The Norwegian Competence Reform**

A new agreement between government and social partners in Norway in the late 1990s introduced a Competence Reform, aiming principally to meet growing competence demands but also to promote an increase in the number of older workers. The target groups for this measure are adults (whether working or not) who lack formal educational qualifications, older people who did not have access to education when they were young and adult immigrants with educational qualifications which are not recognized in Norway. Key measures include:

- A legal right to second-chance education for adults who lack primary, lower secondary or upper secondary qualifications. Teaching methods are as far as possible based on prior learning and adapted to the needs of individuals. Efforts are being made to develop new teaching models that suit adults.
- The development of a national system for accrediting adults' non-formal competencies to be recognised both at work and in education. Most people benefiting from this system use it in upper secondary education, but a minority does so in universities and colleges, particularly in the health-care and teaching fields.
- A right to study leave for adults who have worked for at least three years. The state provides means-tested study loans, but any compensation for living expenses is negotiated between employee and employer. Any course above upper secondary must be job-related to qualify.

A key issue with any attempt to upgrade the qualifications of the large section of any adult population that could benefit is how to target particular groups. Often those with obvious labour market disadvantages, such as the unemployed, are targeted. It can also be possible to target immigrants or older adults who were educated at a time when fewer opportunities were available. However, some countries also have relatively wide-ranging schemes, which ambitiously "target" fairly large sections of the adult population.

For example, in Spain, the national agreement on continuing training have set priorities and targets for upskilling workers aged 45 and over, women and low-skilled workers (OECD, 2003b). The United Kingdom's New Deal for Skills is trialling individually-tailored support to those not in the labour market to help them develop the skills they need to enter work and progress within it.

Promoting learning across the adult population

In addition to the promotion of basic skills and compensatory education, countries have adopted a wide range of measures promoting greater participation in learning across the adult population. The central objective is to promote a lifelong learning culture. Types of learning covered range from work-based skill development and maintenance, to vocational training and apprenticeship, to adult education. If learning is viewed in a lifecycle perspective, a response to low levels of training undertaken by older workers should not focus only on participation among those age groups. The experiences of workers at younger ages will have an impact on their labour market decisions and outcomes when older. For example, workers who have ample opportunities mid-career for upgrading their skills or for learning new skills may be better placed in terms of labour market outcomes when older than those who have had fewer prior opportunities. One important development in some countries in this respect is to try to give individuals more responsibility and control over their own learning over the lifecourse through Individual Learning Accounts (OECD, 2005j).

In most cases, collective agreements to improve training have not focused on older age-groups, although recently some such agreements contain a combination of general and targeted provisions in this respect. For example, a 2003 agreement in France makes a particular point of auditing older workers' skills to work out what they need, in the context of a wider set of provisions extending access to training at all ages (see Box 6.2). One sign that countries are giving higher priority to training investments is that several of those countries with levies on firms obliging them to spend a certain percentage of payroll on training have recently increased these levies, while others have introduced new measures of this type. As well as the increases in France, referred to in Box 6.2, Italy has introduced an "inter-occupational fund" of 0.3% of payroll (OECD, 2004f).

Box 6.2. **Promoting training among experienced workers: the new French agreement**

In September 2003, the French social partners signed a national inter-sectoral agreement on "employee lifelong access to training". This agreement increases the financial contributions paid by employers to 1.6% from 1.5% of payroll for those with over 10 workers, and more steeply from 0.25% to 0.55% for small enterprises. Some of the innovative measures of this agreement focus on older or experienced workers; others are more general:

- Employees with over 20 years' work experience or aged over 45 with over a year in their present job will be offered a "skills audit" and prioritized access to qualifications that recognize their experience from work.
- Employees with over two years of services will be able to have a career guidance interview within their company.
- "Training passports" requested by employees will list knowledge, skills and occupational aptitude, whether acquired through training or experience.
- An individual "right to training" for employees with over 12 months' service with their company, who accrue a credit of 20 hours per year worked, redeemable during or outside working hours. Workers who lose their jobs can use the value of the credit to produce a skills audit.

Focusing on older adults: targeting incentives and adapting provision

In general, schemes to improve training rates across the adult population appear to have had lowest take-up among older workers. Are there ways of improving participation among these groups?

One approach may be to give added incentives to take up training. One country that has experimented with this is the Netherlands, which in 1998 increased employer tax breaks for training, most particularly for employees aged over 40. After a report commissioned by the Ministry of Finance in 2001 concluded that the effect of the tax reduction on the behaviour of firms was small, it was abolished in 2004. The report showed that part of the lag in participation among low-skilled and older workers resulted from the preferences of the individuals themselves. However, subsequent evidence shows that the reasons for low participation are complex, including difficulties encountered by less educated workers in negotiating with their employers about the content and quality of training programmes.

The Dutch experience confirms evidence from other countries that it is not enough to raise financial incentives to participate – one also needs to address the conditions under which training takes place, and some of its characteristics. As the Norwegian example cited in Box 6.1 above illustrates, this can include adapting accreditation and teaching styles to suit the profiles of older workers. It may also be important to address different time-horizons when thinking about training for workers who have shorter-than-average expected working life. This points to a need for flexible, short or modular courses to be made available – and in particular courses that recognise and build on existing skills and competencies, some of which have not previously been recognised. In this perspective, highly flexible modular provision such as that provided in Australia through its colleges of Technical and Further Education offers a more promising model than some, more standardised vocational training systems. Of course, later retirement itself will help to raise the potential net returns to training, and employers also need to recognise that the average time that a 50-year-old can be expected to remain in a particular job tends to be much longer than that of a 20-year-old.

Evidence on outcomes: providing training opportunities on its own will not be enough

Evidence from those initiatives that have sought to increase participation among older workers shows both that provision is not the same as participation, and that participation in training does not always bring unequivocal benefits in terms of labour market outcomes. This evidence varies according to different types of intervention. Thus:

- Many studies surveyed by the OECD find that training for existing workers does have beneficial impacts in terms of keeping workers employed. Furthermore, training enhances perceived employment security (OECD, 2004a). For this group, a critical impediment to participation is lack of time which, in the Finnish Adult Education Survey, for example, is more widely cited than lack of suitable training on offer. This suggests that it might be important to ensure that employed workers have sufficient time to engage in training so that they do not have to wait until they become unemployed before starting to train.

- The impact of training in getting unemployed people back to work may not always be positive when measured over the short-run relative to a comparable group of non-participants but, in some cases, is strongly positive when outcomes are measured over a longer period of time (OECD, 2005k). In addition, training that has a clear link to local labour markets may prove more beneficial but outcomes need also to be offset against typically large deadweight losses.

Programmes in different countries have experienced a range of outcomes:

- In the Czech Republic, the report found that approximately 70% of older workers who participated in the programmes were in employment a year after completing the courses (OECD, 2004h). However, only a limited number of older workers participated in the programmes.
- In Spain, a "job workshop" programme provides training and practical job experience for job seekers at-risk. In 2004, 28% of programme participants were over age 45 and half of programme participants were in a job six months after completion of the programme.
- In Sweden, on the other hand, outcomes of the Activity Guarantee seem poor for older people. This programme provides unemployed workers with the opportunity to train, but only one in eight 50-64 year olds leaving it between August 2000 and February 2002 got a regular job afterwards (OECD, 2003a).

Such varied outcomes indicate the importance of programme design, with surveys of the evaluation literature on the effects of labour market policy measures (*e.g.* Martin and Grubb, 2001) suggesting that training that is targeted and has a strong on-the-job element is most likely to be successful.

The role that training can play in getting economically inactive people back to work is hard to evaluate. One reason is that participants in programmes for this group tend to self-select as the most enthusiastic and optimistic about their employment prospects, since participation is rarely compulsory. For this group, attitudes to the labour market are crucial. However, many studies indicate that workers who participate in training attach higher value to being employed and also have higher self-reported employment prospects, suggesting that training might be helpful in fostering positive attitudes.

Among those older unemployed who do participate in labour market programmes, many may have only a limited interest in training. The take-up of training grants in the UK's New Deal 50 Plus is low. The Japanese government encouraged "self-training" in their 1998 Education and Training Benefit, by covering part of the cost, but older workers were under-represented in the take-up of this opportunity. Limited use of such grants appears to signal a general unwillingness on the part of older people to take the initiative in getting trained, or possibly that the designated courses do not suit them.

This could indicate there is a demand-side problem, which needs to be addressed in combination with supply-side policies. Only through a combination of initiatives on both sides of the training market can countries hope to improve on the so far limited progress that has been made in terms of running programmes in which older people participate and which have positive labour market outcomes. At the same time, it will be necessary to recognise the limitations of any policy solutions aiming to promote effective human capital development among older workers who have had limited prior education and training, underlining the importance of ensuring that such development is initiated much earlier in their careers and persists, *i.e.* a real investment in lifelong learning is made.

A range of approaches is required

To summarise, the decline in the incidence of training as workers age involves a number of issues and the appropriate policy response in each case will not be the same.

On the one hand, it may reflect a low expected number of remaining years that older workers will spend either with their current employer or in work more generally. Clearly, in this case, the best policies to promote training may be those policies directed at trying to improve retention of older workers as well as to extend their working lives. On the other hand, it may reflect a low incidence of training for all workers more broadly or for some groups of workers such as the low skilled in particular. In this case, policies need to address more closely the institutional barriers to lifelong learning and may need to look at special measures to promote training among the more disadvantaged groups. Better co-ordination of the provision of training may partly help in some countries. It may be particularly important in this case to take a lifecycle approach These policies may need to concentrate on workers in the younger age groups since; if they can be encouraged to increase their participation in training, this may not only improve their immediate and future labour market outcomes but may also increase their likelihood of participating in training as they age. For older workers who have undergone little training in their work careers, it may be harder to encourage them to take up training opportunities. At the same time, there are specific training issues for older workers in terms of the way training is organised and in terms of its content. They will be more likely to participate in training if they have access to shorter courses that build on existing skills and experience and which have a stronger link to the workplace and which are more self-directed in terms of their organisation and pace of learning.

2. Providing better employment services for older workers

Reforming pensions and income support arrangements to promote longer working lives and encouraging employers to be more receptive to an age-diverse workforce are only part of the battle to keep older workers active. To the extent that options to exit the labour market through early retirement, disability and other non-employment benefits are tightened, it is likely that an increasing number of older workers who lose their jobs will become unemployed. Therefore, it is essential that older unemployed individuals be encouraged to seek jobs actively and that government ensures the provision of suitable employment services, career advice and re-employment incentives to assist them in this task – the “mutual obligations” approach. The purpose of this section is to discuss how this approach is applied in participating countries, including also countries’ experiences in trying to meet the specific employment service needs of older workers.

Clearly, encouraging later retirement will require facilitating greater labour market mobility among older workers; many of them will want to or have to change jobs. Some may want to eventually transit out of the labour force by first working part-time, while others can be encouraged to do so through self-employment. The flexible work schedules offered by both types of job opportunities have the potential to lengthen one’s employment life. Still others who want to continue working full-time can be helped by career counselling, which may lead to an education and training programme. This raises the issue of the overall level of resources available to finance the employment services necessary to help accomplish the goal of increased labour force participation of older workers. Spending on active labour market policies as a percentage of GDP has been declining in most OECD countries in recent years. To meet this objective for older workers within the context of limited resources, OECD countries are devolving labour market programmes, requiring active job search for all unemployed workers, setting up institutions to help target specialized services, and phasing out (or thinking about it) passive early retirement measures to use those resources for active measures to support the hiring of older workers.

Mutual obligations should be implemented

In some countries, the older unemployed are exempt from job-search requirements (see Box 2.2), which may increase their risk of remaining out of work. There is, however, awareness that, since participation in employment programmes tends to drop with age, such exemptions need to be phased out and indeed some countries have moved in that direction. Moreover, even in countries where older unemployed workers are subject to job-search obligations, greater efforts should be made to implement them in practice.

Job-search requirements should be implemented as part of a mutual obligations strategy, under which jobseekers are offered adequate employment services and benefits in return for their job-search efforts. Many countries are using a work-first strategy – that is, strategies geared at finding a suitable job first and improving competences for that particular job on the job later – where PES assistance begins with teaching job-search skills followed by intensive or enhanced placement services (see OECD, 2005k, Chapter 4). A few countries have carried this approach a step further by combining placement support with some type of wage subsidy, especially for older job seekers, arguing that it is necessary because older unemployed people have significant labour market disadvantages.

Targeted measures can help in certain cases

But even in countries where older jobseekers are subject to effective job-search requirements, re-employment chances of this group tend to be lower than for younger jobseekers. And those older jobseekers who do manage to find a job are more likely to experience lower re-employment earnings than their prime-age counterparts. Given that the numbers of unemployed older workers are likely to increase because of the ageing of the labour force, more effective measures to meet their needs are called for if their employment rate is to be increased significantly.

This raises the issue of whether targeted measures are needed in order to promote re-employment prospects of older jobseekers. There are some arguments in favour of targeted measures. Targeting older workers may be warranted because they are under-represented in existing programmes and have special needs. For example, their skills may be obsolete and it may be difficult for them to adapt to new technology, or to move to new areas where jobs are available. Employers may also be unwilling to recruit older jobseekers. And public employment services themselves have sometimes been reluctant to spend much effort in "activating" this group. This implies that there may be scope for greater targeting of active labour market programmes (ALMPs) to the specific needs and skills of older workers. But there are also arguments against targeting, since it may also reinforce negative perceptions about the employability of older workers.

Activation programmes

Several OECD countries have or are experimenting with targeted or specialised employment programs for older workers. The United Kingdom's New Deal 50 Plus scheme provides an interesting case in point. The schemes demonstrate the importance of qualified and motivated advisers with more time to spend on personalised follow-up (Box 6.3). New Deal 50 Plus is part of the UK's welfare-to-work strategy; it makes returning to work more financially rewarding. The evaluation evidence on the New Deal 50 Plus programme is mixed. In some cases, it was reported that less than 25% of participants returned to benefits. Other results indicate that the deadweight loss was rather significant, *i.e.* more than half of participants expected to return to work anyway (OECD, 2004d).

Box 6.3. **New Deal 50 Plus in the United Kingdom**

Eligibility*:* This is a volunteer programme available to individuals aged 50 and over who have been receiving benefits for the past six months and currently receive Income Support, Jobseeker's Allowance, Incapacity Benefit, Severe Disability Allowance, or any combination thereof.

Non-pecuniary benefits*:* Entrants into the programme have their own personal adviser at their local jobcentre. Personal advisers provide individuals with a broad range of support: they draw up individual action plans, prepare CVs and application letters, assist in job search and organise training courses and other volunteer activities intended to upgrade employability.

Financial incentives*:* Until recently, upon becoming gainfully employed, individuals were paid an employment credit directly through their personal adviser. It was payable in three stages and for up to 52 weeks. However, in April 2003 the employment credit was replaced, and financial benefits now fall under the umbrella of the Working Tax Credit (WTC). Individuals aged 50 and over working more than 16 hours per week now receive the "50 Plus element" of the WTC for 52 weeks. After this period, those on low incomes working 30 hours or more will continue to receive basic WTC entitlements.

Training: A training grant is available upon taking up employment. It can be used towards improving existing skills and learning new skills to help remain employed.

In-work benefits for older workers

In a few countries, such as Germany, Japan, the United Kingdom and the United States, older workers directly receive a wage top-up (or so called "in-work benefit") for either finding a job or for remaining in employment (see Table 6.1). The German and United States schemes are very similar, providing unemployed workers who subsequently find jobs with a supplement equal to 50% of the decline in earnings between their old and new jobs (up to a ceiling). In the Japanese case, workers are only eligible for the top-up if they experience a fall in their earnings of 25% or more relative to what they were earning at age 60. In addition, they must not claim unemployment benefits. Effectively, all three schemes may result in a larger subsidy for those workers who had higher earnings prior to becoming unemployed and who therefore risk experiencing the largest drop in earnings in a new job. On the one hand, this could imply large deadweight loss if these workers are also the ones most likely to find work even if the subsidy was not available. On the other hand, in a country like Germany where unemployment-benefit replacement rates are relatively high for the long-term unemployed, it may serve to encourage these workers to take up job offers which involve much lower wages than in their previous jobs. The Japanese scheme which provides a higher rate of subsidy for larger falls in earnings may also discourage workers from taking up higher-paid jobs.

The UK approach is quite different again and gives an earnings top-up that will be more generous for low-wage workers since the amount is higher for those with lower household incomes. It also only applies to workers who have been on income support for six months or more and so may be more tightly targeted and less prone to deadweight loss than the corresponding schemes in Germany, Japan and the United States where there is no minimum waiting time to become eligible for the employment benefit. The United States scheme is much more narrowly targeted than the German and Japanese schemes since it only applies to workers who were displaced from jobs for trade-related reasons.[1] All four schemes run the risk of employers being able to offer lower wages than they would otherwise have been able to because of these schemes.

Table 6.1. **Employment subsidy schemes for older workers**

Country	Description of measure
Austria	Persons aged 50 and over who have been unemployed for one year or more are eligible for the *Return-to-Work Supplement* (of around EUR 160 per month in 2003) once they take up either full-time or part-time work. This is a fixed, lump-sum amount and is renewable every 12 months while the person remains employed. The unemployed aged 45 and over who accept a new job that pays less than their old job maintain their right – if they subsequently lose their job – to (higher) unemployment benefits based on their wages in their former job.
Germany	Workers aged 50 years and over who experience a spell of unemployment are entitled to a *Wage Guarantee*, corresponding to 50% of the net difference between the wages earned before and after the spell. This wage supplement is tax-free and not subject to social contributions. In addition, old-age pension insurance contributions are boosted to 90% of those paid in the previous job. Recipients of the subsidy must have a (residual) claim to at least 180 days of unemployment benefit and the wage guarantee is granted for the remaining period for which there is a claim to unemployment benefit. The scheme will be closed to new entrants as of 31 December 2005.
Japan	All workers aged 60-64 who experience a fall in their wages of 25% or more (prior to 2003, 15%) relative to their wages at age 60 are entitled to the *Employment Continuation Benefit for the Aged* of up to 15% of their current wage (prior to 2003, 25%) for a maximum period of two years. If workers receive unemployment benefits prior to being re-employed at a lower wage, the benefit is lost or its duration reduced.
United Kingdom	Under the *New Deal 50 Plus* programme, persons aged 50 and over who have been on income benefits for six months or more are eligible for an in-work benefit for up to 52 weeks once they take up work of more than 16 hours per week. The benefit is now paid in the form of a "50 plus" supplement (of up to GBP 32 per week) to the Working Tax Credit which is a general in-work benefit for low-income workers.
United States	Under the *Alternative Trade Adjustment Assistance* programme, eligible workers aged 50 and over can receive a payment of 50% of the difference between their new salary and their old salary for up to a maximum of USD 10 000 for two years. To be eligible, older workers must be certified that they were displaced from their jobs for trade-related reasons and must obtain a different full-time job within 26 weeks after job loss.

Source: OECD series on *Ageing and Employment Policies*.

As discussed in Chapter 5, wage subsidies are also given to employers in several countries for employing older workers (see Table 5.2, p. 111). Under what circumstances are employer wage subsidies a more appropriate tool for helping older workers than schemes which provide older workers with some form of earnings top up or in-work benefit? At a theoretical level, Orszag and Snower (2003) suggest that an in-work benefit for low-wage workers will be more effective than a wage subsidy paid to the employer in promoting employment if the targeted group is likely to be trapped in dead-end jobs with flat wage profiles. This would appear to characterise the current situation of a significant proportion of older workers or jobseekers who are the most disadvantaged in terms of retaining their jobs or finding a new job. However, better information regarding take-up rates and evaluations of the existing schemes – of which there is little known – is warranted.

Decentralisation and specialisation

Some OECD countries are moving towards a more decentralised approach to providing employment services. As part of this process, the contracting-out of re-integration services is a major trend in the reform of the PES in Australia and the Netherlands since early 2002. Jobseekers older than 50 are a separate target group within the subcontracting procedure in these countries. And, in the Netherlands, specialised re-integration companies have been hired to provide services for this group of hard-to-place jobseekers facing several barriers to employment.

Given the severity of the employment situation for older workers, Korea and Japan have strengthened their PES by establishing special offices that support older job seekers as well as older incumbent workers. Korea has shown an impressive expansion of the PES over the space of just a few years. This has included the setting up of special offices to deal with older jobseekers (Aged Service Centres and Manpower Banks for Older Workers). However, these offices mainly serve a niche market for much older people who are seeking jobs in a limited range of occupations. Placement rates (the percentage of registered job seekers that are placed in jobs) do not decline as much with age as in other OECD countries. The authorities are considering the possibilities for some sub-contracting out to private employment agencies of placement service for older jobseekers with special needs.

Japan's new institutional structure to support the re-employment of older workers includes:

- *Career Exchange Plazas* to help middle-aged and older white-collar workers in job-seeking activities working in close cooperation with Talent Banks.
- *Older Persons Vocational Experience Utilization Centres* to provide free placement services and dispatching services specifically for older persons aged 60 and over.
- *Industry Employment Security Centre* to provide matching services to middle-aged or older workers.
- *Elderly Employment Support Centres/Corners* to establish an office in every prefecture in order to provide assistance to middle-aged and older workers to develop their career life plans.

There were small improvements in the placement rates for the older age group (60-64 years) in Japan after the implementation of their more targeted approach. But it is impossible in the absence of rigorous evaluations to establish how much, of any of these improvements, were due to the new approach.

Placement incentives

Placement agencies for older workers operate in the same way as those for younger jobseekers; the only difference is that those for older workers have to put in extra effort to help their clients find a job. Employers still often have to be convinced to take on an older worker. Serving older unemployed workers, many of whom experience long jobless spells and/or are disabled, is time-consuming for the PES and other service providers. It is important to avoid creaming and parking – which are both to the detriment of hard-to-place jobseekers. A governance mix is necessary, in which financial incentives to providers are complemented by performance benchmarking, control and monitoring. There must be safeguards to make sure that services are delivered equitably to all jobseekers, not only those that earn the highest profit margins for the providers.

Creating performance incentives within the PES for the successful job placement of individuals confronting barriers to employment, such as older workers, could boost the time devoted to meet the needs of older workers and in turn improve their labour market outcomes. For example, in the UK, Jobcentres are allocated points for a successful job placement. Given the large number of older people receiving Incapacity Benefit in the UK, Jobcentres which successfully place an older Incapacity Benefit recipient into employment are awarded more points, which are used to justify additional resource requests. In Australia's Job Network, discussed below, job seekers that are more difficult to place (*e.g.* older job seekers) receive a higher weighting in the Job Seeker Classification Instrument, which can mean early referral to more intensive assistance.

This means that the payment received by the Job Network provider is potentially greater for placing an older unemployed person and it also results in higher “star ratings” in the evaluation process, which is crucial to be included in the next round of tenders and thereby for staying in business.

Innovative approaches

Perhaps, the most innovative model, given its heavy reliance on the private sector, is Australia’s Active Participation Model (APM) introduced in 2003. In 1998, the publicly funded PES was replaced by Job Network – a national network of about 200 private, community and government organizations. Each organization in Job Network is awarded contracts for providing employment services through a competitive tender process. Generally, all job seekers have to meet the requirements of the activity test, including older workers. They will also be required to enter into an activity agreement which sets out their participation in an appropriate activity at a level to satisfy their mutual obligation. However, for people 50 years and over these requirements are more individualized and are developed together with their personal adviser as part of their participation agreement, which takes the older job-seeker’s skills, abilities and goals into consideration. Frequent meetings with adviser are required. Older job seekers (*i.e.* 50 and over) are generally expected to look for work. Moreover, 150 hours must be devoted to employment-related activities during a six-month period in order to demonstrate that they are taking reasonable steps to comply with the terms of their Participation Agreement. These activities might include education or training, engagement with Job Network, rehabilitation, disability employment services, approved voluntary or community work, financial planning or counselling and are designed to improve their employment prospects in the long term.

There are also obligations on the side of Job Network providers regarding the guaranteed level of service. This guarantee requires that services should be sensitive to job seekers circumstances and background as well as tailored to both their needs and available job opportunities.

Given the heterogeneity of older workers by gender, skill level, health, etc., many countries have a comprehensive and individualized approach to employment services for older workers, especially providing intensive support that includes a personal coach and career counselling, but are still not that successful in re-employing them compared to younger jobless workers. In the report on Job Network Evaluation – Stage 3, it was suggested that older job seekers and Job Network providers on their behalf generally find it difficult to secure job interviews or employment, and that older job seekers were considered sometimes to be too difficult or expensive to re-train or lacked motivation to take up training.

Austria provides a good example of a new, non-profit institution to help with re-employing older workers. Known as Flexwork, and established in 1997, it is one of several non-profit, temporary work agencies opened in recent years in order to assist experienced job seekers who wish to enter jobs other than through the traditional entry ports. Flexwork have been particularly successful in helping the unemployed make the switch from temporary to permanent work.

Several Regions in Italy provide financial incentives to promote the employment of older workers in “social solidarity services”, *i.e.* services to support the local community and proximity services. Demand for such services is growing rapidly, partly due to population ageing.

Recent Internet-based ideas

In July 2002, the Mature Age Toolbox was introduced in Australia as a way to assist employment service providers rather than job seekers. The toolbox is an internet-based resource for Job Network members to assist them in dealing with older job seekers and to develop new methods to better help older people finding a job. The toolbox also includes facts and figures, case-study and training materials, and information on how to change employer attitudes and so forth. The toolbox has been extremely popular among Job Network providers and there are plans to expand and update it.

The United States, via the Office of Disability Employment Policy, U.S. Department of Labor, recently launched the Job Accommodation Network (JAN), which provides information on job accommodations (*i.e.* adapting workplaces to the needs of disabled workers), self-employment and small business opportunities to facilitate the employment and retention of workers with disabilities, many of whom could be older workers. It provides the following services:

- Individualized worksite accommodations solutions;
- Technical assistance regarding the ADA and other disability-related legislation; and
- Information about self-employment options.

Employer groups themselves should be encouraged to set up dedicated websites with information on best practices for accommodating age-diversity in the workplace and with tools for employers to rank their own performance in terms of "age-friendly" employment practices. Especially, for small and medium-sized enterprises, this kind of practical information could be of great value. Small firms often lack knowledge and resources for meeting their recruitment needs and can be a difficult target group to reach in terms of changing their attitudes towards older workers. The website set up by Austria's peak employer body, the Austrian Employers Federation, with this type of information could serve as a possible model.

Recent pilot projects

Australia, the Czech Republic, and Canada have been experimenting with new pilot approaches to providing employment services to older workers. As part of their Mature Age Employment and Workforce Strategy, Australia recently introduced Jobwise Outreach, which is aimed at older job seekers and workers, and will focus on ten regions in 2004/05. It consists of the following measures:

- *Jobwise Labor Market Update Seminars* are for Job Network members and other intermediaries to improve their knowledge of demographic issues and the likely impact on their local labour markets.
- *Jobwise Workshops* will be held nationally for older job seekers and workers to provide them with information on the changing nature of the labour market (including their own local labour markets), effective job-search strategies and available assistance measures.
- *Jobwise Self-Help Groups* are networks of older job seekers, allowing them to exchange experiences, provide mutual support, develop their job-search techniques and improve career decisions.

This initiative is too new to have been evaluated, even on an elementary level. However, there may be an implied message in the Australian employment services system. Given the extensive use of the private sector and other entities in providing employment services under contract to the federal government, there is a measure of flexibility to the system not found elsewhere in OECD countries. They are clearly on the forefront of generating and implementing new ideas and approaches to serving unemployed workers.

In Spain, workers in certain sectors as well as the self-employed are henceforth exempt from paying social contributions if they are over age 65. This is an interesting initiative given the potential of self-employment to promote job prospects of older workers.

In June 1999, Canada announced the Older Workers Pilot Projects Initiative (OWPPI) to assist displaced older workers, usually aged 55 and over, into employment or to maintain older workers at risk of losing their job in employment (OECD, 2005l). In total, more than 100 pilot projects are being undertaken with the aim of testing innovative measures and approaches designed to meet the labour market needs of older workers. All projects had to fit within one of several approaches (Box 6.4).

Box 6.4. **The Canadian Older Workers Pilot Projects Initiative**

This initiative has several objectives as follows:

Awareness and promotion: remove the existing systemic barriers and prejudices concerning the hiring of experienced workers and raise employers' awareness of the competitive advantages they can offer.

Prevention: provide support for projects or measures that offer alternatives to layoffs and facilitated the establishment of mechanisms for early detection of layoffs.

Adjustment: promote a more skilled and more mobile older labour force by introducing measures adjusted to their needs and creating job opportunities for them.

Labour force participation: facilitate older workers' transition from working life to retirement by retraining them for sectors in the social economy; help them to find jobs that require little training and no advanced schooling and are available nearby; and offer an alternative to income support for certain older workers with limited education who live in regions where there are few employment opportunities.

The evaluation mechanisms that have been put in place to determine what works and why in these pilot projects are quite limited. However, once all of the provincial and territorial evaluations have been carried out, an overall evaluation will be undertaken. To date though, some preliminary qualitative information based on focus groups held in various sites across the country is available. Firstly, there appears to be substantial support among participants for programmes and services that target older workers. Secondly, there was some consensus on the barriers they faced in accessing employment; notably, older workers cited the lack of formal specific training received as a main barrier. Older workers felt they were lacking suitable training opportunities due, in part, to negative employer attitudes about their willingness to undertake training and their own perceptions that employers were reluctant to train older workers due to low expected returns to their training investment. Finally, in terms of the strengths and weaknesses of the pilot initiative, older workers felt that the programmes provided good specific and general skills training. However, they would have preferred more focus on training including increasing the length of training.

3. Promoting better working conditions and health

Given that many older workers cite health problems as one of the reasons for withdrawing from the labour market, improving working conditions will play a key role in encouraging longer working lives. All countries have in place regulations and procedures to ensure that minimum standards in terms of working conditions are respected. Increasingly, though, measures are focusing on the needs of older workers and ways to improve working conditions for this group.

Specific programmes for older workers

The most well-known programme is the Finnish National Programme on Ageing Workers which ran from 1998 to 2002. This programme was in fact an umbrella programme for a range of programmes targeted at the general public and employers, covering information campaigns, research and demonstration projects and specific programmes to increase the "work-ability" of older workers through rehabilitation, training and improvements in occupational health and safety. This has since been followed up by a number of other programmes including the VETO programme (see Box 6.5).

Box 6.5. **Finland's extensive range of programmes to promote longer working lives**

Shortly after the end of the economic recession in the mid 1990s, a series of government programmes were introduced in Finland (OECD, 2004e). These focus on improving work ability and working conditions in order to promote longer working lives.

The National Programme on Ageing Workers

This largest and best known of Finland's public programmes for older workers sought to improve employment opportunities and the work-ability of people over the age of 45, both in work and unemployed. Proposed by a special committee in 1996, the programme ran from 1998 to 2002. It was implemented jointly by the Ministry of Social Affairs and Health, the Ministry of Labour and the Ministry of Education. The focus of the programme varied over time. In the initial phase, most measures concentrated on legislative amendments and information campaigns. The middle phase involved research and development projects, while the final phase focused on management training and development of the workplace.

The Well-Being at Work Programme

This programme, which ran from 2000 to 2003, operated at four levels: information provision and promotion of good practice; research and utilisation of research findings; support and funding for development projects; and monitoring of legislation. The main goal was to encourage people to stay in work longer.

The Workplace Development Programme

Launched in 1996 by the Ministry of Labour together with the social partners, this programme provides expert support to workplaces striving to improve the quality of working life. The programme has been extended beyond its original end date of 2003.

The VETO programme

This programme was introduced by the Ministry of Social Affairs and Health in 2003. Based on the experiences of the previous programmes, it seeks to ensure that people can fully participate in working life, encourages workers to stay on longer, and addresses job quality. The programme will run until 2007.

It is difficult to assess how successful Finland's programmes to promote longer working lives have been. On the one hand, they have coincided with a strong increase in employment rates among older workers. On the other hand, some of this increase can be ascribed to the recovery of Finland's economy following a deep recession in the early 1990s. The National Programme on Ageing Workers has been evaluated by a number of institutions. For instance, the programme was reviewed under the European Commission's system of peer review of measures taken in different countries in order to implement the European Employment Strategy. The review praised the programme's broad range of measures and coverage as well as the consensus that appeared to have been developed among all of the responsible actors involved in the programme. However, it seemed difficult to draw any definitive conclusions about the impact of the programme on the labour market performance of older workers in terms of indicators such as employment rates and the average age of retirement.

Other country measures include Germany's "new quality of work initiative" (INQA), which involves the federal and regional governments, social partners, social insurance authorities, various foundations and business (OECD, 2005m). The objective is to improve working conditions both for older and younger workers within the context of promoting competitive workplaces. As part of this initiative, a campaign was launched called "30, 40, 50 plus – Working healthily as you get older". In Belgium, the federal government created a special fund in 2003 of EUR 5 million to subsidise employers wishing to improve working conditions for workers aged 55 and over (OECD, 2003c). In France, one of the key objectives of the National Agency for the Improvement of Working Conditions (Agence nationale pour l'amélioration des conditions de travail, ANACT), as part of its 2004-2008 agreement with the government, is the promotion of good age-management practices in workplaces. ANACT is managed jointly by government, employers and trade unions, and through its regional associations advises companies, develops innovative methods for dealing with technological, organisational and social change and disseminates best practice (OECD, 2005f).

General strategies to improve occupational health and safety

All OECD countries are striving to improve occupational health and safety standards as well as to disseminate best practice and to carry out research to identify areas where further improvements can be made. In the case of Australia, a general strategy has been introduced with quantitative targets for reducing workplace injuries (see Box 6.6). Finland also has several quantitative targets as part of its VETO programme, including: a decrease in the frequency of work accidents and the development of occupational diseases by 40% between 2002 and 2010; and a reduction in work absences due to illness by 15% between 2002 and 2007.

Prevention and better disease management

Prevention is also another important avenue for promoting longer working lives, not just by reducing the risk of occupational injuries and diseases but also by tackling those factors outside of work which may be leading to poor health. These include obesity and tobacco and alcohol consumption. At the same time, better management of health conditions such as diabetes or anxiety and depression could also help to facilitate greater labour force participation by both younger and older people. For instance, as part of Finland's VETO programme (see Box 6.4), there is a target to reduce per capita tobacco and alcohol consumption from their 2002 levels.

Box 6.6. **Australia's national strategy to improve occupational health and safety**

In May 2002, the *National Occupational Health and Safety (OHS) Strategy 2002-2012* was launched to improve the health and safety of all workers. This strategy has been signed by the federal and state governments, as well as the Australian Chamber of Commerce and Industry and the Australian Council of Trade Unions, and commits these parties to work cooperatively on national priorities for improving OHS. Relative to 2002, it sets out the following two national targets:

- Reduce the incidence of work-related fatalities by 10% by 30 June 2007 and by 20% by 30 June 2012; and
- Reduce the incidence of workplace injury by 20% by 30 June 2007 and by 40% by 30 June 2012.

To meet these targets, five national priorities were identified: reduce high incidence/severity risks; strengthen the capacity of business and workers to manage OHS effectively; prevent occupational disease more effectively, eliminate hazards at the design stage; and strengthen the capacity of government to influence OHS outcomes. The national strategy will be continuously monitored and reviewed in order to change or adjust priorities to achieve the above targets.

Helping workers with reduced work capacity to remain in employment

Older workers who have spent many years in physically strenuous jobs or working under considerable stress may not be able to carry on working in their current jobs. However, as discussed in Chapter 4, the appropriate policy response in this case is not to encourage complete exit from the labour market through some form of early retirement benefit or pension. Instead, older workers with some form of work limitation but who are not entitled to an old-age pension should be dealt with through the regular unemployment scheme, if unemployed, or the disability scheme with special arrangements to help them find suitable jobs. This could be through more intensive job-search assistance to help them find suitable jobs, as well as through rehabilitation, or through some form of employment subsidy so that they can take up part-time jobs. For instance, this could be in the form of a more generous taper in the earnings test for unemployment benefits so that it would be still worthwhile to work part-time.

In Denmark, a person with some form of incapacity can be employed in a so-called "flexjob" and will receive full-time pay while only working part-time or at a reduced pace on a full-time basis (OECD, 2005h). In turn, the employer receives a subsidy for the effective time not worked. However, one drawback of the Danish scheme is that there is no clear incentive for employers to take on disabled workers on a part-time basis as opposed to worker that are not disabled. Moreover, if there are substantial fixed costs to employing additional workers, employing two part-time workers may be more expensive than one full-time worker and this may also dissuade employers from participating in the scheme.

Managing workplace absence because of illness is also important not only because of the potential costs to business and to society in terms of sickness benefits, but also because it can lead to early exit from the labour market. Therefore, in Norway, the government and the social partners signed an agreement in October 2001 for a more "inclusive workplace" with the objectives of reducing sickness absence and the inflow to disability and helping older workers and persons with limited functional capacity to find and remain in work (OECD, 2004a).

Internalising the cost of work injuries

Adequate financial incentives for employers to fulfil their key role in raising the employability and work-ability of their workers are crucial. One way of achieving this is through risk-rated or experience-rated accident insurance premiums. Currently, most of the review countries have some form of risk-rated or experience-rated work-injury insurance premiums, although this is not the case in Austria and Belgium.[2]

The principle of experience rating could also be extended to social security contributions for disability benefits. Many disabilities that arise among older workers – not least the stress-related ones – are work-related and result from poor working conditions or from workplaces that ignore the well-being of the employee. Therefore, a greater contribution to the costs of the disability pension programme by employers who generate a disproportionate number of disability benefit recipients could be envisaged. In Finland, insurance premiums related to the provision of disability benefits are already experience-rated but, as discussed in Chapter 3, this effectively increases non-wage costs for employing older workers since they have a higher risk of becoming disabled and may discourage employers from hiring older workers. Therefore, any form of experience-rating should ideally control for the age structure of the company's workforce to avoid any disincentives for employers to hire or retain older workers.

Facilitating greater choice in working hours

A number of initiatives have been taken to ease the transition between full-time work and full-time retirement. In recognition that older workers in particular would welcome the possibility to scale back their working hours as they approach retirement, the Belgium federal government has introduced a Time Credit scheme which gives workers over the age of 50 an indefinite subsidy to switch from full-time to part-time work. However, while this may encourage some older workers to delay their retirement plans, it may encourage many other workers to also switch to part-time work who, in the absence of this scheme, would have continued to work full-time. Thus, there is a risk that this type of measure could reduce rather than increase older people's effective labour supply.

Both Austria and Germany have introduced an old-age part-time employment scheme which allows workers to switch from full-time to subsidised part-time work over a specified period. However, these schemes also allow workers to choose to work full-time over the first half of the period and then to stop working altogether over the second half of the period. Most workers have adopted this latter option and so these schemes have mostly been used as de facto early retirement schemes rather than as gradual retirement schemes, the objective for them in the first place.

As mentioned in Chapter 3, occupational pension arrangements may also reduce flexibility in working-time arrangements. This prompted the UK government in 2004 to change the regulations governing occupational pensions so that workers could access their pension benefits while continuing to work part-time for the same employer. In November 2004, the Internal Revenue Service of the United States released a proposal for changing the Internal Revenue Code so that pension plans would be permitted to pay a pro rata portion of the employee's benefits before each plan's normal retirement age subject to a reduction of 20% or more in hours worked.

Tackling long working hours

Among those countries with particularly long hours of work, there have been some moves to reduce average working hours. Japan introduced measures in 1992 to reduce the standard working week progressively to 40 hours between 1994 and 1997, although with a number of exemptions. The Japanese government has also set a target of reducing annual working time to 1 800 hours per worker. The annual average number of hours worked annually by Japanese workers has fallen substantially since 1988 but, at 1 816 hours per employee in 2004, still remains high relative to most other OECD countries.[3] More recently, the Korean government announced measures in 2003 to cut the standard working week from 44 to 40 hours and encourage greater use of leave entitlements. These changes will be implemented progressively over the period 2004-2011 according to industry and company size.[4]

Fostering greater choice in working-time arrangements for all workers

More generally, greater choice in working-time arrangements is required not just for older workers but also for other groups such as women with substantial family responsibilities. Both long and non-standard hours of work may make it more difficult to reconcile work with family life.[5] Policies to tackle these barriers as well at to promote more generally a better balance between work and family responsibilities are discussed in more detail in the OECD series on *Babies and Bosses – Reconciling Work and Family Life* (OECD, 2002, 2003e, 2004j and 2005c). As mentioned in Chapter 3, helping women at younger ages to participate in the labour force is also likely to increase their participation at an older age.

4. Taking a broader perspective

Improving the employability of older workers raises a number of issues. First, a life-cycle perspective is essential. Clearly the experience of workers at younger ages will have an impact on their labour market decisions and outcomes when older. For example, workers who have ample opportunities mid-career for upgrading their skills or for learning new skills may have better labour market prospects when older than those with fewer opportunities. Similarly, improving occupational health and safety for workers of all ages will assist future generations of older workers to remain in employment longer. Thus, some policy interventions to encourage later retirement should, in fact, focus on workers at younger ages. Second, greater attention needs to be devoted to facilitating labour mobility among older people. This includes providing better employment services to help older workers find new jobs and start up their own businesses, as well as greater provision of career advice at all stages of workers' careers. In exchange for more intensive assistance, the older unemployed should not, as a general rule, be exempted from active job search or from having to accept suitable job offers. Finally, it is important to recognise that older people are a very diverse group in terms of their work and retirement preferences and labour market prospects. Therefore, age should be preferably one factor only and not the defining factor in deciding who should be targeted by a specific labour market policy. Otherwise policy interventions risk being ineffective and costly and may give the wrong signal that older workers are generally less productive than younger workers. Coping with, and benefiting from, age diversity should be a key objective of measures by governments, employers and trade unions.

Notes

1. Although, as pointed out in OECD (2005b), the US scheme may result in inequities in the treatment of different groups of older workers. For example, older workers who are displaced from jobs for reasons that are not directly trade-related will not be eligible for the top-up, and yet they may be just as disadvantaged as those who were displaced for trade-related reasons in terms of facing large earnings losses when they find new jobs. Moreover, take-up of the programme is very limited. In fiscal year 2003, the US Department of Labor reported that only 42 workers were enrolled in the new wage insurance program.

2. However, the Belgium government has announced that as part of its PhARAon Plan, which was launched in 2004 to reduce workplace accidents, it will be considering introducing some form of risk-rating into work-injury insurance premiums.

3. Part of the fall in annual average working time in Japan can be ascribed to a substantial increase in the incidence of part-time work and to sluggish economic conditions which have reduced the number of overtime hours worked. The government's information campaigns to encourage workers to take longer holiday breaks also appear to have been largely unheeded since on average workers took less than 50% of the number of annual paid holidays that they were entitled to in 2004.

4. See Box 5.2, p. 131, in OECD (2004c) for further details.

5. The results presented in Chapter 1 of OECD (2004i) suggest that the percentage of workers reporting a conflict between their working hours and family and social commitments is significantly higher for workers with children, with long working hours, in high intensity jobs, with non-standard hours (*i.e.* working evenings, nights or weekends) or whose work schedules are variable and unpredictable. The proportion is significantly lower for workers who have some control over their working time and for older workers relative to younger workers (even after controlling for the presence of children, employment status, working hours and other working-time arrangements).

Chapter 7

Concluding Remarks on Policy Implementation

Key messages: Action is required on many fronts if work is to be made a rewarding and attractive proposition for older people: work incentives must be improved; employers must be encouraged to hire and retain older workers; and the employability of older workers must be strengthened. Thus, a co-ordinated and comprehensive package of age-friendly employment measures and policies is required, which should be developed and implemented jointly by government, employers, trade unions and civil society.

This report makes a case for action in three broad policy directions, namely getting incentives right; changing employment practices to facilitate retention and hiring of older workers; and promoting employability. The experience of the country reviews shows, however, that attention should also be devoted to a number of policy implementation issues.

1. Taking a comprehensive approach

There are clear advantages to action on all fronts, given that older workers often face a wide range of work disincentives and employment barriers covering both the demand-side and the supply-side of the labour market. For example, pension reform may be less effective in encouraging later retirement if other financially attractive pathways to early retirement remain open. Closing off these pathways will require, in turn, greater assistance being offered to older workers by public and private employment agencies, especially those with the greatest difficulties in terms of remaining in employment. It will also require expanding job opportunities more generally for workers as they age by tackling the barriers on the side of employers to employing older workers.

And yet, much of the reform effort to date has focused on the pension system and early-retirement schemes. This has generally been followed by more limited and ad hoc measures to increase employment opportunities for older workers. Finland and Norway have been notable exceptions. They have first attempted to implement a more wide-ranging programme of measures directed at changing employer attitudes and practices and strengthening the employability of older workers. This has subsequently been followed by actual or planned pension reform.

In a few OECD countries, such as Australia, Korea and the United Kingdom, policies directed at fostering greater labour market participation by older people have been incorporated within a broader strategy to tackle population ageing (see Box 7.1). This could be a useful approach for other countries to adopt since it may help to ensure that policies to cope with population ageing are more coherent and better co-ordinated. It can also serve to raise awareness more generally about the challenges and opportunities arising from population ageing and broaden the public debate about the appropriate public policy response beyond just the implications for pension reform. However, developing a broader strategy is not a panacea, and it is unlikely to be very effective unless: i) all stakeholders are fully committed to the strategy; ii) there are adequate evaluation mechanisms in place to measure what is working; and iii) there are appropriate targets against which progress can be measured.

Likewise, broader policy settings matter. A rising tide will lift all boats, and if greater job growth can be achieved through appropriate product and labour market reforms, as well as through sound macroeconomic policies, this will improve job prospects for older people and may help to gain acceptance for more specific reforms to encourage older workers to retire later. By strengthening the labour market attachment of women at younger ages, family-friendly employment policies may also serve to raise participation rates of future cohorts of older women. They can also help reconcile work and caring responsibilities for older men and women.

Box 7.1. **National ageing strategies**

Australia

The National Strategy for an Ageing Australia was launched by the federal government in 2001. It is intended to promote awareness among the Australian community of the likely impacts of, and possible responses to, population ageing and advise the government on short, medium and long-term policy responses as part of a coordinated national framework. The strategy's goals include: i) creating a sustainable retirement income system that provides an adequate retirement income for all older Australians, and supporting and encouraging individual contributions to retirement savings throughout working life; ii) removing barriers to a continued participation of older workers; iii) ensuring that society has a positive image of older Australians; and iv) promoting and support healthy ageing across the lifespan and a world class care system for elderly. The Strategy document states that there will be regular monitoring of progress in meeting the goals of the National Strategy, including a report to the Commonwealth Parliament every three years by the Office for Older Australians. The document also states that the directions set by the National Strategy should be evaluated at regular intervals to ensure that they remain relevant.

Korea

Under the responsibility of the President's Office, a Special Taskforce Team on Population and Ageing Society was established in October 2003 and released a report in January 2004 on "Policies to Cope with Low Birth rates and Ageing". Subsequently, in February 2004, the Presidential Committee on Ageing and Future Society was established, comprising 10 relevant ministers and 13 representatives of various academic and research institutes. The purpose of the Committee is to advise the President on mid- and long-term policies to predict and prepare for future social and economic changes brought about by a low birth rate and rapid population ageing, thus enhancing national competitiveness and the quality of people's lives. The main focus of the Committee is on the following issues: i) restoration of fertility and providing child care support that would restore a better balance in the population structure; ii) enhancing economic participation of women and senior citizens; and iii) expanding the current welfare system while focusing on the efficiency of welfare cost and managing the economy and industry with a proper adjustment to the new population structure in order to improve the quality of people's lives.

United Kingdom

In March 2005, the UK government outlined its strategy for coping with population ageing in its paper on "Opportunity Age: Meeting the Challenges of Ageing". The strategy has two objectives: i) to prepare effectively for the age shift which gathers pace between now and the middle of the century; and ii) to help meet everyone's aspirations for better later lives for themselves and their families. More specifically, it aims to: i) achieve higher employment rates and greater flexibility for over-50s in continuing careers, managing any health conditions and combining work with family (and other) commitments; ii) enable older people to play a full and active role in society, with an adequate income and decent housing; and iii) allow individuals to keep independence and control over their lives as they grow older, even if constrained by health problems that can attend old age. The government has set a target for an 80% overall employment rate, including a million more older workers. It also plans to develop a simple and transparent set of outcomes and indicators to assess progress towards improved quality of life as people age, to be developed, published and periodically reviewed.

Source: Australian Department of Health and Ageing (2002); Korean website of the Presidential Committee on Ageing and Future Society, www.cafs.go.kr; United Kingdom Department of Work and Pensions (2005).

Finally, policies should be forward looking. For example, pensions systems should be made more resilient to future (unanticipated) increases in longevity. Policies also need to take into account that major changes are occurring in the labour market and that, as discussed in Chapter 2, older workers of tomorrow will not be the same as those of today. Thus, in the future, increasing demands may be placed on private and public employment agencies in terms of providing employment assistance and career advice to a growing number of more highly educated older workers who are more job-mobile. Older women are also likely to account for a growing share of the older workforce and they may require additional assistance to help them remain longer in the labour market, especially in those countries where the pension age for women is being progressively raised to the same age as for men.

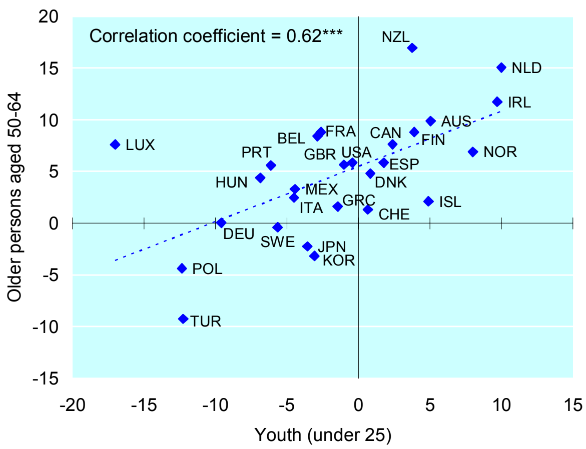
2. Dispelling the myths

A number of myths about the capacities of older workers and the way the labour market functions need to be dispelled, as these may be hampering reform efforts and the adoption of age-friendly employment practices.

First and foremost, it is often claimed that fewer jobs for older workers means more jobs for younger workers. This is based on the so-called "lump of labour" fallacy that there are a fixed number of jobs to go around and workers are perfectly substitutable for each other. In practice, neither of these propositions is true; younger workers cannot necessarily be easily substituted for older workers and the costs of subsidising early retirement can result in reduced employment opportunities for younger workers because of higher labour taxes to finance these costs. Indeed, across OECD countries there is a positive rather than negative correlation between changes in employment rates for younger and older people (Figure 7.1).[1]

Figure 7.1. **More jobs for older workers do not mean fewer jobs for youth**

Percentage point change in employment-population ratios, 1992-2002



*** statistically significant at 1% level.

Source: OECD estimates based on OECD *Labour Force Statistics*.

Scepticism is also sometimes expressed regarding the ability of older workers to remain in the labour market. This may be on grounds on perceptions that working capacity systematically deteriorates with age. As discussed in Chapter 3, there is some decline in some physical and cognitive capacities with age. However, this is often offset by changes that older workers themselves make in the way they work or can be compensated for by relatively minor adjustments in the work environment. In fact, various studies on older and younger workers show that each have relative strengths and weaknesses that they can contribute to the workforce – the most obvious strength of older workers being those that derive from maturity and experience. This points to the need for age-diverse workforces, that are able to draw on a range of strengths from different groups.

One argument for early exit from the labour force is that jobs today are so demanding. However, the limited evidence available suggests that it is more mundane jobs with lack of autonomy rather than highly stressful jobs that are associated with early retirement. Policy needs to respond to the difficulties workers face in continuing in their jobs by providing greater opportunities for job mobility and rehabilitation rather than through early retirement schemes.

And there is suspicion that reforms are in fact intended to reduce social protection. Instead, as Chapter 1 shows, it is the lack of reforms which will threaten the sustainability of public budgets, eventually forcing a drastic downsizing in social protection.

3. Linking policy more closely to the evidence

It is also important for policy implementation to monitor and evaluate the measures. In many countries, it was pointed out that the necessary evidence for evaluating what works was lacking. In general, there is a lack of studies that have estimated the age profile of the returns to adult training and education or of the magnitude of the net impact on employment and wages for participants in active labour market programmes. For example, estimates of the net employment impact and hence the deadweight losses associated with the UK's major flagship programme for older workers, New Deal 50 Plus, are not available. Similarly, it is difficult to assess the net impact of Finland's various programmes for older workers. Partly this is the result of the introduction of these programmes at a national level and so there has been no possibility of establishing a control group through piloting the programmes first in a limited number of areas.[2]

The link between health, working conditions and retirement also warrants further investigation. Ideally, this requires longitudinal surveys with quite large sample sizes and therefore most of the studies to date have been confined to the United States based on various large longitudinal surveys and the Nordic countries where large administrative datasets are available to researchers and often merged with survey data.[3] However, cross-sectional surveys of working conditions can also supply useful information and, outside of Europe, have not been very common.

4. From challenges to opportunities

The bottom line is that population ageing is both a challenge and an opportunity. It may put upward pressure on public expenditures while dragging down economic growth. These challenges will be more easily met if the potential labour resources of older people can be utilised more fully. Indeed, many older people would choose to carry on working longer if the appropriate incentives, policies and workplace practices were in place. There are several factors which are already working in the direction of increasing job opportunities for older people and, in a number of countries, the trend towards ever earlier retirement has been halted and even partially reversed. These factors include a rising average level of educational attainment among older workers and a shift away from manual occupations, as well as deliberate policy action to encourage older workers to carry on working. The real challenge for all OECD countries will be to ensure that this process is not hindered, and that future gains in longevity are turned into opportunities for older people to spend more fulfilling years both in employment and in retirement. This will require the involvement and co-operation of government, employers, trade unions and civil society to adopt and implement a new agenda of age-friendly employment policies and practices.

Notes

1. The positive relationship may also reflect the cyclical responsiveness of employment rates for both groups and certainly merits further investigation.

2. As discussed in OECD (2005k, Box 5.2, pp. 224-226), analysing the net labour market effects of a programme requires some sort of control group who have not participated in the programme. This control group can be established through i) the random assignment of individuals to participation or non-participation in the programme; ii) non-experimental comparison of outcomes for participants and non-participants, with econometric controls for selection biases; or iii) pilot studies where the programme is implemented in some local areas but not others, and outcomes are tracked and compared.

3. The United States surveys include the Health and Retirement Survey (HRS) and the Panel Study of Income Dynamics (PSID). In the UK, there was also the very well-known Whitehall studies (I and II) that were carried out but these are now somewhat dated and were confined to civil servants.

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Ageing and Employment Policies

Live Longer, Work Longer

In an era of rapid population ageing, many employment and social policies, practices and attitudes that discourage work at an older age have passed their sell-by date and need to be overhauled. They not only deny older workers choice about when and how to retire but are costly for business, the economy and society. If nothing is done to promote better employment prospects for older workers, the number of retirees per worker in OECD countries will double over the next five decades. This will threaten living standards and put enormous pressure on the financing of social protection systems. To help meet these daunting challenges, work needs to be made a more attractive and rewarding proposition for older workers. First, there must be strong financial incentives to carry on working and existing, subsidised pathways to early retirement have to be eliminated. Second, wage-setting and employment practices must be adapted to ensure that employers have stronger incentives to hire and retain older workers. Third, older workers must be given appropriate help and encouragement to improve their employability. Finally, a major shift in attitudes to working at an older age will be required on the part of both employers and older workers themselves.

This report makes an important contribution to establishing a new agenda of age-friendly employment policies and practices. It draws out the main lessons that have emerged from the 21 country reviews which have been published separately under the OECD's series on "Ageing and Employment Policies/Vieillissement et politiques de l'emploi":

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