



**NATIONAL POLICY REPORT**  
**WORK PACKAGE 3 | TASK 2**

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# 1. Introduction and summary

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## (1) The structure of this report

This is the *second* report on work package 3 task 2, ‘mapping the current “state of the art”’. The first report focuses on two levels of approaches at organisational/employer level as well as the level of stakeholders (trade unions, employer organizations etc.) This report is focused on innovative, effective, sustainable and transferable *national policies*.

The first part of the report consists of a general chapter depicting results from comparative research concerning the effects of some policies. Due to their comparative natures, these results do not belong to a specific country, yet can give a clue about country policies’ possible effects.

The main part consists of 13 country policy reports. Country reports begin with a short summary of the respective country’s current situation concerning older workers, to be followed by various topics: (1) pensions, (2) work after retirement/silver work, (3) unemployment, (4) part-time work/part-time pensions, (5) health / disability, (6) self-employment, (7) employment protection, (8) wage subsidies, (9) life cycle approaches, (10) age discrimination legislation, (11) other issues. As can be seen, the national policy report is focused on policies directly related to older workers’ employment. Other issues too indirectly related were left out. For example, in the long run family policies (e.g. provision of public child care facilities) affect older (primarily female) workers’ employment rates. This also applies to education systems (e.g. portable and non-portable skills).

## (2) The benefits of longer working lives

Despite rising (residual) life expectancies, workers in Western Europe retired at an ever younger age (‘work-age paradox’; Walker, 2006). The change in recent years leading to a U-shaped development of older worker employment rates and retirement ages is positive for various reasons:

### *Macro level effects*

Resulting from demographic factors (low birth rates, steeply rising residual life expectancies<sup>1</sup>), old-age dependency ratios (the number of people aged 65 or over divided by the number of people 15-64) will rise. Under constant retirement ages, this implies that in pay-as-you-go pension schemes a lower number of workers will have to finance a higher number of pensioners’ benefits. Longer working lives can dampen negative developments in the benefactor/contributor ratio: Comparing four exit assumptions (59/60+, 63/64+, 66/67+ and 69/70+), von Nordheim (2014: 3) shows that between these (extreme) scenarios old-age dependency ratios in coming decades will strongly differ.

Further, longer working lives can reduce the lack of skilled labour already existing in some countries/regions/professions and which is expected to spread. Albeit counterintuitive, longer working

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<sup>1</sup> There is an East-West divide in residual life expectancy at age 65, ranging from 13 years (Latvia) to 18.7 years (France, cf. von Nordheim 2014: 26 based on Richard Willets). Related to this, the mean retirement duration (without exit before 65) is comparatively low in Central and Eastern Europe (higher in Northern, Western and primarily Southern Europe, cf. von Nordheim 2014: 40).

lives can reduce (youth) unemployment. Some studies suggest that longer working lives have no detrimental effects on other age groups' employment prospects, some come to the conclusion that effects on younger people's employment prospects are even positive.

Positive effects of longer working lives can also be expected in other welfare state policy fields. For example, if health/care systems are financed via contributions based on incomes, a lower share of workers and a higher share of pensioners implies lower income (since pensions are lower than work income) and therefore lower contributions to health systems (this against the backdrop of rising health expenses due to population ageing and medical advances). Additional positive effects on health care systems can result if longer working lives contribute to workers' health.

Similar positive effects can be expected for public finances if longer working lives lead to higher total earnings and therefore to higher revenues in income taxes, consumption taxes etc. On the one hand one might argue that due to higher labour supply wages decline, so that the base of taxable income does not rise or rise only marginally, yet on the other hand due to higher earnings demand for goods and services rises which also positively affects labour demand and therefore wages.

Basically, „the projected decline in the size of the working age population in Europe is also likely to translate into much slower rates of economic growth per capita“ (European Commission 2012: 5). Besides other possible strategies like increases in labour productivity, higher fertility or immigration of (younger) workers, higher older worker employment rates have to be a crucial part of the solution (European Commission 2012: 5). One has to bear in mind the problem of intergenerational solidarity. Although longer working lives can be considered positive for intergenerational justice and solidarity due to effects on social security systems, firstly nevertheless there can be negative views on longer working lives against the backdrop of (youth) unemployment in some countries and against the backdrop of earnings/productivity profiles (due to [de facto] seniority pay) in some sectors or companies/organisations.

In contrast to the Lisbon goals which aimed at employment rates of 50% of workers 55-64 until 2010, the Europe 2020 strategy does not have a goal for older worker employment rates yet for the total employment rate (75% for men and women 20-64). It is clear that a high total employment rate can only be achieved with a high older worker employment rate (Jacob 2014: 2). This is also supported by the fact that in 2020 in several European countries those 55-64 will be numerically strong cohorts.

#### *Micro level effects*

Also individuals can benefit from longer working lives due to various reasons. This is relevant in the context of individual welfare optimisation and retirement decisions.

Firstly, earnings are higher. During work instead of retirement, the gap between earnings and foregone pension benefits is larger the lower the foregone pension replacement rate is. Later, retirement benefits are higher than they would otherwise have been if additional working years raise pension benefits. This could also lead to later retirement due to economic pressure.

Secondly, longer working lives can positively affect health. For example, Rohwedder and Willis (2010, 119ff.), Mazzonna and Perachi (2009: 1ff., based on SHARE 2004 data, 11 countries) as well as Bonsang et al. (2010: 1ff. based on the US Health and Retirement Study [HRS]) state that early retirement negatively affects cognitive abilities. A study by Kühntopf and Tivig (2008: 1ff., based on micro data from the German Pension insurance) shows that for men all else equal later retirement is related to longer lives (for women no effect could be found). Also Behnke (2010: 1ff. based on data from the English Longitudinal Study of Ageing [ELSA]) found negative effects of retirement on health (higher risk of cardiovascular disease and cancer). Yet contrastingly, based on US data (HRS) Neuman (2008: 177ff.) concludes that retirement positively affects subjective health, whereas results for objective health are statistically insignificant. With

French data Westerlund et al. (2009: 1ff.) come to the conclusion that retirement reduces the probability of suboptimal health in the year after retirement compared with the year before retirement, and this effect can still be found seven years after retirement. Poor working environment and health complaints before retirement are related to stronger effects (see also Falkenstein/Wild-Wall 2009:14f. for negative long-term effects of shift work on cognitive skills), whereas for those with high occupational status and high job satisfaction no such positive effects of retirement on health can be found. Longer working lives which are caused by economic pressure and which have negative effects on health are a problem to be monitored during efforts to prolong working lives.

This is just a non-representative selection of a wide variety of scientific publications on this issue which is supposed to show that retirement can affect health and probably this depends on individual circumstances.

Thirdly, with retirement workers lose the meaning and self-esteem work can give. Plausibly the loss largely depends on the specific occupational position and the respective worker's interpretation of the job's meaning. Likewise, workers lose the predefined structure of the day which work can give. On the other hand, the gain in free-time can positively affect the worker's life, whereas this is possibly even stronger if the partner is also retired.

Fourth, with retirement workers lose some of the (daily) social contacts from their job.

### **(3) What national governments can do**

One basic issue related to all successful and unsuccessful policies are amplification effects on partners' employment rates. Effects are positive, that is, if government policies (or some other measures, e.g. on the level of social partners or companies/organisations) induce someone to work longer, this also positively affects his/her partner's labour supply. This is not self-evident, since theoretically it could also be possible that partners compensate for each other's income losses (e.g. if one partner stays in paid work, the other can afford to retire). This contradicts findings from a different context (the finding that primarily in Southern Europe men's unemployment is/has been partly compensated by higher female labour supply, cf. Bentolila and Ichino 2001: 14ff.)

Further, policies' effects may depend on existing alternative exit pathways out of paid work. Closing one pathway while there are numerous others may have merely weak effects, while closing the last attractive pathway out of paid work is probably more effective. Policies' effects therefore are not purely additive but also multiplicative. This also includes measures on the company/organisational level which could have strongest effects on longer working lives if paralleled by policies (i.e. closing early exit routes *and* enabling workers to work longer).

#### *Higher legal retirement ages*

Higher legal retirement ages, accompanied by pension deductions for those retiring at the old retirement age, can lead to longer working lives. Financial incentives matter for retirement decisions. Effects are heterogeneous across different subpopulations, so that higher legal retirement ages could raise labour supply stronger amongst those with low earnings (and without private pensions) or with sought-after skills or those without grave health impairments.

Besides financial incentives, higher legal retirement ages also have a norm-setting function. Especially against the backdrop of the belief that older workers could act beneficially towards others by 'freeing up' jobs for the young, raising legal retirement ages provides a clear signal that working longer is desirable.

#### *Closing of early retirement schemes*

Similar to higher legal retirement ages, the closing of early retirement schemes can raise older workers' employment rates. Several reforms are possible here (based on European Commission 2012: 13):

- Tighter entry conditions (higher entry age or higher minimum number of contribution years)
- Increasing costs for employees and employers with lower benefits or lower later benefits (employees) or increasing social security contributions for employers according to their employees' (early) retirement age
- Abandoning early retirement schemes

On the one hand, allowing early retirees to work up to a certain monthly wage can raise labour supply. Yet, this makes early retirement schemes more attractive (the same double-edged sword with the parallel possibility of paid employment and benefit receipt appears in Estonia's incapacity scheme).

#### *Silver work / work after retirement*

Governments can incentivise workers to work past their legal retirement age. Main possibilities here are higher pension benefits or a lump sum (European Commission 2012: 11).

#### *Unemployment*

European Commission (2012: 14) points out several ways in which unemployment scheme reforms can delay labour market exits:

- „Restricting the age at which someone in pre-retirement may claim unemployment benefits“
- Shorter duration of unemployment benefits, so that the bridging possibility is reduced
- Higher age limits up to which unemployed have to be available to work (or abolishment of age limits)
- Stronger supervision of the older unemployed's job search endeavours
- A wider definition of 'suitable work'
- Stronger contributions-benefits links

It is not clear if and to which degree the last part will contribute to higher employment rates of older workers. Still, older workers have longer contribution periods than younger workers and in some countries due to (de facto) seniority wages higher prior unemployment insurance contributions which would lead to high benefits. Numerous studies (see 'General chapter') suggest that lower (and shorter) unemployment benefits reduce unemployment levels, whereas here there can be negative side effects such as poverty (and possibly injustice if a large sum of lifetime contributions to the unemployment scheme results in low and short-lasting benefits).

### *Part-time work / part-time pensions*

Originally part-time work in older (pre-retirement) age has been believed to delay retirement. This has largely not proven to be the case. Part-time work is a double-edged sword. Effects on labour supply depend on what part-time workers would have done otherwise. Some research suggests that part-time workers rather resemble full-time workers, i.e. that they would have worked full-time if the part-time option would have been absent. Possibly, restricting part-time work / part-time pension to those who would not be able to work full-time could be a solution.

### *Health / disability*

Also reforms in the field of disability pensions can foster older workers employment rates (European Commission 2012: 16). Studies suggest that the number of persons exiting the labour market via disability pension declines as hurdles to entry get higher; this can also apply to lower benefit levels. There is a downside to these policies, as in one of the countries depicted above it is not clear if hurdles are not too high and force those to prepare for work whose health condition should rather qualify them for the disability scheme.

Preventive health policies starting early can, in the long run, improve older workers' workability. This can be part of general health policies, but also be focused on workplace health. In some countries the last years have witnessed a rise in psychological problems amongst workers, whereas generally older workers are stronger affected than younger ones. Although part of the ascertained rise probably can be traced back to the closing of easy disability exit routes, this seems to be a problem with increasing relevance.

Rehabilitation measures can improve or restore older workers' workability. Also here there can be leeway for policymakers in the policy fields of health and pensions to improve older cohorts' workability and therefore their labour market participation.

### *Self-employment*

Promoting older workers' self-employment can increase employment rates. Older workers becoming self-employed were either not that satisfied in their prior job that they precluded starting their own business (this low satisfaction could have resulted in earlier labour market withdrawal) or they were unemployed. Further, the self-employed retire later. This can partly result from self-selection processes (i.e. those placing high value on work have a higher probability to become self-employed) or the lack of pension entitlements, but this can also result from self-employment's characteristics (meaningful, autonomous work etc.).

### *Employment protection*

Most studies suggest that strict employment protection reduces labour demand. Firstly, employers can be reluctant to hire workers because these workers get employment protection soon and then it is difficult to get rid of them in case (1) in-company labour demand declines or (2) the individual worker's performance is worse than expected. Further, studies suggest that employment protection raises the number of days of sickness absence or wages, which could reduce labour demand.

In some cases, employment protection does not depend on age but on job tenure. Although both factors are correlated, protection based on tenure avoids employers' reluctance to hire older workers due to employment protection.

### *Wage subsidies*

Researchers state that wage subsidies can foster employment, but also that short duration, targeting (at those with lowest re-employment probabilities) and close monitoring are crucial due to possible deadweight effects (see 'General chapter'). Besides possible deadweight effects, crowding out of unsubsidised workers has to be closely monitored. There are several other aspects to be considered. Hiring vouchers can be an alternative to wage subsidies.

### *Life cycle approaches*

In order to increase older workers' employment rates, policymakers can consider workers' position in the life cycle. One example is elderly care. (Primarily female) older workers are far more strongly affected by elderly care obligations than younger workers. Another example is factors resulting from long tenure in the company, which also affects primarily older workers. Long tenure can be accompanied by job dissatisfaction if workers have the feeling to be stuck in a blind lane lasting possibly until retirement. Policies can support companies/organisations to avoid older workers' job dissatisfaction, possibly by supporting measures at company/organisation level.

Although some special life circumstances affect some age groups more than others, policies can be designed in a manner also covering outliers (i.e. persons affected by circumstances untypical for their age group). Therefore, policies could affect various groups independent of chronological age and more based on life cycle specific circumstances.

Life cycle approaches can also be based on the company/organisation level (see 'report 'Best Practice Cases'').

### *Age discrimination legislation / awareness programmes*

Objective age discrimination can inhibit older workers' employment chances (e.g. if workers do not get hired due to their age or if older workers are targeted when it comes to reduce full-time jobs to part-time jobs or to layoffs). Besides this, also perceived age discrimination can reduce older workers' employment levels, since this can demotivate older workers and foster complete or partial labour market withdrawal.

The effects of age discrimination legislation are unclear. Legislation can either have direct effects, i.e. change behaviour due to possible lawsuits, or indirect effects due to their norm-setting function. There can be several downsides. The most prominent one is that although anti-discrimination legislation is neutral (that is, it does not explicitly protect the old or the young etc.), it is clear which groups are to be protected, which can lead to the question why protection is necessary, which can lead to the impression that there is some functional background to discriminatory behaviour if it is so widespread. In this case, anti-discrimination legislation can be counterproductive. Further, special protection for some groups can make this group unattractive to employers. For example, *ceteris paribus*, hiring an older worker becomes less attractive than hiring a middle-aged worker, since laying off the older worker can lead to a lawsuit whereas middle aged workers are improbable to feel discriminated due to their age.

As anti-discrimination legislation, also awareness programmes can have positive effects but can also backfire if addressees conclude that these programmes are necessary since there is a real problem behind the (so-called) discriminatory attitude.

### *Employability policies*

These policies can be focused on healthy and secure working conditions, flexibility, higher responsiveness to demands of older workers and improved employability. Within these policies, governments can help companies/organisations to improve or sustain their HR policies or force them to do so. Parts of these issues are depicted in paragraphs above (e.g. health/disability or awareness programmes; the list is based on European Commission 2012: 19). Policy reports in the main part of the report are not strongly focused on these issues.

### *Active labour market policies/initiatives*

Active labour market policies can improve (older) workers' employment prospects. Examples are measures improving older unemployed workers' re-employment chances, e.g. due to above-the-ordinary measures to bring unemployed persons into contact with potential employers, or measure for the (re-)integration of workers with health impairments in the same job or in a different job. Partly the latter is also related to health/disability and rehabilitation policies.

## **(4) How we proceeded**

Work on the policy report has been divided as follows:

- First drafts of national policy reports on each of the countries were written by the work package leader. Partners were asked to add relevant information. Based on this, the work package leader has compiled and edited the policy report
- A comparative part, the introduction as well as the appendix have been written by the work package leader

This does not apply to the Baltic countries. The Baltic part has been written solely by the Baltic partners. The rest of the report has been written by the work package leader.

The comparative part can give a short overview over certain policies' probably effects on employment rates.

In order to provide the state of the art of current national policies aimed at longer working lives, we restricted our analysis to reforms in the last couple of years and their effects (if ascertained). Therefore, we avoided descriptions of basic policy configurations. The goal is to provide readers with an overview about what has been done (and to which effect in cases of sufficient information). Clearly, national developments happened against the backdrop of existing policies (and constellations of power) and therefore cannot be directly copy-and-pasted into different settings.

Further, we restricted our analysis to policy fields directly related to older workers' employment rates. Besides the areas covered by us several other areas are related to work package 3 goals. For example,

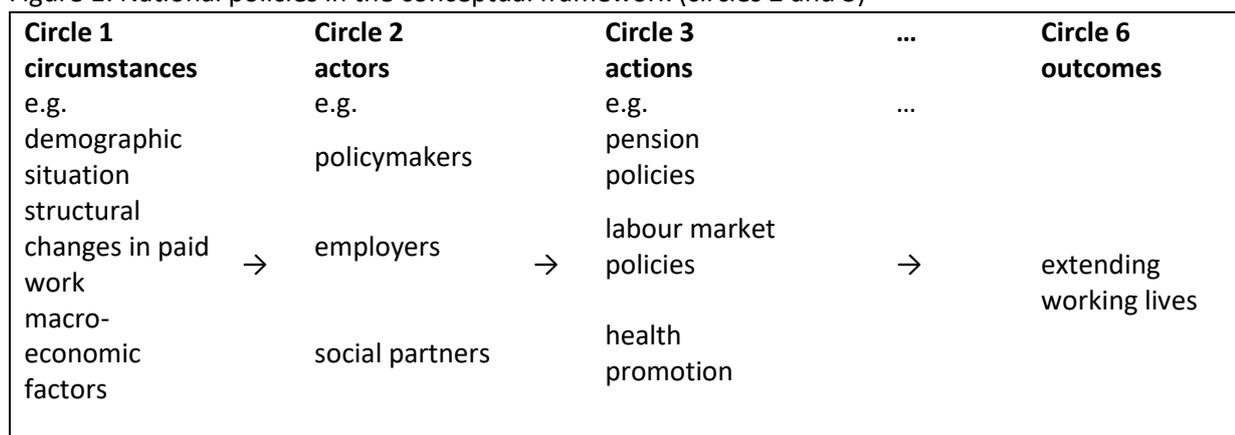
family policies (provision of public childcare, full-time schools) affect parents' (primarily mothers') labour market participation. Especially in the case of women, times outside of paid work due to motherhood reduce the probability of being in paid work later in life. Since the chain of causation of labour market exit is very long<sup>2</sup>, one has to restrict analyses to factors most directly related (also temporarily).

Also tax/contribution policies affect older (primarily female) workers' labour supply. Firstly due to the motherhood effect described above, secondly due to advantages for older single-earner households (this only applies to Germany and partly to Austria and the UK [from 04/2015 on], Buslei/Wrohlich 2014). The latter also applies to free health insurance for spouses (as in Germany). Without this rule, being out of the labour market would be more expensive due to necessary health insurance contributions. Another issue is general health policies. As stated above, early and preventive health measures improve older workers' health when affected cohorts enter the 'older worker' age bracket. Finally, we left out general pro-employment policies, albeit they also affect older workers.

National policy reports are focused on factors that can be relevant for older workers' employment rates. If possible, effects of reforms are shown. In contrast to the comparative part, effect calculations from researchers here are based on micro level analyses. Based on these results, policymakers can estimate which policies are sensible for the goal of higher older worker employment rate.

Work on the policy reports has been based on figure 1 of the conceptual framework (page 10). Figure 1 (below) shortly depicts the chain of causation

Figure 1: National policies in the conceptual framework (circles 2 and 3)



## (5) Key results

For the different policy fields, based on the country reports the following conclusions can be drawn:

### *Pensions*

All countries analysed have reformed their pension schemes and raised their legal retirement ages in recent years<sup>3</sup>. Although Finland could be considered an exception due to its flexible retirement age

<sup>2</sup> As Jensen (2014: 20) based on Danish data states, „risk of early retirement is formed in the kinder garden“ since fathers' educational level and social position are important predictors of early labour market exit.

<sup>3</sup> Related to this, gender differences in retirement ages were or will be abolished in nearly all EU countries, cf. von Nordheim 2014: 44. Generally, in the OECD the gap in legal retirement ages between men and women gets more narrow, cf., D'Addio 2014: 17).

between 63 and 68 instead of the prior retirement age of 65, the accrual rate of 4.5% per working year in this age range could also be interpreted as such: Finland has introduced the retirement age of 68 and introduced deductions of 4.5% for every year of earlier retirement (which is higher than the 3.6% per year in Germany for those who will retire before the age of 67). Some countries (Czech Republic, Germany, the Netherlands, Poland and Spain; the UK for those born until 1978) have risen their legal retirement age in a similar manner, that is, stepwise from 65 to 67, yet increases are faster in some countries and slower in others. Other countries (e.g. Denmark, Italy) will adjust their legal retirement ages to the projected rises in residual life expectancy. Spain and Latvia e.g. have increased the necessary number of working years for normal pensions.

„Early-retirement schemes have been closed down and the access to those still existing has been tightened“ (D’Addio 2014: 23). This squares with our findings:

Additionally and related to higher legal retirement ages, official early retirement routes have been reformed in lots of countries: Minimum ages have been raised (as in Belgium, Italy and Spain), or the minimum number of contribution years has been raised (as in Denmark or Italy), or higher deductions for early retirement have been introduced (as in Latvia and the Czech Republic. Here, financial rewards/punishments for working/not working between 60 and 65 are the second highest in OECD, after Iceland). Finland has abolished early retirement (yet there is the flexible pension age from 63 on. The early retirement period has been only 1 year long since 2005 anyway). In the Netherlands, the switch to funded early retirement schemes increased actuarial fairness and therefore financial disincentives for early retirement. Further, tax advantages for public sector early retirees have been abolished. In Spain, a new calculation takes only the last 15 years into account (since earnings in these years are a little bit lower than lifetime mean earnings, early retirement benefits are lower), yet this will be raised to 25. In Poland, ‚bridging pensions‘ for special groups were abolished.

As can be seen, there is a huge variety of applied policy measures to curb early retirement.

### *Silver work / work after retirement*

Also in the area of paid work for those over the legal retirement age there have been developments. For example, in Belgium, the Czech Republic, Italy and Spain the combination of pensions and wage income was made possible. In the Netherlands this is also possible, combined with the possibility to work until 70 (since 2006). The UK abolished the default retirement age (the retirement age applying if nothing else is decided); this supports workers who wish to work longer. In some countries the black economy allows the parallel receipt of pension benefits and paid work. The Danish scheme allows for 100% higher pensions for 10 years of pension deferral, the Estonian scheme of 0.9% per month (which is 10.8% per year). Although the Estonian bonus is higher than actuarially fair, it is rarely used. Implemented for budget reasons, a Latvian reform in 2009 cut pensions primarily of working pensioners, which resulted in a strong decline in the number of working pensioners (later the constitutional court decided that this was unconstitutional, i.e. the reform had to be abolished).

### *Unemployment*

Whereas in some countries the unemployment scheme can still be used as a de facto early retirement scheme, in some countries there have been reforms. For example, in Denmark the entry preconditions have been changed so that the group of those eligible is smaller. This is accompanied by extensive active

labour market policies. Finland has abolished the 'unemployment pension' in 2014. Although there is still an early unemployment bridge to retirement, all in all Finland partly closed the labour market exit route via unemployment. Similarly, Germany shortened the maximum duration of earnings-related unemployment benefit receipt for older workers, but this duration is still comparatively long. Currently Germany is working on a comprehensive solution of the problem of the (older) long-term unemployed, since this group did benefit only weakly from the general good employment situation. Italy's strategy is more targeted on the labour demand side. Employers are incentivised via reduced social security contributions if they hire unemployed workers with long contribution periods (that is, older unemployed. Something similar has been introduced in Poland). The Netherlands (and Germany) re-introduced job-search requirements for the older unemployment. Further, the obligation to accept any job that may be termed suitable steps in sooner from 2015 on, and the very long duration of earnings-related benefits has been shortened.

#### *Part-time work/part-time pensions*

Belgium introduced a part-time scheme for older workers, whereas it is possible that it did not raise the employment rate but merely reduced the number of hours worked by those employed. In Finland, a part-time work/pension scheme covering half of the earnings loss due to part-time work is supposed to keep workers over 62 out of the disability scheme, whereas also here an analysis shows that it rather is used by those who would work full-time if the scheme would not exist. The Italian programme 'Generational relay', launched in some regional pilot projects, is similar: Older worker switching to part-time (for younger workers) still collect full social security entitlements, whereas the gap is covered by taxes. In Germany, the gradual retirement scheme intended to facilitate a stepwise labour market exit was mainly used in the 'bloc model' instead of the real part-time model and therefore as an early retirement scheme. It has been abolished. In Spain, the partial retirement scheme has been simplified.

#### *Health / Disability*

On the health side, e.g. in the Czech Republic, Poland and Spain there are various programmes intended to foster healthy ageing. This also applies to Italy (new legislation on health and safety).

On the side of the disability route into early labour market exit, e.g. in Germany and the UK entry into disability has been made harder due to a wider definition of suitable work. Further, in Germany the lower number of possible working hours per day needed to be *not* accepted as disabled has been lowered, so that e.g. those able to work for 6 hours daily are no longer considered disabled. Further, there are subsidies for employers creating jobs for previously unemployed disabled persons. Similarly, in the Netherlands access to disability pensions has been restricted. Benefits were reduced in Spain (for those with short contribution periods). In Italy, a new law facilitated part-time work and telework for disabled workers. Also in the UK new programmes support the disabled to work.

#### *Self-employment*

In several countries there are programmes for older workers who want to start their own business, e.g. in Belgium, Germany and Spain for the unemployed, in Poland for women and in the UK an initiative generally supports company founders over 50.

### *Employment protection*

Not many reforms in this area have been found. One example is a Dutch reform which was not targeted on older workers but mainly cut older workers' employment protection (due to their long tenure), which could have raised their employment rate. In Poland, new employment protection for workers in the four years before retirement is intended to protect older workers, but possibly this incentivises employers to dismiss workers before they get this special protection.

### *Wage subsidies*

Wage subsidies in different varieties are widespread, ranging from direct subsidies for older workers as in Belgium (increasing with rising age) to lower social security contributions in Belgium (deductions also rise with rising age) and in Italy and the Netherlands for the hiring of older unemployed workers via lower (NL) or no (IT) social security contributions. This applies also to companies hiring worker in pre-retirement age in Poland or for workers 59+ or previously unemployed workers 45+ in Spain. In the Czech Republic, employers get subsidies for newly hired older workers or new unbureaucratic 'Kurzarbeit' (short-time allowance) to alleviate problems caused by the Russian embargo. In Denmark wage subsidies are not targeted at older workers, but for older workers the subsidy precondition of six months of prior unemployment does not apply. A German programme is directly targeted on newly hired older workers. Also targeted on unemployed workers is a Finnish programme which financially supports unemployed workers who find a part-time job or a full-time job of short duration (they can simultaneously receive unemployment benefits). Further, there is a low-wage subsidy. The Belgian 'Workbonus' is depicted below in the chapter 'Remarkable innovative findings'.

### *Life cycle approaches*

Policies taking older workers' special circumstances into account can e.g. be care policies, since especially older (female) workers have to reconcile paid work and elderly care. Italian policies allow for care leave; this also applies to recent reforms in Germany. Further, e.g. programmes as in Poland (expansion of childcare facilities) can be targeted on parents (and therefore raise especially labour supply of coming female older worker cohorts), but can also directly support grandmothers' labour market participation (they are released from childminding for their employed children, mainly daughters or daughters-in-law).

One of the best known examples is the Dutch Levensloopsregeling (2006) and its successor, the Vitaliteitsregeling (2013). The programmes are about the saving of earnings for periods of non-employment.

### *Anti-age discrimination legislation*

Due to the EU directive, anti-age discrimination legislation is widespread. It is not clear if and to which degree this raises older workers' employment prospects.

### *Other issues*

At first glance informal work can raise labour supply. Yet on the other hand, informal work raises welfare expenses and leads to lower government revenues (if the person would work in the formal economy if

informal work was unavailable). Since this has to be balanced out (if all else remains equal), this raises taxes and social security contributions and therefore reduces labour demand.

Another issue is an Estonian programme founded by the European Social Fund. Labour Inspectorate developed a template for good practice and created a database of best practice which is to be continuously developed. It seems that those dealing with work environment topics (as HR managers) partly use the ideas.

### *Conclusion*

A general conclusion is that in some areas a lot has been done. For example, there has been a general rise in legal retirement ages. Yet, it is debatable if these rises are always steep enough and what happens after the new pension age is fully introduced. Some countries have chosen the innovative solution to link later developments in legal retirement ages to developments in residual life expectancy. Yet possibly this will lead to debates concerning correct and incorrect projections. Other examples of widespread reforms are early retirement schemes, silver work arrangements and unemployment schemes.

Other areas are more difficult. Reforms here have not been as comprehensive as in the areas mentioned above. This applies to health and disability policies. Since health policies are long-term issues, there can be health programmes for workers who are currently older workers, yet basically due to the long-termedness of health programmes (due to long delays between cause and effect), health policies for older workers also consist of health policies for younger workers, .i.e. tomorrow's older workers. Another issue is disability. Here, reforms seem not to be as widespread as in the case of pensions. One problem could be that (as in the case of unemployment) policymakers have to be careful not to overincentivise those affected since this damages basic protection for those who cannot find work despite remarkable efforts and those who cannot do any work for health reasons. In other areas, such as the promotion of self-employment, not many new reforms have been found.

## **(6) Remarkable innovative findings**

In this chapter a selection of remarkable findings, i.e. innovative policies, will be shortly depicted.

In the case of pensions, the most remarkable reform is pension age adjustments based on projections of the development of residual life expectancy (Denmark, Italy). For example in Denmark, adjustments will keep the number of pension years constant, which implies a rather steep rise of the legal retirement age (another possibility is to divide extra years between work and pension, which will occur e.g. in Germany due to the retirement age of 67 instead of 65).

Reforms in early retirement schemes do not contain very innovative elements. Yet, the Czech model of very strong positive effects of work between 60 and 65 on lifetime pension benefits can be highly expedient, possibly if combined with sufficient safety schemes for those who cannot work for one reason or another.

The silver work / work after retirement scheme in the Czech Republic allows for parallel work after retirement and pension receipt, and rises in pension entitlements depend on workers' choice between full and half pension benefits. The Danish scheme for pension deferral with about 100% higher pensions for 10 years of deferral is actuarially fair, so that lifetime pension do not get reduced due to longer working lives. Also the Estonian bonus of 10.8 per year of deferral is noteworthy.

Besides the common instruments to reduce unemployment (lower benefits, short benefits duration, higher job search requirements), Danish early activation already before unemployment is remarkable.

In the case of part-time work / part-time pensions, against the backdrop of unclear or rather negative effects on labour supply, innovative would be a programme that incentivises those who would not work otherwise to work in a part-time job and does not incentivise those in full-time jobs to cut hours.

In Finland and the Netherlands employers have to bear parts of the costs of workers leaving via the disability route. Whereas this can incentivise employers to invest in health programmes and basically in their workers' well-being and motivation (since they also have to pay for workers who are not disabled but leave via the disability route), it is not clear if this incentivises employers to pre-select during the hiring process, that is, to try to avoid applicants with a higher probability of disability.

German support for those starting their own business, especially if unemployed, is comprehensive and contains financial assistance and consulting services. Further, the construction of voluntary unemployment insurance (self-employed are normally not in the unemployment insurance) can give especially founders who were employed some security because in case of failure they can fall back to (high) earnings-related unemployment benefits instead of means-tested (household level) benefits.

Dutch reforms on employment protection cut this protection especially for long-tenure workers. It is possibly that this weakened their bargaining power, which can result in weaker wage increases and therefore higher labour demand. Yet, total effects are unclear.

Amongst the numerous wage subsidy programmes, the Belgian 'Workbonus' is remarkable. This wage subsidy does not depend on total monthly wage but on the wage level that would be reached with a full-time job (calculated based on the hourly wage). Therefore, workers with low hourly wages save social security contributions and workers with high wages cannot get access to the 'Workbonus' via a part-time job. Further, full-time workers with low hourly wages save more than those working part-time. Yet, authors state that the 'Workbonus' fits Belgian circumstances with minimum wages and centralised wage bargaining, so employers cannot reduce gross wages, which would minimise additional incentives for workers and imply that the sole effect would be lower wage costs for employers.

Only a small number of innovative life-cycle approaches could be found. As stated above, the Dutch programmes Levensloopsregeling and Vitaliteitsregeling belong to the best-known examples. One of the most important fields will probably be elderly care. Especially rising female older worker employment rates due to generational replacement will necessitate innovative solutions. Possibly care leave can be part of the solution, but such policies can also reduce the labour market attractiveness of some groups (e.g. companies could be reluctant to hire elderly women since currently this is the group with a high probability of elderly care obligations, and in contrast to motherhood planning is more insecure).

Also in the case of age discrimination legislation no innovative measures have been found. Probably this is caused by the issue.

## **(7) Conclusions and lessons to be learnt**

The policy reports show that in some areas there have been reforms in (nearly) all countries analysed in work package 3, whereas in some areas there is still untapped potential for policy reforms. Further, for reforms in the areas covered in this report it is advisable to pay heed to scientific analyses concerning impact: how strong are net effects on employment rates, do those affected use other early labour market

exit routes, are there deadweight effects, is the cost/benefit ratio sensible, and are there negative results such as poverty etc.? Another basic issue is cross-country transferability. Clearly one has to consider possible interactions between various policies, as well as national labour markets' peculiarities.

MoPAct work package 3 covers various European countries with huge differences concerning their current employment situation. In the case of Southern Europe, it is remarkable that high (youth) unemployment rates have not stopped these countries' efforts to facilitate higher elderly worker employment rates and longer working lives, whereas one might assume that in such situations some societal groups demand that older workers 'free up' jobs for the young. Generally, employment rates 55-64 have risen since the beginning of the crisis (2007 – 2013) in the EU-27 and EU-28. Only some countries had (small) declines, amongst them Greece and Cyprus (bigger decline) and Spain, Portugal, Ireland and Latvia (small declines, cf. von Nordheim 2014: 11). Figures for 2002 – 2013 and the age group 50 – 69 show a similar picture with declines in Portugal (strongest), Greece, Cyprus, Denmark and Sweden (weakest, DK and SE due to cohort effects), with a very strong rise in Germany (but assisted by strong cohort effects responsible for about a quarter of the rise) and strong rises in numerous other European countries (Peschner 2014: 7).

In countries with a good employment situation (e.g. Germany) one has to ask to which degree the rise in older worker employment raise been caused by political reforms and to which degree by macroeconomic circumstances. Besides basic factors such as long-term policy programmes and economic structures (which often change slowly, at least until now), there are also momentarily circumstances, such as the 2008 financial crisis. Here, „one of the most striking features...is the stability of employment of older workers“ (Eurofound 2011: 1), which can also result from economic necessity due to lower pensions or higher costs (Eurofound 2014: 4). Further, „some groups of people aged 50+ have been subject to reduced working hours...“ (Eurofound 2014: 5), which again shows that employment rates do not tell the whole story. Several countries did not return to past early retirement policies „to free up jobs for the young“ but rather continued their path towards policies fostering later retirement<sup>4</sup> (Eurofound 2012: 10).

If the state of the economy is a crucial factor, then – since macroeconomic circumstances can change relatively fast – policymakers should not mistake the current good situation as (a) resulting mainly from policy reforms and (b) as an irreversible success of national policies. That is, neither reform deadlock nor reforms detrimental to the goals of longer working lives and higher employment rates of older workers should be the coming years' solution.

Expert interviews in task 4 will shed some light on „structural drivers and barriers to innovation“ (proposal). Crucial questions concerning policies will be: What can and should be done in the respective country (also, if appropriate, in which sectors), whereas also political feasibility should be taken into account. Combined with the policy reports (task 2) and quantitative secondary analyses (task 3), these expert interviews will be the basis for the policy parts of the innovative scenarios to be built in task 5.

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<sup>4</sup> Another factor in Germany during the 2008/2009 financial crisis has been the prolongation of the ‚Kurzarbeitergeld‘ (short-time allowance) in 2009.

## 2. General comparative findings

Jürgen Bauknecht

### Financial incentives

Based on the literature, Borella and Moscarola (2009: 5) state that retirement behaviour is affected by financial incentives provided by the public pension scheme. For example, Gruber and Wise found an elasticity of labour market withdrawal of 0.41 (cited in D'Addio et al. 2010: 617; with 0.28 the effect is weaker but still strong in the calculation of Blöndal and Scarpetta 1999, cited in D'Addio et al. 2010: 618). Related, Andersen et al. (2007: 107) suggest that labour supply of those with low earnings as well as of the young and the old could "quite a lot" be affected by taxes, social protection and pension schemes. They (2007: 112) find a negative correlation between the tax wedge and the average number of hours worked.

Related to financial incentives is the role of socioeconomic status for retirement decisions. Based on data from 11 European countries, Komp et al. (2010: 45ff.) analyse the effects of wealth, occupational prestige, education and, on the macro level, the share of private pensions in the country, on being in paid work (binary coded) of those between 60 and 70 (data: SHARE 2004, 2005, n = 7 465). Controlled for several other factors (age, health status, children in the household, respondent provides help, marital status and presence of a retired partner), Komp et al (2010: 59ff.) show: Among men, occupational status, wealth and education have positive effects on the probability to be in paid work. Amongst women merely occupational status has significant positive effects. Effects are weak. For example, for men, € 100,000 more in household wealth increase the likelihood to be in paid work by 2%, and 10 years of additional education by 8%. Komp et al. (2010: 64) explain the positive wealth effect somehow with a spurious correlation: They refer to Hakim (2004) stating that those preferring work over leisure and family activities are more likely to accumulate wealth. In this case wealth and paid work in old age are not directly related but both result from preference for work (they also point to the fact that not only could wealth affect paid work but also vice versa, whereas even against the backdrop of seniority pay<sup>5</sup> in several European countries one might argue that the low number of additional working years in old age does not crucially affect wealth, which rather results from lifetime earnings, inheritances etc.).

As expected, a higher share of private pensions in a country weakens the effects of occupational prestige: Below a share of private pensions of 8.5%, occupational status positively affects the probability to work, above this share it negatively affects this (no country in the sample has a share higher than 8.5%). In other words, in countries where private pensions are widespread, men with high occupational status would be less likely than those with low occupational status to be in paid work. Possibly this is caused by the former group's savings in private pensions. Therefore, Beier Sørensen's (2014: 5) suggestion ("do not forget the role of private pensions") should be followed: A higher share of private pension can unburden public finances yet be a problem when it comes to longer working lives (especially since it may be expected that those with private pension entitlements are those with scarce skills).

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<sup>5</sup> Full-time workers 55-64 in the EU-21 earn about 12% more than those 25-54 (Sonnet 2014: 11). Sonnet (2014: 22) suggests that public authorities could give an example by dealigning pay from tenure for public sector workers in order to align labour costs with productivity (see also Turrini 2014: 9). In countries with steep wage-tenure profiles (seniority pay) employers are more reluctant to hire older workers than in other countries (Oude Mulders/Wadensjö 2015: 30).

Further, for men as well as women being married to a retired partner has negative effects on the probability of being in paid work (probability lower 17% for men and 11% for women). This indicates that older people do not compensate for their partner's lower income due to retirement with a higher probability of being in paid work, but rather synchronise their retirement. Assuming that there were no relevant variables omitted in the estimation, this implies that successful efforts to keep people in paid work multiply via their partner's retirement behaviour. This is especially crucial in the current retiree cohort with a high share of married persons. Even though the calculation is controlled for various confounding factors like age, health and wealth (yet not income), being widowed has significant *negative* effects on the probability of being in paid work for both men and women (effects are weaker than in the case of retired partners). This is counterintuitive given that the negative effects of partner's retirement could be interpreted as people stop working in order to spend time with their partner. If this would be the case, widowhood could be expected positively affect the probability to work.

Implicit taxes on working longer, that is, negative sums if additional contributions and taxes are subtracted from additional benefits, are related to a higher share of retirees (Börsch-Supan 2012: 13, stating that although the aggregate correlation does not allow for causal interpretations, supplementary analyses show that there is an effect). Analysing 11 Western countries, Börsch-Supan (2012: 46) found a strong ( $R^2$  .855) correlation between the implicit tax rate on working longer and the share of 60-64 year old males who are retired.

For women Munnell and Jivan (2005) have shown that higher taxes discourage paid work by married older women since being secondary earners in the household their marginal tax rates are higher than those of men (cited in Kim 2009: 525)

Besides financial rewards / punishments for later / earlier retirement, the general pension level is relevant for older workers' labour supply (Riedel/Hofer 2013: 10).

#### *Subjective life expectancy and pension wealth expectations*

Against the backdrop of actuarially fair or fairer retirement schemes, individual workers should consider their individual life expectancy to assess the financial impact of their retirement decision. A simple life cycle model (LCM) would show that the optimal retirement age increases with rising further life expectancy, since the time to reap the benefits from higher pensions due to later retirement is longer (O'Donnell et al. 2008: 3)

Based on Dutch data (n=1621, 50-60 years old, data from 2001 and 2006/2007), van Solinge and Henkens (2009: 1ff.) show that those expecting to live longer expect to retire later (controlled for several other variables). Possibly this explains Komp et al.'s (2010: 59ff.) finding that controlled for several relevant factors widowhood has negative effects on the probability to be in paid work, if widowhood negatively affects subjective life expectancy.

Subjective life expectancy is affected by health and parents' (especially same-sex parent) longevity, whereas neither wealth nor education affected subjective life expectancy (van Solinge/Henkens 2009: 3). Van Solinge and Henkens (2009: 4) state that their results "may encourage governments striving to bring retirement age more in line with life expectancy"<sup>6</sup>. On the one hand, this is true, on the other this again shows that some groups some be reluctant to work longer if their health status does not improve. Yet, as

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<sup>6</sup> Börsch-Supan (2012: 13) points out that in some countries the legal retirement age is not the main determinant of actual retirement age, but the number of previous working years is.

Berry (2010: 13) notes, the study analyses retirement expectations and not actual retirement decisions (plausibly, deviations between both decrease with rising age).

With English data (English Longitudinal Study of Ageing, ELSA) O'Donnell et al. (2008: 1ff.) also show that for men "retirement becomes less likely as expectations about the chances of survival improve" (2008: 13), whereas the effect is slightly concave, so that those who are very pessimistic concerning their survival probability are unlikely to retire. The result for women is similar, yet methods to correct for endogeneity lead to a declining retirement probability with more pessimistic outlooks: "This is not a relationship that would be anticipated from any theory..." (O'Donnell et al. 2008: 18).

## **Employment protection**

Standard economic theory assumes two different effect of employment protection:

- (1) Lower wages, since at the beginning of employment employers shift expected firing costs to the employee (the Lazear model, cf. van der Wiel 2010: 16). In other words, employment protection diminishes the utility employers attach to potential employees which results in lower wages. In this case, neither the price of labour for the company nor the level of employment will be affected.
- (2) Under central wage bargaining the union representing incumbent workers will enforce wages over the competitive level. Hiring and firing will be reduced (van der Weil 2010: 16), as well as labour demand.

Employment protection can be a problem for labour market outsiders: Given that employers are initially ignorant concerning worker's productivity, and given that probation periods are partly too short for supervisors to gain sufficient knowledge about employee productivity (also because some factors like employee behaviour are hard to predict, like absenteeism), employment protection is risky to employers. This is aggravated by the fact that employment protection reduces employers' possibilities to lay off a specific worker if his performance is lower than expected, whereas workers with outstanding performance can leave the company on comparably short notice if they find a different employer who is prepared to pay the appropriate (high) price (wage). In the case of older workers, employer risks are even higher, since absenteeism is not only generally higher among older workers (Frick/Malo 2008: 525 state in their calculation 1 year raises absenteeism by 0.1 days per year, which is small compared to the gender difference of 2 days; women's absence is higher), but differences between workers are higher, also due to the higher prevalence of chronic illnesses amongst older workers.

Since for workers with higher employment protection the probability of job loss in case of detected shirking is smaller, one might expect that employee behaviour changes when employment protection is lost or gained. Based on data from Italian workers, Christini et al. (2012: no page numbers) show that the effect of the loss of job protection (less days missed because of sickness) is stronger than the effect of gaining job protection (more days missed; "gaining a protected job does not imply higher absence"). Under the line, employment protection matters for worker behaviour. This view is supported by Ichino and Riphahn (2001: 1ff.). Their analyses are based on white-collar workers hired in an Italian bank between 1993 and 1995. These workers were on probation for the first three months and later (the observation period is 12 months in total, n = 858) they were protected by Italian law. Absence in the whole period was low. After probation, absence rates were more than twice as high as during probation.

Ichino and Riphahn (2001: 6f.) state that higher absence after probation could result from absenteeism increasing with tenure due to two factors: (1) Supervisors' assessment of individual performance is stronger affected by the respective individual's output in the beginning of the employment relationship.

Later, with supervisors being certain about the respective worker's ability, output matters less. Therefore it is rational to allocate work effort on the beginning of the employment relationship. (2) Individuals are uncertain about social norms in the firm. Fearing job loss, to be on the safe side they overspend their effort. Later, with high information about what is acceptable in the company or to the supervisor, they are able to adjust their effort correctly in terms of utility maximisation, i.e. effort is reduced to be close to the border between acceptable and unacceptable. The inclusion of linear tenure effects to the model shows that probation effects remain largely constant, i.e. probation effects are not hidden tenure effects.

Another possible effect resulting in a wrongly ascertained probation effect is the possibility that absence is deferred to the time after probation. Ichino and Riphahn (2001: 7) state that this kind of deferral "should cause an increase of absenteeism only in the first weeks after probation and not later". As an example, one could think of diseases which are not grave enough to make work impossible but which are getting worse if bed rest is procrastinated. Yet, it can be shown that absence is not higher in the first month after probation than in later months.

Based on these results, the authors (2001: 8) ask what would happen if employment protection for all of the bank's workers would always be like during probation. They argue that a reduction of absenteeism by 55% is surely an overestimation, "the likely effect of cutting back employment protection might still be substantial" (2001: 8, the authors calculate that it would be between 42% and 55%). The authors point out that absenteeism is by far not the sole dimension of employee behaviour possibly affected by employment protection (other forms are "delays at work, misdemeanours, playing computer games or surfing the internet, and overall worker effort", 2001: 11).

Similarly, Frick and Malo (2008: 505ff.) analysed data from 14 European countries (European Survey on Working Conditions, 2000, n = ca. 16 000). They measure voluntary absenteeism and show that higher employment protection for those with open-ended contracts has virtually no net effects on absenteeism, against the backdrop of higher absenteeism of those considering absenteeism a matter of choice. Another factor relevant for absence is the level of the replacement rate, i.e. the percentage of wage paid for sickness days (Frick/Malo 2008: 505f. state that Buzzard and Shaw [1952] have shown the absenteeism is positively correlated to the replacement rate, Frick and Malo 2008: 521 also find positive effects, 14 European countries (European Survey on Working Conditions, 2000, n = ca. 16 000).

Given the size of effects and, Frick and Malo state that

"...the change required to induce a reduction in individual absenteeism by about 2 days would imply to transform the Danish system into the Italian one – something that is clearly beyond the scope of contemporary reforms of national social security systems in Europe. Thus, together with the marginal effect of employment protection legislation being zero, the impact of labor market institutions on worker motivation seems to be less detrimental than is usually assumed" (2008: 527)

While effects of employment protection on absenteeism may deter employers from hiring new workers who will get employment protection soon (due to short probation periods), Ljungqvist and Sargent (2007: 1ff.) state that Europe's high levels of structural unemployment/long-term unemployment from the 1980s on are caused by high employment protection under circumstance of higher economic unpredictability and skill loss. The authors point out that (1) the probability to gain employment sharply declines during unemployment, especially in the case of older workers, and that (2) European long-term unemployment is primarily older worker unemployment. This against the backdrop of a long duration of generous unemployment benefits in Europe. In Ljungqvist and Sargent's model, in tranquil times the European economy's unemployment rate is lower due to lower inflow against the backdrop of similar

unemployment duration. This is caused by higher layoff costs; tranquil times resemble the 1950s and 1960s when European unemployment was lower than American unemployment; frictional unemployment is lower in the European economy. In turbulent times, unemployment is at high levels in the European economy while it is considerably lower in the US economy. The high unemployment rate is caused only by longer unemployment duration (inflow into unemployment is even slightly lower than in tranquil times). As the authors (2007: 11) state, “turbulence creates a substantial group of laid off workers who suffer large instantaneous skill losses and therefore choose high reservation within the region of ‘rising slopes’...”. What is meant here is that “because these workers’ depreciated skill levels are low relative to their recent earnings history, unemployment benefits, based as they are on last earnings, look very attractive relative to their current labor market prospects” (2007: 11). The ‘rising slopes’ show that reservation wages<sup>7</sup> are prohibitively high when last earnings were high and current skills have low labour market value (this applies to both, workers 20-45 and workers 55-60). This is also mirrored in search intensity (Ljungqvist/Sargent 2007: 28ff.). It is apparent that primarily workers 55-60 with high previous earnings and a low level of marketable skills are rather disinclined to look for work, also since the accumulation of new skills seems less attractive due to the relatively short payback period (Ljungqvist/Sargent 2007: 11). This situation is absent in an economy with flat-rate unemployment benefits. Further, for unemployed workers 55 – 60 the probability to find work declines faster than for workers 20 – 45. Therefore, long-term unemployment is higher among older workers, although inflow into unemployment is lower. Declining re-employment chances with ongoing unemployment may have two reasons: (1) with rising unemployment duration, the pool of unemployed persons consists increasingly of persons with low chances to find work (they are more unattractive to employers and/or they are more unwilling to take up work than the whole pool at the beginning of unemployment), or (2) ongoing unemployment reduces a particular worker’s chances to find work (Ljungqvist/Sargent 2007: 14). The authors’ calculations come to the result that in turbulent times the falling probability to re-enter employment almost completely results from (1), whereas in tranquil times it is completely (2), i.e. ageing and skill loss during unemployment combined with declining search intensities and high reservation wages. Ljungqvist and Sargent (2007: 16) therefore provide the explanation for their conclusions which is “the WS [ ] economy with T20 [very high turbulence, author] predicts that long-term unemployment has become a serious problem for older workers” primarily due to factor (1). Lastly, it should be added that the authors concede that their view of increased turbulence “is not universally accepted” (2007: 17). Seemingly this results from the measurement of turbulence, since, e.g. Layard et al. measured turbulence as “proportions of jobs in each industry in adjacent years and then took the changes in each proportion” (2007: 17), whereas Ljungqvist and Sargent (2007: 16) measures turbulence on the micro level.

Strict employment protection is strongly negatively correlated to the employment rate, the hiring rate and less strongly to the five-year retention rate of older workers. Employment protection is (weakly) positively related to the job loss rate (Keese et al. 2006: 64). The French experience with the Delalande contribution obliges employers to pay if they dismiss someone over 50 who subsequently claims unemployment benefits, because those workers go through longer periods of unemployment (exceptions were made for workers who were over 50 when hired or were unemployed for more than three months back then). Keese et al. (2006: 114) refer to an analysis by Behagel et al. (2004) showing that the number of dismissals was reduced marginally at best, and hiring decreased. Besides, possibly labour mobility decreased, since workers lost their protection from the negative incentives for employers, because in the new company they would be over 50 when hired.

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<sup>7</sup> “The lowest wages unemployed people are willing to accept if they are to take a job” (Goul Andersen/Halvorsen 2002:

### *The role of employment protection*

With reference to the McCall search model where all unemployment is frictional, Ljungqvist states that higher employment protection leads to lower frictional unemployment, that is, to lower unemployment. Yet, with higher turbulence, there is an additional structural layer of unemployment, consisting of workers whose bad luck in the initial phase of unemployment discouraged them and led them to low search intensities and high reservation wages. High lay-off costs are part of the reason for discouragement, since the circle of workers is more or less closed. The crucial element is still generous unemployment benefits in the European economies, creating a high-unemployment region in the calculation where high turbulence and high lay-off costs meet in European welfare states (Ljungqvist/Sargent 2007: 23).

Though (especially neo-classical and institutional) economic literature suggests that there is a trade-off between employment security (via employment protection) and flexibility, based on European Community Household Panel data from 14 European countries (1994-2001, 16-65, n = ca. 102 000, males) Muffels and Luijkx (2008: 221ff.) come to other results. The idea of 'flexicurity'

"is that when institutions are properly designed to activate employers and employees to facilitate investments in workers' 'employability', this will also contribute to a high level of mobility raising the worker's productivity and therewith employment security. The other side of the coin is that the lack of investments in 'employability' of workers can lead to a low level of mobility and hence of flexibility. When this is accompanied by a tightly regulated, segmented labour market excluding particular groups, the attained level of employment security is also low reflecting a situation of 'inflexicurity'" (Muffels/Luijkx (2008: 223).

the authors (2008: 223f.) define flexibility as

"the degree to which the labour market is capable of creating opportunities for employers and employees to meet their demands for qualified workers and jobs...creating more opportunities for employers to adapt the workforce to the vicissitudes of the business cycle, and for workers and non-employed people to rapidly get the job they are looking for"

and security as

"remaining in employment but not necessarily in the same job with the same employer". Results across countries show that mobility (occupational mobility and contract mobility) and security are virtually unrelated (2008: 232).

The crucial results of the multiple logistic regressions show positive effects from the Continental regime on transitions from a permanent job to non-work (effects for Anglo-Saxon, Nordic and Southern regimes are similar). Further, transitions from non-work to permanent jobs are most likely in the Anglo-Saxon regime, less likely in the Continental regime and least likely in the Southern regime. Yet transitions to self-employment are most probable in the South, followed by the Anglo-Saxon regime, the Northern regime and the Continental regime, the latter with the lowest probabilities. Transitions from non-work to flexible contracts are most likely in the Northern regime, followed by the Southern and Continental regime and least likely in the Anglo-Saxon regime (Muffels and Luijkx 2008: 235f.). Based on the results showing rather high levels of flexibility and security in Anglo-Saxon and Northern countries, the authors (2008: 238) warn that too much regulation in Continental and Southern Europe and the resulting labour market insider/outsider divide reduces mobility and security.

Arpaia/Mourre (2012: 8) refer to Nickell et al. (2003) who have shown that employment protection shifts the Beveridge curve inwards (lower equilibrium unemployment). On the other hand Arpaia and Mourre (2012: 8ff.) cite Mourre (2006) who has shown that less stringent employment protection raises employment (which is not necessarily the opposite of reducing unemployment against the backdrop of a declining participation rate). In more detail, Arpaia and Mourre (2012: 19) state that effects of strict employment protection on unemployment depend on wage bargaining levels: Effects are negative (company level), positive (industry level) or neutral (country level). The result for industry level (strict employment protection increases unemployment) squares with the finding of Gómez Salvador et al. (2004) who have shown, based on firm level data, that strict employment protection leads to low job creation rates but has no significant effects on the job destruction rate (cited in Arpaia/Mourre 2012: 17). This also applies to macroeconomic shocks. The argument is that certain institutions (such as strict employment protection) prevent wage adjustment, which exacerbates shocks' effects on unemployment rates (Arpaia/Mourre 2012: 17 based Blanchard/Wolfers 2000, Fitoussi et al. 2000 and Bertola et al. 2002). Whereas Bertola and Rogerson (1997, cited in Arpaia/Mourre 2012: 18) state that against the backdrop of stringent job protection legislation in Europe, job creation as well as job destruction are similar in Europe and the US. Arpaia and Mourre (2012. 18) explain this

“this similarity...does not remain unexplained when one looks at the configuration of labour market institutions as a whole. In a model of competitive behaviour on the part of the employers and workers but with mobility decisions costly for workers, the intensity of relocation in labour markets with low firing costs and low wage compression (resulting from highly decentralized wage setting [as in the US; JB]) is similar to that of labour markets with high firing costs and high wage compression (as a result of highly centralized wage setting [as in Europe, JB]). By reducing the wage adjustment at the margin wage compression increases the adjustment of employment, while labour adjustment restrictions dampen job creation and job destruction. Hence, the effect on job flows is ambiguous. The presence of high firing costs may also reinforce the preference for rigid wage regimes (Boeri/Burda 2004). Firing costs are combined with renegotiation costs in their model, further increasing the utility of rigid wages for workers who keep their jobs. Different policies can indeed have offsetting effects on the observed job flows”

Goul Andersen and Jensen (2002: 23ff.) state that employment protection does not affect the unemployment rate yet only the share of long-term unemployment within unemployment.

Workers in temporary contracts have lower absence rates (Christini et al. 2012: no page numbers), which can be interpreted to the effect that secure (or protected) jobs come with moral hazard problems.

Bassanini and Duval (2009: 3, 13) find that employment protection legislation is negatively related to unemployment, yet this result is statistically insignificant on conventional levels (1982-2003, 20 OECD countries). Similarly, Möller (2009: 327) cannot find effects from different levels of employment protection on labour market developments in the 2008/2009 crisis (30 OECD countries).

#### *Employment protection fostering self-employment*

Strict employment protection legislation can be circumvented by ‘false/quasi/dependent self-employment’, especially if self-employment is actively promoted. The advantages can be manifold for both employers and the self-employed (the former employee), yet the newly self-employed loses employment protection and income security. Román et al. (2011: 2) show that across 16 OECD countries (1998) employment protection is positively related to the self-employment rate. Based on data from the European Community Household Panel (EU-15, 1994-2001, age 21-59, n > 150 000, working at least 30

hours per week, no agricultural sector), the authors come to the following conclusions: Strict employment protection legislation for regular and temporary workers fosters transitions to self-employment, especially in combination with higher unemployment ('the recession-push hypothesis' states that employers and employees use self employment to increase flexibility). In contrast, 'true' self-employment is fostered by low unemployment periods and less probably with high employment protection for regular workers and more probable with high employment protection for temporary workers ('prosperity-pull hypothesis'). Further, Román et al. (2011: 9) cite studies from the UK (Böheim/Mühlberger 2006) and Austria (Heineck et al. 2004) showing that older workers have a higher probability of being dependent self-employed. This sheds some light on (older) workers self-employment during high unemployment times.

### **Employment subsidies**

Referring to Martin and Grubb (2001: 33), Paggiaro et al. (2009: 39) state that cross-country comparative empirical evidence shows that employment subsidies can bring along 'significant net employment gains' and prevent workers from leaving the labour market, whereas short duration, targeting and close monitoring are crucial. On the other hand, Rotger and Arendt (2011: no page numbers) emphasise the downsides: (1) there are deadweight effects, i.e. a company gets the subsidy for workers who would have been hired even without the subsidy, (2) crowding out, if a subsidised worker substitutes for a dismissed worker if the dismissal is caused by the hiring of the subsidised worker.

On a more theoretical level, employment subsidies have positive externalities if, for example, they are being paid out for the hiring of a long-term unemployed, which, if his employability is below the unemployed's average productivity, raises the remaining unemployed's average productivity and improve their hiring prospects (Rotger/Arendt 2011: no page numbers, based on Richardson 1998). This is based on typical lemon market approaches to labour markets, implying that due to information asymmetries employers know less than applicants concerning the latter's productivity and therefore employers somehow have to rely on other information to estimate the applicant's productivity (e.g. the average productivity of the unemployed).

Another factor is that active labour market policies increase labour supply, which tendentially depresses wages and therefore raises employment, whereas on the other hand improved employment prospects "reduce the perceived costs of non-employment", which should reduce wage restraint and therefore negatively affect employment (Arpaia/Mourre 2012: 25).

Gómez Salvador et al. (2004) who have shown, based on firm level data, that employment subsidies dampen job creation and job destruction (cited in Arpaia/Mourre 2012: 17).

Arpaia/Mourre (2012: 25) state that hiring subsidies have bad cost/benefit ratios if they are not targeted on a well-defined group of beneficiaries.

If targeted, employment/wage subsidies can be targeted for example at the low wage sector. For the extensive margin, i.e. the number of worker, it is possible that due to the subsidy a company hires more low skill workers and fewer workers from groups which can be substituted by low skill workers (Huttunen et al. 2013: 51). For a Finnish case, Kangasharju (2007: 51ff.) shows that wage subsidies (€ 430 - € 770 per months for 10 months max) for firms employing unemployed workers (with at least 85% working time) increases employment in participating companies. Further, the subsidy does not reduce employment in other companies of the same sector in the same region (the study is based on 31 000 companies between 1995 and 2002).

### *Hiring vouchers*

Brown et al. (2011: 174) list several reasons why hiring vouchers could be better than wage subsidies. First of all, deadweight effects could be smaller, since in all ability groups “the proportion of unemployed workers who would have been hired without the subsidy is clearly smaller than the proportion of all employed workers who would have been retained without the subsidy” (2011: 174). Besides these deadweight effects, employment subsidies have stronger positive effects on wages due to newly hired workers lower labour market power (compared with incumbent workers). Therefore the positive effects on wages should reduce employment subsidies’ positive effects. This should be particularly relevant for Continental Europe where unions care about insider workers (Brown et al. 2011: 174. Brown et al. also refer to Kohaut and Schnabel (2004) and Schnabel (2005) showing that union agreements also affect wages in many companies not covered by collective agreements, so that union coverage rates underestimate agreements’ impact). Brown et al. (2011) refer to Stephan (2010) who shows with German data that hiring subsidies do not significantly affect wages. Brown et al. (2011: 174) also state that deadweight effects are lowest for groups with the lowest hiring rates, such as long-term unemployment and low-ability workers. This suggests that hiring vouchers should be exactly targeted. For the self-financing effects, Brown et al. (2011: 174) state that these groups have the highest replacement rates and are therefore more likely to be self-financing than wage subsidies.

Yet, hiring subsidies come with displacement effects, since these subsidies could motivate companies to substitute existing employees. This happens not necessarily via layoffs, yet the hiring of workers reduces the marginal productivity of each worker, which in turn reduces the difference between the marginal productivity and the wage, so that fewer workers will be hired and more will be fired: “Thus, diminishing returns generate substitutability between workers” (Brown et al. 2011: 176).

After expiration of the hiring subsidy, the human capital of the hired worker is higher than initially, so that the probability of retainment is higher than the original hiring probability without subsidy has been (Brown et al. 2011: 176; the authors also state that two German studies confirm positive effects, firstly the hiring subsidy ‘Eingliederungszuschuss’ and the local lump-sum hiring subsidy of the ‘Hamburger Modell’).

The authors (2011: 176) state that in the long run capital adjusts to the larger workforce with higher human capital, which reduces or eliminates displacement effects.

### **Unemployment insurance**

Generous unemployment benefits are associated with high unemployment (Arpaia/Mourre 2012: 8, Bassanini/Duval 2009. The authors (2012: 8) cite Nickell et al. (2003) who have shown that higher benefit duration and benefit levels increase unemployment. As with employment protection above, generous unemployment benefits can exacerbate macroeconomic shocks’ effects on unemployment, (Arpaia/Mourre 2012: 17, see also Ljungqvist/Sargent 2007 above analysing the interaction of employment protection and unemployment benefits on unemployment levels). On the other hand, Arpaia and Mourre cite Belot and van Ours (2001, 2004) who stated that generous unemployment benefits reduce both employment and unemployment. Since replacement rates and labour taxes are positively correlated, different combinations of both can yield the same effect (from this group of factors) on the unemployment rate (Arpaia/Mourre 2012: 19).

(Higher) unemployment insurance generosity also indirectly affects (lowers) labour demand via (higher) reservation wages (Arpaia/Mourre 2012: 18, stating that effects are stronger in low-tax countries, s.a. van der Horst 2003: 19).

Arpaia and Mourre (2012: 20) point out that institutions' effects on labour market outcomes are unstable over time, e.g. due to increased competition and technological progress (the authors refer to Mortensen/Pissarides 1999). This squares with above-mentioned findings by Ljungqvist/Sargent (2007) who state that Europe's institutions are better suited for tranquil times.

Arpaia and Mourre (2012: 23f.) state that "successful reforms are generally based on the combination of carrot and stick" and propose unemployment benefits that gradually decline or financial incentives for those who take up a job, whereas the whole package of higher taxes/contributions and lower benefits (also e.g. housing benefits) should be considered when designing financial incentives to take up work. The authors (2012: 24) point out that the time profile (subsequently declining benefits) is more important to avoid dependency than the initial benefit level. Search models show that with no/low unemployment benefits risk-averse unemployed workers take on work even though further search would yield a job with higher productivity and higher wage (possibly due to capital market imperfection), so that Arpaia and Mourre (2012: 24) see unemployment benefits as a possible subsidy on workers search for optimal resource allocation; the optimal design would be initially high benefits which decline quickly ("good initial conditions for an efficient job search without unnecessary haste"). Declining benefits could also be crucial due to human capital depreciation (Bassanini/Duval support this empirically by showing that initial replacement rate matters less than replacement rate after 6 or 12 months). Though the idea of high initial unemployment benefits which decline sharply (for workers close to retirement) is supported by García Pérez and Sánchez Martín (2012: 3), they object that "the cost of such a profile would, however, be too high for the unemployment insurance agency. It would prefer soon-to-be-retired unemployed with a flat rate of unemployed benefit, even if this means that they do not seek employment".

As Paggiaro et al. (2009: 39) note, unemployment insurance reduces the probability of re-employment until the time of benefit expiration draws near (when the reservation wages declines, Holmlund 1998: 116). According to Paggiaro et al., employment bonuses for those unemployed who find a job quickly and keep it for some minimum period have partly been successful. Referring to Meyer (1995), Paggiaro et al. (2009: 39) suggest as a possible alternative to this the combination of assistance in job search and pressure to job search.

Since better matches resulting from initially high replacement rates positively affect the tenure of the new job, frictional unemployment is decreased (Furåker 2002: 138). The 'efficiency argument' gains some support from Tzannatos and Roddis (1998: 4f.), but they state that high and long-lasting (Arpaia/Mourre 2012: 24 propose declining benefits) unemployment benefits were sensible under post-war full employment circumstances, yet possibly no longer under current surplus labour conditions. Empirical evidence yields mixed results:

Van Ours and Vodopivec (2006: 3ff.) found no effects from shorter benefit duration in Slovenia on post-unemployment job quality. Neither the rate of fixed-term contracts rose, nor did the duration of new jobs decrease. Since there were no negative effects accompanying the positive effect of shorter unemployment spells, the authors (2006: 5) see the examined policy change as a solution to benefits' inherent moral hazard problems. Yet in some analyses presented by the authors, higher replacement rates led to higher post-unemployment wages, in some analyses there is no significant relationship. In one analysis, benefit generosity positively affects durations of post-unemployment jobs (see van Ours/Vodopivec 2006: 3f. for a comprehensive listing of previous analyses and Tatsiramos 2006: 2ff., whose analysis of eight European countries came to the conclusion that benefit generosity raises unemployment duration as well as subsequent employment duration; 'matching effect', Tatsiramos 2006: 23).

A different view on the interaction of social security and the optimal allocation of labour is advocated by Iversen and Soscike (2001: 875ff.): They state that different education systems affect the portability of

skills: For example, the German system of long vocational training equips its workers with very specific skills, whereas for the US the opposite applies. Therefore, workers Germany and countries with similar education systems have huge problems to quickly get a job where they can sell their skills optimally, that is, if they have to take any job fast, they either do not get the job or grossly misallocate their skills (and earn much less than in their former 'real' profession). In US-like countries neither problems to find any job nor earnings losses due to skill misplacement are considerable. Iversen and Soskice (2001: 889) suspect that different social protection schemes result from citizens interests, which in turn result from these circumstances. They (2001: 888ff.) find a strong correlation (Pearson's  $r = .82$ ) between the number of vocationally trained workers and government transfers as a share of GDP in 20 countries and interpret this cautiously as a confirmation, yet add for consideration that crucial confounding variables may lack. Yet still it is possible that due to path dependence the design of unemployment benefits is no longer suited to today's circumstances. For example, possibly in some countries generous unemployment benefit duration is too long because skilled workers in most cases find a new job faster than anticipated by the system (also due to higher mobility) and those with low skills get lulled into a boiling frog situation. Another view on this issue is that possible post-unemployment wage losses reduce financial incentives provided by re-employment. Here, Giesecke and Kind (2013: 9) refer to a US study showing that even 6 years after job loss, earnings are about 25% lower (firstly the study is old, secondly here it is probable that US-specific circumstances lead to these strong effects). The counterargument is that a new job can compensate for decreasing financial resources which came about during unemployment (Giesecke and Kind 2013: 9).

Arpaia and Mourre (2012: 24, referring to Andersen 2009) point out that evidence shows that monitoring job search efforts in combination with possible financial punishments "can offset the disincentive effects linked to these schemes" and affect the decision to take up work stronger than the benefit level. Yet, the 'efficiency argument' complicates matters: In order to correctly define 'suitable' work and appropriate wage offers, employment agencies need a clear idea concerning the respective person's position on the labour market and to which degree losses of income are unavoidable. For example, (de facto) seniority compensation, accompanied with stagnant or declining productivity can result in wage/productivity gaps which will have to be closed with re-employment.

Older workers are particularly affected by time of high unemployment. Firstly, they are more likely to be laid off than younger workers (due to seniority pay, savings are higher). Secondly, they are more likely than younger workers to neglect job search because their chances are lower and alternative exit are within reach (Kim 2009: 525, the latter argument based on Rones 1983). Another factor is that search intensity is weakened by older workers' shorter potential duration on the next job (Hairault et al 2012).

### **Pension schemes: Defined benefit / defined contribution and Beveridge / Bismarck schemes**

Borella and Moscarola (2009: 22) point out that their research in Italy confirms the common view that a shift "from a generous DB (defined benefit, *author*) system to an NDC (notional defined contribution, *author*) system induces individuals to postpone retirement".

Since in Beveridgean flat-rate pension schemes contributions are mostly interpreted as taxes, they reduce labour supply, whereas in Bismarckian earnings-related schemes, contributions lead to higher later retirements (Börsch-Supan 2012: 7). Nevertheless, a mandatory pay-as-you-go system tends to provide less implicit return than a funded scheme and therefore implicitly taxes labour (Börsch-Supan 2012: 12).

## **Age discrimination legislation**

Besides exposure to ergonomic risks, experience of discrimination, violence, abuse etc. has the strongest effect (negative) on perceived work sustainability (answers to the question if the current job can be done until 60, cf. Anderson 2014: 6).

Age discrimination legislation can be considered a form of Employment Protection Legislation (Heywood/Siebert 2009: 11). Therefore, the authors (2009: 12) expect age discrimination legislation to decrease hiring and cite the US as evidence.

Another critical stance on age discrimination legislation is also taken by Heywood and Siebert (2009: 11): Since older workers are different from younger workers, age discrimination is vital for business. For example, the age of a worker negatively correlates with the length of the payback period for human capital investment, and also affects the influence deferred compensation has on effort. Therefore, the EU directive “had the unenviable task of requiring equal treatment of the unequal, which it attempted to solve via Article 6 which allows differences of treatment on grounds of age, so long as these can be ‘objectively and reasonably justified’, which is lawyer’s paradise” (Heywood/Siebert 2009: 11). Similarly, Ranzijn argued that age discrimination “is not a function of a negative attitude towards older workers, but based on an implicit cost/benefit analysis” (cited in Billet et al. 2011).

As with other forms of legislation, effects of age discrimination legislation could either be (1) direct, i.e. companies refrain from age discrimination behaviour because they fear legal consequences, or (2) indirect, since legislation is supposed to suppose what is normatively correct. Yet, concerning (2) Anxo et al. (2012: 13) state that “there is little evidence of a general positive impact on perceptions towards age”.

Article 21 of the EU Charter of Fundamental Rights rejects discrimination based on age. The Council Directive 2000/78/EC “required member states to make illegal the unequal treatment of individuals in employment, recruiting, and training” (Sinclair et al. 2013: 27).

Writing in 2010, D’Addio et al. (626) state that nearly all OECD countries have anti age discrimination legislation. In EU countries, this kind of legislation is rather new and originates in an EU directive from 2000 to implement this kind of legislation by 2006 (D’Addio et al. 2010: 626). Based on the European Working Conditions Survey, in only half of the countries the share of employees reporting to be age discriminated at work has declined between 1995 and 2005, whereas there is no significant division between countries strongly engaged against age discrimination using legislation and information and those countries that who did not (D’Addio et al. 2010: 626). This could result from the ineffectivity of such actions, yet it could also result from positive effects of such actions on workers’ inclination to feel age discriminated, possibly offsetting the decline in real age discrimination caused by these actions. Further, some of the tools believed to reduce age discrimination “has been strong emphasis on managing age diversity in the workplace to avoid stigmatizing older workers” (D’Addio et al. 2010: 626). Effects of age diversity on age discrimination are far from clear. For example, Kunze et al. (2011: 264ff.) show that higher levels of age diversity on the company level lead to higher levels of perceived age discrimination (based on 128 companies with 10-3333 employees and 8 651 employees in Germany, data from 2008. Age diversity has been measured by the standard deviation).

## **Health promotion**

Křížová et al. (2010: 66) report on the project healthPROelderly (2006-2008) mapping the situation of health promotion for older people (50+) in 11 European countries. The project has been based on 1788 items of literature. 7 of the countries discussed below were part of the project. It is shown that different

countries emphasise different areas of health promotion differently. Italy (and Greece) are focused more strongly on health determinants, whereas in Germany and even more so in the Netherlands individual lifestyle is a more important aspect of health promotion. The Czech Republic is addressing mental health more strongly, and Poland (as well as Austria) empowerment. In the UK and Spain (and Slovakia) emphasis is more mixed between mentioned areas.

Concerning the setting, in Germany (and Austria) the workplace is important, whereas in the Czech Republic people's homes are a more important health surrounding, and in the UK and Italy the community is the more important place (Křížová et al. 2010: 67).

For increases in the legal retirement age, neither life expectancy nor life expectancy at a certain age are crucial, but health life expectancy.

### **Disability**

Based on 20 OECD countries (data from 2007), Braconier (2010: 22) shows that disability benefit recipience rates and disability compensation index are positively related rather strongly (correlation coefficient .65). Although it is possible that in democratic processes groups size (and group homogeneity) affects policies for the respective group, this seems to indicate that generous benefits attract the number of disability benefit recipients. In order to reduce the number of disability benefit recipients, measures to reduce the inflow have proved to be more effective than measures to increase the outflow (Braconier 2010: 22).

### **Self-employment**

"Starting a business is a time-intensive process, and we know that workers increasingly want to enjoy their time as they age" (Contreras et al. 2013: 43 based on OECD/EC 2012).

### **Care obligations: children**

Although van Bavel and de Winter (2013: 1ff.) could show that grand parenting fosters retirement (13%point of female and 4%points of male retirement before 60 could be accounted for by the transition to grandparenthood), they could not find any systematic relationship to the provision of childcare facilities: Plausibly, the effect of grandparenthood of retirement should be stronger in countries with lower childcare coverage rates, which is not the case. Merely retirement is generally later in countries with higher childcare coverage rates, yet possibly this macro relationship is spurious (van Bavel and de Winter's results are based on European Social Survey III data, 2006-2007, 22 countries). There are two possible links, (1) from public provision of childcare facilities to grand parenting and (2) from grand parenting to retirement. Results from Igel and Szydlik (2011: 210ff.) suggest that the first link is valid, i.e. the intensity of grandchild care is strongly negatively correlated to countries' expenditure on child care infrastructure as% of GDP (for the occurrence a counterintuitive positive relationship emerges. It is weak and statistically not significant, whereas the latter fact may be due to the small number of cases, N = 11).

Nevertheless, the finding that higher childcare provisions rates are not related to weaker effects from grand parenting on labour market exit does not necessarily imply that the link is absent in all countries. As van Bavel and de Winter (2013: 12) note, there are economic and cultural factors not included in their study. Further, as the authors note, their study does not address partial retirement, although it is plausible

that grandparents do not have to quit paid work completely in order to support their children who try to combine work and family, but only have to cut their working hours.

### **Care obligations: elderly persons**

Informal care for parents, parents-in-law or stepparents has negative effects on the probability of men and women to be in paid work and on the number of hours worked (Bolin et al. 2007: 1ff. based on SHARE data). The effect was stronger in Central (DE, FR, NL, AT, CH) Europe than in Northern (DK, SE) or Southern (ES, IT, GR) Europe. As Bolin et al. (2007: 20) state, the hypothesis that informal care is exogenous could not be rejected, implying that informal care affects paid work rather than vice versa (which would imply that those who have time anyway care for the elderly).

### **General trends**

Plotting male employment rates 60-64 in the years 2000 and 2010 in OECD countries, Ebbinghaus and Hofäcker (2013: 846) show which countries improved and on which level. There are three main findings:

- (1) Most countries had rising employment rates, and the minority of countries with losses had small losses
- (2) Amongst the countries analysed here, Southern countries (IT, EE) and CEE countries (PL, EE) did not have any gains (LV and LT not in the OECD)
- (3) None of the countries analysed here belongs to the top group. The top group consists of Eastern Asian countries (JP, KR), (mostly) Northern European countries (IS, SE, NO, CH) and others (IL, MX, NZ).

Ebbinghaus and Hofäcker (2013: 855) state that early labour market exit is closely correlated to their index of early retirement possibilities. Their index (2013: 856) consists of legal retirement age, flexible retirement age, special regulations, exit through the unemployment scheme, and exit through the disability scheme. This shows that national (and partly subnational) policies strongly affect labour market exit behaviour. Based on a wider group of workers (women, older workers and low-skilled workers), using the European Commission's LABREF (Labour Market Reforms) database, Arpaia and Mourre (2012: 29ff) come a similar result: Reform efforts to activate these groups at the margin of the labour market have a significantly better development of their total employment rate, in total as well as for men (stronger effects) and women (weaker effects) separately.

### 3. Country Reports

National reports below show what European countries have done in recent years in order to raise older workers' employment rates. Yet, referring for example to the Danish flexicurity model and its weak employment protection, Conen et al. (2012: 22) emphasise that "silver bullet solutions like the abolishment of employment protection are not going to solve all the problems of an ageing labour market...the country specificity of employer behaviour and perceptions seem to be a hardwired element of most labour market studies...good practices are often hard to copy as the tacit mechanisms of labour markets and organisations will be lost in translation".

# 2.1 Belgium

Jürgen Bauknecht | Elisa Martellucci

As a response to the Lisbon strategy, in 2005 Belgium introduced the Intergenerational Solidarity Pact (ISP, 'Pacte de Solidarité entre les Générations'). The three elements are (1) wage subsidies, (2) easy access to working time reduction with wage compensation and (3) a pension bonus (Smith 2014: 2). The programmes are depicted in the relevant chapters. For methodological reasons, only their total effect can be assessed and not effects from the single elements (see end of the chapter on Belgium). The pact may be termed "a turning point in policy formulation moving away from a 'deactivation' strategy to an activation strategy of older workers" (Jousten/Salanauskaite 2015: 62).

2012 OECD data shows that male as well as female effective retirement ages in Belgium are below 60 and therefore low in international comparison (cited after Contreras et al. 2013: 8). In the region, only France and Luxembourg have similar positions, whereas Germany and even more so the Netherlands have values far higher than Belgium. Contreras et al. (2013: 8) cite the trivial but too often neglected fact that the employment rate does not differentiate between full time and part time work. Paying attention to this, especially the difference to the Netherlands is smaller than employment rates suggest (Contreras et al. 2013: 9 show graphs based on Labour Force Survey data 2012).

There is an employment gap between two regions for those 20-64 (figures for 2011, cf. Jousten/Lefebvre 2013: 15):

- For men: Flanders 77.0% and Wallonia 68.7% (difference 8.3%points)
- For women: Flanders 66.4% and Wallonia 55.8% (difference 10.6%points)

yet not for the subgroup 55-64:

- For men: Flanders 46.3% and Wallonia 44.3% (difference 2.0%points)
- For women: Flanders 31.4% and Wallonia 29.9% (difference 1.5%points)

Summarising econometric studies on Belgian retirement behaviour, Jousten and Salanauskaite (2015: 62) conclude that "overall, the studies seem to suggest that the prevailing social security arrangements are largely responsible for the particularly early and high retirement rates among older workers", whereas they state that labour demand could also be a crucial factor, yet literature is limited.

## Pensions

Beginning in 2004, after long deadlock due to conflicting positions of social partners, government began consultations with social partners and initiated a large tripartite conference. Resulting from this, in 2006 the Solidarité entre les generations law and a collective agreement with the same title were implemented, whereas social partners were responsible for detailed regulations. One part of it is pension bonuses for the years worked after the age of 62 or after 44 years of career (Hartlapp/Schmid 2008: 428, Jousten/Lefebvre 2013: 5).

In the private sector, retirement age has been equalised to 65 years between men and women from 2009 onwards (in the public sector it has always been equal, Corsi/Lodovici 2010: 60). At 65 individuals get full

pension benefits (Jousten et al. 2011: 4, s.a. Botti et al. 2011: 4). Though Pacolet's (2012: 2) statement that this reform was very important since with rising female retirement ages "the pension age was increased for half of the population" neglects current different employment rates between men and women, due to generational replacement in future worker cohorts 60-65 the share of women will be higher.

On October 7 2014 the parties who will form the new Belgian government agreed to raise the retirement age from 65 to 66 (2025) to 67 (2030; Daily Mail 2014). With this step Belgium would no longer be rather exceptional in a Western European comparison (Noll/Weick 2013: 13). Politically, raising the retirement age could be difficult: Based on European Social Survey III data (2006-2007) Sweet (2009: 1ff.) calculated the mean ages when someone is considered too old to work 20 hours per week or more: In the case of men, only 4 (FR, SL, RU, UA) out of 22 other countries rank below Belgium (61.5 years), in the case of women only 2 (RU, UA) countries are below Belgium (56 years), whereas this views are not exogenous to the pension scheme, that is, they partly result from the pension scheme and can change due to pension scheme changes.

#### *Pension bonus*

Under certain conditions Belgian workers who work until legal retirement age instead of retiring early get an extra lump sum (Contreras et al. 2013: 35 based on Dekkers 2008). As Smith (2014: 6) writes, those 62 years old and with at least 44 years of contributions receive € 2 per day of full-time work (introduced in 2007). This refers to every full-time working day past this limit and is independent of wages earned or contributions accumulated (Jousten et al. 2011: 5f.). As Jousten et al. (2011: 6) note, relatively seen € 2 are more attractive to lower earners.

#### *Early retirement*

Minimum entry age for the early pension will be raised from 60 to 62 years until 2016 (Pacolet 2012: 3).

#### *Financial retirement incentives*

Using SHARE data, Jousten and Lefebvre show that "marital status and labor market activity of the spouse also have a major influence on retirement behaviour" (2013: 15). The variable "active spouse" decreases the likelihood of retirement. Jousten and Lefebvre (2013: 15) partly trace this back to the "loss of dependent benefits in the PI for two-earner couples as compared to one-earner couples". One-earner couples get a replacement rate of 75% of lifetime earnings and individual claimers only 60% (Jousten/Lefebvre 2013: 5), so that e.g. men's pension benefits decline if the wife still works. Abolishing policies that financially punish older workers' employment via lower pension benefits for their spouse should foster incentives to work for those in such situations. Nevertheless, the leisure effect would still remain, i.e. the fact that someone may prefer retirement if his/her partner is retired in order to enjoy leisure time together.

#### *Career interruption via full-time time credit*

Workers who have worked at least 12 out of the 15 previous months for the same employer can interrupt their career for 1 year or even up to 5 years (depending on collective bargaining agreements in the respective industry). Those on full-time time credit get an allowance from the National Office for Employment. Older workers can use this scheme to bridge some time until they are eligible for other labour market exit benefits (Smith 2014: 6).

## **Work after retirement / silver work**

The 'Solidarité entre les generations' law made it possible to combine pension benefits with wage income (Hartlapp/Schmid 2008: 428). Nevertheless, financial incentives to work beyond the legal retirement age are weak, partly due to earnings ceilings. If income is higher, this negatively affects pension benefits. Further, taxes on pensions are higher if there is an additional income (Contreras et al. 2013: 49).

In January 2013 the Belgian government declared that it supports work during retirement. Upper limits for additional income have been raised. Further, under some conditions workers with at least 42 contribution years have no limit on wages supplementing pension benefits (Contreras et al. 2013: 50).

## **Unemployment**

Under some conditions, companies can dismiss workers over 60 using a company supplement (UCS) representing 50% of the difference between the last wage and unemployment benefits (Contreras et al. 2013: 35). Companies have to substitute the old worker with a new worker coming from full-time unemployment benefits (Jousten et al. 2011: 6, also stating that this rule has been hollowed out over time). Older workers affected have to have at least 35/28 (men/women) contribution years and are exempt from job search obligations. Employers have to pay for at least three years. Entry age can be as low as 58 if social partners agreed on this (Smith 2014: 5); for workers from some sectors (steel, glass, textile) entry age can be even lower. Companies considered to be in economic difficulty or restructuring have not to fulfil the replacement condition (Jousten et al. 2011: 6). All in all,

“there ultimately exists a variety of different regimes with different career requirements, minimum ages, replacement of the worker, etc for different sectors and companies. Though legislation from 1986 as well as the ISP of 2005 tried to harmonize and put constraints onto this situation, numerous exceptions persist with respect to the general rules” (Jousten et al. 2011: 6).

The scheme, introduced in 1973, is also known as conventional early retirement (CER). The minimum contribution years of 35/28 in 2013 result from rises in 2012; the number of contribution years necessary will rise to 40 for men (2015) and women (2024, Jousten et al. 2011: 6; Jousten/Lefebvre 2013: 7. They also state that the scheme is generally relabelled as 'Unemployment with Company Supplement'). Importantly, during the unemployment/early retirement period workers still accrue pension entitlements (Jousten/Lefebvre 2013: 8). Fisher and Keuschnigg (2011: 3ff.) state that pension entitlements for unemployment periods prolong job search and raise unemployment. The fact that the fictive wages used for the calculation of entitlements collected during times of unemployment or disability are equal to those earned before dependency began (Desmet 2007: 47) and not on some lower level (e.g. a common low level for all workers on replacement income programmes) aggravates these work disincentives.

Government made a new regulation so that workers can keep this supplement if they find a new job (Contreras et al. 2013: 35). This should provide a relevant incentive for unemployed workers on UCS.

Further, unemployed between 50 and 57 with very long careers or unemployed over 58 are exempted from job search obligations (Smith 2014: 6). This has changed so that also those with company bonus have to be available for the labour market until 58 (Smith 2014: 7, also Jousten/Lefebvre 2013: 7 state that since 2002 and especially since 2012 requirements have been tightened).

## **Part-time work / part-time pensions**

In 2002 a part-time scheme for older workers has been introduced, which allowed employees to work shorter hours for up to five years without reducing their pension entitlements ('career-break', Graf et al. 2011: 220). From a labour supply perspective, part-time work can be useful if it motivates those to stay in employment that would have otherwise chosen non-employment. Though, one to three years after the career break, the activity rate of those participating is not higher than of comparable workers who did not participate (Graf et al. 2011: 220 based on Devisscher and Sanders 2007: 7-8 referring to a study carried out by OSA/Steunpunt WAV in 2006). Therefore, the programme merely reduced the intensive margin without raising the extensive margin, i.e. reduced labour supply. A government proposal by the Pension Reform Committee 2020-2040 suggests scaling it down (Jousten 2014: 9).

Within the context of ISP an end-of-career time-credit, introduced some years before, has been broadened. Workers over 50 with at least 20 years of career and 3 (before: 5) years of tenure can reduce their working time until retirement and get generous allowances (Smith 2014: 7).

## **Health / disability**

In 2002, the 'Fund for the Promotion of Quality of Working Conditions' was established. The fund grants subsidies to employers taking specific actions to improve the working conditions for employees 55+ (Devisscher/Sanders 2008: 120).

In September 2004 a "Fund for Professional experience" (Fond pour l'expérience professionnelle) has been introduced. Focused on workers 45+, the fund enables employers to preventively estimate employees' workability, for example via an available questionnaire for workers (Botti et al. 2011: 20).

Desmet et al. (2007: 48) state that "disability is not a major route toward early retirement, due to rather stringent qualifying conditions and rather advanced screening".

The disability scheme covers workers who lost at least 66% of their earnings capacity in their usual job for more than one year (Jousten/Lefebvre 2013: 5; before one year those affected are covered by sickness insurance). Disability benefits can be temporarily limited or open-ended, whereas in the latter case there are periodic medical and administrative controls (Jousten/Lefebvre 2013: 5). Periods of disability benefit receipt count as periods of pension contributions calculated with fictive (indexed) wages (based on wages in the year prior to disability), even though no contributions are paid in (Jousten et al. 2011: 3). Benefits are at 65%/40%/53% of reference earnings (with dependents/without dependents/living alone. There is a ceiling).

Based on a longitudinal study Jousten et al. (2011: 7ff.) state that disability benefit receipt and employment rates of the elderly "do not correlate well with mortality and/or health indicators" (2011: 11). Disability insurance participation (calculated as the share of the population in the relevant age group) between 1980 and 2007 remained virtually stable for men 40-59 and decreased for men 60-64 (Jousten et al. 2011: 14f.). The authors explain the decline for the oldest group with the introduction of alternative exit routes, such as the old-age unemployment system (OAU) in 1985 and flexible retirement age without actuarial adjustment factor in 1991. In the case of women, there has been a rise in disability enrolment, which the authors (2011: 14) explain with a general rise of female employment. Clearly, enrolment rose stronger from 1997 onwards and especially for women 60-64. In 1997 there has been an increase in the retirement age.

As Jousten et al. (2011: 21) note, in Belgium (as well as other countries) an increasing share of disability enrolments is caused by mental health problems, which are harder to check than physical health

problems. They conclude that “the increasing role of harder-to-check benefit decisions may well mean that the disability program is serving as an early retirement route”. Further, the authors (2011: 21) suspect that an important number of disabled people uses other labour market exit routes than the disability scheme, implying that “various social insurance programs are getting more and more diverted from their original aims” if unemployed workers exit the labour market via the disability scheme and vice versa.

## **Self-employment**

Belgian unemployed over 50 wanting to set up their own business can sign a contract (‘cooperative d’activité’) with the authority easier than those under 50. This contract unburdens them from some obligations for the unemployed such as accepting job offers, being available for work and registering as unemployed (Contreras et al. 2013: 44).

## **Wage subsidies**

The most important single policy element of the Intergenerational Solidarity Pact was the wage subsidy (Smith 2014: 2). It is paid for all older workers, not only those newly hired, and it is low (50 € for those 50+ and 800 € for those 65+). Since Smith (2014: 2) argues that the effect of the wage subsidy depends on its level and the price elasticity of labour demand, due to a low subsidy level and expected weak labour demand elasticities she expects a weak positive effect on older workers’ employment.

In 2007, government reduced employers’ social security contributions for workers with a salary below € 12 000. The reduction steps in at the age of 50 with € 50 per quarter and rises by € 50 per year until the age of 56. From the age of 57 on, the reduction is at € 50 again plus € 50 for every years worked over that age, which can be combined with employers social security contributions reductions that existed before ISP (Smith 2014: 6f.: The maximum reduction is € 800 € due to € 400 because of the 2007 measure and € 400 because of a 2004 measure).

## **Other Issues**

### *Labour Taxation*

In international comparison, Belgian taxes are rather high. Within the EU, Belgium has the highest taxes on low wages, mainly due to flat-rate contribution rates to social security schemes, which are common in conservative welfare states (Dagsvik et al. 2011: 780ff.). The problem of low-skilled workers are (1) the productivity trap, that is, too low productivity for wages to be paid by the employer, and (2) the poverty trap, i.e. insufficient incentives for paid work (Dagsvik et al. 2011: 780ff. based on Nielsen et al. 2005). The problem was, how can those with low earnings (due to low productivity) be financially motivated to work without giving benefits to those whose earnings are low due to part-time work?

The solution of the ‘Workbonus’ can be considered highly innovative: Reductions on social security contributions were based on hourly wages, or on Full-Time Equivalent earnings. Therefore, those who would earn more than a minimum amount if they had a full-time job (the regulation has been removed since this has been higher than the minimum wage) and less than a certain amount (€ 1 259 in 2006) got the full social security contribution reductions (€ 140 per month in 2006). Above the threshold, reductions get less until they complexly vanish at a full-time equivalent of € 2 000. Since this is not cash benefits but reductions in social security contributions, those working part-time with low hourly wages save less contributions than those working full-time, so that they are motivated to work full-time (Dagsvik et al.

2011: 781ff.): “The Belgian Workbonus...target to low-skilled workers and screen out individuals with a high preference for leisure. At the same time, workers with higher wages cannot reduce their working time to attract the benefit” (Dagsvik et al. 2011: 804). But, as Dagsvik et al. (2011: 804) note, the Workbonus is suited to Belgian circumstances: Due to minimum wages and centralised wage bargaining, employers cannot reduce gross wages for those receiving the Workbonus.

The Workbonus had an effect on those workers near minimum wage but not for those at median wage (Dagsvik et al. 2011: 799).

#### *ISP's total effect*

Smith (2014: 3ff.) uses two methods to estimate the effect of ISP ('Pacte de Solidarité entre les Générations'). The main hypothesis is that in absence of policy changes, GDP development vastly determines employment rates. In order to assess the effect of the three policy elements, the analysis has to stop in the 2<sup>nd</sup> quarter of 2008 since then Belgian anti-crisis policies set in, distorting the effect of the three policy elements.

The method discussed here calculates a counterfactual employment rate based on GDP alone, simulating what had happened without ISP (Smith 2014: 4). This simulation suggests that for those between 50 and 59 actual employment rate is only slightly higher than the employment rate predicted based on GDP alone:

- men: 36.23% vs. 35.71%, i.e. 0.5%points or a 1.46% rise from the predicted value.
- women: 24.20% vs. 23.94%, i.e. 0.26%points or a 1.09% rise from the predicted value.

Smith (2014: 19) concludes that if there is an effect from ISP it is small and statistically insignificant on conventional levels.

There are some endogeneity problems, since not only GDP affects employment but also vice versa, and GDP is affected by ISP when ISP elements incur government spending (Smith 2014: 16, these problems seem to be not decisive. For example, the second relationship is absent).

## 2.2 Czech Republic

Jürgen Bauknecht | Lucie Vidovičová | Veronika Khýrová

Pro-natality measure in the Czech Republic led to high birth rates in the early 1970s (Křížová et al. 2010: 64), so that in this country the strongest cohort will enter the over-60 age bracket later than in numerous other countries (generally, Central and Eastern European countries will age later, cf. von Nordheim 2014: 46). The share of persons over 65 is relatively low, “however, this situation will quickly start to change” (Potůček 2009: 40). Already the number of payers per old-age pensioner is declining (Loužek 2014: 90 based on numbers from 2005-2010). The fact that Czech pensioners receive 95% of their incomes from the state pillar is “unique in the world” (Loužek 2014: 94). This implies that savings achieved by government of a certain percentage imply income losses for pensioners nearly the same percentage, this also means that government’s power to affect retirement decisions via financial incentives is huge. This applies primarily to those retiring in upcoming years, since younger generations will draw their retirement incomes to larger degrees from the third pillar (for exact configuration see Loužek 2014: 95): “All people in their twenties and thirties know that they cannot rely on the pension they will receive one day from the state” (Loužek 2014: 101).

The Czech government (Ministry of Labour and Social Affairs of the Czech Republic) has issued three documents on the National Programme of Preparation for Ageing (2003-2007; 2008 – 2012, and 2013 - 2017). Several strategic priorities and responsibilities for different Ministries as well as other relevant bodies are listed there. The third plan is “in some respects radically different from the previous two” (Vidovičová 2013: 6), mainly in its direct focus on age management and more generally in strive for actual implementation of proposed priorities.

In 2006 the Government Council for Older Persons and Population Ageing was installed by the Ministry of Labour and Social Affairs. The council is composed of representatives of government, NGOs, health insurance companies and other social partners (Křížová et al. 2010: 65f.). Though working group 1 is directly related to longer working lives (‘support of employment, lifelong learning and social security’), other working groups affect factors crucial for longer working lives, such as working group 2 (‘improvement of health and social services for seniors’), 3 (‘awareness raising and anti-discrimination and group 4 (‘housing and residential social services’), cf. Křížová et al. 2010: 65f.).

As Doleželová (2007: 2) notes, legal retirement age has a huge impact on labour force participation of older people in the Czech Republic, since public pension benefits are the sole source of income for most retirees. Real retirement age is quite close to the (low) legal retirement age (Doleželová 2007: 2). She (2007: 7) states that mainly three factors are responsible for early exit from the labour market in the Czech Republic: (1) Older workers lose their jobs and cannot find a new job due to a lack of skills and health problems, (2) social exclusion of older workers or age discrimination and (3) low motivation and the use of alternative exit routes such as unemployment or disability.

### Pensions

A reform in 1996 increased the retirement age to 63 for both men and women, scheduled to be fully implemented in 2016 (men) and 2019 (women) (Schneider 2009: 21). Due to recent reforms, since 2012 the retirement age was at 63 for men and 59-63 for women, depending on their number of children (Doleželová (2007: 2). Another reform increased the retirement age to 65 for men, women with no children and women with one child and to 62-64 for women with more than one child, depending on the

number of children (Holub 2011: 10, Corsi/Lodovici 2010: 61, Šimák 2010: 35, Botti et al. 2011: 5). According to a 2011 reform, the retirement age will be 67 from 2044 onwards and still rising, so that those born in 2012 will have a legal retirement age of 72 years and 10 months. Further, special treatment of mothers will be abolished (Loužek 2014: 94, whereas those born on 2012 will be 72 years old in 2084, so probably until then there will be some more reforms).

Another reform stepwise increases the number of necessary contribution years to receive old-age pension benefits from 25 (2009) to 35 (2019) (Corsi/Lodovici 2010: 61, Šimák 2010: 35, Botti et al. 2011: 5).

In 2011 government lowered pensions slightly (Loužek 2014: 93f: Those with high incomes get higher pension, those with low income are unaffected and the 70% of pensioners in the middle get lower pensions). Calculation of pensions will be raised from currently 30 years to the whole lifetime income (Loužek 2014: 94).

In the 2013 introduced second pillar will be abolished as of January 2016 for lack of interest of the public and strong political opposition. Further changes planned for 2017 onwards may include arrangements for the taxation of labour and pension system to strengthen the merit principle, settlement transfer between the family and society and stopping the gradual increase of retirement age

#### *Early Retirement*

Early retirement has been possible 3 years before the legal retirement age (Schneider 2009: 21). At the same time as the new retirement age is introduced, this time span is increased to 5 years, yet with higher deductions (Holub 2011: 10, Šimák 2010: 35, Botti et al. 2011: 9). Deductions are at 0.9% for each 90 days (i.e. 3.6% per year) for the first two years of early retirement and 1.5% per year for the time over 2 years (Šimák 2010: 35).

As D'Addio et al. (2010: 620) note, the Czech Republic ranked second when it comes to the positive effect of working between 60 and 65 on gross lifetime pension benefits (Rank 1: Iceland). Therefore, the Czech Republic is the sole country (besides the Republic of Korea) where (for average and low earners) pension increase due to longer working lives are higher than contributions and taxes levied on additional earnings (D'Addio et al. 2010: 624) so that the implicit tax on continued work is negative. Yet, for average earners the negative implicit tax is very low and close to the neutral point, so that government more or less neither punishes nor rewards longer working lives (which is nevertheless remarkable given that in most countries government tax/contribution/benefit policies punish those working longer). The result for average earners mirrors the fact that in most OECD countries financial incentives to retire are higher for low earners (D'Addio et al. 2010: 625).

In another figure, D'Addio (2014: 15) shows that the Czech Republic (besides Poland, Chile and Japan and Korea) combines a low level of net pension wealth at age 60 with high gains in pension wealth for working between 60 and 65. Although pension wealth refers to lifetime pension income and therefore on residual life expectancy (which is lower in the Czech Republic and in Poland than in Western Europe which helps these countries to enter this group), this can be a strong financial incentive. Amongst other countries (Portugal, Greece, Turkey, Luxembourg), Italy is located in the opposite corner (high pension wealth at 60 and low gains for working between 60 and 65). Though this is also affected by life expectancy, this seems to be a financial disincentive for longer working lives.

## **Work after retirement /silver work**

Meanwhile, work after retirement and simultaneous pension receipt is possible. The old regulation allowing this for “two years after the origination of the claim to such pension, only at not exceeding the fixed income limit” (Šimák 2010: 34f.) has been abolished. A new regulation stated that in order to combine pension benefits with earnings, the work contract has to be limited to maximally one year but can be extended with an unlimited number of such contracts (‘chaining’; Šimák 2010: 35). After January 2010 it is allowed to work after retirement age and draw pension benefits fully or the half amount, accompanied with an increase of 0.4% of the pension calculation base for every year additional year worked in case of full pension receipt or 1.5% for every six months in case of half pension receipt (i.e. 3% per year) (Šimák 2010: 35, Botti et al. 2011: 12).

The Czech Republic is in the cluster of countries where working retirees are predominantly elementary workers and technicians with employment status (only about one quarter is self-employed), in younger ages, relatively better educated (upper secondary), rather equally distributed among women and men, but over represented in urban areas (Income... 2012: 44, Důchodci... 2011), or very small villages (Vidovičová 2012). According to surveys about one third of work after retirement is informal (“shadow”), without contract and taxation (ibid.). However employers are obliged to have copies of all employees contracts ready available for inspection at the work place. The failure to provide signed contract is punishable by monetary fine.

Working pensioners represent about 5% of all workforce representing an important part of it. In the age group of 65+ the share of working pensioners on all working persons represents 91.3%, in other words, less than 10% of older people continues to work without simultaneously drawing a pension. Around a third works in tertiary sector; part-time work is more often taken by women-retirees (60%) (Důchodci 2011).

## **Unemployment**

The strategic documents “Europe 2020” and follow up national strategy “National programme of reforms in the Czech Republic” lists the issue of unemployment as one of the key priorities. In these documents the goals of increasing employment of 20 to 64 age group to 75%, and age group of 55 to 64 years to 55%, are set. The Employment Act No.435/2004 defines active policy measures to increase the overall employment. The active employment policy measures include tools such as subsidies for up skilling, subsidises for work centres (sheltered workshops), counselling, but also investment incentives for employers, and others. Krejčí (2011) claims that wage subsidies are considered the most effective tools to re-employ older job seekers. Socially useful jobs and community services are two examples where the wage subsidies are used.

Unemployment rate in the Czech Republic increased to 7.7% in January of 2015 from 7.46% in December of 2014, and it represents 556,2 thousands of unemployed persons. Unemployment rate averaged 5.59 percent from 1990 until 2015, reaching an all time high of 9.69 percent in January of 2004 and a record low of 0.09 percent in February of 1990 (for the discussion on the „mirage“ of low unemployment in CR see Gitter and Scheuer 1998).

People aged 55+ are considered a group of increased interest both in the Law on Employment and in other strategic documents, such as National Action Plan for Preparation for Positive Ageing. In 2013 people over the age of 50 represented 27.2% of all registered job seekers, which is an increase from 26.5% in 2012 (Statistická ročenka 2014). Unemployment of the youngest groups (up to age of 25) is on the other hand decreasing (from 18.1% to 16.8% in 2013). The unemployment of older workers is considered a “costly”

problem as it is connected to higher risk of early labour market exit, dependence on social support or invalidity pensions, and higher expenses on unemployment benefits.

Long-term unemployed (unemployed for 12 months or more) represented 39.7% of all registered unemployed. Average duration of unemployment increased from 517 days in 2012 to 563 days in 2013. There are only minor gender disparities (48.5% of job seekers are women), education and region play more diversifying role. Share of unemployed higher than average of the Czech Republic was shown in 37 districts, the highest being in especially, but not solely in North Moravia region (Bruntál (13.6%), Most (12.9%), Ústí nad Labem (12.5%), Karviná (12.2%), Jeseník (12.0%), Znojmo (11.5%) and Chomutov (11.3%)). The lowest share of unemployed was in districts of Praha-východ (3.4%), Mladá Boleslav (4.4%), Praha-západ (4.5%), Benešov and Rychnov nad Kněžnou (both 4.6%) and Rokycany (4.7%) (*Information* 2015). Regional disparities are also reason for various regionally administered support programs, such as “New chance” or short work, i.e. subsidised work places for long term unemployed in rural areas. Employers engaged in those programs are usually municipalities or their organisational branches.<sup>8</sup>

The Czech Republic is one of the countries where older unemployed workers are obliged to actively look for work and are at the same time assisted by employment services and career guidance (Sigg/De-Luigi 2007: 6). Maximum unemployment benefit duration depends on age: Those below 50 receive earnings-related unemployment benefits (with a low ceiling, cf. Baum-Ceisig et al. 2008: 142ff.) for up to 6 months, those between 50 and 55 for up to 9 months and those over 55 for up to 12 months (Potůček 2009: 43). The comparatively fast expiration of eligibility for earnings-related benefits (Bauknecht 2013: 113) should motivate the unemployed to actively look for work. Even the longer periods of 9 or 12 months for older unemployed persons are rather short in international comparison. Also, unemployment benefits are paid only to 21% of registered job-seekers (Statistická ročenka 2014).

### **Part-time work**

Part-time work is rather uncommon in the Czech Republic. There are over 40 working hours per week per person in average and only 5% of all people older than 15 years work on part-time. The average of part-time work in, also amongst the EU in year 2012 was 19, 2% with average of approximately 37 working hours per week per person. (CZSO 2013)

The share of people with part-time working hours grows with age in the Czech Republic, however the share is still significantly below European average. In 2007 less than 10% of older workers participating in the labour market worked part-time (Šímová 2010: 170).

Part time work is strongly divided by gender – majority of those working on part-time are women. Of all women over 60, 47% work part-time, but among men in the same age category it is only 8%. There are various motivations for women over 60 to engage in part time work, such as care of grandchildren, care of ageing parents, health issues and increasing income in pension. (MPSV 2011: 62)

### **Health / disability**

EU membership brought along the implementation of health and social policy aspects as advocated by the European Commission (EC) and other organisations, e.g. the Healthy Ageing project funded by the Public Health Programme of the EC. The national project was called ActiveAge (Křížová et al. 2010: 65).

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<sup>8</sup> Source: Dobrá spolupráce v regionu nese ovoce. Ministry of Labour and Social Affairs. [http://www.mpsv.cz/files/clanky/20354/TZ\\_170215a.pdf](http://www.mpsv.cz/files/clanky/20354/TZ_170215a.pdf)

The Czech project 'Delicious Life' (2003-2005) focused on older people's nutrition and offered cooking and tasting sessions, but also advice on physical exercise (Křížová et al. 2010: 68 and healthproelderly.com 2014). Further projects, such as 'Dance Therapy' and 'Reminiscence Therapy' focused on mental health and physical exercise (Křížová et al. 2010: 68).

As found out in the healthPROelderly project (2006-2008), in a European comparison Czech health promotion is more strongly focused on individual's lifestyle, mental health, social participation and quality of life (Křížová et al. 2010: 67).

Czech disability pension has been changed from full disability pension and partial disability pension to one disability pension at three different levels (Šimák 2010: 36).

As of April 1, 2013, all employers were required to comply with the provisions of Act No. 373/2011 Coll., on Specific Healthcare Services, as amended, in ensuring occupational healthcare for their employees (formerly "occupational preventative healthcare" (Global Human Resources Law 2014: <http://www.globalhrlaw.com/resources/czech-republic-changes-to-employment-regulations-in-2013-and-outlook-for-2014>)

### **Self-employment**

There is no other country in the European Union in which small businesses have such an influence on the economy as in the Czech Republic. Companies that employ between one and nine staff make up more than 95% of all companies in the Czech Republic and they are the biggest employer, employing more than a third of all employees. However, the self-employed may in the future become a sizeable group dependent on social benefits because the minimum social security contributions that they pay entitle them only to a basic state pension which will be insufficient to cover their needs in old age. (Vlach et al., 2013) In the Czech Republic (as in numerous other countries), the majority of the self-employed disregards the official retirement age and intends to work as long as they can or can live from their self-employment income (Vidovičová 2013: 18).

### **Employment protection**

According the OECD indicators on Employment Protection Legislation 2013 the Czech Republic is above OECD unweighted average in Protection of permanent workers against individual and collective dismissals and Protection of permanent workers against (individual) dismissal indicators; around the average at Specific requirements for collective dismissal indicator and considerably below the average in Regulation on temporary forms of employment meaning less restriction than in OECD average. (Source: [www.oecd.org/els/emp/EPL-data2013.xlsx](http://www.oecd.org/els/emp/EPL-data2013.xlsx)).

### **Wage subsidies**

Currently, in the Czech Republic, wage subsidies are part of many programs funded by European Social Fund for support of employment and inclusion of older workers at the labour market. These subsidies are usually in a form of refund for a wage or certain part of wage of newly employed senior worker during the run of such program. This increases interest of employers in participating in such programs as it significantly lowers initial costs of creating new work positions for older workers or implementing elderly workers into current company structures. Another form is "kurtzarbeit", introduced firstly in response to

consequences of Russia export embargo, now being more widely and easily (with less bureaucracy) available.

### **Age discrimination legislation**

Czech law introduced in 2009 bans discrimination based on age (Doleželová 2007: 4, Křížová et al. 2010: 66). This Anti-discrimination Law (198/2009) states that an employee who has been discriminated against or whose rights to equal treatment have been harmed is entitled to demand that the employer desist, provide rectification of the consequences and provide appropriate satisfaction. If an employee's dignity or reputation at the workplace is substantially harmed, he/she may claim monetary compensation. The amount of monetary compensation depends on the court's consideration. There is no limit of compensation for discrimination. However, law cases for age discrimination at the workplace are rare. Concerning age discrimination, a Central and Eastern European peculiarity seems to be that the change of 1989/1990 aggravated the problem (Křížová et al. 2010: 66). As of today, in the Czech Republic the issue of age discrimination is perceived as one the most problematic in comparison with other EU states (Eurobarometer 393/2012).

### **Other Issues**

#### *Further reform suggestions*

Based on Nekolová (2007), Doleželová (2007: 7) demands stronger motivation and activation for the older unemployed. Further, based on Czesná et al. (2006) she (2007: 8) demands tax breaks for companies and employees, training vouchers and paid/unpaid days off for workers for further training etc. Further possibilities mentioned are an improved health care system and the possibility for older workers to turn down night shifts or physically burdensome work and more holiday days (Doleželová 2007: 8 based on Kotrusová 2007). Some of these measures would make older workers less attractive for employers (e.g. older workers have already more sickness days, with more holidays the gap in work attendance to younger workers would even widen. Further, if older workers can turn down night shifts and physically hard work, work scheduling can become more complicated, and the employer/sector could become less attractive to younger workers since this implies that they would have more night shifts and physically hard work).

Additionally, Doleželová (2007: 8) suggests to allow for a gradual exit from the labour market (due to the possibility to combine wages and pension benefits) or the possibility to work part-time without negative effects on pension entitlements (based on Šlapák and Kotrusová 2007, also Šímová 2010: 187 proposes this). Based on the good effects from pension deductions for those retiring early, based on Šlapák (2007) Doleželová (2007: 8) suggests that positive incentives such as low taxes and social security contributions could also reduce early retirement. Another possibility is working time flexibility, which would allow workers to combine work with increased levels of leisure (Šímová 2010: 187 proposes this, based on a survey from 2005-2007 showing that preference for leisure is quite a significant reason for the wish to stop working). The same is true for care responsibilities for both older persons and grandchildren.

Although on the other hand Doleželová proposes reforms which would make older workers less attractive to employers (the possibility to turn down night shifts and/or physically hard work, or longer holidays, above) Doleželová (2007: 8, based on Baštýř) proposes that employers should have stronger incentives to employ older workers. Ideas proposed are tax instruments (lower taxes and social contributions, wage subsidies, job creation), whereas she also states that this would be positive discrimination.

Further, Doleželová (2007: 8) suggests image campaigns against workplace age discrimination. Higher incentives for employers could be crucial. Based on a survey conducted between 2005 and 2007 Šímová (2010: 180) states that

“the key reason for the low rate of employment among older people in the Czech Republic is probably a lack of interest on the part of employers. There is a predominant conviction in society that employers show no interest in people having reached pre-retirement or retirement age, even though many of these people are motivated to continue working after this time”.

## 2.3 Denmark

Jürgen Bauknecht | Mikkel Barslund

Danish flexicurity policies are based on (1) flexible labour markets (weak employment protection), (2) generous unemployment compensation, and (3) a strong emphasis on activation policies (Viebrock/Clasen 2009: 313). All three elements are depicted below in the relevant chapters.

The employment rate of older workers in Denmark (55-64 year olds) increased from 53 to 61 percent, with most of the increase due to a higher female employment rate (Barslund 2014). The number of early retirees has fallen over the last 15 years, with the take-up rate going from 72% to 52% between 2000 and 2013 (Jensen 2014: 12). Reforms, such as the one enacted in 1999 reducing benefits the first 2 years for most employees, may have induced this, although the effects are disputed (Barslund 2014, Jensen 2014).

### Pensions

In 1999 the government lowered the retirement age from 67 to 65; the first cohort to retire at 65 was the cohort turning 65 in 2004. The 2006 'welfare reform' (Velfærdsreformen) and subsequent modification hereof in 2011 saw the official retirement age increase from 65 to 67 during the period 2019-2022. From 2025 onwards, depending on life expectancy further changes of the minimum age eligibility for pensions and early retirement benefits (see below) are possible (Barslund 2014, OECD 2006: 69).

The Danish three pillar pension system interacts in complex ways with the individual retirement decision. The first pillar consists of public pensions – old age pension from the age of 65 (subsequently 67 and rising in line with life expectancy). A part of first pillar pensions is means tested with respect to other income, including pension income from labour market and private pension savings. Since 2004 old age pension has been deferrable (conditional on a minimum number of hours worked per year) with the deferred amount fully compensated (given average expected lifetime) in the remaining period of retirement (see below 'silver work').

The second pillar is the Danish labour market pension system which by now covers the vast majority of employees. Pension contributions are mandatory if the workplace is covered by a collective agreement between an employee and employers' organization. Contribution rates vary but are substantial and most often of the order of more than 10% of gross earnings (Arnberg and Barslund, 2012). Mandatory labour market pension schemes are either pension by instalments or annuity pension schemes. For most employment groups the labour market pension system dates back to the early 1990s where it was rolled out beginning with much smaller contribution rates. This means that for those who have only started to pay into a labour market pension scheme late in the career, or have had long periods of absence from the labour market, the effective tax rate on further pension savings can be very high due to the means testing of first pillar schemes (DØRS, 2008; 2013). This lowers the economic incentive to work beyond a given age.

The third pillar is the voluntary private pension savings system. As with labour market pension schemes these are tax-deductible and with deferred taxation. Investment returns are also taxed favourably relative to other returns to savings. For most future pensioners labour market pensions will be their main income during retirement with first pillar public pensions also playing a prominent role.

## Early retirement

The most important pathway to retirement has for the last 20 years been the early retirement scheme (see below) for all employment groups except for people with a tertiary education. Before 1999 the requirements for entering the early retirement scheme were low and the rather low amount of co-financing was part of the public unemployment insurance scheme. In principle eligibility rested on reaching age 60 and having contributed to the public unemployment insurance scheme for the last 20 out of 25 years (thus no formal working requirement). There was a limited financial incentive for postponing entry into early retirement until turning 63 years old. Benefits are as high as in the unemployment scheme (Madsen 2011: 4).

The number of necessary years of contribution has been increased to 30 years and with contributions starting no later than at the age of 30 (Madsen 2012: 3; this is relevant only for the new early retirement age of 62 starting from 2017 onwards, with the old age early retirement age of 60 everyone who is 60 and has 30 contribution years has to have started with 30 at the latest).

Due to the low benefit ceiling, higher pre-early retirement incomes lead to low replacement rates (since the maximum benefit is low, for high earners the pre-early retirement benefit cover only a comparatively low percentage of their prior income). Especially since 1990 the scheme is much more popular than originally anticipated and used often by women or low earners. Those claiming efterløøn the first time when they are 62 get higher benefits. Due to a recent reform those who are eligible for efterløøn but do not claim it until 65 get a tax-free premium of about € 20 000 (Madsen 2012: 5, Barslund 2014).

As Madsen (2012: 2) notes, amongst OECD countries Danish employment rate 55-59 is the second highest, but for those aged 60 the Danish rank is worse, partly due to the Voluntary Early Retirement Pay (VERP) system (particularly used by women) (see also Barslund 2014). Beginning from 2014 the early retirement age increases gradually from 60 to 62 over a four year period until 2017. From 2018 to 2023 the number of years early retirement benefit can be received will decrease from 5 to 3 years, such that the earliest age at which it is possible to retire and receive Government support is 64 (with the general retirement age being 67). Going forward both the retirement age and the earliest age of entry into early retirement will be indexed to life expectancy. Further means testing has also been built into the voluntary early retirement scheme, making it a less attractive option the more an individual has built up labour market and/or voluntary private pension savings (Barslund 2014).

Due to recent reforms, VERP can be combined with work up to nearly 30 hours a week, whereas this comes with VERP deductions (Madsen 2012: 5). Evaluating recent reforms, based on development in employment rates 60-64 Larsen and Pedersen (2012: 12ff.) conclude that especially the possibility to combine efterløøn with work has been successful.

The 2011 reforms “have diminished considerably the importance of the voluntary early retirement scheme for future cohorts”; the scheme will be negligible in 2040 (Barslund 2014: 4f.).

## Work after retirement / silver work

The recent reform encourages silver work. The pension increase for working after retirement age is calculated with the further expected longevity at retirement age and the number of months of later pension receipt. If pension receipt is deferred by the maximum number of years (10), pension increase is nearly at 100% (Amilon/Nielsen 2010: 192, this can be termed “calculated on an actuarial basis”, Madsen 2012: 5). In other words, pension is deferrable and the deferred amount is fully compensated with averaged expected lifetime (Barslund 2014: 5). Yet as is always the case with pension deferral, the bonus

for working longer is high enough only for those whose further life expectancy is not below average. Therefore, at least the pension scheme does not financially fully incentivise those who suspect their individual life expectancy to be low to fully compensate for death-induced pension loss (whereas the low losses in Denmark due to the high pension increases for additional working years can, in combination with incentives provided by the difference between earnings and the pension level, result in financial incentives to continue to work past legal retirement age even for those who suspect to have a life expectancy below average).

The condition to delay official retirement is work of at least 1000 hours a year (in the beginning it has been 1500 hours, yet this is near the Danish average and has been suspected of discouraging potential silver workers from deferring the pension, Amilon/Nielsen 2010: 192). In order to further motivate workers above the legal retirement age, means-testing of supplementary old age pension against earnings from work has been reduced (Larsen/Pedersen 2012: 11), i.e. working/earning is punished less with reduced social security benefits. Beginning in 2000, the share of men and women (for the latter on a lower level) 65-74 with earnings more than DKK 25 000 (3 350 €) rose constantly, primarily in 2008/2009 during the financial crisis (Larsen/Pedersen 2012: 17f.).

Workers who continue to work after the official retirement age do not have to defer their pension. If pension deferral is advantageous depends on individual earnings. If they are low, pension receipt does not have to be deferred. With a high income deferral is for free, since the respective person would receive no public pension anyway (Amilon/Nielsen 2010: 193). As may be expected, individual life expectancy is the crucial factor determining if pension deferral is economically advantageous, with workers who will live only for a couple of years being better off without pension deferral, while those who will live long can benefit from pension deferral (Amilon/Nielsen 2010: 193). Given the correlation between life expectancy and socio-economic status, one might expect that the deferral option raises high-skilled labour supply to a much higher degree than low-skilled labour supply. Empirically, it is shown that those with high education and high incomes are strongly overrepresented amongst those deferring their pension (Amilon/Nielsen 2010: 195).

As Amilon and Nielsen (2010: 196f.) argue, it is far from certain that labour supply declines with a reform lowering the pension age from 67 to 65 and introducing the possibility to defer pension receipt with pension bonuses. They argue that 77% of Danes born between 1937 and 1941 were on early retirement or social disability pension one year before they reached the legal retirement age anyway, and that pension deferral should be attractive particularly to those who do not belong to groups dropping out of the labour force before reaching 65. Quasi-experimentally comparing the last birth cohort not being able to defer pension receipt with the first being able to (June and July 1939), Amilon and Nielsen (2010: 199f.) show that the reform has raised the number of hours worked. When asked, the main reason for continuing work are 'enjoyed working' (43% of respondents marked this as most important reason), followed by 4 financial reasons with a combined value of 46% (2010: 202). Therefore, and against the backdrop of possible social desirability effects, the first rank of 'enjoying work' should be taken with a grain of salt, yet it should still be kept in mind that it is not financial incentives alone (see also Barslund, 2013 for a further discussion of this).

## **Unemployment benefits**

Danish unemployment benefits are potentially high (up to 90% of previous earnings, Madsen 2011: 3) and long-lasting, which belongs to the 'security' part of flexicurity (Kahn 2010: 7).

Against the backdrop of the crisis, in 2010 government implemented reforms in order to motivate the unemployed to increase job search efforts. Possible unemployment benefit receipt has been changed

from 4 years out of the last 6 to 2 years out of the last 3. Further, in order to receive benefits one has to have worked for at least 1 year in the last 3 years, whereas to receive benefits *again*, half a 0.5 year was enough. This has been raised to 1 year (Madsen 2011: 4).

As Rother and Arendt (2011: no page numbers) state, “the use of active labour-market programmes is extensive in Denmark compared to most countries”. Amongst 28 countries analysed by OECD (2013, data from 2011), with 2.3% of GDP Denmark had by far the highest public expenditure on active labour market policies (OECD mean 0.6%, Belgium ranks second with 1.6%, OECD 2013).

Municipalities are legally obliged to offer special ‘senior jobs’ to unemployed persons between 55 and 59 who have exhausted their unemployment benefit and are entitled to Voluntary Early Retirement Pay when they are 60. Further, the public employment service has to offer “early activation” for those unemployed aged 60 or older (Madsen 2012: 2). The job is on normal terms and obligatory. However, it does not have to respond to the level of qualification of the unemployed being offered the senior job. In order to get one of these ‘senior jobs’, one has to be entitled for early retirement benefits, which in turn presupposes 30 contribution years, so that the number of people entitled to these jobs declines.

Further, insured unemployed over 60 have the right and duty for activation within the first 6 months of unemployment, in contrast to 9 months in the case of those aged 30 and older (Madsen 2012: 6).

Special ‘soft’ rules for the older unemployment concerning their obligations to take part in Active Labour Market Policy programmes have been abolished recently (Madsen 2012: 3). As Madsen (2012: 6) notes, the age-independent treatment of the unemployed mirrors “a general feature of Danish labour market policy”. Further, in 2009 the time span after which newly unemployed have to put their CV online so that potential employers can find potential new employees has been shortened from one month to 3 weeks (Madsen 2010: 7, doubting that there are significant effects since the central database is rarely used by companies for recruitment). Additionally, since 2010 job centres have to help those likely to become unemployed to write an action plan on what has to be done to get re-employed; before, this has only applied to those already unemployed (Madsen 2010: 7). This is a very proactive feature. Generally, in the Northern European re-employment happens quickly: Amongst 21 European countries the 4 Northern European countries had the lowest share of long-term unemployed amongst their unemployed (Bauknecht 2013: 283 based on OECD data from 2008).

Early on, the Ministry of Employment introduced local and regional networks of unemployed older workers, which are called ‘senior network’ (Madsen 2012: 6). Groups of unemployed over 50 years old get financial assistance from the National Labour Market Authority so that they can create networks and “develop new areas of employment” (Madsen 2012: 6). As of 2012, roughly 25 such networks existed (Madsen 2012: 6).

### **Part-time work / part-time pensions**

Part-time employment constitutes around 20 percent of total employment among 55 to 64 year olds. This is somewhat lower than in 1992 but has been roughly constant since 2002. There are clear gender differences; one in three women work part-time whereas this is the case for only 10 percent of men. For the 65 to 74 year olds more than half of the employed are working part time (Eurostat, Barslund 2014). There is no statistics available on the share working while they receive pension or VERP benefits.

## **Health / disability**

In contrast to the pro-employment policies in the pension and unemployment scheme, access to disability has been in principle made easier for elderly people, in order to help those who cannot get VERP because of the reforms. The 'senior disability pension' can be received by those who have been employed for at least 20-25 years and are less than 5 years below official retirement age (Madsen 2012: 4). Though the criteria for qualifying are the same as for 'normal' disability pension, since the applicant has not to undergo the standard workability tests, the senior disability scheme "has therefore been described as a 'fast-track' to disability pension" (Madsen 2012: 4).

Amongst those between 60 and 65, health differences between those working and early retirees are marginal (Barslund 2014: 11f.). As Barslund (2014: 12) notes, this does not necessarily imply that health status is irrelevant for early retirement decisions, since, for example, someone may enter early retirement because of work-induced bad health and then health improves. Or, contrastingly, someone enters early retirement for non-health reasons and subsequently health deteriorates (see General Chapter for the effect of retirement on health). The first effect may explain why one in six early retirees leaves the labour market for health reasons (Barslund 2014: 12 based on Larsen et al. 2011) although health differences between both groups are marginal. The fact that the number of workers dropping out of the labour force due to bad health is lower when labour demand is higher shows that health interacts with other factors in determining early retirement (Barslund 2014: 12). Nevertheless, the fact that even in times of high labour demand workers enter early retirement for health reasons shows that bad health as a factor pushing workers out of the labour market and as an area where improvements can raise older workers labour supply is not as irrelevant in Denmark as the comparison of health status between those working and early retirees suggests.

## **Disability pension**

Those who lost working capacity can claim flat-rate førtidspension. Like efterløøn, replacement rates are generous for those with previously low incomes, yet (being flat-rate benefits) low for those with higher previous incomes (van Oorschot/Jensen 2009: 273). In the past, for those over 50 entitlements also depended on their labour market chances, which made førtidspension a de facto early retirement scheme. This has been abolished in 2003 (van Oorschot/Jensen 2009: 273).

## **Self-employment**

Self-employment becomes increasingly important as a share of total employment when looking across age group active on the labour market. Where 10 percent of employed individuals in the age group 50-59 are self-employed this increase to 14 percent for the 60 to 64 year olds and further to around 30 percent for the 65 to 74 year olds (Barslund 2014). On the other hand senior entrepreneurship is not particularly prevalent in Denmark, which has a relatively low ratio of older to prime age people involved in start-up activities (OECD/Commission, 2012).

## **Employment protection**

Danish employment protection is very weak. Anxo et al. (2012: 5, based on Jensen and Madsen 2011) point out that in some parts of the labour market manual workers "can be fired from hour to the next or from one day to another". According to Kahn (2010: 5), Danish employment protection is the weakest in

Continental Europe, but not as weak as in English-speaking countries. Weak employment protection may be one reason for the low share of long-term unemployment in Denmark (Goul Andersen and Jensen 2002: 23ff. state that employment protection increases the share of long-term unemployed).

### **Wage subsidies**

The Danish Wage Subsidy Scheme is strongly monitored and can “impede the substitution of ordinary employees in advance of the subsidies hiring” but does not “establish specific mechanisms to prevent displacement along the subsidised contract, which might give some employers incentives to replace ordinary jobs by cheaper subsidies ones” (Rotger/Arendt 2011: no page numbers).

Local authorities can give wage subsidies of about 50% of the minimum wage for the hiring of long-term unemployed. These subsidies can last for one year, but mostly half a year is agreed on. In 2006, the ‘Act on an Active Employment Effort’ put in place the new requirement that in order to receive the wage subsidy, a company’s normal number of employees has to increase with the hiring of the subsidised person (Rotger/Arendt 2011: no page numbers). The authors state that this rules out substitution but also reductions of employment before the subsidies worker gets hired. The ‘normal’ number is the average of the three months preceding subsidised work and the same three months in the previous year (substitution of a subsidised worker or another non-regular employee with a subsidised worker is possible). The maximum number of subsidised workers depends on company size (the ‘Reasonableness’ condition): 1 subsidised worker for companies with 1-5 employees, 1 for every 5 employees in the case of companies between 6 and 50 employees (that is, between 1 and 10 subsidised workers) and 1 for every 10 employees in the case of companies with more than 50 employees (Rotger/Arendt 2011: no page numbers). The authors analysed the programme’s effects: The wage subsidy *decreased* hiring by small private firms by 0.016 employee one month after treatment; “there is no deadweight loss in the sense that subsidised firms would not have hired an individual on ordinary terms in absence of the subsidy”.

The cumulative effect rises in subsequent months, resulting in a total positive effect of 0.71 after 7 months. Combined with the separation effect of 0.47 after 7 months this results in net job creation of 0.26 jobs per subsidies firm (Rotger/Arendt 2010: 23, data from 2006 covering the whole of Denmark).

Workers aged 50 and above are exempt from the condition that a person can only enter wage subsidised employment after a period of 6 months unemployment. Presently, wage subsidised jobs play a minor role for older workers with only around 3,000 employed in the first quarter of 2014 (Barslund, 2014). Quantitatively more important are the so-called ‘flexible jobs’ (‘fleksjob’) which offer a wage subsidy to companies hiring individuals with permanently reduced workability. Labour contract can be both part and full time and the company is compensated in relation to the reduced workability (see Barslund, 2014). In Q1 of 2014 around 30,000 people aged 50 and above were employed in a flexible job. Accessibility to flexible job arrangements is subject to screening for permanently reduced workability.

Here, seemingly the solution to give employers the highest incentive for hiring the least attractive group has been chosen.

In 2008 a ‘Job Scheme’ has been introduced. It included an allowance of ca. € 4 000 per year for pensioners and reduced employment requirement for postponed retirement, tax reductions for workers at 64 who have worked full-time from 60 to 64 with an annual income of less than € 76 000 (Botti et al. 2011: 18)

## **Employability policies**

In 2007, more employability policy competences have been transferred to local authorities (Lindsay/Mailand 2009: 1043 state this happened as a bait in order to gain local authorities' acceptance of a fundamental reform of regional and local structures leading to larger municipalities).

## **Age discrimination legislation**

Although for the year 2000 OECD reported that Denmark has the lowest age discrimination prevalence amongst European OECD countries, the 2012 Eurobarometer survey has shown that 26% of Danish workers were discriminated against because of their age or witnessed such incidents, in contrast to the European average of 20% (Barslund 2014: 10f.). Such comparisons have various shortcomings, amongst them (1) difference age structures if the whole population is asked instead of a certain age group and (2) a higher liability in some societies to feel discriminated against.

Related to silver work, age discrimination legislation has been expanded from the upper limit of 65 to 70 (Madsen 2012: 3).

## **Other issues**

### *Campaigns*

As Jensen (2014: 14) notes, between 1999 and 2008 there were "state organised campaigns" arguing that longer working lives are win-win situations, since

- (a) seniors gain since older workers are "not excluded or subject to economic, social and political marginalisation"
- (b) companies gain since it is good for business.

These campaigns were "rooted in social gerontology and American diversity management ideology" (Jensen 2014: 14). This was supported by EU anti-discrimination legislation and by subsidies to age management consultants. Jensen argues that this supported a "new late-exit-culture" and asks if this was more important than changed incentives.

## 2.4 Finland

### Jürgen Bauknecht

Between 1998 and 2012, labour force participation of those 50-54 rose only slightly (from 84/85% to 87%), of those 55-59 it rose stronger (60% to nearly 80%) and very strong for those 60-64 (20% to 45%). There are merely small gender differences, with women's rate being slightly higher for those 50-54 and 55-59 and men's rate being slightly higher for those 60-64 (Finnish Labour Review 2/2013). The gap in retirement age (now at about 62 for both men and women) is the smallest in the EU (von Werder/Thum based on Vidlund and Kivelä 2012).

The main rise in employment rates happened before 2005. OECD (cited in von Werder/Thum 2013: 17) states that good economic framework conditions partly account for the rise, but not too much, since the rise has been stronger amongst older workers than in other age groups.

One goal of the 2005 reform (consisting of various measures, not just the new flexible retirement age) has been to increase the average retirement age by 2-3 years (Tuominen 2013: 9). Tuominen (2013: 10) states that the reforms had the anticipated impact, with the expected effective retirement age rising by nearly two years between 2000 and 2011, whereas also the author states that factors relating to work and working conditions are also crucial, as well as economic developments and employment outlooks. Related to this, between 2006 and 2010, i.e. in the post-reform years, the number of workers retiring before at 59 or 60 has sharply declined (Tuominen 2013: 12, albeit from a low level).

### Pensions

Already before the 2005 pension reform, retirement age and employment rate increased quickly. Yet this started from a low level (Jokinen 2012: 4) and is partly explained by a rising number of part-time pension workers (Ilmakunnas/Ilmakunnas 2006: 6).

The reform (approved by Parliament in 2000) linked the development of the benefit level to the projected development of life expectancy (residual life expectancy at 62, s.a. Takala et al. 2015: 2). This could lead to significant declines in benefit levels, and it is up to the individual if this gap is filled with additional working years or private savings or if less wealth in old age is chosen, whereas politically the reform has been presented that working longer is the option (Börsch-Supan 2005: 22).

Finland changed its system of a retirement age of 65 with early retirement between 60 and 64 to a flexible retirement age (between 63 and 68) with an early retirement option at 62 (Börsch-Supan 2005: 23). Although the new system is 'flexible', financial incentives for working longer have been increased: In the old system, the accrual rate was 1.5% per year until the age of 59 and the 2.5% until 65. In the new system it is 1.5% until 52 (the low rate ends very soon now), and 1.9% from 53 to 62 and then 4.5% from 63 to 68 (s.a. Takala et al. 2015: 2). The sharply increasing accrual rate "creates an incentive to work longer" (Börsch-Supan 2005: 23f.); also Tuominen (2013: 9) describes this rise as 'strong': A survey shows that most employees working beyond 63 were motivated by the increase, yet on the other hand one third stated that this had not been significant, Tuominen 2013: 21f.). After 68, the adjustment is at 4.8% per year, which is less than in the past (when it started at 65. It was at 7.2%). Though the system is 'flexible' it strongly incentivises workers to work for several years after the age of 63. As Börsch-Supan (2005: 38) writes (next page):

“The introduction of a ‘window of retirement’ between the ages of 62 and 68 is a smart move because it avoids the politically highly controversial increase in the normal retirement age. Giving individuals a choice is politically appealing and diffuses many issues”,

whereas on the other hand he (2005: 39) states that the drawback is the unclear message to the population what can be considered the ‘normal’ retirement age. Although there is the flexible retirement age between 63 and 68, nevertheless Virtanen et al. (2014: 2) refer to cases where the pensionable age is higher, for example at 64. In these cases retirement at 63 is possible with small pension deductions (Tuominen 2013: 12 refers to public sector workers whose individual retirement age is above 63).

Despite the accrual rates, the reform increased the number of people already retired at 64, so that the low retirement entry age after the reform pushed some workers from early retirement to early regular retirement (von Werder/Thum 2013: 22): “Few Finns still retire in the very early 60s and take advantage of the monetary benefits to stay in work” (22f., Takala et al. 2015: 2 state that half of retirees retire at 63). Also Braconier (2010: 23) states that the 2005 reform reduced the number of people still working at 65, but he (2010: 24) also refers to Hakola and Määttä (2009) stating that increasing the entry age into retirement from 63 to 65 would achieve little due to alternative exit routes like the unemployment pipeline and the disability scheme. In contrast to the dismal view of the 2005 reform’s effects, Jokinen (2012: 4) states that after the reform the increase in retirement age continued (e.g. between 2005 and 2011 the expected effective retirement age for 50 year-olds increased from 61.1 to 62.4) and will continue. Although Jokinen (2012: 4) states ‘after’ the reform, not ‘due to’ the reform, he (2014: 5) also states that in Finland

“the most important measure might appear to be the flexible and encouraging pension system, which has produced positive short-term results in Finland, where the reform has been a clear success and has been regarded positively among all stakeholders”.

Jokinen also (2014: 4) emphasises the general employment situation, higher education amongst the new old and better working conditions as relevant factors.

In 2009 the Prime Minister proposed the increase from 63 to 65, yet without prior talks with social partners. After criticism and strike threats the proposal was withdrawn in favour of a joint statement of the Prime Minister and trade unions to extend working lives by three years until 2025 (Kautto 2012: 17). The new government coming into office in 2011 stated it will not raise the retirement age but raise labour supply at various life phases (‘beginning, middle, end’, cf. Kautto 2012: 17).

In 2014 the labour market organisations agreed on the increase of the retirement entry age from 63 to 65 for those born after 1955 and the upper limit will be at 70. The increase will be in steps of 3 months per year (Takala et al. 2015: 3). Further, accrual will be 1.5% in all years between 17 and 65. If government agrees, this will come into being in 2017 (Akava 2014, s.a. Takala et al. and Gould et al. 2015: 74). Not all unions have signed the agreement. For example, Akava (‘a trade union confederation of affiliates for highly educated people’, [www.akava.fi/en](http://www.akava.fi/en)) did not sign the agreement since they consider incentives to work longer before the age of 65 too weak.

In the transition period between 2005 and 2011, benefits were calculated with the new and the old system and the higher benefit was taken (Kyyrä 2010a: 8).

As Natali and Stamati (2013: 56) write, Finnish government will work on a broad reform in 2017. The new government will be elected in 2015 (Kautto 2012: 18).

### *Who accepts the new flexible retirement age?*

Based on a survey (2011) covering 1894 workplaces and which had a high (81%) response rate, Tuominen (2013: 13) shows employers' and employees' attitudes towards the new retirement ages. Somewhat surprisingly, the view that the lower age limit of 63 is too high is more widespread amongst employers (21%) than amongst employees (3%). As Tuominen (2013: 15) notes, this view is most strongly supported in the private sectors and in physical work fields (construction, hotels and restaurants) and in some public sector areas (health care, social services). Therefore, one may conclude that employers consider 63 too high mainly in physically or mentally demanding areas.

The idea to raise the age limit of 63 gains only weak support, whereas unsurprisingly support is strongest amongst employers who need to raise their number of employees (Tuominen 2013: 16).

Also the share of employers (66%) considering the maximum age of 68 too high is higher than the share of employees (44%) holding this view. In the case of the age limit of 68 years, Tuominen (2013: 15) states that although the number of employers considering 68 too high is high (66%), the number declined between 2004 and 2011. Further, the number of employers stating that employees can work until 65 or 68 has risen (from 50% to 58% and from 21% to 26% respectively, Tuominen 2013: 18).

Importantly, 78% of employees who used the flexible retirement age between 63 and 68 state that they had been freely able to choose their retirement age, only 17% said this had not been the case (Tuominen 2013: 16). Given that it is at least conceivable that employers use some 'internal rule' determining their workers' retirement age, this is a very positive result and a positive finding concerning Finnish employees' older worker policies. Further, this was more freedom of choice than older private sector employees expected in 2003 (Tuominen 2013: 16). Another positive finding is that both employers and employees give nearly congruent answers to the question on who decided: 83% of employers and 78% of employees stated that the employee decided, 12% of employers and 15% of employees state both decided, and only 2% of employers and 7% of employees stated it was the employer's decision. Yet, if an employee wants to work past the age of 63, the decision is mostly collective (67% of employers state this) or the employee's decision (26, no figures on what employees state). Employers mainly decided based on labour needs, but if employers want to reduce their workforce they are less interested in employees' participation in the decision (Tuominen 2013: 17).

These results give valuable insights into the mechanisms of the flexible retirement age and who decides if decisions become necessary if there is not default retirement age. Although figures suggest that it is mainly employee's decision to work longer, this could partly depend on labour demand. Yet still, at least figures from 2011 show that amongst retired persons 79% state that their employer would have accepted a longer working career, but most of these retirees (71% percentage points) would not have wanted to work longer. Only a small minority (11%) state that they would have liked to work longer and their employer would not have accepted this. As Tuominen (2013: 18) notes: "it is important to establish the reasons lying behind the incapacity or unwillingness [...]". The result is that work and working conditions have been important (primarily amongst those retiring at or under 63), leisure time and hobby have been important, health somewhat less (and considerably less amongst those who retired at 66-69), and the family situation (less important than health, Tuominen 2013: 19). Open questions led to various workplace factors advancing the decision to retire early, such as time pressure at work, task changes, inflexible working times, poor administration and poor atmosphere at work. One (possibly often neglected) factor had been lack of support for continuing work: "Had they been asked to continue at work, they would have done so" (Tuominen 2013: 20). More than half of open answers were work-related and less than 10% were health-related (Tuominen 2013: 20), showing that also amongst pre-retirement workers working conditions can extend working lives.

### *Maximum benefit level*

Prior the 2005 reform, the earnings-related pension could not be higher than 60% of the highest pensionable wage during working life: “This mechanism created a major disincentive to work once this cap was reached since further work could not increase retirement benefits” (Börsch-Supan 2005: 24). In contrast, working longer did not increase the pension level but reduced the number of years in retirement (Börsch-Supan 2005: 24). Now there is no cap on the replacement rate any more. Before, pensions could not exceed 60% of the highest wage (Ilmakunnas/Ilmakunnas 2006: 7). As Börsch-Supan’s simulation analysis shows, the abolishment of the cap provides strong incentives to work longer than until 63.

### *Pension indexation*

“Moreover, the working-age index (i.e., the index with which earnings are converted from nominal Euro into real Euro to form the basis for the wage base of the benefit computation) has also been changed for those who work and are under age 65. In the old system, their earnings were indexed by a 50-50 mixture of wage and cost-of-living increased. The new system changes this index to a 80-20 mixture and therefore makes it much closer to pure wage indexation. While this increases the incentive to work longer, the change of the working-age index makes the new system costlier than the old one” (Börsch-Supan 2005: 26).

If wages rise faster than cost-of-living, pension rises according to wage rises lead to higher pensions and therefore stronger incentives to work longer (bonuses and deductions for working longer or shorter have a higher value).

### **Early retirement**

Early retirement has been very short after the 2005 reform (12 months, between 62 and 63). ‘Actuarial adjustment’ amounts to a benefit reduction of 0.6% per month or 7.2% per year, and retirement before the age of 62 is no longer possible (Börsch-Supan 2005: 24). Early retirement at 62 will be abolished in 2014 (Natali/Stamati 2013: 55). In 2014 labour market organisations agreed on a ‘retirement at 63’ scheme for those in physically or mentally burdensome jobs who have worked for at least 38 years. As with the pension age increases from 63 to 65, this will come into effect in 2017 if government agrees.

In some cases the legal retirement age can be lower than 63, this is based on occupation (e.g. for firefighters) and job entry year (Virtanen et al. 2014: 2). Tuominen (2013: 12) also refers to public sector workers being able to retire before 63, yet the author also points out that the number of persons eligible for retirement before 63 declines and will approach zero due to the abolishment of individual retirement ages.

### **Work after retirement / silver work**

The share of those 65-74 employed has tripled in the 2000s and is now at about 10% (Takala et al. 2015: 1).

For each month of postponed retirement after the age of 68, there is a pension increase of 0.4% (Ilmakunnas/Ilmakunnas 2006: 7). Since this is 4.8% per year compared to 4.5% between 63 and 68, the accrual rate rises again. Further, there is no cap on additional earnings for those receiving pensions, and

this raises pensions by 1.5% per year instead of the 4.5 for those postponing the receipt of retirement benefits (Ilmakunnas/Ilmakunnas 2006: 7).

## Unemployment

Whereas the number of unemployed persons considerably declined from the 1993/1994 peak of >16% to >6% in 2009 and rising again to about 8% afterwards primarily due to a rise amongst males (Finnish Labour Review 2013: chart appendix 8ff., the number of unemployed persons 50-64 peaked in 1997 and remained on this level. Jokinen (2012: 4) states that structural unemployment amongst older workers is a problem (in 2013 70% of the unemployed 55+ were unemployed since at least one year, i.e. long-term unemployed according to ILO definition, Takala et al. 2015: 2).

One factor is that older workers are overrepresented amongst those losing their job. This is exceptional, since in other countries older worker unemployment is more a problem of low re-hiring chances. Takala et al. (2015: 2) state that high older worker unemployment is also caused by their low educational status.

The normal unemployment scheme consists of unemployment allowance (basic provision), earnings-related unemployment benefits and labour market support (Kyyrä/Ollikainen 2008: 2051).

Those born in 1950 or later cannot enter 'unemployment pension' (i.e. completely abolished in 2014, cf. Kautto 2012: 8). Yet those who are 59 or older when their unemployment benefits expire can receive unemployment benefits until retirement, so that there still has been left an 'unemployment tunnel' to retirement pensions. Since benefits expire after 500 working days (about two years), the 'unemployment tunnel' starts at 57 (Börsch-Supan 24f.). For those who want to or have to retire early, the 57-unemployment option is highly attractive (Börsch-Supan 2005: 41). In the publication by Kyyrä/Ollikainen (2008: 2069) the age threshold is two years lower (although the publication is newer): Those who are 57 before benefits expire (i.e. those becoming unemployed at 55 or older) can collect unemployment insurance benefits until 60 and then enter unemployment pension, so that the 'unemployment tunnel' can be 10 years. Kyyrä and Ollikainen (2008: 2069) conclude from their calculations that

Most people of extended benefits do not return to work until retirement (Kyyrä 2010a: 6). About one half does not look for a job until retirement (Kyyrä/Ollikainen 2008). As Braconier (2010: 11) remarks, the combination of generous replacement rates with weak activation (e.g. in contrast to Denmark) "is unusual among OECD countries". Referral to an active labour market programme after 100 weeks is late compared to Sweden (60 weeks) and Denmark (40 weeks; cf. Braconier 2010: 13). The gap between (high) official older worker unemployment figures and (low) Labor Force Survey unemployment shows that "many individuals receive unemployment benefits but do not consider themselves job seekers" (Braconier 2010: 20). Yet, the higher age threshold for the unemployment pipeline (57 instead of 55) in 2005 resulted in a large drop in the number of long-term unemployed in the 55-59 age bracket after 2005 (from ca. 25 000 to ca. 10 000 in 2009), whereas in the lower age groups (50-54) numbers declined merely slightly and in the higher age group (60-64) numbers rose slightly (Braconier 2010: 21).

Further, those in the eligibility age bracket are targeted by private sector employers for dismissals (Kyyrä 2010a: 6 based on Kyyrä/Wilke 2007).

An increase in the age threshold for extended unemployment benefits postponed unemployment entry and raised employment exit age by 1.3 months. Further increases will further increase the age threshold (Kyyrä 2010a: 33). Kyyrä (2010a: 33) expects stronger effects because in higher age unemployment risk is higher and exit via disability is harder due to stricter medical screening.

All in all, reforms have shortened the possible time in pre-pension unemployment from 12 years (53-65) in the early 1990s to 6 years, and the lower pension age of 63 reduced it even to 4 years (Kautto 2012: 14).

Also the long unemployment benefits are expected to be part of a reform in 2017 (Natali/Stamati 2013: 56).

### **Part-time work / part-time pensions**

Workers above a certain age working part-time can get part-time pension, which covers half of the gap between full-time and part-time wages. The certain age is 62 years since the 2005 reform according to von Werder and Thum (2013: 22) and at 60 or 61 for those born after 1954 according to Takala et al. (2015: 3). Earnings have to be at 35-70% of prior earnings (Takala et al. 2015: 3).

Part-time pension is supposed to keep older workers with low work capacity or low work motivation in the labour market and out of the disability scheme (Kyyrä 2010a: 7). Kyyrä's (2010a: 33) differences-in-differences analysis shows that part-time pensions attracts those who would otherwise have worked full-time, without having effects on unemployment or disability enrolment. Therefore Kyyrä (2010: 33) expects a two-year increase of the eligibility age to affect the intensive margin rather the extensive margin. Also Ilmakunnas (2006: 1) criticised the part-time pension as "an example of a system with high subsidy for this extra leisure time".

Also this early labour market exit route has been made less attractive. For those born after 1946 the accrual rate has been decreased, and the eligibility has been increased from 56 to 58 (s.a. Jokinen 2014: 6. Yet, decreases in this age are not that far ago, from 60 to 58 in 1994 and to 56 in 1998, Ilmakunnas 2006: 5). Part-time earnings contribute to pension accrual similar to full-time earnings, and "the difference between full-time and part-time wage also enjoys pension accrual" (Börsch-Supan 2005: 25). Whereas in the old system this provided incentives for early retirement, "since this difference enjoyed an accrual rate of 1.5 percent p.a. independent of age" (Börsch-Supan 2005: 25), which has been reduced to 0.75%. Further, the accrual rates of part-time work have been adjusted to those for normal pensions (Börsch-Supan 2005: 25; see 'pensions' at the beginning).

Beginning in 2005, the traditionally high share of part-time employment amongst the elderly declined (von Werder/Thum 2013: 19).

### **Health / disability ('individual early retirement')**

In contrast to the *ordinary disability pension*, access to *individual early retirement pension* has an age threshold. The lower age limit has been raised from 55 to 58 in 1994 and to 60 in 2000. In 2004 the system has been abolished for those born after 1943, whereas for those over 60 eligibility criteria were a little bit relaxed (Korkeamäki/Kyyrä 2012: 446).

Disability is the main early retirement exit route in Finland (Korkeamäki/Kyyrä 2012: 439), whereas Takala et al. (2015: 2) state that the number of retirees retiring into disability pension has been declining (possibly also due to the fact that since 2005 those at least 63 old do not have access to disability pension since they can enter 'normal' retirement, Takala et al. 2015: 3). The authors refer to Saurama (2004) who shows that bad health is disability pensioners' main reason for retirement, yet also straining work is a crucial factor. Medical examination is conducted by a doctor chosen by the applicant and not a special insurance

doctor, which “makes it more likely that non-medical criteria are taken into consideration” (Braconier 2010: 22).

The ‘individual early retirement scheme’ has been abolished for those born after 1943. Further, ‘social factors’ (i.e. non-medical factors) after 60 are taken into account stronger for the grant of disability benefits (Börsch-Supan 2005: 26). Korkeamäki and Kyyrä (2012: 461) find out that the inclusion of non-medical factors raises the number of disability benefit recipients (they also refer to Börsch-Supan 2007 who has concluded this). The authors (2012: 467f.) conclude that eligibility criteria should be strict, and that non-medical factors distort labour supply, so that those not disabled retire via the disability scheme (employers did not encourage disability exit during downsizing). This is supported by the finding of Braconier (2010: 22) that in Finland regional unemployment and disability are positively correlated.

Calculating the effects of Finnish pension reforms, Kyyrä (2010a: 32) states that the abolishment of individual early retirement has been the most effective for longer working lives (increase of retirement age by 3.4 months).

Comparable to the Dutch case, in Finland employers have to bear part of the disability pension costs, which can lead to high costs until retirement, especially for companies with at least 50 employees (Korkeamäki/Kyyrä 2012: 447). This employer contribution should incentivize employers to take preventive measure (the ex ante effect) or to get disabled employees back into work (the ex post effect). Korkeamäki and Kyyrä (2012: 467f.) state that seemingly both effects can be observed and remark that this could be interesting for other countries (they concede that e.g. spillover effects to other exits than disability are not clear yet, and possibly this affects hiring decisions).

In 2007, part-time sick leave has been abolished. Register data shows that this reform (as well as the 2005 pension reform) has increased older workers’ employment rate (Takala et al. and Gould et al. 2015: 74).

There is also temporary disability pension. If disability lasts less than one year (workability restored due to rehabilitation and medical treatment), the affected person does not enter disability pension but the pension provider covers this short period (Laaksonen/Gould 2014). As the authors note, after 1 year mostly temporary disability continues but before 2 years have passed a final decision between work and disability pension is met (in the case of mental disorders the decision takes longer than with physical sicknesses). For those 55-62 the rate of return to work is at only 15% (Takala et al. 2015: 7).

In 2007 partial sick leave has been introduced to support return to work after long (>2 months) absence. Since 2012 due to new legislation employers have to report to occupational health if a workers total number of sickness days is at 30 days, and at 90 days the worker has to provide a certificate to social insurance of a health specialist in which a plan of return to work is described. Success is limited for the time being (Takala et al. 2015: 7).

### **Employment protection**

Against the backdrop of the low number of workers over 65, Braconier (2010: 25) proposes to weaken employment protection over 65 (the new minimum retirement age in his proposal) in order to incentivise employers to hire workers at 65 (who could be considered a productivity risk by employers).

## Wage subsidies

### *Partial unemployment benefits*

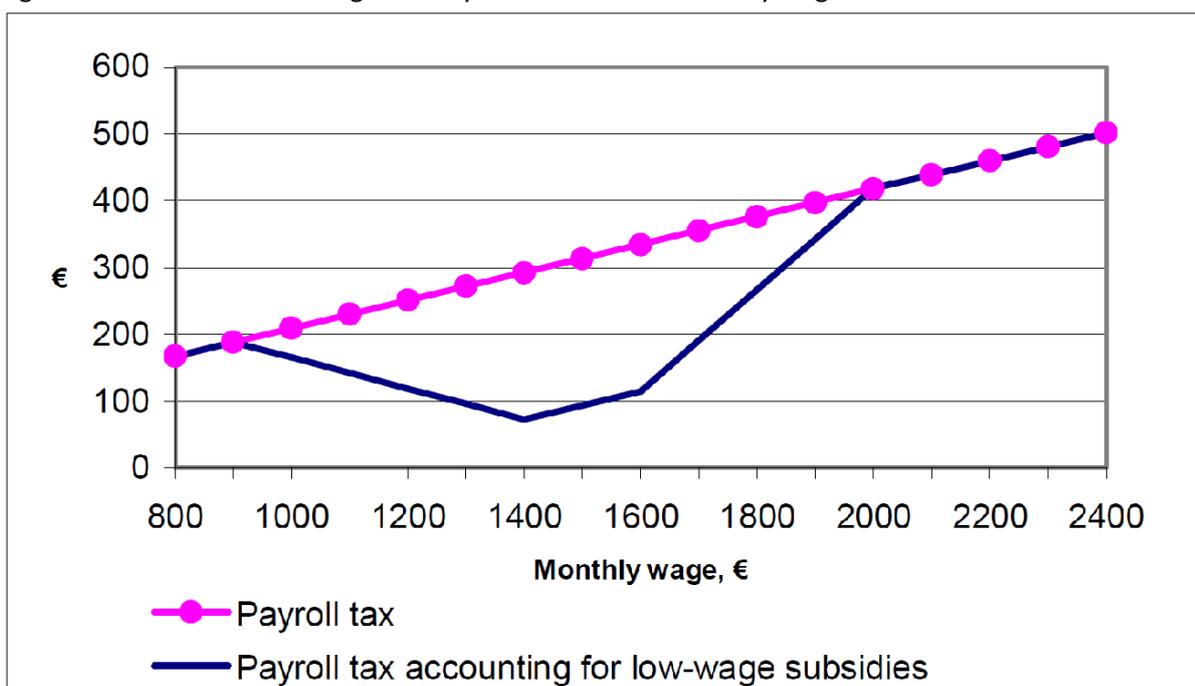
Unemployed full-time job seekers taking up a part-time job or a full-time job of short duration can simultaneously receive unemployment benefits. Kyrrä (2010b: 911ff.) shows that participants find a permanent full-time job considerably faster than non-participants, possibly because employers use short full-time jobs as a probation period, whereas the effect is especially strong for long-term unemployed. Though Kyrrä's result is in line with other studies, e.g. by Kauhanen (2005, cited in Kyrrä 2010b: 914), he states that possibly there are substitution effects and hidden costs, so policy conclusions should not be drawn prematurely, although partial unemployment benefits come with "no major direct costs".

### *Low-wage subsidies*

On 1/2006, Finland started a low-wage subsidy scheme for workers over 54 years old (temporarily limited until 2010/12/31). The subsidy was targeted on full-time workers (at least 140 hours/month) with monthly earnings between € 900 and € 2000. The subsidy pays 44% of the wage over € 900. Subsidies decline when earnings exceed € 1600 and are at € 0 with earnings of € 2000. Subsidies can be at € 220 max which can be up to 16% of the gross wage (Huttunen et al. 2009: 3). The subsidy can be considered a reduction of employers' payroll tax.

Huttunen et al. (2013: 51f.) expect that the low-wage subsidy (1) increases the number of employed low-skilled workers and decreases the number of workers who can be substituted by low-skilled workers (due to higher hiring or lower exit). For the number of hours worked by a particular worker, the authors show that for a given hourly wage of € 9 a lower number of monthly hours (less than 155) implies a lower payroll tax, and between 155 and 178 hours the "marginal payroll tax is the same as originally" (Huttunen et al. 2013: 52 – the subsidy should start at € 1260 since with lower earnings and € 9 per hour the number of working hours is below the necessary 140).

Fig. FI 01: The Finnish low-wage subsidy as a function of monthly wage



Source: Huttunen et al. 2009: 4

For the number of hours worked per workers, Huttunen et al. (2013: 52) state that the marginal tax rate is crucial, and the extent to which taxes affect gross wages:

“The gross wage rate remains fixed for perfectly elastic labour supply, whereas the wage reaction completely absorbs the change in the tax rate if labour supply is fixed. In the realistic intermediate case, part of the payroll tax decrease is captured by workers via a higher wage rate. Similarly, hours and the wage rate will decrease for workers whose marginal payroll tax increases and remain unchanged for workers whose marginal payroll taxes are unaffected by the reform.” (2013: 52)

This temporary subsidy (from 1/2006 until 12/2010) provided 16% of gross earnings or 13% of pre-reform labour costs. The subsidy was paid to employers and limited to full-time workers (at least 140 hours/month) earning between € 900 and € 2000 per month: The subsidy was at 44% of earnings above € 900 and capped at € 220, so over € 1440 the subsidy no longer increased. For earnings above € 1600 the subsidy has been decreased by 55%, so that at € 2000 the subsidy vanished (Huttunen et al. 2013: 50). The subsidy has been a reduction of the payroll tax. The full-time wage with the best absolute wage subsidy is between € 1400 and € 1600 and with the best relative wage subsidy is € 1400. The average full-time wage in 2006 was at € 2500 and “in typical low wage sectors, the lowest full-time wages were around € 1300” (Huttunen et al. 2013: 51), so that the subsidy really indeed low-wage workers. As Huttunen et al. (2013: 51) note, for the extensive margin (the number of people working) theoretical predictions are clear since lower costs for low skilled workers raises employment of low-skilled workers and decreases employment of those who can be substituted by low-skilled workers. For the intensive margin, labour supply effects are more complicated. The number of hours worked increases for those workers whose marginal payroll tax declines. As Huttunen et al. (2013: 52) note, effects size depends on effects of tax changes on gross wages (tax incidence). For effects of the subsidy on wages, Huttunen et al. (2013: 52) assume that due to Finland’s large unions and the small share of workers in the targeted group that wage negotiations have not been significantly affected by the tax incentives. Incentives provided by the programme lead Huttunen et al. to expect a bunching of workers at the point at or slightly above the 140 hour-point. The authors (2013: 56) find that employment rates rose especially for those over 54. Yet, the authors (2013: 57) find that a huge decrease in labour costs leads to a low increase in employment, i.e. labour demand is rather inelastic. Further, they (2013: 57) find that the subsidy increased the hours of older low-wage workers and had negative effects on hourly wages. Huttunen et al. (2013: 59) suspect that companies increased the official number of hours because of the subsidy yet did not change monthly wages. Positive effects mainly amongst the oldest age group and far less among younger groups could result from the reform making part-time pension less attractive (Huttunen et al. 2013: 59). The authors (2013: 59) conclude that “the prospects of improving labour market position of older low-skilled workers with financial incentives for the employers appear limited...intensive margin...we found effects only among those who were 58 or older”, because they could get part-time pensions and are flexibly concerning their working hours.

## **Other Issues**

### *Calculations of reform effects*

Based on a stochastic wage process based on Finnish data, Määttä (2014: 17ff.) calculates labour supply (working hours) effects of various reform scenarios. There are several models including changes. Results (2014: 35ff) are too numerous to be repeated her in appropriate detail (also due to reform effects on the

use of alternative pathways). One crucial result is that raising the entry age into normal retirement does not extend working lives if the unemployment exit route and part-time pension are left unchanged (2014: 36). Further, Määttänen (2014: 37) states that

“the current accelerated accrual rate considerably improves the labour supply incentives for many. Correspondingly, deferring the accelerated accrual rate will vitally weaken the labour supply incentives for some individuals.”

In contrast to the current accelerated rate (1.9% per year until the age of 62 and 4.5 afterwards) the new labour organisation agreement from 2014 proposes a rate of 1.5% until 65. Possibly the trade union Akava is right in stating that incentives to work before 65 too weak. Määttänen (2014: 36) shows that the retirement age of 65 instead of 63 *ceteris paribus* reduces working lives by 1 month, despite raises amongst higher educated men (2.4 months) and women (0.6 months). A rather comprehensive reform scenario (raising entry ages by two years in regular pension, part-time pension and the unemployment tunnel) would raise labour supply by 6 months. Effects are similar across different groups.

## 2.5 Germany

### Jürgen Bauknecht

The last decade has seen a remarkable rise in older workers' employment rate', from 47%/28% (male/female) in 1998 to 69%/55% in 2012 in the age group 55-64 (Noll/Weick 2013: 11). Although the age group over 60 had the largest rise, still labour force participation drops sharply after the age of 60 (Nowossadek/Vogel 2013: 7).

The increase can partly be explained with cohort effects; especially in the case of women where cohorts with high labour force participation rates substituted cohorts with lower rates. Albeit Germany had the strongest rise in employment rates 50 – 69 between 2002 and 2013 amongst 28 EU countries, about a quarter of the rise can be explained by cohort effects (Peschner 2014: 7f.).

Today's good older worker employment figures also result from a robust labour market despite a GDP shock of considerable size (-5.6% in 2009) and weak growth (2000-2013: 17% adjusted for price changes, both figures: destatis 2014). Although negative GDP growth in 2008/2009 had been stronger in Germany than in the average of 30 OECD countries, the rise in the unemployment rate had been the smallest amongst these countries (Möller 2009: 327). One of the reasons is that the crisis primarily hit industries which had a lack of skilled labour before the crisis (metals, machinery and chemicals, cf. Mäller 2009: 331f.). Further, flexible working times and working-hours accounts led to a huge accumulation of surplus hours between 2005 and 2008. Therefore, in 2009 companies could push their workers to reduce their surpluses or to accumulate working time deficits instead of laying them off (Möller 2009: 331f.).

Although there may be within-sector differences concerning the overrepresentation or underrepresentation of older workers in Germany, older workers' overrepresentation or underrepresentation between sectors (agriculture, manufacturing, services) is nearly absent (Peschner 2014: 14).

Longer working lives are explicitly one goal for the Demography Strategy of the Federal Government. Government intends to further improve the framework (BMI 2015: 21, Bundesministerium des Innern or Federal Ministry of the Interior). Further, government wants to "sensitise for a culture of working longer and to strengthen the cooperation of actors" (BMI 2015: 24).

### Pensions

#### 'Pension with 67'

In 2007 German government decided that from 2012 on the legal retirement age will rise in monthly steps from 65 years (beginning with the 1947 cohort) to 67 years (for the 1964 cohort and those born later). The rise is 1 month per year in the beginning (those born in 1947 had the legal retirement age of 65 years and 1 month) and after twelve years it will accelerate to two months per year. The first 'retirement at 67' year will be 2031 when the cohort of 1964 will be 67 years old. With more than 1.3 billion births p.a. (FRG and GDR combined) the cohorts 1961 – 1966 are the strongest cohorts in Germany with a peak in 1964, so the 'retirement with 67' will be largely or fully in effect when the strong cohorts approach retirement.

For those who do not raise their individual retirement age the new regulation cuts pensions by 0.3% per month of earlier retirement, or 3.6% per year. So with a constant retirement age the new regulation is a pension cut of 7.2%. Yet, the reform will change the development of the pension level, so those retiring at 67 will have pension higher by about 5% than they would have had with 65 under the old regulation.

The break-even point is at roughly 14 months after the age of 65 under the assumption of earnings at the lifetime average (Gasche 2011: 53ff.), so for neutral financial effects it is enough to work until 66.2.

A simulation analysis (Fehr et al. 2010: 22ff.) predicts that the reform will delay retirement by 10.8 months, which results from a rise of more than one year for medium- and high- skilled workers and virtually no change for low-skilled workers.

According to SGB IV § 154 (4), beginning from 2010 government has to report on the employment of older workers and to deliver an estimation

“if the increase in the legal retirement age can be considered reasonable and if the adopted legal rules can further exist, this under consideration of the situation on the labour market as well as the social and economic situation of older employees” (own translation and with changed syntax).

### *‘Pension with 63’*

In 2014 the ‘grand coalition’ government introduced ‘retirement with 63’ without deductions for those who have at least 45 contribution years. The contribution years do not have to be fully covered with paid work, also child-rearing, informal elderly care, sickness/rehab benefit receipt, military service or alternative service and unemployment benefit receipt count (the consideration of unemployment times is capped at two years). In order to avoid older workers to become unemployed at 61 and bridge the time until 63 with unemployment benefits (duration depends on contribution years and age and can be 2 years long in this age group), unemployment times in the 2 years before 63 do not count (an exception is unemployment due to factory closure).

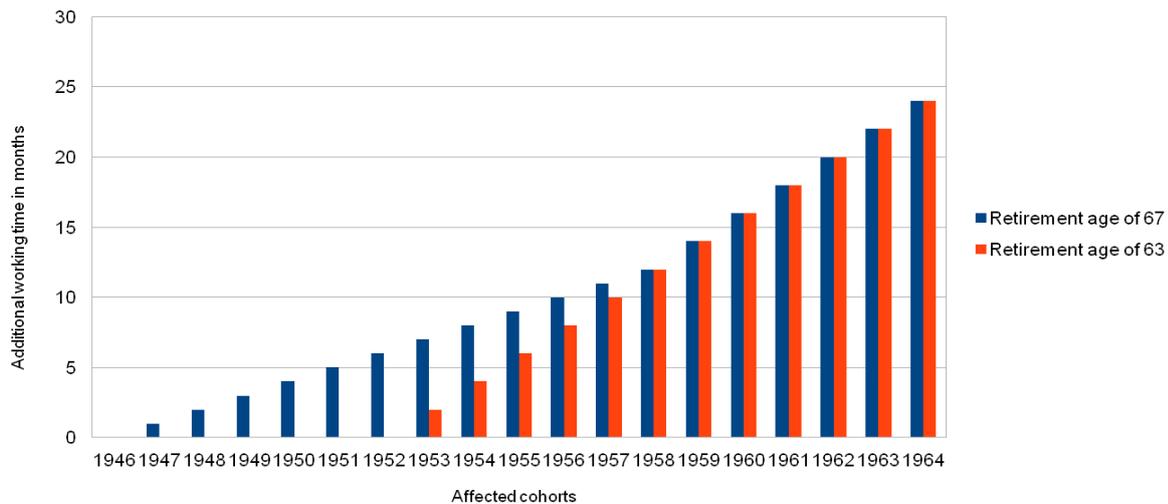
The ‘Pension with 63’ is a real ‘Pension with 63’ only for those born in 1951 and 1952. For those born later, retirement age rises stepwise to 65 for the cohort of 1964.

Financially, the ‘Pension with 63’ is highly attractive. Although the pension level rises for those working until 65 instead of 63, calculations show that a worker would have to become about 100 years old in order to be on the financial positive side. Incentives to work longer are too weak. As a newspaper writes, the best way is to retire at 63, to get a ‘450 € -Job’ (earning € 450 per month) and work just a few hours per week and end up with 82% of the last net income (faz.net 2014). Another possibility is to reduce working time to two thirds, get a part-time pension (one third of the full pension) and to have nearly the whole work income with only two thirds of work (faz.net 2014).

Graph DE 1 (next page) shows the development of the legal retirement age for future retiring cohort. The so-called ‘Retirement at 67’ (blue) is full in effect for the cohort of 1964 (24 additional months). The ‘Retirement at 63’ (red) will rise by two months per year and be at 65 for the 1964 cohort

Latest figures show that government have calculated with up to 240 000 people using the new regulation in 2014 (150 000 people who would have retired with 63 anyway, plus 50 000 incentivised by the new regulation plus 40 000 insured self-employed); the actual figure was at 206 000 applications, whereas not all applications will be approved (Öchsner 2015).

Graph DE 1



Data taken from: Federal Ministry of Labour and Social Affairs (undated): Abschlagfreie Rente ab 63. Url: <http://www.rentenpaket.de/rp/DE/Alle-Fakten/Die-Leistungen/Rente-ab-63/rente-ab-63.html> (last access: 17/10/2014), R+V Versicherung (2014). Altersvorsorge. Gesetzliche Rente. URL: [http://www.ruv.de/de/r\\_v\\_ratgeber/altersvorsorge/gesetzliche\\_rente/2\\_rente\\_mit\\_67.jsp](http://www.ruv.de/de/r_v_ratgeber/altersvorsorge/gesetzliche_rente/2_rente_mit_67.jsp) (last access: 17/10/2014)

### *Early retirement*

Early retirement with reduced pension is possible from the age of 63 (OECD 2012b: 2). The increase from 60 to 63 stepped in between January 2006 and December 2011 (Giesecke/Kind 2013: 8). For women born before 1952 § 237a SGB VI still provided pensions at 60 if several preconditions are met: They have to have a qualifying period (Wartezeit) of at least 15 years, 10 years have to be collected due to paid work after the age of 40. The age of 60 (for those born in 1941) rose stepwise to 60 and 11 months (for those born in May 1944).

Based on GSOEP 1991-2011 data (German Socio-Economic Panel, n = 2110 males between 55 and 63) Giesecke and Kind come to the following conclusions: Besides several factors on the individual level fostering return to employment like lower age within the 55-63 group, good subjective health (very strong effects), non-participation in pre-retirement programmes (very strong effects, unsurprisingly), a non-unemployed partner, or living in Eastern Germany (probably due to a more flexible labour market there) the reform positively affects re-employment probabilities. In their calculation the effect amounts to about 17% for one year of higher early retirement age. The authors (2013: 24f.) state that calculations show that reforms in the unemployment benefit system, e.g. shorter and longer benefit durations during the observation period, do not lead to wrong results.

### **Work after retirement / silver work**

Workers over the legal retirement age (and receiving pension benefits) do not have to pay contributions to the pension and unemployment schemes. They have to pay contributions for health insurance and nursing care insurance (if they earn more than € 450). Although taxes on income are principally independent of whether someone is over the legal retirement age or not, a “steuerlicher Altersentlastungsbetrag” (tax deduction for older workers, § 24a EStG (Einkommenssteuergesetz or personal income tax code)) regulates that a certain percentage of the wage is not to be taxed. The

percentage declines from 40% in 2005 to 0% in 2040. Further, there is a maximum amount that can be left untaxed. This amount also declines (from € 1900 in 2005 to € 0 in 2040). Yet, for a certain employee, percentage and amount apply for the rest of his/her life, so that e.g. someone who became 64 years old in 2014 can in 2015 (when 65 years old) work with 24% of his/her earnings (not more than € 1140 per month) not being income-taxed.

Those over the legal retirement age who keep working and do not receive pension benefits get a 0.5%points pension rise for every additional working month (Bundesregierung 2013). This means that someone born in January 1950 reaches legal retirement age in May 2015 (65 years + 4 months due to the ‚Retirement at 67‘-reform), and if this person works until January 2016 (66th birthday), pension benefits are 4%points higher (8 months with 0.5%points each). A ‚Minijob‘ (up to € 450 per month) does not increase pension benefits.

Pensions are taxed according to §22 EStG (‚sonstige Einkünfte‘ or ‚miscellaneous income‘). According to the ‚Alterseinkünftegesetz‘ from 2005 (‚Law on Old-Age Income‘, own translation), the share of the pension that is to be taxed will rise from 50% in 2005 to 100% in 2040. Since a rising share of pension incomes has to be income-taxed, this contributes to the general pension decline and incentivises older workers to delay retirement or to work during pension receipt. Although the ‚Grundfreibetrag‘ (the tax free minimum amount) leaves very low pensions untaxed, the rising percentage of pension income to be taxed reduces the level under which gross pensions are not to be income taxed. Since the ‚Grundfreibetrag‘ is twice as high for married couples, in retired one-earner households tax-free pension benefits for the one earner may be twice as high.

## **Unemployment**

The rise in older workers‘ employment rates partly results from a remarkable drop in the unemployment rate: Between 1990 and 2010 the unemployment rate of those >54 declined nearly to younger workers‘ rate, starting from a rate more than twice as high (Brenke/Zimmermann 2011: 19), not based on official data but on own calculations). Yet, still about two thirds of older unemployed are long-term unemployed, much more than OECD average which is <50% (OECD 2012b: 7). Currently (early 2015) there is an idea by the Federal Minister of Labour and Social Affairs. She proposes to pay up to 100% of the wage if long-term unemployed are hired.

Besides the general stable economic development, several policy reforms can have contributed to declining older worker unemployment rates:

First of all, the Hartz reform widened the definition of suitable work (Klinger/Rothe 2010: 11), which raises pressure on the unemployed.

Further, the Hartz reforms reduced the benefit level in the flat-rate tier (2005) and shortened the eligibility duration in the earnings-related tier (2006). Previously, initial earnings-related Unemployment Benefit (replacement rate 60-67%) dropped to Unemployment Assistance (replacement rate 53-57%) and if the latter was under the minimum level of subsistency, Social Assistance was used to fill the gap (Krebs/Scheffel 2010: 14). In 2005, Unemployment Assistance and Social Assistance have been replaced by flat-rate means-tested Unemployment Benefit II. In 2006, the duration of Unemployment Benefit I has been shortened. Before, it lasted up to 32 months for workers >56 and “provided a popular bridge between the exit out of regular employment and the entry into old age pensions” (Dlugosz et al. 2009: 1).

Table DE1: Maximum duration of (earnings-related) Unemployment Benefit 1

Age group	Until 1/2006	After 1/2006	Since 2008
<45	12	12	12
45-46	18	12	12
47-49	22	12	12
50-51	22	12	15
52-54	26	12	15
55-56	26	18	18
57	32	18	18
58-x	32	18	24

Sources: Columns 2 and 3: Dlugosz et al. 2009: 6. Column 4: Arbeitsagentur 2014. Note that there are preconditions concerning prior contribution periods.

The reform cut the maximum entitlement length to 18 month. For this reform, Dlugosz et al. (2009: 1f.) find evidence that this reform reduced unemployment: Clearly in the age groups over 52, especially for groups with larger treatment intensity, and mostly in the oldest group, cf. Dlugosz et al. 2009: 15). There was also an anticipation effect (strong inflo into unemployment before the reform), although policies tried to avoid this. This effect was also strongest in the oldest group. In 2008 government “withdrew the 2006 reform to a large extent” (Dlugosz et al. 2009: 5; see table).

Yet, in contrast to the first reform, the second is comparatively irrelevant for the unemployment rate (reducing it by 0.13%points). The reason lies partly in the model specification, so that Krebs and Scheffel (2010: 19) state that the low values should be interpreted cautiously and as a lower bound (the authors concede that labour market reform effects on unemployment rate depend on the strength of the effect of benefit rate on job finding probability, cf. 2010: 22).

Krebs and Scheffel’s (2010: 1ff.) model calculation comes to the conclusion that the first reform reduced equilibrium unemployment from 7.5% to 6.4%.

Further, with the end of 2007 the ‘58-rule’ has been abolished. The rule released jobseekers 58 or older from the obligation to prove that they are really looking for a job<sup>9</sup>. In 2004 the ‘58-rule’ had been used by three quarters of the target group (Keese et al. 2006: 62). The reform decreased older unemployed’s reservation wages (Duell/Vogler-Ludwig 2012: 5).

#### *‘Einstiegsgeld’ (‘Integration Bonus’)*

If former long-term unemployed start to work (employed or self-employed) they can get the Integration Bonus “if this is necessary for the integration in the general labour market” (Social Security Code II, § 116b, own translation). This can be paid out for up to 24 months; the amount is normally at 50% of the standard rate of flat-rate long-term unemployment benefits. For each further person in the household it can be 10%points higher. Yet, there is no legal entitlement to this Bonus. Based on individual circumstances, the local job centre decides if it is paid out (BMAS 2015b). Further, the level should be based on unemployment duration and household size/the number of dependents, and “the Integration Bonus can also be paid out in cases where need for assistance ends due to or after the uptake of the new occupation”

<sup>9</sup> The idea that pressure on the unemployed to prove active job search is part of the ‘workfare’ model and considered sensible if unemployment is mainly voluntary, whereas against the backdrop of involuntary unemployment pressure can be useless or counterproductive. If unemployment would be completely voluntary, an unemployment insurance would be redundant; in a free market unemployment is always voluntary (Bauknecht/Remer-Bollow 2012: 338 based on Csoba 2010, Chadi 2010, Kreiner/Tranæs 2005 and von Mises 1950). Therefore, one could suggest that pressure on older unemployed to prove active job search should be based not on age but on analyses concerning unemployment’s (in)voluntariness, possibly taking into consideration numerous individual circumstances. Further, since no market is completely free, one has to bear in mind that government can be responsible for some person’s unemployment (e.g. someone with low productivity cannot legally work below the minimum wage, or someone cannot decide to work above a certain earnings level without the respective employers’ obligation to pay social security contributions).

(Social Security Code II, § 116b, own translation). Therefore, there is considerable leeway for local job centres.

#### *Integration of long-term unemployed workers*

The programme 'Perspectives 50plus – employment pacts for older workers in the regions' ('Perspektive 50plus- Beschäftigungspakte für Ältere in den Regionen', the third programme period runs from 2011 to 2015) includes about 80 regional employment pacts with >400 job centres (October 2013, telephone information). It is considered to be successful since it activated 200,000 out of 550,000 older long-term unemployed and placed about 70,000 of them on the regular labour market (admittedly, a third of them with wage subsidies, and only three per cent of them over 60). The pacts included further vocational training, job application training, internships and wage subsidies. Individual counselling and coaching is considered to be a crucial aspect (Duell/Vogler-Ludwig, 2012: 9).

In November 2014, the Federal Ministry of Labour and Social Affairs stated that against the backdrop of rising employment rates and declining unemployment rates in Germany, the long-term unemployed's (more than 1 year of unemployed) situation has not improved that much. One quarter of them is 55 years old or older. 'Age over 50' is one of the factors the Ministry considers a barrier to reintegration. The Ministry plans to

- (1) improve the quantitative advisor/unemployed- relation in order to improve the advisor's know how concerning the individual unemployed's situation. The Ministry supports local Job Centres in their efforts to open additional activation centres. Here, the unemployed can get comprehensive support in order to solve problems (social, psychological, health wise, educational, motivational) which are barriers to reemployment. This also includes help concerning addictions, debts, and mobility (in some regions it can be difficult or impossible to drive to work without an own car, and an own car is often beyond the financial means of the long-term unemployed). The activation centres will be prepared in 2015 and should be in complete operation at the beginning of 2016. Existing activation centres in the Job centres are to be made more prominent as role models so that a comprehensive network of these activation centres can be established.
- (2) contact employers and to educate employees even after they began their new job. Another measure is to cancel out lower performance capability with (stepwise declining) employment subsidies.

The programme (1 and 2) (€ 885 million) will be partly financed from the European Social Fund (€ 470 million), will last from 2015 until presumably 2019 and will support up to 33 000 participants. Job centres are to start in the first quarterly period of 2015.

- (3) use public employment means for those long-term unemployed without chances on the normal labour market. This is mainly focused on those with health impairments (and those with children), i.e. this will affect many older long-term unemployed.
- (4) pay wage subsidies to employers of up to 100%. This should be accompanied by Job centres and other actors, primarily local authorities with measures for the preparation for the new job or during the new job. One idea here is that jobs could begin with a low number of weekly hours, rising stepwise.

The programme (3 and 4) is supposed to start in July 2015. Compared to (1 and 2) the budget is far lower (€ 75 million in the first year and € 150 million in each of the following years) and the number of participants (up to 10 000) is smaller, which also results from the fact that the target group is smaller.

- (5) improve the health situation of the long-term unemployed. Although the Federal Employment Agency as well as local Job centres already pay heed to health promotion and sickness prevention, the Ministry (also stating that health promotion can markedly improve employability) wants to intensify the dialogue with the Federal Ministry of Health, local health insurances and the German Federal Pension Fund on the issue of 'unemployment and health'. One goal is to improve the access for long-term unemployed to health promotion, sickness prevention and occupational rehabilitation (this is the cause for the inclusion of the German Federal Pension Fund, because the Pension Fund is responsible for occupational rehab measures). One issue is that goods and services for the job inclusion of the disabled, laid down in the Social Security Code IX, should be more open to the long-term unemployed with health impairments.

### **Part-time work/part-time pensions**

The official gradual-retirement scheme existed until the end of 2009. It has been abolished and had been mainly used in the block model (Dietz/Walwei 2011: 10), so that employees did not work for 6 years half their weekly hours but for 3 years full-time and retired afterwards. Further, partial retirement did not improve the employment situation (Dietz/Walwei 2011: 10).

Another possibility exists since 1992. The 'Teilrente' ('Partial Pension'): Currently from the age of 63 on a worker can receive a part of his pension benefits and work part-time simultaneously up to the legal retirement age. Part-time work can be either at 33%, 50% or 66%. One calculation shows that an average earner loses about 17% of his/her net earnings in case of a 50% working time reduction. The system of maximum income during the Partial Pension is complicated, primarily due to rules concerning additional income. The Partial Pension is used by only 1000 people per year (Böckler 2014).

The current German government plans to introduce the 'Flexi-Rente' (flexible pension). Both parties want to incentivise employees to stay longer in employment. Ideas are to lower the minimum age for the Partial Pension from 63 to 60, but here it is possible that effects on labour supply could be negative. Another idea is to change the inflexible and deterring rules on maximum additional earnings. One problem with the Partial Pension at 60 is that pension benefits at legal retirement age would decline. This could be offset by additional 3.5 working years for those participating. Another issue is that due to income losses, the Partial Pension is problematic for low earners, e.g. in the health sector or the building sector. Here, one idea is to support those with health impairments which are not grave enough for disability pensions with financial means from the unemployment insurance, so that income losses are kept within limits.

### **Health / disability**

More than half of new entrants into disability benefits receipt is between 50 and 60 years old (Bäcker 2012: 13).

In Germany, early retirement via disability schemes has been made more difficult. With about four per cent of the population between 20 and 64 (a long-term stable figure), Germany has low disability rates, and about half of the disabled were employed in the late 2000s, which is a high proportion (Duell/Vogler-Ludwig, 2012, p. 4).

In 2001 a reform abolished the distinction between disability and occupational disability (the former meant someone is unable to work at all for health reasons, the latter means someone cannot work in the job he/she did before occupational disability occurred). Especially for those born after 1960 the status

security vanished, so that employment in a different (lower pay, lower status) job is considered appropriate (Bäcker 2012: 2). This should increase the employment of older workers.

Someone can be fully disabled (unable to work 3 hours or more per day in a 5-day week) or half disabled (able to work between 3 and less than 6 hours). In the latter case, government benefits are half as high, no matter if the person really works or not (the ability counts). Yet, if someone cannot get a part-time job for labour market reasons, whole disability benefits are paid (in this case the pension insurance acts partly like an unemployment insurance).

Since 2001 someone able to work for only 6 hours is no longer considered disabled, although a full job is normally 8 hours per day (Bäcker 2012: 3).

If someone applies for disability benefits, official doctors check the documents and decide if rehab could re-establish workability (Bäcker 2012: 4).

Disability benefits are calculated like pensions. Therefore, theoretically they could be especially low if someone becomes disabled when younger. In order to avoid this, the calculation assumes that someone has worked until 60. Before the reform of 2001, the time between 55 and 60 counted only one third. Also in 2001 new deductions for the time before 63 were introduced (0.3% per month, as in the 'normal' retirement scheme. This age of 63 will be raised stepwise to 65 until 2024, yet the maximum of deductions will remain at 10.8% (for three years; cf. Bäcker 2012: 5f.).

Until 2004/2005 there had been a long-term decline in the share of disability pension recipients in the total number of newly retired persons, afterwards there had been a slight rise (especially since 2008). Further trends are the rising share of women, the declining age of the new applicants (now this trend has stopped). Still, most of the disability pensions are full pensions (Bäcker 2012: 6). As Bäcker (2012: 7) notes (own translation):

“The labour market and the employment opportunities for older workers are crucial for the number of applicants and the granting of disability benefits, especially concerning the ‘specific perspective (‘konkrete Betrachtungsweise’). If labour market conditions improve, there is a potential easing; conversely, rising unemployment and a ‘closed’ part-time labour market can lead to a rise in new entrants into disability pensions”

Bäcker (2012: 7f.) argues that the reform of 2001 was partly based on the argument of better employment opportunities, whereas he states that against the backdrop of the long-term decline in the number of new entrants into disability pension the effect of the 2001 reform should not be overestimated.

Employers creating new jobs for seriously disabled persons who are unemployed can get a subsidy of up to € 10 000 per job (OECD 2012b: 3).

### *Mental illness*

Mental strains can result from the intensity of labour, (lack of) social support at the working place or the duration, timing and distribution of working time (GDA 2014: 4), higher unemployment rates, insecure labour conditions, too high or too low job requirements, increasing pressure of competition, constant accessibility, higher flexibility and mobility requirements and bad working atmosphere (Deutsche Rentenversicherung or German Federal Pension Fund 2014: 10). GDA (2014: 4) considers the term ‘psychic strain’ (psychischer Belastung) as neutral; work completely free from psychic strain is considered neither possible nor worthwhile.

Amongst health-related reasons of labour market withdrawal, in several countries an increasing share is caused by mental illnesses instead of physical illnesses. In Germany,

- the number of sickness days due to mental illnesses more than doubled since 1994
- between 2005 and 2012 the total number of mental illness-caused new entrants into reduced earnings capacity pensions per year rose from ca. 47 000 to 66 000 (whereas here cohort effects are not subtracted out), so that in 2012 already 37% of new cases of reduced earnings capacity pensions had been caused by mental disorders<sup>10</sup>
- the number of medical rehabilitations per 1000 insured persons rose by about one third between 2004 and 2012.

All figures show that women are markedly stronger affected than men (Deutsche Rentenversicherung 2014: 9, 13).

These developments are at odds with studies suggesting that the prevalence of mental disorders did not rise, as OECD (2012c: 1) states for its member countries ('widespread but not rising') and as Jacobi and Kessler-Scheil (2013: 191ff.) state for Germany: Firstly, the higher number of sickness days results from the high number of sickness days per mentally sick person (only cancer has higher numbers per sick person), so that a (comparatively) low number of mentally sick persons induces a (comparatively) high number of sickness days. Further, the authors suggest that a remarkable rise in the prevalence of mental illnesses is improbable (suicide rates even decline since decades), i.e. the strong rise of diagnosed cases mainly results from changing framework conditions such as higher society acceptance of mental illness and a wider spectrum of means of diagnosis, such as direct access to psychotherapists due to the psychotherapist law from 1999 (Jacobi/Kessler-Scheil 2013: 197). Also Deutsche Rentenversicherung (2014: 9) refers to the contrast between the strongly rising number of sickness days and rising numbers of new entrants into reduced earnings capacity pensions due to mental illnesses on the one hand and experts' view on the development of real prevalence on the other. Importantly, Jacobi and Kessler-Scheil (2013: 1997) consider the ostensible rise unrealistic, but state that mental illnesses are rather under diagnosed than over diagnosed, so one could conclude that the measured rise brings diagnoses stronger in line with reality.

Against this backdrop, policy initiatives against mental illnesses can be considered important, but do not have necessarily to be considered measures against quickly disseminating sicknesses, but rather quickly disseminating reasons of (long) absence from work or entry into reduced earnings capacity pensions.

Further, "most people with mental disorders are in work and many more want to work" (OECD 2012c: 1), so that employment rates of people with mental disorders are at 55-70% points, which is (only) 10-15%points lower than of those without mental disorders, and unemployment rates are higher. Therefore, pro-employment policies should not only aim at avoiding mental illnesses but also on the integration of those already sick (possibly with positive effects on the remission of the disease).

### *Mental illness: Policy reforms*

In 2013, German Parliament changed §4 of the Labour Protection Act (Arbeitsschutzgesetz). Now according to §4 (1) employers are to design work so as to avoid and, if unavoidable, minimise, physical *and mental strain* (alteration in italics). Further, since 2013 according to § 5 ('Assessments of Working Conditions', 'Beurteilungen der Arbeitsbedingungen') (6) employers are also obliged to assess mental

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<sup>10</sup> Sickness absence figures neglect that sick people can attend work and nevertheless work less. Jacobi and Kessler-Scheil (2013: 198) refer to Wang et al. (2004) who calculate that in the service sector reduced work performance of depressed persons is equivalent to 2.3 sickness days. That is about 10% of mean monthly working days.

strain at work. In its Best Practice Guide BDA (Federation of German Employers, 2013) states that for some time now in their hazard assessments larger companies pay heed to mental strains, yet this could be difficult for smaller companies also due to the variety and vagueness of the topic.

From 2013 until 2018, GDA ('Gemeinsame Deutsche Arbeitsschutzstrategie', 'Common German Strategy for Occupational Safety') wants to develop instruments that can help employers and employees to detect and to eliminate work-related mental health strains. Within this context, actors are to be informed and educated, suitable strategies are to be identified and developed, best practice examples are to be disseminated and in-company solutions are to be implemented. This should happen in cooperation with companies, social partners and further cooperation partners such as health insurances, company doctors, professional associations and safety engineers (GDA 2012).

For the assessment of hazards due to mental strain, GDA (2014, 8-15) published recommendations, consisting of seven steps which are: (1) which activities are to be evaluated, (2) measurement of mental strains, (3) evaluation of mental strain, (4) development and implementation of measures, (5) evaluations of measures' effectiveness, (6) updating, (7) documentation.

Plausibly, new legislation in 2013 will improve measurement and reduction of mental strain, whereas, as BDA (above) states, some companies already have cared about this issue before 2013 (see e.g. MoPAct Work Package 3 Task 2 Extending Working Lives Best: Practice Cases, for Germany e.g. the cases of the companies SAP, Salzgitter (steel production) or Universitätsklinikum (university hospital) Jena).

A main problem will be the measurement of mental strain, since in contrast to physical strain it is harder to measure also because positive or negative effects partly depend on the individual person.

## **Self-employment**

### *'Bridging Allowance' for unemployed workers starting their own business*

In order to promote self-employment, a 'bridging allowance' was introduced in Germany in 1986. It is equivalent to lost unemployment benefits and is paid for six months during business start-up period. An approved business plan is required. The non-profit organisation 'Gründer 50plus' (50plus Entrepreneurs) helps and advises older workers who want to start their own business (Contreras, et al 2013: 44).

Unemployed workers starting their own business can get a 'Gründungszuschuss' (founding allowance): For the first six months it consists of the unemployment benefits the person would have got without starting an own business, plus € 300 per month for social security. In the following nine months the sum of € 300 can be continued to be paid out if full-time work can be proven (BMAS 2015a).

### *Loans for long-term unemployed workers starting their own business*

In addition to the 'Einstiegsgeld' ('Integration Bonus', see chapter 'Unemployment'), long-term unemployed starting (or continuing) their own full-time business can get up a subsidy for equipment (€ 5 000 max.) or loans (here the sum can be over € 5 000). These equipment expenses have to be "appropriate" and "necessary". The "economic sustainability" of the own business is another precondition, which also implies that welfare state dependence will be ended or reduced. The law states that the Job Centre should get a statement from an expert (e.g. the founder's business plan is checked). There is no legal entitlement to these loans or subsidies (Social Security Code II, § 116b, own translation

of words in inverted commas). Further, it is possible to get consulting or knowledge from “suitable persons” if this is necessary for self-employment. This precludes the transfer of job skills. Further, those with long-term unemployment benefit entitlements (e.g. means-tested basic security provision) already working in their own business can get consulting, e.g. from founders’ initiatives or management consultants or tax accountants.

Crucially, those self-employed with insufficient earnings get financial assistance so that their livelihood is ensured. Further, for the decision if the self-employed person is entitled to benefits for his/her livelihood or not, parts of self-employed earnings are not taken up in the calculation: “Therefore, at the bottom line self-employed have always a higher income than those who only get unemployment benefit II (long-term unemployment benefits, *author*)” (BMAS 2015b, own translation).

#### *Voluntary unemployment insurance for employed and (short-term) unemployed workers starting their own business*

Since 2006, company founders who were insured in the unemployment insurance for at least 12 out of the last 24 months can voluntarily enter unemployment insurance. It has to be proven that the person works in his business for at least 15 hours per week. Contributions are independent of income and based on formal education (four levels). Self-employed becoming unemployed can get unemployment benefits between approximately € 700 and € 1300 per month, depending on formal education level and region (Eastern or Western Germany). Unemployment steps in when the self-employed person works less than 15 hours per week.

Possibly the main advantage is that employed persons can become self-employed and limit their risk. Without voluntary unemployment insurance, if their business fails they could apply for means-tested unemployment benefits. These benefits are low, and due to means-testing the unemployed person possibly has to exhaust his/her financial assets: There are minimum financial assets one is allowed to keep while getting means-tested benefits, and the sum is dependent on age/date of birth, but also for older workers the amount of money is very low. Further, other household members’ income is taken into account for the calculation of means-tested benefits, which is not the case with ‘normal’ unemployment benefit I. Therefore, voluntary unemployment insurance can provide temporary security for those starting their own business. If their business fails, their financial assets and incomes of other household members is secure and benefits are higher, at least until unemployment benefits I are exhausted. Until then, the person can either find new dependent employment or the business situation can improve (it is possible to earn € 165 during the receipt of unemployment insurance, so business has to be on a very low level, at least officially).

#### *Self-employed silver work*

For those over the legal retirement age receiving old-age pension benefits there are no legal limits to additional income from self-employment.

This does not apply to those receiving disability pensions or early retirement benefits. Since 2013, those retirees are allowed to earn additional € 450 per month (before: € 400) without losing parts of their pension entitlements. Still, twice a year a double additional income (€ 900) is allowed without pension deductions (because some employers pay extra holiday allowances or Christmas allowances). All of this refers to the time before they reach the legal retirement age. In case of earnings >€ 450/month there are deductions in disability pensions or early retirement pensions.

## Employment protection

OECD (2012b: 4) states that employment protection is not as strong as to discourage hiring or employment of older workers.

There is no special employment protection for older workers, but for those with long tenure in the company (special protection for long tenure ranges from one month after two years to seven months after twenty years, BMAS 2013: 38). Although special protection due to long tenure primarily protects older workers, this de facto older worker employment protection does not inhibit the hiring of older jobseekers.

## Wage subsidies

Recruitment of older workers can be subsidised for 1-3 years (30%-50% of the wage, in cases of disability up to 70%, and to a maximum of 5-7 years, the latter for those above 55), with successively decreasing subsidies. The maximum period of three years for those without health impairments will stay in force at least until the end of 2014 (Duell/Vogler-Ludwig 2012). Employers may also be exempt from contributing to unemployment insurance if they hire an unemployed person aged 55 or above.

An analysis by IAB (Institute for Employment Research) shows that results are good, yet different rules for different age groups were not useful. Apart from that, the minimum duration (one year) for those without health impairments is too long. In contrast, due to deadweight effects, Boockmann et al. (2007) detect the

“absence of any effects of the subsidy program on exits from unemployment in most groups [...] employers reduced unsubsidized hiring by almost the same amount as they received subsidies [...]” (pp. 12f.)

On the other hand, Deeke et al. (2010, p. 10) state that although no evaluation results are available, due to the special labour market position of older workers they consider a prolongation of the programme justified.

For those >50, pay decreases accepted to escape/avoid unemployment can be covered by 50 per cent (first year) or 30 per cent (second year) (Keese et al. 2006: 126; Bundesagentur für Arbeit, 2011: 4ff.<sup>11</sup>).

## Life cycle approaches

### *Elderly care*

Independent of company size: In acute cases, employees have the possibility to stay away from paid work for up to ten days. There is no prior notice period (since it is for acute cases). Before 2015 this leave was unpaid, since 2015 there is a substitute payment from the care insurance (‘Pflegeunterstützungsgeld’ or ‘Care Allowance’).

Further, in companies with 15+ employees, employees have the legal entitlement to stay away from paid work partly or totally for up to 6 months in order to care for a close relative in his/her homely environment. Since 2015 employees can get an interest-free loan from government to cover income

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<sup>11</sup> Similar programmes also exist or existed in Austria, Japan, the UK and the US. In Slovenia, wage subsidies are micro-targeted: the person has to be unemployed for at least one year or be in a field of labour oversupply and older than 55. This should minimise deadweight and substitution effects by supporting those with the worst job prospects (Koske 2009: 18).

losses. Normally this is paid back in instalments, but in special cases this can be deferred. In some cases it can be possible that the employee has to pay back only parts of the loan or nothing.

In companies with 25+ employees, employees have the legal entitlement to reduce their weekly working hours to at least 15 hours per week for 24 months in order to care for a close relative in his/her homely environment. Also here an interest-free loan from government can be paid out to cover income losses (same arrangements as above). These 15 hours are the weekly mean calculated over the whole year, so that in the 'bloc model' the employee can be totally absent from work for some time.

### **Age discrimination legislation**

There are two kinds of age discrimination effects on older worker's employment:

(1) direct factors concern older workers' hiring and firing probabilities, their chances to be included in further training programmes, their chances on promotion and several other factors which could reduce older workers' employment rate

(2) secondly, older workers' motivation is affected by management's attitudes towards older workers (Büsch et al. 2010: 909).

In 2006 the General Anti-Discrimination Act has been implemented (OECD 2012b: 3).

§1 of the Allgemeines Gleichbehandlungsgesetz (AGG, Equal Treatment Act) states that the goal of this law is to prevent discrimination (original: 'Benachteiligung') on grounds of several reasons, amongst them, age.

§2 defines the areas of application, amongst the areas defined in §2 (1) there are lots of work-related areas, such as selection of applicants, hiring, access to employment, access to promotion in employment, redundancies, payment etc.

§3 defines direct and indirect discrimination. The former refers to cases in which the respective person gets worse treatment due to one of the factors in §1 (e.g. age) in comparison to another person which is similar in a "comparable situation" (i.e. someone similar in other respects). Indirect discrimination refers to cases in which "ostensibly neutral rules, criteria or proceedings can put people because of one of the §1 reasons (e.g. age) at a disadvantage, unless these rules, criteria or proceedings are justified by a legal goal and the means to reach this goal are appropriate and necessary" (own translation).

§8 regulates "legal different treatment due to occupational requirements" (own translation) and allows discrimination on one of the grounds of §1 "if this ground is a relevant and crucial occupational requirement because of the kind of job to be done or the circumstances under which the job is done, as far as the goal is legal and the requirement is appropriate" (own translation).

Lastly, according to §22 (Beweislast or burden of proof) if one (e.g. an older worker) shows evidence (Indizien) that there has been discrimination based on a §1 ground, the other party (e.g. the employer) has the burden of proof to show that this is not the case.

In 2012, the Expertenkommission "Gemeinsam gegen Diskriminierung: Für eine gerechte Teilhabe jüngerer und älterer Menschen" (expert commission "Together against discrimination: For a more just participation of younger and older people", own translation) drafted and published its recommendations. Since the Allgemeine Gleichbehandlungsgesetz (General Act on Equal Treatment) protects from disadvantages in central areas of life such as work, the Antidiskriminierungsstelle des Bundes (Federal

Anti-Discrimination Agency) had asked the commission to give recommendations for action to reduce age discrimination.

On the concrete level, the commission criticised that many wage agreements automatically end the employment relation as soon as an employee reaches the legal retirement age. Further, the commission demanded better re-employment chances for older long-term unemployed (the chapter 'unemployment' above shows that meanwhile there are more political activities), and demanded the abolishment of maximum amounts of additional earnings since these are barriers to employment during the receipt of pension benefits for those under the legal retirement age. Further, the commission demands a closer examination of (unintended) negative consequences of current tariff regulations and regulations on the company level on the employment chances of other age groups as well as older workers (e.g. seniority pay or de facto seniority pay). Out of the 9 recommendations, 5 are directly related to employment. The commission suggests

- (1) to companies, administrations and social partners to improve age management in companies/organisations with the goal to sustain/improve older workers' employability. The main focus here should be the reduction of work burdens, the improvement of health prevention and the introduction of life-cycle oriented HR management
- (2) to legislators to expand possibilities for occupational training in order to achieve formal acknowledgement of qualifications which workers have acquired later in life. Further, current legislation in the Arbeitsförderungsrecht ('Work Promotion Legislation' own translation) concerning measures for further training and to occupational rehabilitation should be examined under the aspect of a better inclusion of older workers (Social Security Code III entails the Arbeitsförderungsrecht. §1 (1) states that the goal is to prevent unemployment, to shorten unemployment and to balance out labour demand and supply. §1 (2) states that individual employability is to be supported by the means of skill improvement).
- (3) to legislators to erase all regulations in the Arbeitsförderungsrecht (see (2)) which are barriers to the reintegration of older jobseekers, and  
to science to conduct research on possible exclusion risks of older jobseekers which result from active employment promotion as well as to the application behaviour of older jobseekers and hiring practices towards older jobseekers
- (4) to social partners to constantly check their collective agreements if these agreements are demographically sensible. This applies primarily to collective agreements and regulations on the company level in terms of unintended side effects or side effect on other employees.  
Further, public employers are to evaluate their practice in the case of the flexibilisation of the transition to retirement of civil servants.  
Science is to research on the effects of seniority pay on other age groups as well as on older workers.
- (5) to legislators to erase or at least considerably raise the limits on additional earnings for early retirees, as well as a flexibilisation of part-time pensions in order to allow for the part-time employment of older workers.

As Ebener and Hasselhorn (2015: 76) note, there is a lack of research on the impact of the Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz, AGG),

## 2.6 Italy

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Employment policies for older workers are partly drafted and implemented by the regions instead of the national government (Garavaglia/Lodigiani 2013: 399f. based on Corsi/Lodovici 2010: 73).

As Keese (2014: 9) states, “despite the crisis most countries have resisted pressure for early retirement measures”. This also applies to Italy against the backdrop of high unemployment.

### Pensions

Carrera et al. (2010: no page numbers, s.a. Borella/Coda Moscarola 2009: 4) state that in 2007 government replaced the ‘scalone’ scheme with a quota scheme (Law 247/2007) which takes into account the worker’s age as well as his/her years of contributions, in effect gradually increasing the retirement age from 58 (2008) to 61 (2013).

In the third major reform (after 1992 and 1995) in 2008 age requirements for pension receipt have been tightened (Borella/Coda Moscarola 2009: 2). In 2008 the Delega Act established the retirement ages of 65 (men) and 60 (women) for those with at least 40 years of contribution (previously 35 years). First steps toward equal retirement ages for men and women were taken in 2012 with the introduction of the retirement age of 65 for women in the public sector. Basically retirement with 40 contribution years is possible independently of age (Corsi/Lodovici 2010: 61). In 2009 the retirement age for women in the public sector has been raised from 60 to 61 (in 2010), to 62 (in 2012) and by one year every two years, i.e. to 63 (2014), 64 (2016) and 65 (2018; Aben 2011: 15f.). From January 2015 on the retirement age will be adjusted depending on the development of life expectancy in the previous five years (Ministero del Lavoro e delle Politiche Sociali 2012: 18, law 102/2009).

After the last pension reform (Law 214/2011), the so called ‘Fornero reform’, in 2012 the retirement age has been increased to 66 for men in the private and the public sector and for women working in the public sector. For women working in the private sector the new requirement is instead 62 years (to be reached until 2026 by an increase of one month each year), and 63.5 for self-employed women (cf. Socci/Principi 2013: 3, see also Garavaglia/Lodigiani 2013: 397 on the ‘Fornero reform’ and Ministero del Lavoro e delle Politiche Sociali 2012: 19). As stated above, before this last reform, retirement age was 65 for men and 60 for women. From January 2020 onwards, workers of both genders will retire at the same age, 67 years. The minimum contribution period has been set at 20 years (Ministero dell’Economia e delle Finanze 2012). OECD (2012a: 2) writes that from 2012 on retirement age has not only increased, but also made flexible, so that the new retirement age is between 66 and 70. OECD (2012a: 2) also writes that the minimum retirement age for women has been increased to 66 in 2018; according to the Ministry of Labour and Social Policies in 2012 the minimum age for old age pension receipt will rise to 67 until 2026 (Ministero del Lavoro e delle Politiche Sociali 2012: 19). According to OECD (2013) from 2021, no workers will be able to retire before 67 years and retirement age will go well beyond 67 after 2021. Earlier retirement (this possibility is both based on age and years of contribution) leads to lower benefits (Ferruz Agudo/Alda García 2011: 100, see also Borella/Coda Moscarola 2009: 4). By 2050, Italy’s retirement age will be at 69/67 (men, women, cf. AARP 2012). Therefore Italy is besides Denmark with 69 the top country in D’Addio’s (2014: 24) list of countries’ retirement ages (including reforms not yet in effect).

Borella and Coda Moscarola calculate three major reforms’ (1992, 1995, 2008) effects on those born between 1991 and 2000 whose retirement is, admittedly, in the very far future. Average retirement age will rise due to (1) the higher minimum age necessary for pension receipt and (2) the abolition of early

retirement incentives. The projected effects of the 1992 and the 2008 reform are remarkable: According to nonbehavioural results, before 1992 retirement age would have been at 57.9/55.4 years (men/women), after 2008 at 62.2/61.4, that is, about 5 years higher. The behavioural<sup>12</sup> effects show a rise from 59/56.2 to 62.8/61.5 years (Borella/Coda Moscarola 2009: 10). Since the behavioural model is the model assuming that workers retire at the maximum utility point (Borella/Coda Moscarola 2009: 21), one might assume that this model is more realistic than the model using the earliest exit route. Based on this, main effects on retirement ages have been achieved by the 1995 reform (for women) and the 2008 reform (for men). These projected values should be revised (e.g. effective retirement age will be probably higher) since after the last pension system reform (enacted in 2012) retirement age has been increased further and access to early retirement has been restricted further.

The shift from a generous DB (defined benefit) system to a NDC (notional defined contribution) system in Italy leads to higher retirement ages since those affected want to keep adequate pension entitlements (Borella/Coda Moscarola 2009: 22; the shift took place due to the 'Fornero reform' cf. Garavaglia/Lodigiani 2013: 398). Ciccarone (2012: 3) states that since 2012 benefit calculation is based on a mix of both DB (based on the years of contributions up to 2011) and a notional defined contribution quota based on contributions paid from 2012 onwards, which should speed up the introduction of the NDC scheme.

NDC pay-as-you-go schemes resemble funded schemes since in NDC systems contributors "accrue interest on the contributions into personal accounts, which are, on retirement, converted into annuities. They feature the closest link between contributions and benefits..." (Börsch-Supan 2012: 7). The relationship between contributions and benefits is strongest in NDC schemes (even stronger than in a point system which is to be found in France and Germany), so that these schemes come close to funded schemes (Börsch-Supan 2012: 7) and provide high financial incentives to delay retirement.

EU directive 54 (2006) demanded equal opportunities and equal treatment for men and women concerning employment and education. This required EU countries to adjust retirement ages. As Bertelsmann (2010: 19) writes, against the backdrop of family obligations of women in Italy, the country had planned a long transition period until 2018 to be accompanied by stronger family policies, which has been considered 'unacceptable' by the EU since the different retirement ages for men and women are considered discriminatory.

Belloni and Alessie (2010: 28) evaluate a hypothetical pension reform with an early retirement age at 60 and the normal age at 65. In the model, pensions are decreased by 6 percentage points for every year of retirement before 65 and increased likewise for working after 65. This would strengthen incentives for silver work against the backdrop of current increments of 2 percentage points (Belloni and Alessie 2010: 28 state that the current regulation is a strong retirement incentive). Their model projects a rise in the average female retirement age by about 2 years and of about 1.5 years for men (2010: 29). The positive effect is caused mainly by tighter eligibility criteria and less by the actuarially fair pension formula.

The high share of self-employed amongst older Italian workers (see below) restricts effects on pension reforms for employees.

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<sup>12</sup> The nonbehavioural rule assumes that „each individual retires as soon as possible” (Borella/Coda Moscarola 2009: 10), whereas the behavioural model is based on a “retirement decision rule estimated by Alessie and Belloni (2009) on a sample of Italian workers during the period 1985-2000” (Borella/Coda Moscarola 2009: 7). As Borella and Coda Moscarola (2009: 7) note, this model emphasises the key role of financial incentives provided by the retirement scheme, which in turn is based on US research by Gruber and Wise 2004, Coile and Gruber 2000 and Baker et al. 2003. Therefore the behavioural model incorporates the 'optimal age' scenario whereas the nonbehavioural model uses the 'minimum age' scenario (Borella/Coda Moscarola 2009: 7).

### *Early Retirement*

Reforms in the last 20 years have restricted access to voluntary early retirement.

Due to the Dini reform (1995) the retirement age has been flexible between 57 and 65 for men and women, yet early retirement was possible only if the retiree received pension benefits 20 percent higher than social allowance (Scopelliti 2009: 5).

The Maroni (or Maroni-Tremonti) reform of 2004 rose the minimum age for retirement from 57 to 60 years (from 2008 on, Scopelliti 2009: 3). Scopelliti also states that the criticism against the reform resulted from the fact that some cohorts have been penalised strongly, the cohort born 1951-1955. Surely a strong rise in the retirement age or early retirement age has always the advantage of effects stepping in soon, but the downside of special cohorts being hit strongly.

In 2007 the Prodi reform changed the rise of the retirement age from a big step to numerous small steps (Scopelliti 2009: 3). Besides some expansionist elements expected to raise pension expenditures, the Prodi reform introduced a quota for early retirement which can be fulfilled with a combination of age and work history: In 2009/2010, 2011/2012 and 2013/later the quotas are 95/96/97, which can for example be filled with age 59 + working years 36 (=95) in 2009/2010, with age 60 + working years 36 (=96) in 2011/2012, and with age 61 + working years 36 (=97) in 2013 and later. With 40 working years retirement was possible irrespective of age (Aben 2011: 15). The age for the self-employed is one year higher (Carone/Eckefeldt 2009: 598). In 1999 it was decided that those doing heavy work and "some categories of night workers" can enter early retirement after 35 years of contributions (Ministero del Lavoro e delle Politiche Sociali 2012: 19).

The 'Fornero reform' (December 2011) limited access to early retirement; from 2012, early retirement is possible with 42/41 (men/women) contribution years and 1 month and leads to lower pensions benefits (Garavaglia/Lodigiani 2013: 398, see also Ciccarone 2012: 3). Indeed, to discourage early retirement, the reform implies a reduction in the pension income of one percent for each year that early retirement is accessed before the age of 62 years. If early retirement is accessed before the age of 60 years, this reduction amounts to two percent for each year of early retirement.

A gradual yearly increase of the contribution period has started in 2013. There were, however, some exceptions to this general rule. For example, workers employed in physically demanding jobs maintained the possibility to retire with 35 years of contributions. From 2013, statutory retirement age and contribution requirements are re-calculated every three years in accordance to life expectancy at 65 years. From 2021, the calculation will occur every two years (Ministero dell'Economia e delle Finanze 2012).

However, since 2008, thanks to the "opzione donna" (i.e. "option woman") plan, an experimental programme introduced by Law 243/04, women in the public and private sector have the option to take early retirement at 57 years old and 3 months (58 and 3 months if self-employed) with 35 contribution years, though accepting that the pension is calculated through a fully contribution-based calculation instead of through the retributive system. The 'Fornero reform' has extended this early retirement option for women until December 31, 2015. However, due to the transition to a fully contributive system, women workers who choose this form of early retirement, on average, have a reduction of the pension allowance ranging around 25-30%, compared to what they would get with a mixed system. From 2009 to October 2014, about 33,000 women took advantage of early retirement (accepting a reduction in the pension amount) due to the "option woman" program (Pensioni Oggi 2014).

## **Work after retirement / silver work**

As part of the Prodi reform of 2007, the combination of pension receipt and wage income has been made possible (Aben 2011: 15). Previously, especially for employees there have been some restrictions (Carone/Eckefeldt 2009: 599).

It is possible to receive pension benefits without being retired, yet there are strong financial incentives not to combine work and pension receipt (Belloni/Alessie 2010: 7).

From January 2009, the Italian legislation (DL n. 112/2008 as enforced by Law n. 133/2008) allows the full combination of paid employment and pension incomes, thus facilitating regular work for older people receiving pensions.

Pensions calculated according to both the previous (retributive) and the new (contributive) schemes can be fully combined with employment or self-employment income. Limits to combining them and consequent reductions in individual pension payments established by previous law, remain in the cases of invalidity pensions and allowances (*assegno di invalidità*) and for employees who transform full-time into part-time work. The latter is a 1996 exception to the general rule that in order to be eligible for receiving a pension, an Italian employee must before quit his/her employment relationship with the employer (while this obligation does not exist in the case of self-employment).

Furthermore, the recent labour market reform abolished the possibility for employers in large companies, to fire a worker who reaches the statutory retirement age, in order to allow workers to possibly work until the age of 70. The latter means that in large companies, employers have the right to fire a worker aged 70 years or more.

Whilst it is mandatory for employees to resign in order to be entitled to pension benefits, there is a high probability that pensioners re-enter the labour market. They are often hired by means of one of the non-standard contracts provided by Italian legislation, notably as freelance workers and in some cases under the obligation of invoicing (so called *co.co.co.* or *Titolari di partita IVA*, namely VAT payers), because these contracts were traditionally less burdensome in terms of taxation for both employees and employers. In this regard it is worthwhile to note that precise restrictions to the use of these flexible and temporary contracts, which were introduced by the labour market reform of 2012 in order to avoid irregular work, probably reduced some of the opportunities previously exploited by employers to re-employ older workers after their retirement from their earlier main career (Principi et al. 2012; ISFOL 2013).

## **Unemployment**

As in other countries, in Italy older workers are higher protected so that the probability of becoming unemployed is low, but if they do, the probability of getting a new jobs is also low (Garavaglia/Lodigiani 2013: 400, for the EU D'Addio 2014: 10 shows this). Between 2009 and 2013 the unemployment rate of those between 55 and 64 rose, especially amongst the low skilled (from ca. 5% to ca. 10%) and the medium-skilled (from ca. 3% to ca. 5%) but less so amongst the high skilled (from ca. 1% to ca. 2%, cf. Raitano 2014: 5, males). Generally, in Italy there are huge differences in employment rates between workers of different skill levels (Raitano 2014: 4 based on 60-64 year old males).

Like the disability scheme, the unemployment scheme can serve as a proxy early retirement scheme.

Lista di Mobilità (introduced in the early 1990s) grants unemployment benefits for unemployed who have been dismissed; some configurations depend on whether the former company had at least 15 employees or not. The length of eligibility depends on age at the time of dismissal (since older workers are believed

to be less attractive to employers): 1 year for those under 40, 2 years for those 40-49, 3 years for those over 49 and even longer for those being dismissed close to retirement age. In the latter case it is called *mobilità lunga* ('long mobility'). During *mobilità lunga* receipt, temporary employment is possible without losing the *mobilità lunga* status (Paggiaro et al. 2009: 38). Benefits decline from a replacement rate of 80% in the 1<sup>st</sup> year to 64% in the 2<sup>nd</sup> and 3<sup>rd</sup> year.

Paggiaro et al. (2009: 39) state that, against the backdrop of the generally accepted view that the combination of active and passive components is promising, the programme lacks an activation component:

“Workers in the LM (*Lista di Mobilità*, author) should in principle fulfil some obligations....an LM worker who refuses an appropriate job offer by the local public labour exchange is dropped from the programme, however, enforcement of these rules is largely absent” (Paggiaro et al. 2009: 42).

Paggiaro et al. (2009: 39f.) state that the lack of a control group or comparison group makes any evaluation hard. Yet, using different entitlement periods for unemployed persons from different age groups they can assess the impact of the length of eligibility periods (1, 2, or 3 years for those <40, 40+ and 50+). Using a regression discontinuity design, validated by the fact that those just below or above the cut-off age are similar in all other crucial aspects, Paggiaro et al. (2009: 49ff.) show that the 40-year threshold is partially relevant for re-employment rates: E.g., after 24 months women over the threshold who are eligible for 24 months have a lower re-employment probability than women who were eligible for only 12 months, whereas after 36 months the difference vanished. More tellingly, re-employment rates after 36 months between those under and over 50 (those who are eligible for 24 or 36 months) differ strongly, between 60%/50% (men/women) for those with shorter eligibility and 20% (men/women) for those with longer eligibility<sup>13</sup>. Paggiaro et al. (2009: 63) conclude that “the provision of the ‘long mobility’ does have perverse effects on these (over 50, author) workers, as it operates as an incentive to early retirement”. This attunes to Belloni and Alessie (2010: 7) stating that *mobilità lunga* can temporarily assist workers collectively dismissed during a recession. At the same time, older workers with bleak re-employment prospects can retire prematurely using the scheme to bridge employment and retirement.

At the same time, unemployment benefit replacement rates for those not covered by *Lista di Mobilità* are quite low in international comparison (Paggiaro et al. 2009: 41).

Since 2009 employers hiring workers who have paid social security contributions for at least 35 years and get the mobility allowance '*indennità di mobilità*' (an unemployment benefit) pay reduced social security contributions for the respective worker until his/her retirement (OECD 2012a: 3). The measure is specifically addressed to unemployed workers over 50 who are willing to accept pay drops in their new job. An additional measure is that older laid off workers can get an apprenticeship contract at a new company and learn new skills, whereas the new employer gets half of the mobility allowance for two years.

The 2010 budget law contains government subsidies for social security contributions for those unemployed workers with at least 35 years of contributions who take up new work with up to 20% lower pay; these subsidies can be paid until legal retirement age. The law also widened the circle of companies whose employees could be eligible for wage subsidies (Garavaglia/Lodigiani 2013: 399). Concerning the first point, Ministero del Lavoro e delle Politiche Sociali 2012: 20 writes about pension contributions and

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<sup>13</sup> Data from the Venice region 1992-1995, n = ca. 24 000.

not social security contributions per se). The budget law followed requests by the European Commission (Ciccarone 2012: 3).

During the recent economic crisis, a number of measures were enforced by the Italian government and the regions, which were addressed at widening the range of workers receiving unemployment benefits and better coordinating active and passive employment measures. In this context, older workers were often explicitly identified as one of the target groups. In 2012, the Government and the social partners endorsed a comprehensive labour market reform which, among other things, has envisaged firm level agreements aimed at subsidising pension contributions of older workers approaching statutory retirement age. The same reform has introduced, from 2013, a new incentive to hire long-term unemployed workers over 50, containing 50% tax reductions for 12/18 months, according to the age of the workers, their job position and their type of contract (fixed/open-ended) (Socci/Principi 2013: 21). The new legislation has also confirmed the longer coverage of unemployment benefits for workers aged 55 and older (in comparison to younger workers), and has left untouched traditional job protection schemes. Only the remaining and main pathway out of the labour market, that is the so called 'mobility allowance' (*Mobilità*), (which offers benefits and a special fast track by public employment services, for workers fired in case of firm crisis and/or conclusion of the coverage of other job protection measures), will be abolished from 2017 onwards.

Furthermore, recently Italy is moving towards a universal unemployment benefit insurance system, as indicated in the 2012 labour reforms (Law 92/2012) and strengthened in the so-called "Jobs Act" (see below) (OECD 2014) Indeed, starting from 1 January 2013, a new unemployment benefit scheme (*Assicurazione sociale per l'impiego* - ASPI), which will gradually replace the current unemployment compensation (i.e. unemployment compensation [indennità di disoccupazione] and mobility allowance [mobilità]). This benefit scheme is provided, under certain circumstances, to people who have been dismissed. The benefit will be approximately equal to a maximum of Euro 1,150 per month, paid for a maximum period of 12 months. By 2016 the maximum duration will increase to up to 18 months for those aged over 55. The employers will contribute to its funding.

The Italian system also provides another important compensation measure with a two-fold enforcement: the Income Redundancy Fund (Cassa integrazione guadagni ordinaria, i.e. Cigo) or Extra Income Redundancy Fund (Cassa integrazione guadagni straordinaria, i.e. Cigs). This measure was not particularly affected by the 2012 reform. Cigo provides income compensation to workers within a short-term unusual firm crisis, while Cigs addresses situations of structural and persistent crisis with a high risk of being fired. Workers under Cigo or Cigs measures are considered still at work and are not officially calculated as unemployed (so they cannot perform other salaried work) (Principi et al. 2012: 21).

### **Part-time pension / part-time work**

The 2007 budget law contained the 'Solidarity agreement between generations' programme. It allows to transform contracts of workers 55+ from full-time to part-time if this is accompanied by new part-time jobs for people under 25 or university graduates 25-30 years old. The measure has not been implemented (Ciccarone 2012: 5; Garavaglia/Lodigiani 2013: 399). The project 'Generational relay' is similar. Launched in 2012, there are some regional pilot projects (Garavaglia/Lodigiani 2013: 399). In this project, older workers' working hours are half-time instead of full-time (and pay would be half) and younger workers would do the other half of the job. In total, employers would have lower wage costs (since due to de facto seniority pay the extra half job for younger workers is cheaper than the half job for older workers), but since for older workers full social security have to be paid (that is what makes the programme attractive to them), the plan is costly for taxpayers (Emsden 2013). The plan has been criticised since it re-allocates work instead of creating new work (Emsden 2013). There can be deadweight effects if some of the jobs

for younger workers would have been created without the subsidy, whereas the extent of deadweight is not known. Another problem is that older workers are unwilling to cut their hours if this would cause financial problems due to the combination of low hourly wages and high living costs (Emsden 2013), and since the pension received during the part-time employment relationship, is reduced proportionally to the reduction of working time (max 50%).

### **Health / disability**

As a result of the EU framework health and safety legislation coming into effect in 2008 (In Italy, health and safety at work are regulated by Legislative Decree Law 81/2008, known as the Testo Unico Sicurezza Lavoro, subsequently amended by Legislative Decree no. 106 of 3 August 2009), in 2009-2011 the new legislation on health and safety at the workplace has been implemented with new obligations for both employers and employees (Socci/Principi 2013: 5). Basically, the share of persons 55-64 reporting to having had one or more work-related health problems in the past 12 months is very low in Italy (7.8% in contrast to 15.8 in the EU-27). Similarly, only 7% of Italians 55-64 not seeking employment do so due to health reasons (EU-27: 16.8%; Ciccarone 2012: 7, 12, 15). One may conclude that bad health is a rather unimportant obstacle to extended working lives in Italy.

Law 68/1999, regulating the right to work of disabled people has been largely circumvented and disregarded (Socci/Principi 2013: 21). According to this Law, each firm must employ up to 7% of persons from this category of people. This often triggers corruption episodes in the commissions responsible for issuing disability certifications. Forged disability certificate costs taxpayers over € 8 billion per year (The European House-Ambrosetti Foundation 2014).

In 2009 a law has been introduced trying to reduce the number of 'fake invalid people' ('falsi invalidi') with the introduction of stricter controls (Ciccarone 2012: 4). Based on older figures, Ferrera (1996) has shown that the number of disability benefits recipients is very high especially in the poorer Southern region, suggesting that disability benefits serve as substitutes when other sources of income are not available.

The 2012 Stability law facilitated the use of part-time work and telework for disabled workers (Ministero del Lavoro e delle Politiche Sociali 2012: 21).

### **Self employment**

In Italy, a large share of older workers are self-employed (over 30% of male workers between 55 and 64 and more than 70% of those males working at 65 or older, cf. Anxo et al. 2012: 5). Yet, as Socci and Principi (2013: 18) note, work after retirement can be formally designed as self-employment whereas the conditions and tasks are similar to employees, so that the share of self-employed silver workers could be overestimated.

### **Public employment**

Among the 34 OECD countries, Italy has the highest share of workers in the public sector older than 50 years: in 2009, 49.2% (about 1 in 2) were over 50 (OECD 2011). The reasons for this are the hiring/turnover freeze by the public sector in the last years and pension reforms that have delayed retirement from the labour market (CNEL 2011).

Furthermore, it is not easy hire new older workers through public competitions (the recruitment process in the Italian public sector is possible only through public competitions, regulated by the law), due to the turnover freeze mentioned above (Principi, Checcucci and Di Rosa 2012).

## Employment protection

Employment protection in Italy is usually considered high, especially for employees of larger companies (Paggiaro et al. 2009: 41). The protection of core workers is a typical trait of conservative or Mediterranean welfare states (e.g. Ferrera 1996: 19), in which there is a widespread dualism in the labour market between highly protected permanent workers (i.e. among which older workers) and low protected temporary workers (usually young people), so between insiders and outsiders. Despite this, from late 1990s, Italy has implemented some reforms for increasing the flexibility of its labour market and to reduce the employment protection of the labour force (i.e. Law No 196/1997, the so called “Treu package”; Law No 30/2003, the so called “Biagi Law”). Also as a result of such measures, according to OECD (2009), in recent years employment protection in Italy does not seem to be outstandingly strict than other OECD countries, and in particular in comparison with some European member states. For example, taking in consideration the Employment Protection Legislation (EPL)<sup>14</sup>, in 2013 according the OECD, in Italy there was less protection than in Germany and in France in terms of “protection of permanent workers against individual and collective dismissals”<sup>15</sup>. Furthermore, in Italy the value (2.71) related to the indicator “regulation on temporary forms of employment” is lower than in France (3.75) and Spain (3.17). However, still with reference to EPL indicators, Italy has a more strict regulation (and so more protection) than most of other EU-countries (except for Belgium) concerning “specific requirements for collective dismissal” (OECD Employment Protection Database, 2013; cf <http://www.oecd.org/els/emp/EPL-data2013.xlsx>). Indeed the Italian labour code (called “Workers’ Statute”) establishes basic rules making dismissals in large companies very difficult to put into practice and their implementation are a source of rigidity and contrasts, even though only one quarter roughly of the labour force (among which many older workers) is directly protected by it (OECD 2009). This is the main picture of the situation, even though a new reform of the Italian labour market recently approved (see the section “Further reform suggestions”) has the aim to change the “rules of the game”, for example by largely removing the employment protection for workers with an open-ended contract (also) in large companies. However, it is important to underline that in Italy employment protection is not regulated on the grounds of age, but rather it progressively increases with job tenure, and this is the rule for workers employed both in private companies and in the public sector. Since older workers usually have longer job tenure than younger employees, obviously they are the most protected in the Italian labour market. Furthermore, workers in the public sector are more protected than employees in private companies. The Italian model of employment protection linked to job tenure that protects mainly older workers, seems to cause some problems to younger workers in entering the labour market (the youth unemployment rate in Italy is very high), in particular through an open-ended contract (firms tend to hire young, inexperienced workers only through temporary contracts - OECD 2014).

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<sup>14</sup> Employment protection legislation (EPL) consists of rules and procedures that define the limits for firms to hire and fire workers in private employment relationships. Its features are regulated not only by laws but also by collective and individual labour contracts.

<sup>15</sup> In a scale from 0 (least protection) to 6 (most protection), the Italian value of this indicator is 2.79 vs 2.82 in France and 2.98 in Germany.

## **Wage subsidies**

Lista di Mobilità grants subsidies for companies hiring a Lista di Mobilità unemployed in the form of reduced social security contributions for up to two years. Further, companies giving permanent contracts to unemployed workers get up to 50 per cent of the benefits the person would have received in case of further unemployment (Paggiaro et al. 2009: 37). As Paggiaro et al. note, this resembles the benefit transfer scheme proposed by Snower (1994).

In 2010 it has been decided that companies hiring older workers who were entitled to unemployment benefits do not have to pay social security contributions for those workers.

## **Life-cycle approaches**

Older women's support is crucial for young parents when it comes to balance work and family responsibilities (Garavaglia/Lodigiani 2013: 402). Government assistance for young parents and especially young women in childcare unburdens older female workers from family obligations and raises their ability for paid employment.

### *Reconciliation of work and care*

The law provides for some kinds of paid care leaves for workers, among which the main ones are:

- 1) Law No 104/1992 - Three days of paid leave per month, to care "severely disabled" people (i.e. those who have been recognized as such by the Health Commission instituted according to art. 4 Law 104 / 1992).
- 2) Law No 388/2000 – Up to two years of care leave, during which the employee receives a monthly amount equal to the normal monthly salary up to a fixed threshold set up each year by the Ministry of Labour (which is equal to Euro 322.15 for 2013) (Toffoletto, Nespoli and Patané 2014; Santini, Lamura and Principi 2011).

## **Age discrimination legislation**

Article 3 of the Italian Constitution contains a general equality principle. On the one hand, Article 37 safeguards equal treatment and mentions age only as a minimum limit for salaried workers. The application of the general principle is committed to the Workers' Statute (Statuto dei lavoratori) and the L.D. 216/2003, which acknowledged the 2000 European Directive n. 78/EC, establishing the general framework for equal treatment in employment and occupation (Principi et al. 2012).

## **Other Issues**

### *Job placement*

The 2010 Finance Act and following amendments in the same vein introduced financial incentives for private employment agencies for the placement of disadvantaged workers; workers over 50 belong to this group (Ministero del Lavoro e delle Politiche Sociali 2012: 20). Further, in 2011 job placement has been completely deregulated, so that also the following persons/institutions are allowed to facilitate workers: "High schools, public and private universities, Municipalities, main associations of employers and workers, charitable organizations, bilateral and non-profit organizations, managers of non-profit Internet

websites, the National Order of Labor Consultants” (Ministero del Lavoro e delle Politiche Sociali 2012: 21).

### *Age management*

As the Ministry of Labour and Social Policies notes, a law from September 2011 allows for the signing of agreements concerning the organisation of work, which could be used for age management practices (Ministero del Lavoro e delle Politiche Sociali 2012: 21). Up to now, the only State/institutional document mentioning age management in the working place is: a survey of the condition of older workers in Italy, conducted by the Senate Work Commission (Senato della Repubblica, 2005), that has not yielded concrete results, except for the fact that it has helped to raise awareness of the problem (Principi et al. 2007).

### *Active labour market programmes*

Generally, Italian older worker policies are focused strongly on pension reforms and less on active labour market measures (Socci/Principi 2013: 5).

In Italy, recipients of active policy actions to support the prolongation of working life are to a very limited extent retired people (Checcucci 2011; Principi, Checcucci and Di Rosa 2012).

In general, the activation policies are still extremely limited in Italy, mainly developed on the basis of experimental, contingent and short-term project-based programmes. Thus they are characterized by deep territorial differences, as well as by differences in the capabilities among the different actors operating in the same local context.

According to The European House-Ambrosetti Foundation (2014), the last pension system reform does not provide active labour policies for supporting unemployed aged over 50 seeking re-employment and does not allow any system of early retirement.

### *Further reform suggestions*

On 3 December 2014 the Italian Parliament approved the Law No 183/2014 (the so called “Jobs Act”), containing the guidelines aimed to reform the country’s labour market. The bill delegates, to the government, the adoption (within six months) of legislative decrees on the following topics:

- Social safety net. In particular, a) eliminating any protection being provided by the State in the event of the closure of a business and b) extending the unemployment allowance to some specific self-employed workers.
- Reorganisation of the incentives to hire workers.
- Simplification of the procedures for starting and managing employment contracts. In particular, one of the main parts of the bill will change the so-called “Article 18 of the Workers’ Statute”. It will remove the employment protection for workers with an open-ended contract, in the event they got fired for economic or restructuring reasons. This protection gave workers the right to sue to get their jobs back. In place of this protection, workers will get a severance cheque, whose monetary value will rise according to their seniority (i.e. years of work in the company). The full implementation of these measures will affect the employment protection of Italian workers, typically considered high (see before the section “Employment protection”).
- Reorganisation of the current different types of employment contracts, according to the following main directives: for new hiring, a permanent employment contract with increased protections according to the length of service; revision of the rules regarding jobs and the way in which

changes may be made to jobs; revision of the rules regarding the monitoring of an employee's activity, taking into account both the evolution of technology and the employee's right to privacy.

- Regarding the ASPI (see above), the duration of the allowance will be linked to the worker's contribution history. Furthermore, the government aims at the "universalisation" of the ASPI, through the extension (at the beginning on an experimental basis with defined funds) of the allowance to workers with "atypical" employment contracts.
- Updating and revision of the current legal measures concerning maternity protection and work-life balance (Toffoletto, Nespoli and Patané 2014).

At the beginning of January 2015 the government approved the first enactment measures (legislative decrees) concerning progressive job protection and the new unemployment insurance/benefits covering (since criteria to access the measure has changed) a broader number of people than the currently eligible ones, and these decrees became actual laws on 20 February 2015.

In general, a first evaluation of this new Italian Labour market reform could be possible some months after the enforcement of these new measures.

## 2.7 The Netherlands

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Between 1998 and 2013 employment rates of workers 50-54 rose slightly (69.5-79.9%), of those 55-59 stronger (47.4-71.9%) and very strong for those 60-64 (16.2-47.2%) and those over 65 (2.8 to 6.6, van den Heuvel et al. 2015b: 2).

Despite the crisis, older workers' employment rate continued to rise between 2010 and 2012 (Gasior/Zolyomi 2013: 1). Mean retirement age rose from 60.8 years (2000) to 63.9 years (2013, cf. van den Heuvel et al. 2015a: 80).

### Pensions

The Dutch retirement age will rise to 67 will be completed in 2021, and afterwards retirement age will be adjusted in line with rising life expectancy (Gasior/Zolyomi 2013: 9 based on Ministry of Economic Affairs 2014). Reassessment will happen every five years (de Grip et al. 2013: 230).

De Grip et al. (2013: 225ff.) analysed the effect of the rising retirement age on individual retirement expectations (public sector employees, 2011, n = ca. 3200). Those born between 1955 and 1959 whose legal retirement age has been raised by 12 months raised their expect retirement age by 3.6 months on average. Those born between 1960 and 1964 whose legal retirement age has been raised by 24 months raised their expected retirement age by 10.8 months (de Grip et al. 2013: 239f.<sup>16</sup>). In the case of this latter group, there are huge gender differences: Men expect to retire 6.9 months later, women 17.4 months. De Grip et al. (2013: 240) state that is largely an income effect, so that those with higher earnings are primarily male and can afford to accept pension cuts when they ignore higher legal retirement ages.

This is supported by the fact that those who built up pension rights in the second or third pillar raise their expected retirement age less (the effects are 0.5 months weaker for every year a worker born 1955-1959 contributed to the second pillar and 0.3 months for those born 1960-1964, cf. de Grip et al. 2013: 242). Naturally, as stated in the general chapter, retirement expectations deviate from actual retirement behaviour. The pillars which dampen the effect of a higher legal retirement age on expected retirement age are the second and third pillar:

The second pillar consists of (1) industry-wide pension funds (e.g. for the civil service, construction, hotel and catering, or retail (Bedrijftakpensioenfondsen), (2) Corporate pension funds (for a single company, Ondernemingpensioenfondsen) and (3) funds for independent professionals (medical specialists, dentists etc.; Pensionfederatie.nl 2014: 10). It is "quasi-mandatory" and covers ca. 90% of Dutch workers (Guardiancich 2010: no page numbers), so that the second pillar's effect on pension entitlements is considerable.

The third pillar consists of private pensions, often with tax advantages (Pensionfederatie.nl 2014: 13). Yet, it is no crucial source of old-age income yet.

Compared with the German 'pension with 67' reform, the Dutch reform has been agreed on later, affects later cohorts (from 1955 on instead of 1947 in Germany), but contains a steeper rise in the retirement

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<sup>16</sup> Van den Heuvel et al. (2015b: 13) refer to several studies showing „that financial factors play a large role in determining the employment participation of older (Dutch, *authors*) workers“.

age, so that the first Dutch cohort with the legal retirement age of 67 is the 1960 cohort, whereas it is the 1964 cohort in Germany.

### *Early Retirement*

The exact configuration of early retirement rules is determined at the sectoral level based on negotiations between trade unions and employers (Lammers et al. 2013: 35).

Sonnet (2014: 18) states that in the Netherlands (and France) “in particular those [formal early retirement schemes] funded by public budget have almost disappeared”.

Established in the 1980s explicitly in order to free up jobs for younger workers, the Dutch VUT scheme (“Vervroegde Uitredding” or Early Retirement) has been the main pathway out of paid work for older workers. In 1997 government in cooperation with social partners replaced VUT with less generous schemes financially punishing those retiring early (van Oorschot/Hvinden 2001: 272f., s.a. Bovenberg/Gradus 2008: 272). The reforms, not to be described here in detail since it is a long time ago, have raised the mean Dutch early exit age (van Oorschot/Hvinden 2001: 272f. based on various sources).

Later VUT/early retirement schemes have been replaced by funded schemes and, since the latter are actuarially fair, this provided incentives for delayed retirement (Bovenberg/Gradus 2008: 272, s.a. Euwals et al. 2010: 211). Further, from 2006 on, tax exemptions for pre-pension premiums got abolished (van Oorschot/Hvinden 2001: 272f., s.a. Bovenberg/Gradus 2008: 272).

For public sector workers, favourable tax treatment of early retirement benefits has been abolished for those born after 1949 or with a too short tenure in public sector. Amongst other things, pension benefits are reduced and retirement before or after 65 is financially punished or rewarded (de Grip et al. 2010: 6, s.a. de Grip et al. 2010: 5 referring to public sector workers).

The “Life course savings” programme (Levensloopsregeling) introduced in 2006 allowed Dutch workers the tax-free saving of up to 12% of their earnings to cover times of non-employment, such as sabbaticals or early retirement (de Grip et al. 2010: 6). Maximum savings are 210% of yearly earnings; if this is reached workers can take 3 years of leave with 70% of earnings, so that this scheme enables early retirement of 3 years (Devisscher/Sanders 2008: 121).

The Life Course Saving scheme has been abolished in 2012 and was to be replaced by a new saving scheme, the so-called the Vitality scheme, (Vitaliteitsregeling) in January 2013 (Gasiar and Zolyomi 2013: 9 based on Skugor and Bekker 2012). However, the Government decided not to introduce this new scheme due to budgetary constraints (Delsen and Smits, 2014).

The change from the pay-as-you-go early retirement scheme, where early retirees still accrued pension entitlements, to a the capital-funded scheme where this is not the case (s.a. Bloemen et al. 2011: 10), discourages those receiving earnings-related unemployment benefits to enter official early retirement, since in the unemployment scheme they still accrue pension entitlements (Lammers et al. 2013: 36). Although eligibility age for early retirement has been decreased from 60/61 to 55 (Euwals et al. 2010: 211), older workers’ labour supply has been raised by the reform due to the new financial incentives (Euwals et al. 2010: 232, see also Gasiar/Zolyomi 2013: 4). For example, previously the calculation of pension levels based on the last years before retirement discouraged part-time work before retirement, since lower earnings led to lower pension entitlements. This disincentive has been abolished/mitigated with the calculation of pension entitlements based on average income over the whole lifetime (Gasiar/Zolyomi 2013: 10, also noting that individual workers’ possibilities for gradual retirement depend on the pension fund and therefore sector they are in, some allowing it earlier, some later, some not).

## **Work after retirement /silver work**

The 2006 pension reform contained the rule that workers may decide to work until 70 (de Grip et al. 2010: 6). Guardianchich (2010: no page numbers) writes that it is possible to combine work and pension receipt, yet pension deferral is not possible.

## **Unemployment**

In the past, re-employment rates for older unemployed were very low: Based on data from 1999-2005, de Graaf-Zijl and Hop (2007: vi) show that five years after the start of unemployment only 60 per cent of those aged 45-54 found a job and only 30 per cent of those over 55. Further, participation in re-integration activities did not or only marginally increase job finding probabilities for those aged 45 to 65 (de Graaf-Zijl and Hop 2007: vi-vii).

The Dutch unemployment benefit scheme (WW, Werkloosheidswet) is less important as an early exit route than the disability scheme. One important reform has been the abolishment of the 'vervolguitkering' (follow-up benefit) in 2003. It allowed workers to receive flat-rate non-means-tested low unemployment benefits after their earnings-related benefits expired after 5 years (5 years of earnings-related benefits were paid out to those with at least 4 years of work in the last 5 years before unemployment, cf. Bertelsmann 2010: 29). Introduced in 1987 in order to bridge the time between unemployment and retirement, the abolishment took place in order to reduce the resulting long-term inactivity of older workers (van Oorschot/Jensen 2009: 273).

Further, in 2004 job search requirements for workers over 57.5 years were reintroduced (Lammers et al. 2013: 32, Bloemen et al. 2011: 8), which has, according to Bovenberg and Gradus (2008: 267) raised the employment of older workers. This view is supported by Bloemen et al. 2011: 1ff., stating that the probability to find a job within the first 24 months of unemployment has been raised by 6/11 (men/women)%points, despite parallel higher outflow to the disability scheme. Similarly, Lammers et al. (2013: 32) show that "stricter search requirements strongly increase the number of individuals that find a job after a maximum of 2 years in unemployment", and these authors also found out that some unemployed switched to disability benefits because of this policy change.

Theoretically, forcing the unemployed to look for work somehow 'contaminates' the pool of those applying for jobs, since otherwise only the motivated unemployed would apply. This 'contamination' decreased the average applicant's productivity and, hence, the attractiveness to potential employers, so that Lammers et al. (2013: 36) state that at least theoretically it is far from obvious that stricter search requirements lead to more older unemployed workers finding a job. The average productivity is crucial here since employers are not fully informed about one certain applicant's productivity, i.e. the labour market is a lemon market (see 'Employment Subsidies' in the General Chapter).

As of July 2015 the obligation of the unemployed "to accept any available job as suitable employment" (SHRM 2014) steps in after 6 instead of 12 months of unemployment.

According to Lammers et al.'s (2013: 50) calculations, although theoretically higher search requirements might decrease reservation wages, post-unemployment wages were not lower for those who became unemployed in 2004 than for those who became unemployed in 2003. This implies that matching did not become worse (bad matching implies a waste of skilled labour, lower social security benefits/taxes and possibly shorter duration of new employment).

The Social Assistance Act introduced in 2004 regulates means-tested benefits. Authority and financial responsibility has been shifted to municipalities, whereas research shows that municipalities can be strongly motivated to reduce welfare rolls if they are financially incentivised (Bovenberg/Gradus 2008: 267).

In 2005, maximum duration of earnings-related unemployment benefits for the new unemployed has been made partly dependent on work history instead of age alone (whereas only from 1998 on the years somebody has actually worked count, for the time before the years potentially worked are taken, cf. Bloemen 2011: 7, which correlates perfectly with age).

Additionally, following “a unanimous recommendation of employers and unions represented in the Social Economic Council”, the maximum duration of earnings-related unemployment benefits cut from five years to three years and two months (Bovenberg/Gradus 2008: 267, Gasior/Zolyomi 2013: 10). The replacement rate drops from 75% in the first 3 months to 70%, whereas for the 75% in the beginning the precondition is 26 weeks of work out of the last 39 weeks, for the following 70% still the above-mentioned (second paragraph) 4 years out of the last 5 (whereas still a year of work is counted with 52 days of work, Bertelsmann 2010: 29). Concerning the maximum duration of earnings-related unemployment benefits, a new reform decreases it further from 38 months to 24 month in the time between 2016 and 2019.

Yet still, various characteristics cause the unemployment system to be attractive for older workers: Benefit duration is longer for them and often older unemployment are not obliged to prove job search in order to receive benefits (Lammers et al. 2013: 31). The authors conclude that reintegration activities are successful if timing is right: Beginning too early these activities lock in many unemployed who would have found work on their own; beginning too late those affected look on their own without the help they need for too long. They suggest that starting the programme after one year of unemployment is the right timing.

As a reaction to the crisis, in 2008 (abolished in 2011) a part-time unemployment scheme has been introduced, so that employers can retain (older) workers (Gasior/Zolyomi 2013: 10 based on Skugor/Bekk 2012).

While honouring the Dutch success in reducing labour market exit through disability and early retirement, Milligan and Wise (2011: 45) state this has been accompanied by increasing inflow into unemployment.

### **Part-time work / part-time pensions**

Van den Heuvel et al. (2015: 2) state that part-time work is high; amongst those 55-64 it is about as high as in the whole population, that is, about 50% in 2013. The Eurostat website shows that this is extraordinarily high; the Netherlands are by a long way the top part-time country in Europe. This relativises the high employment rates.

### **Health / disability**

Since nearly all Dutch males with good health are employed “well into the fifties”, García-Gómez et al. (2011: 152f.) see only low potential here for increasing participation rates, and a similar situation in the case of females. Therefore the authors suggest that policies should be focused on those with health impairments.

De Jong (2012: 2ff.) provides an overview of Dutch disability reforms.

The Netherlands had very high disability rates, whereas women and older workers were the most strongly affected groups (Bovenberg/Gradus 2008: 268; the authors enumerate various reasons for the popularity of Dutch disability benefits). Data from the period between 1993 and 2002 suggests that about a quarter of disability insurance recipients consisted of hidden unemployment (García-Gómez et al. 2011: 156 based on Koning and van Vuuren 2010).

The Invalidity Insurance Act (WAO, wet op de arbeidsongeschiktheidsverzekering, introduced in 1967) has been an “important alternative” (van Oorschoot/Hvinden 2001) for the official early retirement scheme VUT (see above). In the past, the long duration of 6 years for those 58 or older and its lack of formal obligations to search for paid employment and the accrual of pension rights during receipt (in contrast to unemployment) made it more popular among older workers than unemployment. Already in the 1980s the Dutch government began to make WAO less attractive (van Oorschoot/Hvinden 2001). In 1993 the definition of disability became narrower and reassessments more frequent, resulting in a decrease in the number of disability recipients (Bovenberg/Gradus 2008: 268).

Later, the high share of disability benefit recipients declined, mainly due to policy changes:

The gatekeeper protocol, introduced in 2002, specifies the responsibilities of a sick employee, the employer and the company doctor. It enforces reintegration efforts by the sick employee and his employer; in 2004 the mandatory waiting period until disability benefit receipt has been extended from one to two years (García-Gómez et al. 154). De Joong et al. (2005, cited in García-Gómez et al. 2011: 155ff.) state that about half of the strong decrease of inflow into incapacity benefits can be traced back to the introduction of the gatekeeper protocol, and part of it to stricter screening.

The Dutch Law on Work and Income, passed in the course of the activation policies initiated in 2006, regulated the employment of those partially/temporally disabled and the income support for those fully disabled (Bertelsmann 2010: 30). In 2006, a new disability scheme (WIA, ‘Wet werk en inkomen naar arbeidsvermogen’) replaced the old WAO scheme (de Jong 2012: 1).

For those partially/temporally disabled, incentives to work were raised, and work disabilities were scrutinised more closely. In the first phase, government covered 70 per cent of the wage loss after the onset of partial disability if the worker continues to work, or 70 per cent of the previous wage if he does not work (s.a. García-Gómez et al. 2011: 155). In the second phase, those capable of working more than half of a full time position get extra payments from government dependent upon their wages, whereas those only capable of working less receive payments based on the minimum wage (Bertelsmann 2010: 30). In this phase, the level of benefits remains the same if the full work capacity is used. As García-Gómez et al. (2011: 155) state, this shows the emphasis put on work. On the other hand, it is possible that this scheme is not only a means of enabling and motivating those with health problems to work, but also that the scheme is used as a partial early retirement scheme (García-Gómez et al. 2011: 156).

Those fully disabled get 75 per cent (70 per cent before June 2006) of their previous wages from the IVA programme (Bertelsmann 2010: 30). “Wholly incapacitated” under IVA terms means the individual cannot earn more than 20 per cent of the previous salary, whereas this assessment can be based on purely medical reasons or on the combination of medical and work-related reasons (OECD 2007: 45). As OECD (2007: 45) writes, the small group labelled as incapacitated on purely medical ground includes those who are incapable to work in such an obvious way that checking their workability is unnecessary. Those with this label are bedridden, physically unable to take care of themselves, i.e. cannot perform daily tasks, living in institutions or psychologically disturbed in a way that prevents them from personal and social interaction.

Since 2004 employers have to pay for the first two years of a worker’s sickness benefits, which makes the sickness route to retirement less attractive (van den Heuvel et al. 2015a: 80). Analyses show that this,

combined with less attractive early retirement, avoided substitution of early retirement with the disability route (van den Heuvel 2015b: 13).

From 2006 on, employers' contributions to the IVA programme are no longer based on the annual number of workers who registered as disabled, and layoffs of partially disabled workers have been forbidden in order to motivate employers to care for their employees' health (Bertelsmann 2010: 30). Another activation measure was to make qualification to long-term disability benefits harder: The degree of disability needed has been raised from 15 per cent to 35 per cent, and the classification process starts after two years instead of one year (Bertelsmann 2010: 30, s.a. Bovenberg/Gradus 2008: 268f.).

Another measure is the 'separation between treatment and control': "The confidential relation between a patient and his or her doctor should not be burdened with checking the medical legitimacy of absence from work" (de Jong 2012: 7). Therefore, companies are obliged to contract an occupational physician who is also responsible for checking "the legitimacy of sick reports" (de Jong 2012: 7). De Jong points out the tension between the curative doctor, who

"to put it strongly...may keep sick workers endlessly in the medical process (until recovery), or may allow the sick to use an unfinished treatment as an excuse to have their leisure subsidised. From a social insurance perspective, however, one may want to control the damage (health expenditure and productivity loss) by trying to get sick workers back to work as soon as possible, even if not fully recovered" (2012: 7).

The Dutch government's activation policies in the 1990s via a reduction of benefit levels had been counteracted by social partners (they agreed on private pensions offsetting lower government benefits, s.a. Bovenberg/Gradus 2008: 268). Therefore Bertelsmann (2010: 30) expects a similar response now and points out that the agricultural sector has already reacted in this way. Bertelsmann (2010: 31) evaluates the reform's outcome positively due to the emphasis on reintegration, yet considers the implementation as deficient.

As a result of disability insurance reforms, by 2009 the number of disability insurance recipients per worker had decreased markedly (Kalwij et al. 2013: 2 based on Burkhauser and Daly 2011). Kalwij et al (2013: 2) summarise the reasons for the success of Dutch disability insurance reform: Instead of virtually automatic entry into disability benefit receipt after one year of sickness for those fully or partially disabled, and then receipt until retirement, now screening is stricter and receipt until pension receipt is only open to those fully and permanently disabled, and re-entry into paid employment is incentivised. Yet though work is in all cases financially more attractive than government funded passivity, amongst the passivity routes disability is still the most attractive, mainly due to the ongoing accumulation of pension entitlements (Kalwij et al. 2013: 4). The calculations provided by Kalwij et al. (2013: 45) provide crucial insights for policymakers: Whereas the level of disability benefits is virtually unrelated to the number of people on disability benefits, stricter medical screening lowers the number of disability benefit recipients.

One may conclude:

The Dutch system transformed from "probably...the most lenient program with easy access to a much more stringent program where only the severely and permanently disabled qualify for permanent benefits", accompanied by a sharp decline in the numbers of those on disability benefits (García-Gómez et al. 2011: 162). The authors conclude that

"given the current state of economic research, The Netherlands' DI system now probably comes close to the state of the art in terms of making use of the productive capacity of older workers while providing insurance to those with severe health problems" (see also Anxo et al. 2012: 11

based on Schippers et al. 2011 on the Dutch restriction of the disability scheme as a proxy early retirement scheme).

This view is not shared by Sonnet. She (2014: 19) states that in the Netherlands (as well as Norway and Switzerland) “more could be done...to further encourage people older than 50 on disability benefits to take up suitable work opportunities”.

## Employment protection

Traditionally, the Dutch dismissal law strongly protected those employed under traditional contracts and weakly protected others. The ‘Flexibility and Security Bill’ of 1997 slightly reduced the strong dismissal protection of core workers, liberalised temporary employment and raised employment security for non-standard workers (Viebrock/Clasen 2009: 315). Nevertheless, Dutch employment protection causes employers to be cautious when it comes to hiring workers who could become less productive, i.e. older workers or those with health impairments (van Oorschot/Jensen 2009: 274).

Basically there are (until July 2015) two ways for employers to lay off workers:

(1) The term of notice route (term of notice is “the amount of time a firm is required to notify a worker in advance of her upcoming dismissal”, van der Wiel 2010: 24). Here, the employer contacts the labour office. The office is allowed to refuse the application for dismissal, but does so in a small minority of cases. This route does not require severance payments (van der Wiel 2010: 18), yet it is slow.

(2) The court route. It is faster “and involves substantial severance payments” (van der Wiel 2010: 18). The court allows the lay-off and determines the level of severance payments based on the reason for layoff.

A 1999 legislation amendment serves as a natural experiment. It has been implemented with the intention to diminish differences between workers with fixed contracts and those with open-ended contracts. Before the amendment the latter group had 1 week of notice per 1 year worked, with a maximum of 13 weeks. Additionally, for each year they worker being 45 or older they got an additional week, also with a maximum of 13 weeks (van der Wiel 2010: 18). Plausibly, this regulation created stronger employment protection for older workers. A worker 58 years old with at least 13 years in the company would have a term of notice of 26 weeks (13 for the years and 13 for the years with 45 or older), i.e. 6 months.

A new law introduced a new term of notice formula for those newly hired and a transitory arrangement for others (van der Wiel 2010: 18). The new formula contained no age-related elements due to EU anti-discrimination treaties (van der Wiel 2010: 18). Terms of notice under the new law were stepwise for those with 0-4 years (1 month), 5-9 years (2 months), 10-14 years (3 months), more than 14 years (4 months, van der Wiel 2010: 18). For those already employed the term of notice resulted from their old term of notice in 1999 and the new term of notice: The longer period applies. Further, under the new law employers are allowed to subtract 1 month of notice if they end the labour agreement no sooner than they have permission from the labour office, but the term of notice should never be less than 1 month (van der Wiel 2010: 19). Though this is set by government, social partners agreed on the exact configuration in their collective agreements (van der Wiel 2010: 19). A study<sup>17</sup> based on older data (van der Wiel 2010: 20ff.) is indirectly related to employment: All else equal each additional month of term of notice raises workers’ hourly wage by 3.2% (van der Wiel 2010: 23; it is 5.7% for the lower educated and around 3% for the medium- and high-educated). Van der Wiel presents the two common explanations for this,

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<sup>17</sup> N = ca. 17 000, Dutch Socio-Economic Panel 1997-2001

(1) higher bargaining power for labour market insiders due to better employment protection and unions representing primarily those employed, or

(2) higher investment in workers' skills because laying them off is tedious and therefore costly

Her calculations do not show a lower probability of training for those with longer notice. She (2010: 24) concludes that this hints at bargaining power effects, yet states that this is only suggestive.

Basically and probably unintentionally, the law amendment weakened primarily older workers' employment protection and therefore seniority pay (stronger effects for the lower educated), which should increase labour demand for newly hired older workers, against the backdrop of weaker protection for those already employed. Van der Wiel's calculations based on Dutch policy amendments show that negative effects from employment protection on employment levels are possibly not merely caused by employers being reluctant to hire workers when firing is complicated, but also via employment protection's effects on wages.

From July 2015 on the employer will no longer be able to choose between both routes mentioned above. If someone is dismissed because of economic reasons, this is done via (1) the Employment Insurance Agency (UWV, Uitvoeringsinstituut Werknemersverzekeringen). If dismissal is due to reasons lying within the person, (2) the court way applies (SHRM 2014).

#### *Active labour market programmes*

"active labour programmes have been extended and regulations have been introduced to provide temporary agency workers with employment protection, rights to training, wage guarantees and supplementary pensions (Wilthagen 2007). In short, the position of workers on temporary contracts has been strengthened without compromising labour market flexibility (European Commission 2007)" (Viebrock/Clasen 2009: 315).

#### **Wage subsidies**

There are government subsidies for the hiring and retention of older workers such as the Mobility bonus, where the employer's contribution is reduced if hiring a worker who is older than 50, or the No-risk-policy (OECD, 2014). In the case of the latter, if an employee aged above 55, who has previously been unemployed for at least a year, becomes sick in the first five years of the new job, then the sickness insurance is paid fully by the Public Employment Service on behalf of the employer.

#### **Life-cycle approaches**

As a part of Dutch flexicurity policies, "measures have been taken to spread work, care and education more evenly over the lifecycle" (Viebrock/Clasen 2009: 315).

#### **Age discrimination legislation**

According to Conen et al. (2011: 144), age discrimination is an important reason of Dutch early labour market exit. The authors refer to de Koppers et al. (2009), according to whom about one fifth of Dutch workers between 55 and 64 reports to be discriminated against on grounds of age. Since it is plausible that the rate is higher amongst those in this age bracket who no longer belong to the work force, this self-selection bias results in an underestimation of the share of those between 55 and 64 who perceived age discrimination or would have perceived age discrimination if they would have still worked.

In 2004 the Age Discrimination in Employment Act has been introduced, prohibiting age discrimination in the filling of vacancies or the beginning or termination of labour relations. Those who consider themselves affected by age discrimination can ask the Dutch Equal Treatment Commission to inquire; between one quarter and one third of cases brought forward are considered cases of age discrimination by the Commission (Conen et al. 2011: 144).

Further, vacancy announcements are screened under age discrimination aspects (Sonnet 2014: 20).

Besides legislation, in the Netherlands (as well as Finland, the UK and some other countries) employers have been given tools and information to deal with an older workforce (D'Addio et al. 2010: 626).

Van den Heuvel et al. (2015: 81) state that they found no studies on the effects of age discrimination legislation on older workers' employment.

## **Other issues**

### *Workability*

Dutch government supports an organisation (Stichting Blik op Werk, BoW) that supports the use of the work ability index developed in Finland (Botti et al. 2011: 21). BoW still exists (<https://www.blikopwerk.nl>) and also supports the unemployed and disabled

## 2.8 Poland

Jürgen Bauknecht | Izabela Styczyńska

In Poland there has been an exceptionally strong rise in the number of working people 55-64 between 2000 and 2015 (Wöss 2014: 4), and this happened against the backdrop of adverse cohort effects (Peschner 2014: 8). The rise also has been caused by the fact that “early exit incentives were definitely reduced in 2008” (Żołniercz-Zreda 2015a: 86).

Yet, in a European comparison Polish older worker employment rates are still low, especially in the case of women (Żołniercz-Zreda 2015a: 86).

In 2013, the Polish employment rate was above OECD average for those 25-44, and under OECD average for those 45-64 (the higher the age until 64, the higher the gap, so that in the oldest group it is 10%, cf. Sarzalska 2014: 4). As Urbaniak and Wiktorowicz (2014: 79, 82) note, the low labour market participation of those over 50 in Poland is caused by institutional factors which allowed many women over 55 and men over 60 to retire early. Primarily the low female participation rate causes Polish older workers’ employment lagging behind the EU average.

The ‘Solidarity across Generations’ programme tried to raise older workers employment rate based on the insight that early retirement raises social spending and therefore necessitates higher taxes and contributions with negative effects on the employment of younger cohorts (Styczyńska 2013: 12).

The programme, initially adopted in 2008 and renewed in 2013 contains several measures partly with the aims of improving the labour force participation of those over 50, entrepreneurship of those over 45 and postponing the effective retirement age (Urbaniak/Wiktorowicz 2014: 84 based on National Reform Programme 2020: 11). As Styczyńska (2013: 5) remarks, “the intensive implementation of the active ageing policies in Poland started in 2012, during the European Year of Active Aging”. As can be seen below, Poland’s political measures to extend working lives started late, but then wholeheartedly. EU membership has been an important incentive of changes (Ruzik-Sierdzińska et al. 2013: 133).

The programme ‘Solidarity Across Generations: Measures aiming at increasing the economic activity of people over 50’ incorporated various sub-goals, such as the improvement and adjustment of working conditions, age management knowledge dissemination amongst employees and employers as well as promoting age management in companies, showing the advantages of older workers, skill upgrading, reduction of labour costs of the employment of those over 50.

In 2011, the Ministry of Labour and Social Policy published a report on the programme years 2008 – 2010. The employment rate 55-64 increased by 3.5 percentage points for women and 1.3 percentage points for men (Ruzik-Sierdzińska et al. 2013: 133). Ruzik-Sierdzińska et al. (2013: 133) state that the assessment of the mainly legislative measures is difficult, also because of the short period and the parallel economic downturn. Referring to Fandrejewska (2011) they state that there has been criticism concerning the cost/benefit ratio. Further, Ruzik-Sierdzińska et al. (2013: 133) state that due to the origin of the ‘Solidarity...’ programme (fulfilling external requirements instead of the willingness to solve internal problems) the programme has created more of a *façade than* a real foundation for initiatives.

In 2014, the 50 + Programme Council at the Ministry of Labour and Social Affairs adopted the catalogue of recommendations aimed at complementing the Solidarity Across Generations Programme from 2013. The recommendations have been divided into several Programme objectives, i.e. 1) Adapting the skills and improving the qualifications of people over 45 from the perspective of labour market needs; 2) Developing a less hostile corporate culture and work environment for employees over 50; 3) Increasing

the efficiency and effectiveness of activities aimed at promoting employment and professional activity; 4) Supporting the idea of active and healthy ageing; 5) Developing cooperation aimed at improving the participation of people over 50 in the labour market; 6) Social transfer supporting the professional activity of people approaching retirement age. Moreover, the recommendations also include proposals for measures relating to the horizontal objectives of increasing the professional activity of people with disabilities. In addition, the catalogue also specifies indicators for monitoring the implementation of measures, which, if implemented, can be used to evaluate the effectiveness of such measures (Programme Council 50 + Recommendations on increasing labour market participation of the elderly people, 2014).

#### *Evaluation of the 'Solidarity across Generations' programme*

Participants of the Diagnosis 50+ study evaluated the programme. They found out that there is a general lack of knowledge of the programme and its elements, not only by workers aged 45, 50 or older, but also by other stakeholders, except employees of private job centres and employers (Urbaniak/Wiktorowicz 2014: 85). Another finding is that the protection of people over a certain age brought along dismissals of those who are close to the protected age. Further, employers consider those programme elements which reduce costs most beneficial to the employment of older workers (Urbaniak/Wiktorowicz 2014: 86). The authors refer to Krynska and Szukalski and suggest that Poland should adopt solutions to be found in (CEE) countries with an institutional background similar to that of Poland. One thing they consider worth emulating is Czech job clubs for older workers and older unemployed people (Urbaniak/Wiktorowicz 2014: 90).

Sarzalska (2014: 5) states that "early retirement possibilities [have been] largely limited in last years". The following pages will show that a lot has been done, but employment figures also show that there is still a lot to be done.

## **Pensions**

For most elderly Poles the statutory retirement age is the time when they retire. This age has been raised from 60 for women and 65 for men to 67 for both (in 2020 for men and 2040 for women). (Urbaniak/Wiktorowicz 2014: 83, see also Styczyńska 2013: 13, Żołniercz-Zreda 2015a: 86).

Further, incentives to work longer became independent of wage level. In the past, incentives were lower for low earners due to a (redistributive) flat-rate component of about 24 per cent of the average wage. The new pension calculation is based mainly on individual contributions, with only weak exceptions, such as the minimum pension guarantee and pension entitlements for special life phases such as maternity etc. (Chlon-Dominczak 2009: 16).

#### *Early Retirement*

Though in 1998 the possibility for early retirement after being laid off has been abolished, new pathways were established, such as pre-retirement benefits for laid-off workers above a certain age (50 for women and 55 for men and sometimes below). Later eligibility criteria were tightened. Now pre-retirement benefits are paid to laid-off workers who cannot find new employment over 60/55 (men/women; Chlon-Dominczak 2009: 3, suggesting that due to substitution effects various early exit pathways should be closed 2009:4). Chlon-Dominczak (2009: 7) states that Polish evidence shows a clear link between early retirement options and older workers' labour market participation. Effects from early retirement options on older workers' labour market participation can be stronger than effects resulting from workers' incentives alone, since these incentives encourage older workers to leave the labour market, which

burdens public budgets, raises labour costs and reduces labour demand, especially for those considered less productive, i.e. older workers (Chlon-Dominczak 2009: 7).

Zientara (2008: 64) states that the average retirement age in Poland is extraordinarily low and explains this with advantageous early retirement regulations for some professional groups inherited from the Communist era, such as policemen, teachers, railwaymen and miners (miners also in Germany), and in some special health-impairing sectors such as steel production, energy production and construction. In some cases, workers can retire at age 40 (females) or 45 (males). Similarly, Chlon-Dominczak (2009: 5) explains a recent (before 2009) drop in the average retirement age by more and more teachers retiring early. Teachers can retire after 25 or 30 years in service irrespective of their age, and early retirement by miners explains why a fifth of retiring men do so before they are 50 (Chlon-Dominczak 2009: 5).

While early retirement pensions can be very low (D'Addio et al. 2010: 623 state that Poland is one of the countries with highest increase in pension wealth for working additional years), special pension systems for some occupations can lead to pension benefits at about 60% of the average salary, which is a disincentive since work does not pay. The rather high limits to additional earnings for early retirees (Zientara 2008: 64) are on the one hand a financial problem since they contribute to the attractiveness of early retirement schemes, on the other hand this could have positive effects on labour supply. Yet, since those who lose their job are incentivised to enter early retirement by comparably generous benefits and high limits on additional earnings (Zientara 2008: 65), labour supply could be diminished by early retirement pathways.

In order to limit early labour market withdrawal, the 'Solidarity across Generations' programme limited entitlements to 'bridging pensions' (Urbaniak/Wiktorowicz 2014: 85). Coming into effect in 2009, these bridging pensions were a "temporary solution replacing early retirement" (Ruzik-Sierdzińska et al. 2013: 134). The bridging pensions were available to men (60+) and women (55+) "working under special conditions or performing work of a special character and who were included on an official government list of types of professions prepared by occupational health specialists" (Ruzik-Sierdzińska et al. 2013: 134). While this group included 270 000 workers, about 900 000 people lost their right to early retirement due to the abolishment of the early retirement programme (Ruzik-Sierdzińska et al. 2013: 134).

## **Unemployment**

In contrast to neighbouring countries such as the Czech Republic and Hungary, Polish unemployment policies used to be passive (Brown 2007: 1472). After EU accession, Polish labour market policies became far more active, also due to financial resources from the European structural funds (Sztandar-Sztanderska 2009: 624).

The 2004 'Act on employment promotion and labour market institutions' and further amendments contains various active labour market instruments financed by the Labour Fund. Also, it has been defined that, amongst other subgroups, those unemployed below 25 and over 50, long-term unemployed are "people in a special situation in the labour market" (Sztandar-Sztanderska 2009: 630). The author (2009: 631) criticises that entry into active labour market programmes is complicated and to the disadvantage of those lacking the skills or the contacts to get sufficient information. Further, according to Sztandar-Sztanderska (2009: 631) local civil officers divide their unemployed clients into the small group of active jobseekers and the larger group of inactive jobseekers. While members of the former group is cared for and analysed concerning experience, competencies, familial circumstance and preferences in order to find a job for this person, the latter group is suspected of being not motivated to work or being occupied with illegal work. Yet, those under 25 and over 50 are legally entitled to get from the LLO (Local Labour Office) a job offer or some activation measure in the first half year after registering as unemployed.

Though for these groups the probability of getting special treatment in the form of being perceived as active and getting better help to find work or being labelled as unwilling to work and being punished (Sztandar-Sztanderska 2009: 632) is a double-edged sword depending on individual circumstances, both forms of special treatment should raise the probability to leave unemployment.

Access to various forms of active labour market policies, such as “internships, on-the-job-training and various forms of subsidised employment” (Sztandar-Sztanderska 2009: 633) is restricted to those “in a special situation in the labour market”, to which those over 50 belong. As Sztandar-Sztanderska (2009: 633) notes, this targeting based on somewhat superficial criteria is criticised by local civil servants since it prevents them from including those who do not belong to these groups but are in a special situation nevertheless. Though those over 50 belong to an advantaged group, individual training is restricted to those whose participation “makes employment more probable”, meaning that they have to have a signed declaration from the employer that they will be hired after training. Sztandar-Sztanderska (2009: 633) states that this is another advantage for those who have better chances anyway. Another critique by Sztandar-Sztanderska (2009: 633f.) is the prevalence of quantity over quality, leading to a prevalence of uncoordinated short-term and cheap programmes. This results from the motivation to get all financial means provided by the European Social Fund. Finally, Sztandar-Sztanderska (2009: 634) criticises that the Polish activation model is very liberal in terms of a reliance on self-help and the emphasis put on disciplinary means. She (2009: 634) suggests that firstly, Local Labour Offices should be empowered (more staff and more autonomy to define locally vulnerable groups, allocate resources to quality instead of quantity). Secondly, effective local networks should be set up to improve coordination between public and private actors.

The duration of earnings-related unemployment benefits is between 6, 12 or 18 months and depends on the regional unemployment rate, the age of the unemployed, the length of previous work and on family circumstances (the higher the level of regional unemployment, the later eligibility expires, cf. Baum-Ceisig et al. 2008: 80, also stating that in 2004 only 15 per cent of the unemployed received benefits; s.a. Sztandar-Sztanderska 2009: 626).

Standard flat-rate benefits are very low (in 2008, this has been € 132 which amounted to 49 per cent of the minimum wage or 19 per cent of the average wage, cf. Sztandar-Sztanderska 2009: 626), so that there are no or negligible financial disincentive effects after the expiration of earnings-related benefits.

Although Polish unemployed older than 45 lacked sought-after skills (Zientara 2008: 65 refers to the time around Polish EU accession), Zientara states that there is a second, CEE-specific reason for their high joblessness rate. Employers thought that those workers still adhere to “a socialist work ethos characterised by insufficient organisational commitment, feeble work involvement, shirking or absenteeism” (Zientara 2008: 65. Żołniercz-Zreda 2015a: 87 suggests that it should be researched how these stereotypes affect age discrimination at the workplace). Although this refers to the time around Polish EU accession, it is possible that employers at least partially still hold these views about workers not older than 55. In contrast to views concerning people of a specific age, views concerning certain cohorts are merely of temporary relevance (if being 30 in 1989 or 45 in 2004 is the dividing line for having [sufficient] Communist work experience or not, in 2029 the youngest of this group are 70 years of age), but naturally this takes place slowly. These disadvantages for older workers (lack of sought-after skills and negative employer views) were accompanied by a low motivation to find work.

Under the ‘Solidarity across Generations’ programme (see introduction) employers are motivated to employ those over 50 by the following measures:

(1) They pay sick leave for only 14 instead of 33 days,

(2) They do not have to pay contributions to the Labour Fund and Employee Benefits Guarantee Fund for newly hired people, and

(3) They can obtain co-financing for workplace equipment with the high limit of six times the average salary (Urbaniak/Wiktorowicz 2014: 84). To be implemented in 2014 is the co-financing (up to 30 per cent of minimum pay) of the wages of newly hired former long-term unemployed if they are over 50 (Urbaniak/Wiktorowicz 2014: 85).

The priorities addressed by the Programme Council 50 + to increase the efficiency and effectiveness of activities aimed at promoting employment and professional activities include: diffusion within labour market institutions of professional activation instruments aimed at people over 50 and their improvement of effectiveness , establishing a comprehensive system for supporting the development of entrepreneurship among people over 50, implementation of systemic solutions aimed at encouraging people over 50 to remain in employment and to take up employment.

### **Part-time pension / part-time work**

Given that older workers are in favour of part-time jobs (also due to early retirement schemes allowing high incomes from work, see below), Zientara (2008: 65) proposes some labour-code reforms that allow for more flexibility.

In order to raise employment of those above legal retirement age, the 'Solidarity across Generations' programme abolished limits on additional earnings for this group. At the same time, the possibilities to combine income from work and pension for those below legal retirement age have been defined (Urbaniak/Wiktorowicz 2014: 85). As Styczyńska (2013: 13) writes, preconditions for parallel receipt of pension benefits and wage income are (a) being above the legal retirement age and (b) termination of employment at the previous employer, whereas re-hiring at this employer is possible.

### **Health / disability**

"There are studies...main finding: ill-health is the main reason for leaving the labour market early" (Żońnicz-Zreda 2015a: 87). SHARE (2014) data shows that adult Poles' health is worse than average health in other European countries (Żońnicz-Zreda 2015b: 7). Other studies show that the health conditions of the 50+ group in Poland improves (Żońnicz-Zreda 2015b: 7). According to one study by Górniak et al. (2013, cited in Żońnicz-Zreda 2015b: 8) bad health is the major barrier to paid work for one third of the unemployed 50+, so that health problems are also a cause of unemployment.

Amongst 17 European countries, Poland ranked (2011) second (first: Hungary) when it comes to the percentage of 50-64-year olds with "one or more mobility, arm function and fine motor limitations" and "two or more chronic diseases" (Sonnet 2014: 13 based on OECD estimates based on SHARE data). Possibly also due to the coexistence of reforms closing early exit routes and (still) low employment rates of older workers, Sarzalska (2014: 13) suggests that poor health conditions have to be addressed.

The number of sickness days for which the wage is to be paid by the employer has been reduced ([http://analizy.mpips.gov.pl/images/stories/publ\\_i\\_raporty/50+Solidarity\\_across\\_generations.pdf](http://analizy.mpips.gov.pl/images/stories/publ_i_raporty/50+Solidarity_across_generations.pdf)).

The 2008 programme 'Solidarity across Generations' incorporated the concept of healthy ageing for the first time. Coordinated by the Ministry of Labour and Social Affairs, the programme included

(a) preventive measures to counteract the reduction of productive abilities,

(b) screening interventions for those 50+,

(c) an identification system of health treatments,

(d) monitoring of the risk of becoming unable to work for those 50+, plus the early implementation of rehabilitative programmes, and

(e) promotion of employees' access to private health care insurance services (Styczyńska 2013: 7).

Programme Council 50 + recommends several priorities in supporting the idea of active and healthy ageing. They include:

- Popularising the idea of active and healthy aging, including the benefits of active ageing, and promoting active ageing in society;
- Supporting a number of forms of activity at non-professional levels (including educational activity in the area of culture, social activity and volunteering, physical activity, health-enhancing activity and civic activity at the local level);
- Promoting regular third pillar savings in the entire period of professional activity as a measure that, on the one hand, helps increasing the amount of income in retirement and on the other, encourages people to work longer and raises people's awareness about the need to plan for the future and make provision for old age;
- Promoting and popularising a healthy lifestyle and preventive healthcare;
- Development of new forms and measures that are intended to encourage and motivate people of different ages, including people over 50, to engage in physical activity and that facilitate such activity;
- Developing solutions providing a basis for cooperation and coordination of activities at the regional and local level;
- Development of cooperation between employers and trade unions in the area of preventive healthcare;
- Establishment of a coordinated system of providing information on health condition of patients/employees and the self-employed to identify potential health risks and improve the implementation of preventive and rehabilitation measures;
- Implementation of comprehensive solutions related to the promotion and development of preventive healthcare programmes, like "Health check" for people aged 50 plus;
- Measures implemented at the local government level, including but not limited to measures aimed at the labour market policy, will take into account the health of the unemployed as a barrier to their employment and will intervene.

Amongst the several measures of the 'Solidarity across Generations' programme are increased efforts to activate the disabled, e.g. through legal frameworks for occupational rehabilitation and awareness campaigns for employers about the advantages of employing disabled workers ([http://analizy.mpips.gov.pl/images/stories/publiRaporty/50+Solidarity across generations.pdf](http://analizy.mpips.gov.pl/images/stories/publiRaporty/50+Solidarity%20across%20generations.pdf)).

For example, procedures and rules for hiring disabled people are simplified, financial incentives to stay economically passive are lowered for older disabled persons, and more older disabled people are to be employed in the public sector, also in order to provide a role model for the private sector (Styczyńska 2013: 14).

## **Self-employment**

The 'Operational Programme for Human Capital Development' addresses the issue of self-employment. Measures are offers of training and professional assistance and subsidies (Styczyńska (2013: 14f.)). The programme 'Active Women' (Aktywna kobieta) has been launched in 2007 and targets women 50+. Besides training offers (especially in occupations with labour market shortages) the programme promotes self-employment (Botti et al. 2011: 14).

## **Employment protection**

Since 2004, employers are no more allowed to dismiss workers in the four years preceding the legal retirement age (Anxo et al. 2012: 13).

There are legal regulations intended to protect those over 45 or 50 from job loss or to help them to find work in case of unemployment. A huge debate is now taking place at the national level, whether this protection is effective and brings assumed results. It is observed that employers dismissed a worker just before he/she enters the protection period. Such an employee is in a very difficult position to find employment. They are the first one that leave the market, and increase the labour market inactivity in Poland.

Zientara (2008: 63) argues that strict employment protection in Poland limits the growth of the service sector and, following from this, negatively affects the employment of older people, because those between 55 and 64 tend to prefer to work in services. Although he (2008: 65) states that the Polish service sector is underdeveloped in international comparison (about half of the working population does not work in the service sector), the combination between older workers' preference for the services and widely spread black work (see below) suggests that the number and share of (older) workers in the services are higher than officially reported.

Relaxing employment protection is one of the key reform suggestions by Zientara (2008: 65).

Within the 'Solidarity of Generations' programme mentioned in the introduction to this country report, "protective measures" against dismissal in the last four years before retirement aim at fostering older workers' employment (Urbaniak/Wiktorowicz 2014: 84).

## **Wage subsidies**

Part of the 'Solidarity across Generations' programme (2008) are "exemptions from contributions to the Labour Fund and the Guaranteed Employee Benefits Fund for people in the pre-retirement age" ([http://analizy.mpips.gov.pl/images/stories/publ i raporty/50+Solidarity across generations.pdf](http://analizy.mpips.gov.pl/images/stories/publ_i_raporty/50+Solidarity_across_generations.pdf)).

Not directly belonging to wage subsidies, here it is to be stated that non-wage labour costs for workers 55/60s have been permanently decreased and temporarily for the hiring of unemployed 50+ (Sarzalska 2014: 8).

## **Life-cycle approaches**

The 'Solidarity across Generations' programme aims at longer working live for those over 50 and yet contains opportunities for women to combine work and family, for example with simpler rules for the opening of new kindergartens and support of a kindergarten net especially in rural areas (financed also

by the European Social Fund) and the possibility for companies to finance company kindergartens from the company's social benefit fund.

([http://analizy.mpips.gov.pl/images/stories/publi\\_raporty/50+Solidarity\\_across\\_generations.pdf](http://analizy.mpips.gov.pl/images/stories/publi_raporty/50+Solidarity_across_generations.pdf)). It is not clear here if the reasoning behind is (a) to enable grandmothers to work instead of looking for their grandchildren or (b) to keep young women in the labour force, since young women dropping out of the labour force reduce older women's labour force participation when the cohort ages. Nevertheless, such activities should foster the employment rate of older women, either now or later.

Focus on family obligations is sensible, since research shows that this is one of the crucial factors (besides poor health, lack of skills and lack of available jobs, cf. Żołniercz-Zreda 2015a: 86). This is also one explanation for the low female older worker employment rate (Żołniercz-Zreda 2015a: 87) stated at the beginning of the Polish chapter.

### **Age discrimination legislation**

'Solidarity across Generations' tried to alleviate negative age stereotypes on the basis of (a) highlighting the advantages of older workers, (b) spreading age management knowledge, (c) showing that age management is not costly, and (d) the implementation of age management in companies (Styczyńska 2013: 8). The programme is supplemented by Recommendations prepared by the Programme Council 50+ on the development of a less hostile corporate culture and work environment for employees over 50. The recommendations include: development of the systems of career planning, skills acquisition and age management in enterprises to benefit from the potential of employees over 50 (like development of the notion of age management, financial support and advisory and consultancy support for employers implementing or improving long-term age management solutions); improving working conditions and increasing the motivation and job satisfaction of employees over 50 (through: adapting working conditions to the capabilities, limitations and requirements of employees over 50, solutions aimed at supporting employees in maintaining good health and physical conditions); implementation of systemic solutions aimed at encouraging employers to employ and maintain the employment of people over 50 (through: legislative solutions, promotion of existing solutions, or development and monitoring of changes in corporate culture of 50+ friendly companies and institutions); improving the image of employees over 50 and breaking stereotypes about employees over 50 as well as counteracting age discrimination in companies and institutions.

### **Other issues**

#### *Informal work*

In Poland, many retirees work in the black economy. As Zientara (2008: 65) notes, this is advantageous for the worker (higher take-home pay, no suspension of pension benefits above a certain income) and the employer (labour-code regulations do not apply, e.g. firing is easy when labour demand vanishes). As noted above, local civil officers responsible to get the unemployed into paid employment suspect parts of their clients of adding black work income to their unemployment benefits (Sztandar-Sztanderska 2009: 631).

Though, as stated, many retirees work in the black economy, black labour is prevalent to similar degrees in all age groups, so that combating black labour especially amongst the old has not been priority (Styczyńska 2013: 13).

*Further reform suggestions*

Zientara (2008: 65) suggests making social security contributions dependent on regional productivity and costs of living so that those less productive (aged 55+) are not priced out of employment.

## 2.9 Spain

Jürgen Bauknecht | Ana Rincón-Aznar

“as in other European countries, the Spanish system of pension and unemployment insurance creates large incentives to remain inactive among older unemployed workers” (García Pérez/Sánchez Martín 2012: 25).

Scientific evidence clearly has shown that the Spanish pension scheme is unsustainable due to structural reasons, i.e. not due to the financial crisis beginning in 2008 (Díaz-Giménez/Díaz-Saavedra 2014: 1ff. cite various sources and present an own simulation summarised on page 32 of their publication). Yet reforms were delayed due to the ‘Pacto de Toledo’, excluding pensions from the political debate (Díaz-Giménez/Díaz-Saavedra 2014: 1). The 2011 pension reform led to changes that began in 2013.

### Pensions

The 2011 pension reform raised the normal retirement age from 65 to 67 (Díaz-Giménez/Díaz-Saavedra 2014: 2). The increase is gradual, with one month per year between 2013 and 2018 and two months per year from 2019 until 2029 (Díaz-Giménez/Díaz-Saavedra 2014: 28). Those with at least 38.5 years of contributions and those in risky jobs can still retire at 56 (Rincón-Aznar 2013: 19 based on Doménech/de la Fuente 2013). As can be seen when this reforms are compared to the part on German policies (above) and as Rincón-Aznar (2013: 19, footnote) notes, “Spain’s reform closely resembles the German reform”, yet she adds that the replacement ratio is higher in Spain and a lower number of contribution years (38.5 instead of 45 in Germany) is required for full pension.

The number of contribution years required for full pension receipt has been raised from 35 to 37 years and the calculation period has been raised from 15 to 25 years (Rincón-Aznar 2013: 19 based on Doménech/de la Fuente 2013). In pension calculation the number of contribution years is taken into account very strongly (Vidal-Meliá/Domínguez-Fabián 2006: 613).

### Early Retirement

Somewhat counter-intuitively, “since the financial crisis, the prevalence of early retirement has decreased” (Rincón-Aznar 2013: 20 based on data from 2007 and 2010).

While the official retirement age has been at 65, it was possible to retire at 60. Yet, this brings along deductions of 35 per cent on the regulatory base, which is 7 per cent per year (or 8 per cent for those with a short contribution period). In 2002, access to early retirement has been widened to all workers irrespective of the year they started to contribute, which resulted in a “clear drop in the average retirement age from 1947 onwards” (Sánchez-Martín 2010: 345). With the 2011 reform, the first retirement age for those retiring voluntarily has been raised immediately from 61 to 63 years, and in 2013 it has been raised to 65 years, gradually with one month per year (Díaz-Giménez/Díaz-Saavedra 2014: 2, 28).

Those retiring early are mostly low-income workers. About two thirds of them receive additional payments under the minimum pension scheme since their income would otherwise be too low. These

additional payments are a strong incentive for low-income workers to retire at age 60 (Sánchez-Martín 2010: 338, s.a. Díaz-Giménez/Díaz-Saavedra 2014: 23).

Besides the financial penalty due to retirement before 65 (due to age and possible due to having less than 35 contribution years), the calculation of the regulatory base is changed. It is based on earnings in the last 15 years before retirement. Since lifetime earnings are  $\cap$ -shaped and follow falling productivity after a certain age, in the mean this implies that years of good earnings are replaced by years slightly worse (years between 60 and 65) with slightly negative effects on pension entitlement (the 2011 reform extends the calculation base from 15 to 25 years between 2013 and 2022, cf. Díaz-Giménez/Díaz-Saavedra 2014: 28, so that new years with relatively low pay carry less weight).

Sánchez-Martín (2010: 338, s.a. Díaz-Giménez/Díaz-Saavedra 2014: 24) points out that the retirement peak at 65 is the rational answer to the scheme's incentives: Working after 65 does not raise pension entitlements. To the contrary, for most workers it further replaces years of good earnings with years of worse earnings, so that not only the period of pension receipt is shorter but also monthly pension receipt. Likewise, the second retirement peak (at 60) is rational under financial considerations: "The minimum guarantee...entirely eliminates the incentive effects stemming from the pension formula" (Sánchez-Martín 2010: 338). In other words: For a considerable share of Spanish workers working longer than until 60 in order to collect pension entitlements substantially above the minimum guarantee provides a cost/benefit ratio far too unattractive. Possibly a solution would be by extra financial incentives for working beyond 60, such as waiver of social security/tax burdens.

Sánchez-Martín (2010: 346) states that an extension of the necessary working years for normal pensions and computing the normal pension benefits on the basis of earnings during most of the working career and not only 15 years would lead to pension entitlement reductions between 15 per cent and 25 per cent. This should result in delayed retirement in parts of the workforce, and a growing group taking the early retirement at the year 60 exit. This group is growing under the scenario since pension entitlements of some whose earnings were not that low drop enough to make minimum pension an attractive option compared with the normal route to 65. Similarly, raising the retirement age will incentivise higher income workers to delay retirement, while low earners will again consider the minimum pension the best option.

Yet, since cohorts will react differently, due to younger cohorts' reaction raising the retirement age to 67 is the best option (in terms of longer working lives) of all simulations conducted, whereas extending the number of necessary contribution years would also lead to longer working lives (Sánchez-Martín 2010: 347).

In another simulation, Díaz-Giménez and Díaz-Saavedra (2009: 147) calculate what would happen if early retirement age would be raised from 60 to 63 and normal retirement age from 65 to 68. In their unreformed model economy present retirement ages would lead to average retirement being delayed by 2.2 years between 2009 and 2060, due to educational transitions. In their reformed model this would be 3.9 years. An increase of merely 1.7 years instead of 3 years as legally prescribed is caused by larger number of households retiring early. Similar to Sánchez-Martín (above) Díaz-Giménez and Díaz-Saavedra (2009: 166) conclude that Spanish policymakers should consider raising the legal retirement age, which has happened meanwhile.

Already Boldrin and Jiménez-Martín (2003, cited in Díaz-Giménez/Díaz-Saavedra 2010: 149) simulated rising legal retirement ages. They concluded that most of those retiring at 65 would retire at 68. This is in line with the finding of Sánchez-Martín (above) that in Spain (as well as in other countries) labour market exit largely takes place at the financially most favourable point in time.

Argimón et al. (2009: 118ff.) present three reform scenarios, all of them can be considered minor adjustments rather than far-reaching reforms, and all of them raise the average retirement age only

slightly and decrease the number of people retiring between 60 and 65 also only slightly. The three options, functionally equivalent at least in the context of extending working lives, are (1) reducing the pensions from 100 to 96 per cent, (2) raising the minimum number of contribution years from 15 to 18 years and higher pension for those retiring at 66 with more than 35 contribution years, and (3) higher retirement benefits for each additional year of delayed retirement after 65. Although these 'small solutions' have weak effects, it is to be expected that effects are more remarkable when (1) to (3) are combined or when one option is implemented more extremely.

The conditions for early retirement are:

To be 61 years of age. There is one exception. Those who made social security contributions prior 1 January 1967, they can now retire at 60 years and 6 months. The minimum wage will be gradually increasing and will be 63 by 2027 (Ministerio de Trabajo y Seguridad Social).

### **Work after retirement / silver work**

As mentioned in the previous chapter, Spanish incentives to work after retirement age were weak. On the other hand, the Black Economy allowed the combination of pension receipt and work income (Rincón-Aznar 2013: 20)

In 2002 pension receipt has been made compatible with part-time work (Carone/Eckefeldt 2009: 597) and for workers with at least 35 contribution years in 2002 pension increases of 2 percent per year worked beyond 65 were introduced, to be raised to 3 percent in 2007 (García-Gómez et al. 2012: 141).

Further, the rise in the number of contribution years relevant for benefit calculation from 15 to 25 (see above) should reduce negative effect on pension calculation from silver work years with worse pay than in those years no longer in the calculation.

As Rincón-Aznar (2013: 20) notes, since 2013 Spanish law recognises the co-existence of work and retirement. Decree 5/2013 has been implemented in March 2013 and allows for work after retirement<sup>18</sup>.

The aims of this change in legislation is to improve sustainability of the pension system, foster the extension of working lives and capitalise on experience and knowledge of older workers. The new law allows the possibility of combining work and retirement. There are however some requirements that need to be met. Also, this option not available for those on early retirement as neither it is for public sector employees.

Pension receipt is reduced according to the number of hours worked, that is, by 50% for those working 50% of fully for those working 100%, whereas in some special cases working and still receiving the whole pension is possible also outside of the Black Economy, for example when the wage is below the minimum wage of certain occupations (Rincón-Aznar 2013: 21).

Since 2013 it is thus possible for employees who reach retirement age to receive state pension while carry on working. However, to date, only in certain cases is possible to receive the full pension while still in employment. This is the case of those self-employed, as long as their annual income does not exceed the equivalent of the annual minimum wage income. This is also the case for certain professionals (who are enrolled in a different social security scheme), who continue to enjoy a privileged position in this respect.

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<sup>18</sup> <http://www.boe.es/boe/dias/2013/03/16/pdfs/BOE-A-2013-2874.pdf>

As Rincón-Aznar (2013: 21) remarks, this regulation is controversial since, for example, it allows a medical doctor to combine work and full pension receipt, but a psychologist does not have this possibility. Therefore, government is planning to abolish the different treatment of different occupations.

As introduced recently, those working with 65 or older with an open-ended contract and at least 35 years of contributions are exempt from social security contributions (Rincón-Aznar 2013: 21).

## Unemployment

Unemployment is “a popular exit route in Spain” (Sánchez et al. 2014: 3 also referring to García-Perez et al. 2013).

In the course of the crisis and high Spanish unemployment, both re-entry rates into paid employment as well as self-reported search intensity of the unemployed over 50 are extremely low (García Pérez/Sánchez Martín 2012: 3). Workers being laid off in their mid-50s mostly retire when they are eligible for early retirement benefits, that is, at 60, after very long unemployment (García Pérez/Sánchez Martín 2012: 5).

Unemployment insurance provides an early retirement route. Generous benefits are paid for up to two years and can be followed by lower payments until official pension receipt. Although officially unemployed persons are required to search for paid employment, in reality this is not effectively enforced (García Pérez/Sánchez Martín 2012: 5), also explaining above-mentioned weak search efforts (besides possibly bleak prospects especially for older workers in the current Spanish situation). Earnings-related unemployment benefits only marginally decline during the unemployment spell: from 65% in the first year to 60% in the second year (García Pérez/Sánchez Martín 2012: 7) whereas Sánchez et al. (2014: 8, footnote) state it is 70% in the first 6 months and 60% afterwards.

Therefore there are very weak financial incentives to raise search efforts after some time. This may contribute to the fact that reemployment probabilities decline during unemployment spells (García Pérez/Sánchez Martín 2012: 7). The simulation conducted by García Pérez and Sánchez Martín (2012: 21) suggests that under a “perfect enforcement of the search requirement” labour market re-entry rates for those between 58 and 64 would rise dramatically (searching effort and reemployment rates would almost double), while formal retirement would only slightly increase.

Though, García Pérez and Sánchez Martín (2012: 21) state that improved incentives can *potentially* help, but also state that “whether all those potential gains can actually be achieved by a real-world reform remains to be seen”.

During unemployment spells, pension entitlements continue to get collected. This is considered an important aspect for the attractiveness of unemployment in the benchmark scenario of García Pérez and Sánchez Martín and results from the fact that early retirement deductions drop with later retirement (2012: 21), so that during unemployment the early retirement punishment declines, the pension value also (bad unemployment years substitute good years 15 years ago), but the former positive effect is stronger than the latter negative effect. Therefore, García Pérez and Sánchez Martín (2012: 21) suggest that early retirement penalty should be according to the age when the pension claimant stopped paying contributions (which is the beginning of unemployment if unemployment is followed by pension receipt). This would lead to declining reservation wages and therefore to higher reemployment rates.

The downside, as the authors note, is the “very harsh treatment of the unemployed that search unsuccessfully” (2012: 21). Further, search efforts of those unemployed below 60 waiting for their early retirement would remain virtually unchanged (2012: 22), since their minimum pension cannot be cut. For the reform raising the normal retirement age from 65 to 67 and the early retirement age from 60 to 63

(so that the guaranteed payment gets received between 63 and 66 and the normal pension at 67), Sánchez et al. (2014: 2ff.) predict a strongly rising search effort of the older unemployed, and huge financial losses for this group. For example, an unemployed person at 58 who wants to retire as soon as possible or simply cannot find work could wait until 60 for contribution-based unemployment benefits and then enter early retirement, whereas with early retirement at 63 this would incur additional unemployment years (but with minimal income protection) and stronger pension entitlement decline (Sánchez et al. 2014: 14).

Labour supply of all worker groups strongly rises in this scenario, and the optimal retirement age is 1.5 years later (Sánchez et al. 2014: 14ff.).

A second simulation leaves the early retirement unchanged but reduces the minimum pension in order to raise actuarial fairness. Sánchez et al. (2014: 2ff.) consider this a better combination of labour/financial advantages and welfare losses.

A Spanish peculiarity partly related to weak pressure on the unemployed is the very low internal geographical mobility of workers, also resulting in large disparities in unemployment rates between Spanish regions (Wölfl/Mora-Sanguinetti 2011: 6).

### **Part-time work / part-time pensions**

As shown by the VI Survey of Working Conditions in Spain (2011), for workers between 55 and 64 working hours are very inflexible (Rincón-Aznar 2013: 8). This is accompanied by government policies making pension receipt “conditional upon a complete withdrawal from the labour market” (García Pérez/Sánchez Martín 2012: 7).

Since 2001, partial retirement necessitated a hand-over contract, which enabled older workers to gradually reduce work and salary by 25% to 85% and to receive partial retirement pension. Since the gradual retirement pathway had been simplified and the hand-over contract is no longer needed (Rincón-Aznar 2013: 20).

A new law introduced in 2007 raised the age for partial retirement from 60 to 61 for those who entered the system after 1967. Further, the minimum number of contribution years for this has been raised from 15 to 30 years (Carone/Eckefeldt 2009: 597f.)

### **Health / disability**

*Estrategia 55* is a ‘Global Strategy for the Employment of Older workers’, focused on working conditions, security and health. Within the strategy, risks are evaluated as well as physical impairments such as limited mobility, vision, hearing, other physical capabilities as well as decision-making capability (Rincón-Aznar 2013: 12).

The ratio between Spanish disability pensions and old-age pensions fluctuates with the state of the economy, implying that during economic crises disability pensions are used as a proxy source of income (García-Gómez et al. 2012: 127). For example numbers between 1970 and 2002 strongly suggest substitution effects between old age pensions and disability pensions (García-Gómez et al. 2012: 129).

Spanish disability benefits are either

- (1) contributory for those having paid in for long enough (roughly 80% of recipients)
- (2) non-contributory, means-tested and only about half as high as contributory benefits.

There are 4 types of disability,

- (a) permanent limited disability (here, those affected receive a onetime lump sum,
- (b) partial disability for those unable to do their usual job but able to work somewhere else,
- (c) total disability for those who cannot work and
- (d) severe disability for those who need assistance in their daily lives.

There is strong regional variation on the frequency of disability and the distribution between the 4 types (García-Gómez et al. 2012: 131). Another special feature is that partially disabled individuals over 55 who have labour market difficulties due to low education or regional labour market problems get higher replacement rates (García-Gómez et al. 2012: 132).

The disability scheme underwent some reforms in the past years (García-Gómez et al. 2012: 137f., see also Carone/Eckefeldt 2009: 598);

- The major reform took place in 1997: Sickness status controls by doctors got stricter, long-term sickness benefits have been reduced, and assessments of the old job got more objective by a definition of the usual occupation. Further, assessment of disability has been moved from local doctors to experts from the National Institute of Social Security (NISS) who do this with medical records and a special assessment by NISS doctors. Lastly, those on means-tested disability benefits do not lose their entitlement if they start working and stop working again.
- Since 1998 doctors can review the health situation of those receiving disability benefits (yet only a few of those in the permanent disability scheme lose their disabled status).
- Since 2004 sickness leaves can be controlled better, in 2005 general absence control has been established for those absent for more than six months (prior sickness leave is a precondition for permanent disability benefits).
- In 2007 the minimum contribution period for permanent disability benefits has been reduced for younger workers. This has been done because of younger workers' later labour market entry.
- Also in 2007, benefit calculation changed, so that for those with contributions of less than 15 years disability benefits for disability resulting from a common illness has decreased by 50 percent. Further, the further the recipient is below 65 (i.e. below old-age pension), the lower these benefits are.

García-Gómez et al. (2012: 138) state that all this has contributed to stable inflow rates against the backdrop of strongly rising inflow rates in other countries. Nevertheless, in Spain the employment rate of older disabled people is the lowest in the OECD (Rincón-Aznar 2013: 22). Rincón-Aznar (2013: 22) explains this with the lack of active policies helping disabled people to participate in the labour market, and with the problem that people might lose their disability entitlement if they start working. Partly the low employment rate can be an effect of disability as an alternative exit route: A high share of those really disabled (according to some standard) can be motivated to work; if this group is 'contaminated' by those using disability as labour market exit route (who do not want to work or cannot due to labour market reasons), naturally amongst those registered as disabled the share of those working declines.

### **Self employment**

Currently, the possibilities for self-employment are limited due to limited access to credit (As (Rincón-Aznar 2013: 22). In Spain, as well as in France, Germany, the UK and Italy, there is the 'Memoro' project

collecting stories from older entrepreneurs in order to motivate people to start their own business (Rincón-Aznar 2013: 23). As a reaction to the crises, accumulated unemployment benefits have been increased by 40% to 60% for those unemployed who want to capitalise their unemployment benefits in order to start an enterprise. Further, there has been designed a special plan to promote the self-employment of workers 45+ (Wölfl/Mora-Sanguinetti 2011: 10).

### **Employment protection**

As in most countries, in Spain, Employment Protection Legislation (EPL) gives differential treatment to different groups of workers; dismissal regulations vary by age, gender, skill, firm size, and type of contract, creating a wedge in firing costs across workers (Bentolila et al 2008). For example, the period of notice and severance payment increases with job tenure. In practice, this means that older people, who tend to have longer tenure than others are less protected than other vulnerable groups.

The reforms implemented in the Spanish labour market have been significant and have amplified the two-tier nature of the labour market. Since the early 1980s, the use of temporary contracts intensified considerably, which undoubtedly helped employment growth. As a result, in the Spanish labour market a large proportion of workers are now heavily protected, while another part of the workforce suffers the consequences of precarious employment. Temporary employment contracts were used primarily to employ young and low-skilled workers in times of economic expansion; these were the groups that absorbed the bulk of job losses in the aftermath of the financial crisis.

Several policies aimed at reducing temporariness by encouraging indefinite contracting have been implemented in Spain in more recent years. Some measures that are meant to reduce unfair dismissals have also been implemented. While in theory, and according to the Spanish Government this measure encourages employment for older workers, others are of the opinion that it actually contributes to further dismissals, and discourages the retention and/or recruitment of older workers (See Eurofound 2013). These measures are reflected in a number of labour market regulations in recent years (the more recent one is the Labour Law Reform of 2012-Royal Decree-Law 3/2012).

### **Wage subsidies**

In 2006, two wage subsidy measures for companies employing older workers have been introduced: Firstly, for employees aged 59 or older who have worked for more than four years in the company, the company's social security contributions are reduced by 40% for up to one year. Secondly and somewhat similar, for employers on permanent contracts 60 years of age, employer's contributions are decreased by 50% and additional 10 percentage points for each passing year, so that at 65 a 100% reduction in employer social security contributions comes about (Rincón-Aznar 2013: 12, Carone/Eckefeldt 2009: 597).

Due to the labour market reform of September 2010, firms hiring unemployed workers over 45 on permanent contracts get hiring subsidies, such as social security rebates for 3 years maximum; it applies to contracts signed before the end of 2011 (Wölfl/Mora-Sanguinetti 2011: 10).

### **Age discrimination legislation**

Spanish legislation does not permit direct discrimination on the grounds of age, but the legislation allows differences of treatment based on age for certain activities (within the Directive 2000/78, which

establishes a general framework for equal treatment in employment and occupation). There are exceptions, though these must be "objectively and reasonably justified by a legitimate aim".

For example the European directive recognises measures aimed fostering employment and entrepreneurship of disadvantaged groups (younger or older workers). The Workers' Statute or "Estatuto de los Trabajadores" (art. 14) stresses that sex, origin or age, amongst others, cannot be a detrimental factor in collective agreements or negotiating working conditions. However this law does not mention specifically the case of „accessing employment". The Estatuto of Trabajadores (art.17) also prohibits age discrimination when it is "unfavourable", but it does not establish clearly when this is the case.

The Spanish law recognises measures aimed at fostering employment of certain disadvantaged groups, for example in terms of tax deductions or subsidies. The employment law 56/2003 (art. 22b) established that " the public services for employment and the collaborating employment agencies should fight discriminatory practices that that hinder access to employment to some individuals or groups". The Spanish Constitution prohibits discrimination by reasons of race, sex, religion, political view or other personal or social circumstances (art. 14). This article does not mention age specifically but has been recognised by the jurisprudence. ([http://sociedad.elpais.com/sociedad/2013/12/27/actualidad/1388172830\\_522805.html](http://sociedad.elpais.com/sociedad/2013/12/27/actualidad/1388172830_522805.html))

## 2.10 UK

Jürgen Bauknecht | David Wilkinson | Andreas Cebulla

The employment population ratio in 2013 in the UK was 59.7 per cent for people aged 55-64 and 20.4 per cent for people aged 65-69, marking a continuing trend in older workers' increasing employment rates. The equivalent rates in 2000 were 50.4 and 11.2 per cent. These figures compare with a relatively more stable overall employment-population ratio of 72.2 per cent in 2000 and 71.4 in 2013 for people aged 15-64. As Lain and Vickerstaff (2015: 1) state, older worker (55-64) employment has risen marginally (they report 62% to 67.4% between 2001 and 2013 and that the UK is around the OECD average).

In the UK, employment rates across age groups held up well during the recent economic downturn in part reflecting the flexible labour market that resulted from labour market and welfare reforms over the past 30 years. However, productivity and wage growth have been weak with much employment growth coming in "insecure" employment.

### Pensions

Anxo et al. (2012: 3) argue that "the lower degree of de-commodification, in particular the relatively low replacement rate of the statutory/mandatory pension schemes and the uneven coverage of occupational pensions in the UK create strong incentives for working longer".

Furthermore, the pension Act of 2007 and 2008 produced what has been considered the most far-reaching reform since the 1950s introduction of the Beveridge system. The reform gradually increases the legal retirement age and lowers the minimum number of contribution years from 44/39 years (men/women) to 30 years (Bertelsmann 2010: 25).

In the UK the statutory pension age for men is 65 years and between April 2010 and November 2018, the State Pension age for women is to be increased from 60 to 65 years. From April 2010 to March 2016 the female retirement age rises by one month every two months (Cribb et al. 2013: 7). Following the Pensions Act 2011, women's State Pension age will increase more quickly between April 2016 and November 2018, until the State Pension age for men and women is equalised. One might expect that this change will level out differences in labour market exit probabilities: In 2009 (2<sup>nd</sup> quarter), women left the labour market primarily in the ages of 59-61, whilst it was age 64-66 for men (Berry 2010: 7). Berry (2010: 22) concludes that

"it is surely inevitable that the increases in SPA [state pension age, author] will create upward pressure on the UK's average retirement age. Many people retire at the age at which it becomes financially viable – and for most the state pension is a key plank of their retirement income"

Following this, the UK plans a rise in State Pension age to 66 by October 2020 (Pensions Act 2011), with further increases to 67 between 2026 and 2028 (Pensions Act 2014). These latter changes brought forward the increase from 66 to 67 by eight years from earlier legislation. Further rises are planned up to age 68 between 2044 and 2046, but the 2014 Act provides for a regular review of the State Pension age at least once every five years, so the timetable for the increase from 67 to 68 could change as a result of

a future review (Börsch-Supan 2012: 21, and Corsi/Lodovici 2010: 62). Lain and Vickerstaff (2015: 2) expect that State Pension age will arrive at 70 once linked to life expectancy<sup>19</sup>

The Department for Work & Pensions (2013: 66) 'The single-tier pension: a simple foundation for saving' suggests to raise the State Pension age in such a way that the proportion of adult life spent in retirement remains constant (Sinclair et al. 2014: 2), and to pay attention to other factors such as variations in life expectancy. The life expectancy situation is to be assessed every 5 years, so for those born in the 1990s, i.e. those entering the workforce now, the State Pension age could be at 70 (Guardian 2013).

As proposed by the Department for Work & Pensions the 2013 Pensions Bill proposes to adjust the pension age to further life expectancy in such a way that keeps the proportion of adult life spent in retirement constant. Sinclair et al. on behalf of ILC-UK argue that using increases in life expectancy to estimate increases in the number of years in health good enough to keep working will produce misleading results.

Cribb et al. (2013: 1ff., data: UK's Labour Force Survey) calculate the effect of the higher female retirement age of 61 (cohort 1952/1953 in 2012) instead of 60 (cohort 1950/1951 in 2010). The differences-in-differences estimate shows the increase in the legal retirement age increased employment rates of 60-year old females by 7.3 percentage points. Further, for men between 55 and 69 (those below or above are expected to be retired or not irrespective of their partner's employment status) the higher female retirement age increased the employment rate by 4.2 percentage points, and that is primarily full-time work (Cribb et al. 2013: 24). Data suggests that this is not due to men having to compensate for their female partner's loss of income (which would happen if additional men working would be those whose spouses did not raise their retirement age and therefore did have lower pension entitlements), but rather due to leisure complementarities (Cribb et al. 2013: 29). Cribb et al. (2013: 29) conclude that the first phase of the higher legal retirement age had a large impact.

In 2006 the government introduced a default retirement age, which allowed employers to retire their workers when they become 65 (Berry 2010: 7, stating that this has been somewhat of a paradox, since at the same time new age discrimination legislation has been implemented). The default retirement age has subsequently been phased out in October 2011, so that employers are no longer allowed "to compulsorily retire a person at state pension age on age grounds alone: an objective justification for compulsory retirement is now necessary" (Scherger et al. 2012: 26 e.g. based on Department for Business Innovation and Skills 2011):

"While the legislative changes are likely to increase opportunities to work past 65, the impact is likely to be mediated to a degree by court decisions about what constitutes a legally justifiable reason for allowing mandatory retirement" (Lain/Vickerstaff 2015: 6)

Lain and Vickerstaff refer e.g. to the court case of Seldon vs. Clarkson Wright and Jakes. Mr. Seldon claimed to have been forced to retire at the mandatory age of 65:

"At employment tribunal it was concluded that that a mandatory retirement age was a proportionate means of achieving a legitimate aim in this case. The justifications considered legitimate were that mandatory retirement ages facilitated planning and enabled younger employees to become partners in a reasonable period of time" (Lain/Vickerstaff 2015: 6).

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<sup>19</sup> Residual life expectancy at the age of 65 is projected to rise from 18.9/21.4 years (men/women) in 2011-2015 to 22.1/24.5 years in 2041-2045 (MacInnes/Spijker 2015). Yet, e.g. for the UK (2008-2010) Sinclair et al. (2014: 11) show that there is a considerable gap between residual life expectancy (17.8/20.4 years) and disability free life expectancy (10.4/11.2) or healthy life expectancy (10.6/11.6). With rising residual life expectancy, inequality in residual life expectancy and in lifetime receipt of state pension will rise (Berry 2015). Berry criticises that raises in state pension age "based on average life expectancy exacerbates enormous inequality".

It will be seen to which degree this can be a re-introduction of mandatory retirement through the back door.

As Wilkinson and Cebulla (2013: 9) note, the abolition of the mandatory retirement age has made planning (see justification above) more difficult for companies if there are no agreements with unions about the retirement age. Some companies try to reduce uncertainty by financially rewarding their employees for telling the company when they want to retire. Since financial rewards increase with the length of the period between workers' informing their company and their retirement date (Wilkinson/Cebulla 2013: 9), this might provide a small extra incentive to retire later (at a fixed date from informing the company, a higher stated retirement age implies that the worker did inform his company a longer time beforehand)

Alongside these changes it is important to note that the basic state retirement pension became less generous (Muller-Camen et al. 2011: 512). Further, switches from defined benefits to defined contributions in the last 15 to 20 years, originated in financing problems and has led to considerable lower returns, and defined benefit schemes have typically been closed for new employees (Scherger et al. 2012: 25).

Rising legal retirement ages attached to pension deductions for those retiring earlier come with the usual drawback of financial incentives: "...because people do not fully understand their finances they are in a weaker position to adjust their employment in light of financial incentives" (Lain/Vickerstaff 2015: 8).

### **Work after retirement / silver work**

Employment rates of those 65+ rose from 4.9% in 2001 to 9.5% in 2013; two thirds of them are working part-time (Lain/Vickerstaff 2015: 1ff). As the authors note, this has been almost entirely due to those holding their job and not by those starting a new job.

Before the abolition of the default retirement age British employees could request to stay employed after 65 and employers could refuse without justification (Anxo et al. 2012: 5). However, after reaching the legal retirement age, employees are no longer obliged to pay National Insurance contributions, implying lower payroll taxes and higher incentives to work (Cribb et al. 2013: 8). Until 2006, line managers often decided who continued to work beyond 65, others could get laid off/sent into retirement without "the right to claim unfair dismissal or redundancy payments" (Lain 2012: 82). Yet, the Employment Equality (Age) Regulations of 2006 did not remove management's decision power over retirement (Lain 2012: 83).

Prior to 2006 company/occupational pensions were hard to combine with work for the same employer, although due to the Finance Act of 2004, (Heywood/Siebert 2009: 20) things improved. Although state pension can be combined with work, due to the fact that nearly half of the pensioners get a company pensions, there are disincentives to combine pension receipt and work. System rules determined that silver work presupposes job change, and pension adjustments for silver work were not actuarially fair (Heywood/Siebert 2009: 2f.), whilst working for a different company brings along lower pay due to hiring and training costs, which made the alternative (retirement) attractive (Heywood/Siebert 2009: 12).

For each year after reaching retirement age that older workers put off claiming state pension they receive a pension increase of 10.4% (Cribb et al. 2013: 7).

Possibly resulting from institutional framework conditions, UK silver work is primarily low-skilled, low-paid and part-time (Lain 2012: 78ff).

## Unemployment

The overall (age 15-64) unemployment rate increased substantially between 2007 and 2013 from 5.3 to 7.8 per cent, with similar proportional increases for people aged 55-64 (from 3.3 to 4.7 per cent). However, benefit reforms continue to “activate” people resulting in increased labour force participation rates, particularly for older people up from 52.7 per cent in 2000 to 62.6 per cent in 2013 for people aged 55-64.

The Work Programme became the major new payment-for-results welfare-to-work programme across Great Britain from June 2011. It replaced previous programmes (New Deals, Employment Zones and flexible New Deal), and is designed to combine strong incentives with freedom for service providers to innovate. It is targeted at people at risk of becoming long-term unemployed. It is a universal programme, in contrast to previous UK welfare-to-work programmes that were often designed for specific groups, including older unemployed people. The aim of the Work programme is that allowing greater flexibility for providers to design programmes for individuals will allow them to focus their resources where they will have the greatest impact.

## Part-time work / part-time pensions

An analysis by Gielen (2009) can give a clue about effects from the possibility of part-time work on labour supply. She analysed British Household Panel Survey data (1991-2004, workers between 50 and the statutory retirement age of 65/60 (men, women)).

“for over-employed women, the hazard rate to retirement is higher than for other working females...not...males...workers do try to adjust hours within the labour market. If this is not possible, they may resort to retirement” (Gielen 2009: 252, 253)

The fact that over-employed males are far more able to reduce their working hours with their current employer may be the cause for the absence of retirement effects (Gielen 2009: 255f.). The reason for gender differences can be that the weekly hour difference between over-employed and not-over-employed men is rather small (2 hours per week), while for females it's huge (10 hours per week, cf. Gielen 2009: 266). She suggests that this is caused by grandchildren care giving. Over-employed women tend to change their employer or leave the labour market (Gielen 2009: 263, also 2009: 262 stating that checks show that over-employment is not endogenous). As one might expect, the magnitude of over-employment also matters (Gielen 2009: 263). While, as stated, there is no labour market exit effect for over-employed men, the effect for over-employed women is considerable (12 months of earlier retirement, cf. Gielen 2009: 265).

Concluding, Gielen (2009: 271) notes that it is not clear from her analysis if the total number of hours worked would increase with increasing working hour flexibility, i.e. if the loss in the intensive margin would outweigh gains in the extensive margin. For example, Graf et al. 2011: 217ff. show with Austrian data that allowing for part-time work with the introduction of Old-Age Part-Time Scheme ('Altersteilzeit') for those 50+ in 2000 resulted mainly in part-time work substituting full-time work with negative effects on total labour supply (Graf et al. 2011: 227 state that due to limited substitution between older and younger workers reduced working hours by some older workers can raise hourly wages for all older workers with positive effect on labour supply, but they doubt that this balances out the negative effect). Though, the exact configuration is crucial when drawing conclusions: The Austrian scheme has been 'heavily subsidized'. The Austrian scheme has been designed similar to the German one, so that due to a 'blocking option' workers could choose to choose full-time and then inactivity instead of 'real' part-time.

Other evidence suggest that over-employment (working more hours than desired) fosters early retirement, while underemployment (Bell/Rutherford 2013: no page numbers, UK data) delays retirement (Bell and Rutherford suspect that this group wants to raise incomes and/or pensions). Therefore, policies enabling those who are over-employed to work less hours could raise labour supply, if the gains in the months or years worked outweighs the loss of weekly hours.

Furthermore, in 2006 changes in tax rules came into effect which allow for the parallel receipt of occupational pensions and continued work for the same employer (Vickerstaff 2007: no page numbers). Prior to these changes, in 2004, part-time work was widespread in the UK (men: 23%, women 52%, Vickerstaff 2007).

### **Employment protection**

Similar to Germany, there is no special employment protection for older workers. Statutory redundancy payments, however, are based on employee's age and length of service. Employees are entitled to 1.5 weeks' pay for each year of employment after their 41st birthday; a week's pay for each year of employment after their 22nd birthday and half a week's pay for each year of employment up to their 22nd birthday. Length of service is capped at 20 years and weekly pay is capped at £464, meaning that the statutory redundancy pay is £13,920. Employers can give additional redundancy payments.

### **Wage subsidies**

Similarly, there are no wage subsidies targeted at older workers.

### **Health / Disability**

Like other welfare states, the UK has shifted its activation focus from the unemployed to the incapacitated (Houston/Lindsay 2010: 133): "Disability, in fact, has become the UK's form of early retirement" (Heywood/Siebert 2009: 2). As Houston and Lindsay (2010: 133) note, this is resulting from incapacity figures remaining high against the backdrop of declining unemployment benefit recipients in the last 15 years. Houston and Lindsay (2010: 134) state that evidence that high incapacity figures resulted from unemployment being hidden as sickness was compelling (based e.g. on Beatty and Fothergill 2005 and Beatty et al. 2008. The latter, for example, show that incapacity benefit receipt mirrors industrial decline). For example, Lindsay and Houston (2011: 15f.) refer to MacKay and Davies (2008) who suggest that stricter unemployment benefit access in 1986 and 1997 diverted claimants to Incapacity Benefits.

The Labour government elected in 1997 considered the large number of Incapacity Benefit (IB) recipients a result of weak compulsion and conditionality when compared to unemployment benefits, making it an attractive alternative route to passivity for those with health impairments (Houston/Lindsay 2010: 134). IB's advantages over unemployment benefits were (1) no mandatory activation requirement, (2) higher benefits, (3) no means-testing against household income (Houston/Lindsay 2010: 135).

Beginning in 2003, new measures were introduced, amongst them the Pathways to Work scheme trying to activate those claiming IB with compulsory 'Work-focused interviews' (non-attendance can lead to lower benefits) and other supporting elements which could be used voluntarily (Houston/Lindsay 2010: 134). The topics of the interview can be found under <http://www.esahelp.co.uk/interviews.php>.

The Welfare Reform Act (2007) replaced IB with the Employment and Support Allowance (ESA), which "places the UK at the forefront of such attempts to recalibrate incapacity benefits" (Kemp/Davidson 2010: 204) which is the reason for the lengthy depiction and evaluation here.

ESA came with stricter eligibility conditions and increased efforts to support those (possibly) incapacitated into work. The number of disability benefit recipients is projected to decline from 2.5 million (2007) to 1 million (2015). Part of the new programme is a Work Capability Assessment which lasts for 13 weeks and determines the participant's ability to work. Those not considered fully disabled have to participate in a 'Work Focused Health Related Assessment' in order to establish the degree of incapacity (Bertelsmann 2010: 34). The Work Capability Assessment has been criticised by an "eminent occupational health specialist" for lacking empathy and transparency and too strongly based on 'mechanistic' medical assessments, which has led to a low quality of resulting decisions. Accepting this, government gave Jobcentres more autonomy on ESA access for claimants and improved the transparency of Work Capability Assessment outcomes (Lindsay/Houston 2011: 7).

The shift from IB to ESA "requires all but the most severely sick or disabled new claimants to prepare for work, for example by taking part in rehabilitation or training" (Houston/Lindsay 2010: 134). Clearly, replacing the 'Personal Capability Assessment' with the 'Work Capability Assessment' raised the medical hurdle to be labelled as incapacitated (Houston/Lindsay 2010: 136). First results have shown that the share of rejected applicants has risen strongly compared to IB. Further, those accepted are categorised into two groups, while the 'work for those who can' group is by far larger than the 'security for those who cannot' group (Kemp/Davidson 2010: 204).

Nevertheless, compulsion and conditionality resulting from supply side labour market views have been backed up by "a commitment to provide a 'universal offer of personalised support' (Department for Work and Pensions 2008) and such promised of individually tailored services" (Houston/Lindsay 2010: 135 based on Stafford and Kellard 2007 and Lindsay et al. 2008). The work-focused interviews which serve as a basis for personalised training and rehabilitation, both targeted on re-employment (Houston/Lindsay 2010: 136) can be considered part of this. Another results-oriented feature is contracting-out of activation to private companies and voluntary organisations whose payments depend on how much claimants they bring into employment (Houston/Lindsay 2010: 136). Further, with ongoing incapacity benefit enrolment, re-employment probabilities decline (Kemp/Davidson 2010: 205 based on Department for Work and Pensions 2008 stating that there is 'real danger that without active help, people will become trapped on benefits for the rest of their lives'). Therefore, Houston and Lindsay give credit to the Employment and Support Allowance for setting in the integration mechanism quickly. One of the main problems recognised by the Labour government was that during bust cycles a huge number of (primarily low-skilled) workers enter the incapacity scheme, whereas the following economic upswing could not get claimants out of dependency, since they lost employability and motivation while on benefits (Lindsay/Houston 2011: 4, 9).

While stricter medical assessment can be an effective tool to reduce unemployment hidden as incapacity and reduce programme inflow, in-work adviser services for those returning to work under the Pathways to Work scheme had positive results (Lindsay/Houston based on Dixon and Warrender 2008). Such programmes can contribute to sustainable outflow. Also, the 'Black Review' from the Department of Health (2008) led to personalised support for sickness absentees to get back to work (Lindsay/Houston 2011: 17).

Yet, although Houston and Lindsay state that large numbers of unemployed have been hidden in the incapacity scheme, based on Lindsay et al. (2007) and Kemp and Davidson (2009), Houston and Lindsay (2010: 135) see some failure on policymakers' side to acknowledge that some of those labelled as incapacitated are really facing "complex health and employability-related barriers to work, which current and proposed supply-side policies are not always able to adequately address". Lindsay and Houston (2010: 138) state that on the micro level, improved health is the most important determinant of re-employment and further refer to Anyadike-Danes who states that the rising phenomenon of work incapacity due to mental health problems is explained only unsatisfactorily.

'Access to Work' (AtW) grants help disabled persons who want to start work, stay in work or start their own business. Money can be used e.g. for adaptation to the equipment the person uses at work, or for special equipment, funding for transportation to work if public transport is not possible, disability awareness training for colleagues etc. (Access to Work 2014a). Based on five studies, Clayton et al. (2011: 437) state that about half of the visually impaired AtW recipients say they would not have remained employed without AtW. From an older worker perspective, the weakness of the programme is that, although older workers are stronger affected by disability than younger workers, the programme is focused more on younger workers and that only 5% of recipients have mental health problems although these problems are the most prevalent disabling complaint of those claiming IB (Clayton et al. 2011: 437). AtW is a small programme covering about 35 000 people, about 1,400 with mental health conditions (the share rose from 0.7% in 2007/2008 to 4% in 2013/2014). The bulk of help AtW pays for are for support workers and travel-to-work assistance (Access to Work 2014b; the statistics do not show recipients' age).

### **Self-employment**

Bell and Rutherford (2013: no page numbers) criticise that self-employed have been given little attention in the policy debate, despite the facts that this groups is one of the fastest growing and their working times deviate strongly from their desired working times. When counting the number and share of self-employed older workers in the UK, one has to be cautious since many older self-employed do not work much. Partly, self-employment is a mask for unemployment, or a means to work less if this is not possible as employee (Wilkinson/Cebulla 2013: 13).

The main initiative for older self-employed workers is 'The Prince's Initiative for Mature Enterprise' (PRIME, founded by the Prince of Wales) supporting the starting of a new business by those over 50 by providing training, mentoring and networking (Wilkinson/Cebulla 2013: 13).

### **Age discrimination legislation**

Muller-Camen et al. (2011: 512) consider the UK (and Germany) to have been reluctant to introduce workplace age discrimination legislation and leaving employers generous leeway for own solutions. In 2006, the UK introduced its Employment Equality (Age) Regulations (Heywood/Siebert 2006: 1ff.), whereas its configuration is considered a 'light touch' approach by Muller-Camen et al. (2011: 512). Nevertheless, employers and HR managers became strongly interested due to the new legislation (Muller-Camen et al. 2011: 518 based on Parry and Tyson 2009), also against the backdrop of low knowledge of the already previously existing voluntary Code of Practice (Muller-Camen et al. 2011: 518 based on the Trade Union Congress which represents 54 unions and 6.2 million workers). Muller-Camen et al. (2011: 519) evaluate impacts as mixed: On the one hand, explicit age requirements vanished from job advertisements, on the other hand the Trade Union Congress notes that equal treatment for all age groups has been used by employers to justify downward levelling of older workers redundancy pay (Muller-Camen et al. 2011: 519). Further, CIPD (Championing better work and working lives, a non-profit organisation) suspects that the law could motivate smaller employers to set a retirement age who had none before and that misunderstanding of the law and risk aversion could lead smaller employers to retire their workers at 65 (Muller-Camen et al. 2011: 519 based on Flynn 2010). Muller-Camen et al. (2011: 521) suggest that due to the UK's employment relations (industrial disputes are not solved mostly internally as is the case in Germany) the law's impact could be greater than in the UK than in Germany due to higher employer fears of complaints reaching tribunals and therefore the public.

Noteworthy, there are age limits to the protection from age discrimination: “It may not be unlawful for an employer to discriminate against a job applicant where at the time of the application the applicant is over the employer’s normal retirement age. Such discrimination is also not unlawful if the applicant will reach the employee’s normal retirement within six months of the application for the job.” Yet, for those within a job, “the upper age limit for unfair dismissal and redundancy claims is removed (unless there is a genuine retirement)” (compactlaw.co.uk 2014).

#### *Awareness campaigns*

Government published the ‘Code of Practice in Age Diversity’, ‘Age Diversity at Work’ and the ‘Age Positive’ website (Muller-Camen et al. 2011: 513). Older research (Muller-Camen 2011: 514 based on McNair et al. 2007) states that there are no changes in discriminatory behaviour by employers.

## 2.11 Baltic countries (Estonia, Latvia, Lithuania)<sup>20</sup>

Kirsti Nurmela | Liina Osila | Reelika Leetmaa

In task 1 Latvia and Lithuania could not be covered. Therefore, the Baltic report deviates from the other country policy reports. It covers far more issues related to the issue of extending working life.

### Introduction

This report is part of the MOPACT project – Mobilising the Potential of Active Ageing in Europe<sup>21</sup>. The report is an input in the research field Extending Working Lives, Task 2: overview of the “state of the art” of current innovative, successful and sustainable approaches to working and learning longer. This report covers three Baltic countries – Estonia, Latvia and Lithuania.

The aim of this report is to provide an insight into practices implemented in Estonia, Latvia and Lithuania to support active ageing in the labour market and lifelong learning in older age. The report is divided into three main parts. Firstly, a contextual chapter is provided for putting the comparison of Baltic states into perspective – what is the welfare state typology represented in these countries and what is the statistical picture of the macro-level indices when comparing the three countries?

Second, national level policy examples are described from all three countries with the aim to support longer working lives and lifelong learning in older age. This chapter is not a full picture of all policy initiatives implemented in Baltic countries. Instead, the chapter brings out highlights from these countries that have a noteworthy role in active ageing policy in the country. The analysis concentrates on different policy fields, including national level strategies, social security system (including pensions), employment protection legislation, labour market measures, occupational health and safety policies and lifelong learning policies for older age groups.

Third, attention is turned on available information of practices implemented at company level. The chapter provides an overview of available research results on national level as well as some examples identified based on expert interviews conducted in each country. This chapter is a good starting point for further identification of good practices on national level. This chapter will be further complemented by good practices implemented by various non-governmental actors in Baltic countries. Collection of these practices will take place during August – September 2014.

The report aims at identifying “good practice” and particularly “social innovations” on national level. The definition of “social innovation” or “good practice” is rather difficult to pinpoint and it is largely dependent on the national context. However, we generally speak of social innovation if there is an intentional, purposeful new configuration of social practices realised by a certain group of stakeholders respectively constellations of stakeholders whose objective is to solve socio-political problems or satisfy needs better than it would be possible on the basis of established practices (Naegele and Bauknecht 2013, 16). This means that it is about the founded and explicitly intended integration of various constellations of

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<sup>20</sup> Individual country reports for Estonia, Latvia and Lithuania are available on request, please contact Jürgen Bauknecht ([jbauk@post.tu-dortmund.de](mailto:jbauk@post.tu-dortmund.de)) or Reelika Leetmaa ([reelika.leetmaa@praxis.ee](mailto:reelika.leetmaa@praxis.ee)) for the information.

<sup>21</sup> More detailed information on the project available at: <http://mopact.group.shef.ac.uk/>

stakeholders and practices into new socio-political methods of operation and organisation (Naegele and Bauknecht 2013, 16).

The report aims to identify measures that have an impact on both workability and employability of the ageing workforce. Based on the differentiation used in the conceptual framework and agreed between project partners, we differentiate between workability and employability in the following manner: Workability refers to individual characteristics: skills and personal resources, affected by lifelong learning and training, health, motivation (willingness to work) etc. Employability also contains factors such as work demands, workplace stereotypes, career perspectives, working conditions, job quality, labour market conditions (such as high or low demand for certain skills, which is also affected by tertiarisation etc.) (Naegele and Bauknecht 2013, 26).

### **Baltic context: comparing Estonia, Latvia and Lithuania**

The current chapter aims at providing a context for reading the following chapters of the report and create a picture of the similarities/differences of the Baltic countries based on macro-level statistics.

### **Position within the welfare state models**

In comparing the policy context of active ageing in the Baltic countries, a good starting point that is based on macro-level indices are the welfare state models and the position attributed to Baltic countries by different authors. The position of Baltic countries within various classifications of welfare models has changed over time and across different approaches to welfare regimes. The initial model by Esping-Andersen (1990) did not include Eastern European countries. The next approach was to fit the Eastern European countries within the existing models (Beblavy 2008). Different studies have fitted the Eastern European countries under the liberal regime (Ferge 1997; Ferge 2001) or as a “transitional state”, moving towards the existing welfare regime types (Esping-Andersen 1996). After realising that these countries were not developing into the existing welfare types, new typologies were created. Two main approaches can be identified – either a single Eastern European model approach or the multiple models approach which finds variations within the region.

Several authors have been trying to separate Eastern Europe countries into one distinct group which would compose a regime that does not fall into Esping-Andersen’s trilogy (e.g. Oorschot and Arts 2005; Wehner et al. 2004; Aidukaite 2004; Kääriäinen and Lehtonen 2006).

Other authors make a distinction between the differences within the region. For instance Beblavy (2008) divides ten Eastern-European countries into five welfare models. Latvia is considered under the invisible model – a very small welfare state with much smaller redistributive efforts than others. Estonia and Lithuania compose the liberal light model - the state is much smaller than those of European states usually classified in the residual model (low in size of social protection expenditure, low in absolute redistributive effort; high in relative redistributive effort). Fenger (2007) on the other hand divides 19 Eastern European countries into three distinct models. Estonia, Latvia and Lithuania are combined under a single model with Belarus, Russia and Ukraine – former USSR type model. The grouping of countries largely depends on the number of countries included into the analysis and the level of similarity or difference, and also the number of end result i.e. the number of models or regimes generated. Also, the similarities and differences of the Baltic countries can vary across time. The following chapter provides a comparison of the Baltic countries regarding some statistics on active ageing.

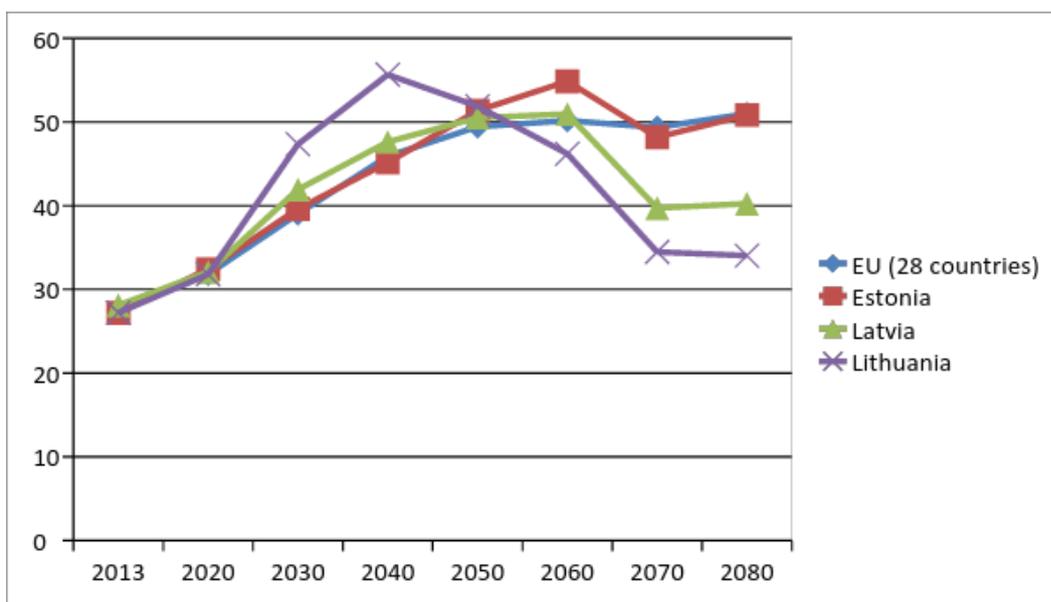
## Comparing the situation of active ageing in the Baltic countries

### Demographic developments

In 2011, Eurostat reported that the Baltic states are among the eight Member States where population has declined during 2011 (Robustillo et al. 2013). In 2011, population decline in Estonia was solely due to negative natural change, which offset positive net migration, while in Latvia and Lithuania, population declined mostly due to negative net migration supplemented by negative natural change (Robustillo et al. 2013).

Population ageing is a general process across the EU Member States and is expected to continue in the coming decades (Robustillo et al. 2013). The Baltic countries are no exception in this respect. Old-age dependency ratio is an indicator reflecting the relative size of the older population (aged 65 and over) expressed as a percentage of the working-age population (aged 15-64). According to Eurostat on-line database, in 2013 the old-age dependency ratio in the EU-28 was 27% (i.e. there is almost four persons aged 15-64 per one person aged over 65). All three Baltic States have a starting point indistinguishable from the EU average (27-28% in all three countries) (see also Figure 1). All three countries are expected to go through a decline in old-age dependency ratio which is followed by stabilisation period, although the decline will start earlier in Lithuania than in other countries. These trends can at least partly be explained by increasing fertility rates and an expected shift from population outflow due to migration into population inflow (see further below). By the end of the forecast period (2080), Lithuanian population is projected to be the most youthful out of the three Baltic countries while Estonia shows highest share of old-age population relative to working-age population.

FIGURE 1. OLD AGE DEPENDENCY RATIO



Source: EuroPop2010, Eurostat.

The trends described above can be explained by the following main indicators, forming the basis for population projections (EuroPop2013 projections by Eurostat<sup>22</sup>) – fertility rates, life expectancy at birth and net migration. Increasing fertility rates are expected in most EU countries during the projection period, including the Baltic countries.

Among the three Baltic countries, a convergence in life expectancy is projected by 2080. Out of the three countries, life expectancy at birth is expected to increase the most among Lithuanian men, who have the lowest starting point as at 2013 (68.7 years). Among the EU countries, Lithuania and Latvia stand out with the lowest male life expectancy at 2013 (68.7 and 69.1 years respectively). Estonia has fifth lowest life expectancy for males (71.6 years). By 2080 this will not change, although differences between EU countries are expected to diminish. Also, these are the countries which are expected to make through the highest increase in male life expectancy over the projection period. The trends in female life expectancy are rather similar to that of males, although female life expectancy is considerably higher than that of men. Women can expect to live between 9.7 and 10.9 years longer than men in 2013 in the Baltic countries while the differences are expected to diminish to 5.1-5.3 years by 2080.

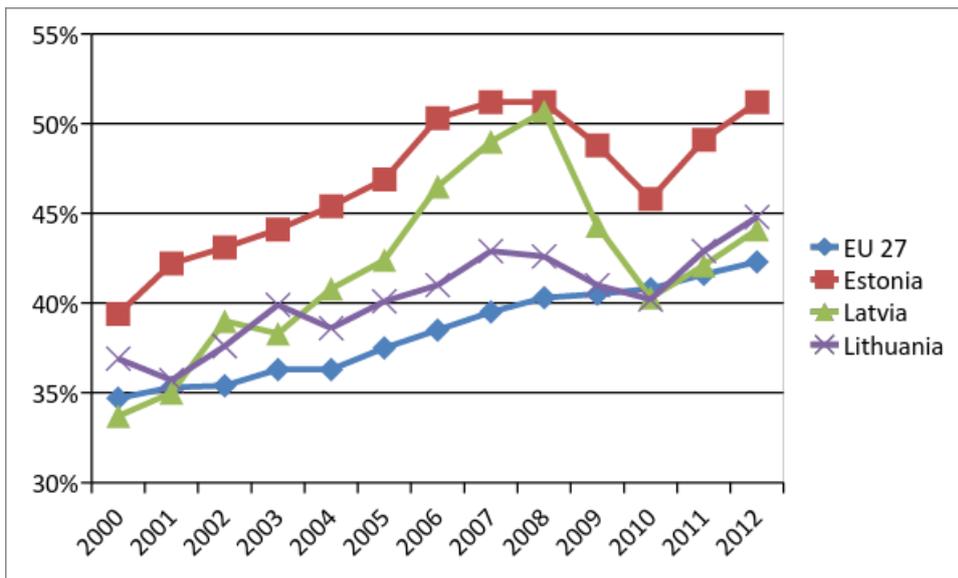
According to the EuroPop2013 projections, all of the Baltic countries are expected to go through a steep increase in population outflow due to migration in 2020-2030 which is expected to turn into a small population inflow by 2040 in all three countries. Population outflow is projected to be the steepest in Lithuania.

**Employment** of older age groups in the Baltic countries has been above the EU average for most years since 2000. Employment rates in Baltic countries for people aged 50 – 74 have been growing and have maintained their relative position above the EU average. As seen from Figure 2, during the boom years employment rates in Latvia and Estonia were climbing more rapidly but the ensuing crisis also had a stronger effect on the employment rates of older people. Starting from 2010, all three Baltic states are showing accelerated growth in their employment rates and are every year getting further away from the EU average. In 2012, employment rate of 50-74 year olds in Estonia (51.2%) was recorded the second highest among EU countries, after Sweden. Latvia and Lithuania were also among the ten countries with highest old-age employment rates in EU, rising above the EU average.

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<sup>22</sup> For more details on EuroPop population projections, see [http://epp.eurostat.ec.europa.eu/cache/ITY\\_SDDS/en/proj\\_13n\\_esms.htm](http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/en/proj_13n_esms.htm)

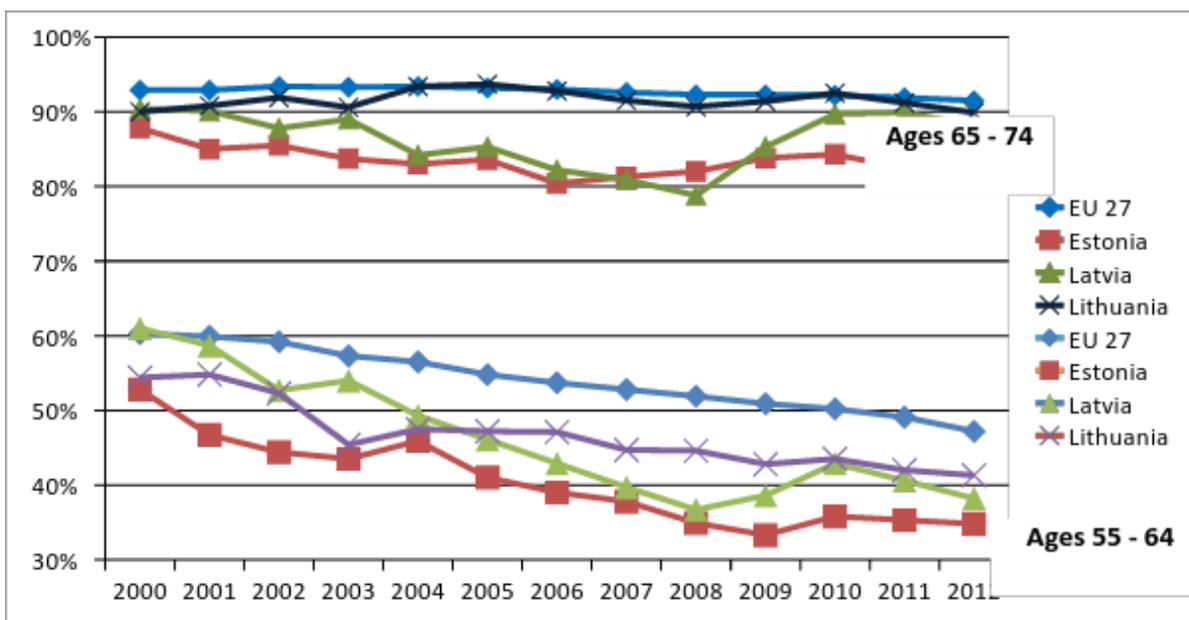
FIGURE 2. EMPLOYMENT RATE, AGE GROUP 50 - 74



Source: Eurostat

Another important measure to express the labour market situation for the elderly is inactivity rate, showing the amount of people who have left the labour market altogether. As seen on Figure 3, the total inactivity rates for age groups 55 to 64 and 65 to 74 have been declining in Baltic States and in the EU as a whole. Trends show that inactivity after the economic crisis show a noticeable increase only in Latvia, indicating that older age groups started to move more often from employment to inactivity after losing their jobs.

FIGURE 3. SHARE OF INACTIVE POPULATION BY AGE GROUP (AGES 55 TO 64 AND 65 TO 74), 2000-2012



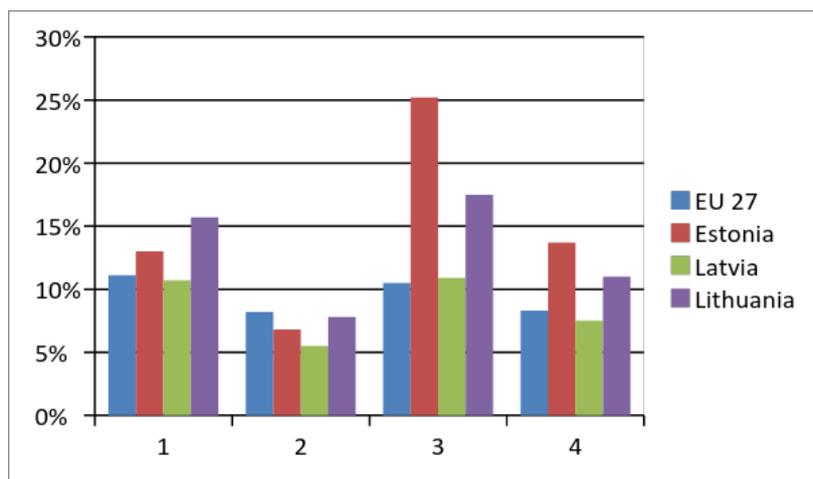
Source: Eurostat

Over time there has also been significant decrease in gender differences. For example in the case of Latvia in the 55-64 age group the inactivity rate in 2000 was 72% for females and 46% for males. By year 2012 the inactivity rate was 39% for females and 37% for males. There was also a trend of similar strength in Estonia and Lithuania but in the case of the latter there is still a gap between the female-male inactivity rates (45% and 35% respectively).

Being retired is the main reason for inactivity for people aged 55 to 74. In 2000 in Latvia almost every inactive person was retired (98%). In Estonia and Lithuania the figure was 86% and 91% respectively. Those figures were significantly higher than the EU average of 67%. While the EU average has risen, the share of people in the Baltic States, whose main reason for not seeking employment is retirement, has been decreasing. Latvia has seen the biggest decrease by 15 percentage points.

The second most common reason for being out of the labour market is presented on Figure 4. The figure identifies a cause for concern for Estonia and Lithuania where respectively 25% and 17% of males were inactive in 2012 due to an illness or disability. In the case of Estonia the figure has almost doubled in ten years. Situation for women is better compared to men, although the share of inactive women who are not seeking employment due to health problems has also increased over time in the mentioned countries.

FIGURE 4. SHARE OF INACTIVE POPULATION AGED 55 – 74 WHO ARE NOT SEEKING EMPLOYMENT DUE TO OWN ILLNESS OR DISABILITY BY GENDER (2002 AND 2012)



Source: Eurostat

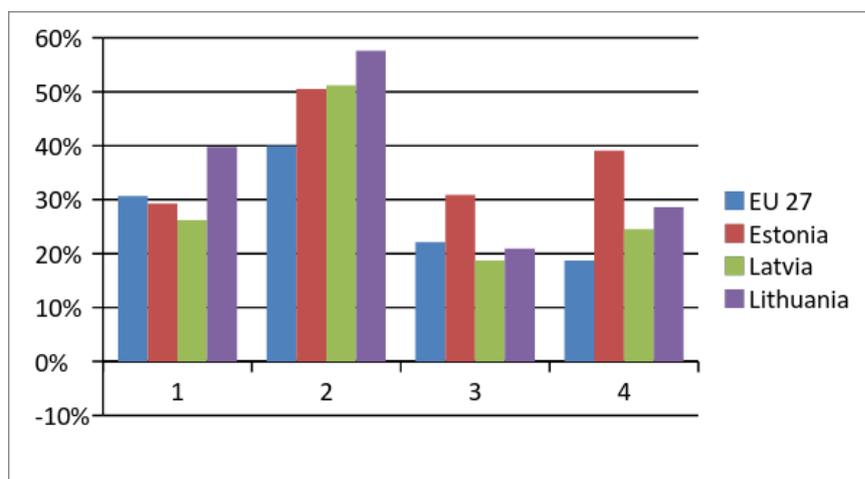
Against this background, an issue of concern is the number of expected healthy life years. Expected healthy life years at birth are over 61 years for both men and women in the EU on average and the changes over time have been minimal. The women in Baltic States are closer to the EU average than men. The worst situation is in Estonia where the women are four years and men 8 years below the EU average. In Latvia the figures are 3 and 7 and in Lithuania men are 5 years below the EU average and women have managed to caught up to the average woman in the EU. The situation for Baltic States has improved since 2004 but the growth of healthy life years has stopped and regressed a little for Estonia and Lithuania.

The current report is also concerned with the **lifelong learning** trends among older age groups. In general, older age groups in Baltic States have considerably higher education than in the EU on average. In age groups of 25 to 34 and 35 to 54 the share of people in Baltic States who only have education corresponding to ISCED levels 0-2 is roughly three times lower than the EU average for those age groups. Attainment of

tertiary education (ISCED levels 5-6) in Lithuania and Latvia is slightly above the EU average while Estonia has considerably higher figures.

Figure 5 shows the attainment of tertiary education by age groups in 2012 and highlights a worrisome educational gap between the sexes. In the older age group the EU wide average difference between men and women is 3.4% points. In Latvia and Lithuania the gap is 6% and 7% points and in Estonia the difference is nearing to 10% points. But gender differences in attainment of tertiary education are even bigger for the younger age group. EU average is 30% for men and 40% for women while in Baltic States the gap varies from 17 to 25% points meaning that future older generations can expect even bigger gender differences in their education levels than they experience now.

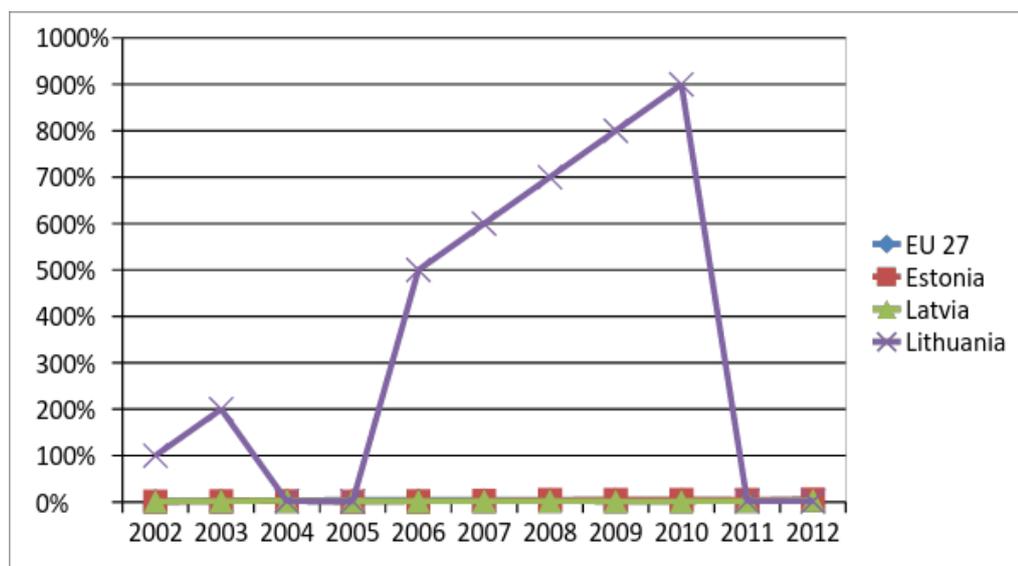
FIGURE 5. ATTAINMENT OF TERTIARY EDUCATION IN 2012, BY AGE GROUP AND SEX



Source: Eurostat data, author

Figure 6 presents the participation rate in education and training for people aged 55 to 64. Baltic states all started from a lower level compared to the EU average but by 2012 both Estonia and Latvia reached participation levels close or above the EU average. Participation rate for Lithuania has not changed over the years but not much should be read into it due to the fact that Lithuania has missing data points and the validity of the data comes into question. In 2012 in Lithuania there were no gender differences in the rate of lifelong learning participation among people aged 25 to 34 and only slight advantage towards women in Estonia and Latvia. For the older age groups women have noticeably greater participation rates than men in all three Baltic states.

FIGURE 6. PARTICIPATION RATE IN EDUCATION AND TRAINING (LAST 4 WEEKS), 55 TO 64-YEAR-OLDS



Source: Eurostat

### National level: policies for extending working lives and lifelong learning

This chapter focuses on national level policies that are somehow noteworthy in terms of their impact (either positive or negative) on working and learning longer. The aim is not to provide a comprehensive overview of every existing measure/ policy in the Baltic countries, but to bring out examples of significant/ noteworthy policies of how active ageing is tackled on national level. The chapter is based on national reports from Estonia, Latvia and Lithuania which were compiled based on available policy documents and expert interviews.

### National level strategies for active ageing

Out of all the three countries, **Estonia** is the only one which has introduced a strategic document guiding the implementation of active ageing policies on national level. In Estonia, there have been two strategic documents that have been the basis for implementing active ageing on national level. The first document was introduced in 1999 – “Principles of Elderly Policy” (Ministry of Social Affairs 1999) and its implementation plans for the years 2002-2005 (Ministry of Social Affairs 2002) and for the years 2007-2009 (Ministry of Social Affairs 2008).

In year 2012, that in Europe was dedicated to promote active ageing and solidarity between generations, the Ministry of Social Affairs started to develop a national Development Plan of Active Ageing for the years 2013-2020 (Ministry of Social Affairs 2013). The aim was to elaborate a policy framework for older persons aged 50 and older that associates the issues of four different policy fields – health care, life-long learning, civil society and labour market. Both, the policy paper made in 1999 and the new Development plan for 2013-2020 stem from holistic approach meaning that to change the situation, actions in different areas of life need to be carried out. While the Implementation plans for the new Development Plan for 2013-2020 have not yet been published, the representative of the Ministry of Social Affairs expressed opinion that overall the two strategic documents (the one from 1999 and from 2013) differ quite extensively. Also,

the role of the Ministry of Social Affairs has increased being the main lead and the role of Elderly Policy Committee that is an advisory body for the Ministry of Social Affairs has decreased compared to earlier period.

The Development Plan for 2013-2020 was finished early 2013 and around 60 different stakeholders were involved in the process, including representatives from different institutions (e.g. Estonian Unemployment Insurance Fund), universities, NGOs, think-tanks, local governments, ministries, social partners. The Ministry of Social Affairs is planning to draw up four Implementation Plans all made for two year periods to carry out the Development Plan. However, the process of elaborating the first Implementation Plan for the years 2013-2015 has been suspended. Mainly because it was not the priority for the previous government as several other extensive reforms were on the table and because the new government that took the office in the end of March 2014 has not yet had the chance to focus on the issue. Still, the representative of the Ministry of Social Affairs remained positive as the current Minister for Social Welfare is also the member of the Elderly Policy Committee and therefore well informed of the whole issue and development plan. The representative of the Ministry also argued that although there currently are no confirmed implementation plans, it does not mean that no actions have been taken. She brought out as an example that thanks to the existence of the new Active Ageing Development Plan for 2013-2020, different measures directed to older people were included in the new Lifelong learning strategy 2014-2020 to support the implementation of the aims set in the development plan.

In **Latvia**, *Comprehensive Active Ageing Strategy for Longer and Better Working Lives* - the first single policy document in the field of active aging and extending working – is in preparation, to be ready by the end of 2015. The Ministry of Welfare with a financial support from the EU PROGRESS 2007-2013 programme started to work on the development of the strategy in March 2014. The project has two main activities: the first one is to evaluate the main challenges for active aging and possible policy changes (main areas analysed: employment, health, social security); and the second - to develop active aging strategy based on the evaluation made during the first stage of the project<sup>23</sup>.

In **Lithuania**, there is currently no strategy specifically focused on active ageing issues. The first strategic document - National Strategy on Overcoming the Consequences of Ageing (“The National Strategy on Overcoming the Consequences of Ageing” 2004) (“the Strategy”) – was approved in 2004. The Strategy aims at providing, in compliance with the principles of active ageing, older people with conditions for a full life, seeking for their experience to be valued, and making them certain of their future. The content of the Strategy was approved as fully meeting all the criteria of active ageing laid down by the World Health Organisation (WHO) (Adomaitienė et al. 2007).

In 2005, the Government of the Republic of Lithuania (GRL) approved the 2005-2013 Action Plan for the Strategy (“The 2005-2013 Action Plan for the Strategy” 2005). This document covered such measures as income guarantees, employment, health and social services, full life opportunities, participation in society, and creation of the image of older people. The Ministry of Social Security and Labour (MSSL) and institutions subordinate to it were in charge for the most of the measures. Following the provisions of the Action Plan, the Lithuanian Pensioner Affairs Council<sup>24</sup> was established at the MSSL. Although the MSSL is assigned a greater degree of responsibility for coordination and implementation of national goals and objectives contributing to the goals of acting ageing policy, there is the lack of inter-institutional

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<sup>23</sup> Direct communication, Ministry of Welfare, 2014.

<sup>24</sup> <http://www.socmin.lt/lt/veikla/tarybos/lietuvos-pensininku-reikalavimai.html>

coordination. Therefore, establishing a common strategy or a responsible function on Government's level would probably contribute to the more effective management of active ageing on national level.

Even though introducing a national level strategy for active ageing has succeeded to a different extent in the three countries, all of the countries report that active ageing is at least partly included in various other national level strategies. For instance, in **Estonia** the necessity of prolonging working lives was also stated as an overall principle in strategic documents, for example, the strategy of "Estonia 2020" highlighted that in the future it is getting more and more important to provide measures to older persons in order to prolong their working life or getting them back in the labour market (State Chancellery 2013). However, there are no specific activities introduced to reach this aim.

In **Latvia**, almost all of the current main strategic national documents recognise the importance of active ageing policies, and include at least some measures aiming at increasing employability of older people.

- *Latvia's Sustainable Development Strategy 2030*<sup>25</sup> includes programmes for prevention of age discrimination, the development and inclusion of a programme in social responsibility assessments and enterprise audits, long-term investments in human capital to increase its productivity, training and socialisation programmes for people in retirement and pre-retirement age.

Latvia's Sustainable Development strategy 2030 is highly evaluated by the Trade Union Confederation and considered to be the only document that explicitly emphasizes involvement of old-age people in the labour market.

- *Latvian National Development Plan 2007-2013; Latvian National Development Plan 2014-2020* also include aging related measures such as promotion of lifelong learning, access to education, training and skills development, unemployment preventive measures for pre-retirement age workers, sustainability of the state social security system, the provision of health care services, flexible working time arrangements.

- *National Reform Programme of Latvia for the Implementation of the Europe 2020 Strategy*<sup>26</sup> have measures on ensuring the sustainability of the pension system and integration of pre-retirement age population into the labour market using special public work programme, subsidised employment and training (ICT skills and foreign language skills), reducing discrimination and promoting investments in research.

- In 2008, the importance of the labour market participation of older individuals was emphasized by the Latvian government and included as a horizontal priority '*equal opportunities for everyone independent of age*' in the Ministry of Welfare guidelines to an application for joint funding from the European Social Fund and Latvian government. The main aim of the guidelines is to ensure that all members of society, regardless of gender, age and disability can have equal opportunities to participate in ESF projects and to benefit from their implementation. The guidelines are not binding and their application has to be assessed individually. However, they have a crucial role while deciding on possible financing and choosing from similar projects. Projects addressing issues of equal opportunities are prioritised for getting funding over otherwise similar projects not addressing the issue.

These guidelines were very positively evaluated by the Trade Union Confederation and Latvian Pensioner's Federation. Yet the post-assessment of the measure acknowledged that only small share (6%) of all projects' beneficiaries in the structural funds were older workers. Majority of the projects with

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<sup>25</sup> Adopted by the Parliament of Latvia in June 2010.

<sup>26</sup> Approved in 2011.

horizontal impact have been in the areas of education and employment. (SIA “Corporate Consulting” 2013)

In **Lithuania**, the issues of population ageing and the measures to tackle these issues within a period from 2004 to 2013 were reflected in the Governmental Programme (“The Programme of the GRL” 2008). In order to tackle issues related to demographic ageing, the programme provided for improving the social insurance system, fostering a relative increase in the size of the old-age pension, establishing a more effective system for the provision of social support, enhancing the provision of social care and social protection, and strengthening the community spirit and solidarity between generations. Furthermore, the “The National Demographic (Population) Policy Strategy” 2004 (adopted in 2004) provided, *inter alia*, for measures related to the tackling of population ageing problems, i.e., improve the quality of life of Lithuania’s population, reduce morbidity, mortality and inequality in order to increase life expectancy. The non-discrimination action plan (2012-14) (“The Interinstitutional Action Plan for Promoting Non-Discrimination” 2011) also helps encourage the elderly to lead active lives and fosters their dignity. The measures by which this plan is implemented cover various educational events and support for the activities of non-governmental organisations aimed at reducing discrimination on various grounds, including those related to age. Implementation of “The National Program on European Active Aging and Intergenerational Solidarity” 2012 was aimed at bringing the problems associated with demographic ageing and intergenerational solidarity to the attention of the public, raising the awareness of the activities being undertaken in this area, and providing new opportunities for synergies and collaboration.

The review of the relevant documents defining employment and social policy development shows that the Ministry of Social Security and Labour (MSSL) continues to play the key role in this area. There are two main documents defining Lithuania’s tasks in pursuance of active ageing provisions for a period from 2014 to 2020, namely, “The 2014-20 Programme for Employment Increase” (2013) and “The Action Plan for Enhancing Social Inclusion in 2014–20” (2013). The Programme sets a strategic objective to raise employment levels as much as possible so that every person would be able to find a job that meets his or her qualifications and to secure an adequate standard of living. This objective is based on three tasks: (1) to promote creation of jobs and labour demand; (2) to improve the match between labour skills and market needs; (3) to integrate and retain free labour resources in the labour market. Although all the objectives and tasks indirectly contribute to the implementation of active ageing objectives, inclusion of older people in the labour market is specifically identified only in the third objective of the Programme which reads “to encourage older employees to stay in the labour market longer”. This objective is to be achieved by creating favourable conditions to work at retirement age, promoting training of older employees by means of application of flexible training forms for adults, providing older unemployed persons with skills refreshment and reskilling opportunities, applying target incentives to admitting older persons to work, supporting the transfer of work experience of older people to youth by various means of experience transfer. Responsibility for achievement of the qualitative targets of the Programme (increase of the employment rate up to 53.5% in people aged 55–64 and extension of the average age to exit the labour market up to 64) is vested upon the MSSL, too. Preparation of specific measures to promote active ageing is also envisaged within the framework of Programme implementation.

The Action Plan for Enhancing Social Inclusion provides for obligations of the MSSL to develop timely and effective health services in the area of *healthy ageing* in order to keep elderly people in the labour market as long as possible and to reduce their social exclusion risks. The Plan also provides for the improvement of coordination, management and monitoring of preventive health services with a view to ensuring better effectiveness thereof in territories with the poorest health indicators, reducing health inequalities among

various social groups, and ensuring possibly *longer healthy ageing*, as well as supporting projects in the area of healthy ageing. In addition, the Plan provides for the reduction of health inequalities by improving the quality of and access to health services, including ensuring opportunities for the elderly to stay active in the labour market and in their usual social life.

In addition, **Latvia** has reported an example of an advisory council to the issues of active ageing. In 2013 the Ministry of Welfare initiated the creation of Seniors Advisory Council. The Council consists of the representatives of the main Latvian pensioners' organisations (Latvian Pensioner Federation, Latvian Senior Alliance, regional pensioner organisations), as well as representatives from the Ministry of Welfare, the Ministry of Health and State Social Security Agency. The main task of the Council is social dialogue between the parties involved, discussion of the planned reforms, strategies and policies in the field of health care, employment, lifelong learning and financial position of the aged people. The assessments of these activities by different stakeholders are rather controversial<sup>27</sup>; still the council increases the opportunity for social dialogue and chances of the pensioners' opinion to be heard by policy makers.

Starting from its creation in 2013 the Council have had 8 meetings. The main topic covered has been mostly devoted to the issue of pension indexation. Several indexation scenarios have been discussed and the one selected for implementation, i.e. indexation of small pensions (took place in autumn 2013).

On the contrary, **Lithuania** has reported that parties other than state/government agencies lack recognition as that of independent participants in the planning and implementation of active ageing policy in the country. The role of the social partners or older people themselves is rarely defined in strategic or accompanying documents. Sometimes these documents provide for state support for certain NGOs (usually of older people) implementing provisions of strategic documents in the area of population ageing. However, the social partners as a rule are not identified in such documents as strategy/programme implementing institutions.

### **Incentives in social security system to prolong working lives: pension system**

As a measure to prolong working lives, all Baltic countries have reported an **increase in pension age**. All three countries have set their aim to equalise retirement age for men and women (Latvia already has equal retirement age for both genders) and reach the retirement age of 65 by 2025-2026 for both men and women. In **Lithuania**, increase in pension age was considered as one of the measures to ensure the continuity and financial sustainability of the state social insurance system (Lazutka 2013).

In parallel, **Latvia** has also reported an increase in the minimum number of qualification years for a pension from 10 to 15 years in 2014, and will be further increased to 20 years by 2025. A longer insurance period and a later retirement age will ensure a higher old-age pension than under the existing regime.

An option to leave the labour market prematurely is offered by **early retirement options**. However, the popularity of these options tend to vary across the three countries. For instance, in **Lithuania** and **Latvia**, early old-age pensions are subject to relatively strict regulations (see also below). At the same time, their popularity increased in the economic crisis – according to the Eurostat ad-hoc module on transition from work to retirement in the Labour Force Survey, the share of early retirement among people who receive an old-age pension is 10.9% in Estonia, 19.1% in Lithuania and 35.1% in Latvia in 2012 compared to 39.1% in the EU28 on average. Also, early old-age pensions are lower than regular old-age pensions and it also has a negative impact on the old-age pensions. For instance, in **Latvia**, starting from 2009, the early retirement pension is 50% of the value of a person's old-age pension (till 2009 – 80%). In **Lithuania**, early

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<sup>27</sup> <http://www.la.lv/senioru-padomes-darbs-tuvplana/>

old-age pension was LTL 618 or EUR 179 in 2013, by 27% lower than regular old-age pension<sup>28</sup>. This makes a strong financial incentive to continue working and not to use the option of early retirement when possible.

In order to further discourage the use of early old-age pensions, in 2009 the early retirement pension was cut from 80% to 50% of the value of a person's old-age pension. However, the share of early retirees in those retiring in 2009 and 2010 actually increased as compared with earlier. This affect was partially explained by the further even more unfavourable changes in the pension system, thus the early-retirement by many individuals was considered to be the best option.

Furthermore, **Lithuania** reports a further decreasing trend in early old-age pensions. In 2013, there were 11,599 recipients of early old-age pensions in Lithuania compared to 598,700 recipients of old-age pensions. Although access to early old-age pensions was improved in 2012 (the requirements to have a 12 months' period of registered unemployment prior to applying for the payment of early old-age pension was abolished ("The Law on State Social Insurance Old Age Pension Prepayment" 2012)), the number of recipients of such pensions keeps decreasing in the country.

At the same time, in **Estonia**, use of early retirement options is quite common - 19% of all people who entered old-age pension scheme used early retirement in 2011 and 2012.<sup>29</sup> As the duration of unemployment benefit is short in Estonia and work-incapacity pensions are low (about 60% of old-age pensions), people choose early retirement scheme as only available way to leave the labour force. The entry rate was higher during the recent crisis when unemployment increased– 25% in 2009, 24% in 2010. Leetmaa et al (2004a) show that majority of people who enter early retirement scheme come from unemployment or inactivity – about 80% of those have not had employment income before entering the early retirement scheme. More recent studies have shown the continuation of the same patter – during 2005-2012 about 75% of people in early retirement did not have an official employment income before entering the scheme (National Audit Office of Estonia 2014).

Table Baltics 1: Main conditions for early old-age pensions

	Lithuania	Latvia	Estonia
Maximum time before retirement age to collect early old-age pensions*	5 years	2 years	3 years
Minimum social security contribution history	At least 30 years	At least 30 years	At least 15 years
Employment	A person should not be employed under any form of contract or self-employed	Should not be employed, although a person can receive the status of early retirement and continue to work**	Simultaneous labour earnings are not allowed until reaching statutory pensions age
Relations with old-age pensions	The amount of old-age pension to persons awarded	Early retirement reduces the amount of the full state	For each month of early old-age pensions, old-age

<sup>28</sup> <http://www.sodra.lt/index.php?cid=283>

<sup>29</sup> Authors' calculations based on annual reports „Pensioners“ by Estonian National Social Insurance Board

	early old-age pensions are reduced for the whole period of retirement.	pension received by individual (the level of a state pension depends on the age when the person retires as one of the factors).	pension is reduced by 0.4%.
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*\*The age of early old-age pensions increases with general retirement age.*

*\*\* This is because of the fact that early retirement was designed as a supportive mechanism for people who have lost their job shortly (2 years) before the official retirement.*

*Source: national reports of Estonia, Latvia and Lithuania*

Withdrawal from the labour force early is also influenced by the legislation that grants many people right to retire before the general retirement age via special pension schemes. In such cases the retirement serves a somewhat different objective than the ordinary old-age pension: it recognizes the work done on certain positions and services before the society, puts value on raising children, compensates working in difficult conditions or in conditions harmful to health, redresses repression, social or other injustice. In **Estonia**, according to the National Pension Insurance Act the following people are entitled to receive an old-age pension up to five years before the official retirement age: a parent of at least three children or parent of a disabled child; unlawfully repressed people who have been in penal establishments or in exilement; people who worked in liquidating the consequences of the Chernobyl nuclear power station. In addition, there are special old-age pension systems in **Estonia** for people who have worked in difficult conditions or in conditions harmful to health, and for representatives of certain professions (ballet dancers, aviation and marine workers, children's home teachers, textile workers), where it is assumed that their professional work ability reduces with age or disappears altogether, and prevents them from continuing in the same field or position. People who have worked in harmful or difficult working conditions or on certain professions are entitled to retire up to 10 years earlier than other workers, whereas this right is acquired regardless of their actual state of health or working ability<sup>30</sup>.

Research has shown that people who entered these pension schemes (pensions under favourable conditions and superannuated pensions) during 2010-2012 in Estonia did not have poorer health compared to the average in the same age group (National Audit Office of Estonia 2014). For instance, in 2012 there were 14-25% of people (depending on the age group) permanently incapacitated for work among those who received pensions under favourable conditions and 10-24% among those receiving superannuated pensions compared to 17-31% among the respective age groups in general (National Audit Office of Estonia 2014). It was also shown that the share of people with disability is lower among people in the respective pension schemes compared to the general population (National Audit Office of Estonia 2014).

There is, however, one prerequisite for receiving the pension – such persons should not continue working in harmful or difficult conditions or in the field that entitled him or her to the right to receive superannuated pension. They have to leave the labour market or find a new job. Such special laws are also in force for various persons in civil service, providing them with early retirement options. Police officers, for example, have a right to early retirement at the age of 50 (Leetmaa, Vörk, and Kallaste 2004a).

<sup>30</sup> Regulated by Pension under Favourable Conditions Act and Superannuated Pension Act.

It has been criticised that people who have worked in the respective conditions often find it difficult to enter labour market again due to their very specific skills composition (National Audit Office of Estonia 2014). Thus, there is a need for a system of additional and retraining for these people (National Audit Office of Estonia 2014). The described pensions are in essence early retirement pensions, which allow people to withdraw from the labour market before the general retirement age. Unlike formal early-retirement pension, the described pensions include also other benefits, such as more generous calculation of pension qualification period or linking the amount of pension to an earlier wage. All these benefits may motivate persons to change profession or a job, or withdraw from the labour market. Even though the rules of pension under favourable conditions do not force anybody to leave the labour market, there is still the risk of inactivity evident in it. The pension is granted only if the person has stopped working in the industry, profession or position that entitled him or her to this pension. (Leetmaa, Võrk, and Kallaste 2004a)

In **Estonia**, it is reported, that it is also possible to **defer retirement** and for each month the pension is then increased by 0.9%, which is higher rate than actuarially fair. Despite a high bonus (0.9% per month) for delaying retirement, it is used rarely. In 2012, 2.0% of pensioners who entered into the old-age pension scheme, had used the option to delay retirement. The share has been low also in previous years, but one can see a small trend of increase – 0.95% in 2009, 1.0% in 2010, 1.4% in 2011, 2.0% in 2012.<sup>31</sup> There have been no studies on the reasons why the use of this option has been so low, and how this could influence the labour market participation.

Higher employment in older age is also motivated by relatively **low size of old-age pensions** and **possibility to receive simultaneous income from work** in the Baltic countries. For instance, the at-risk-of-poverty rate among people aged 65 and over is relatively high in Lithuania (18.7%) and Estonia (17.2%) while it is lower than EU-28 average in Latvia (13.9%) in 2012 (Eurostat data). Also, Baltic states stand out with relatively high gender differences in this regard – female at-risk-of-poverty rate is higher in all countries. Gender differences are highest in Estonia with 8.9% points, while it is 7.4 and 7.9% points in Lithuania and Latvia respectively. The EU average gender differences are 4.3% points. At the same time, despite the motivation to remain in employment, it is also noted in the example of **Estonia**, that some people with a very low pension insurance component may lose motivation to do additional work, as they do not see any opportunities to receive higher old-age pension than the national pension (i.e. the minimum guaranteed pension level). The fixed level minimum income (at the rate of national pension) is guaranteed to those older people in Estonia, whose pensionable service period is very short or whose earnings levied with social tax have been very low throughout their career.

The need to provide sufficient household income is the main reason in all three Baltic countries for continued employment among people who receive pensions – 78% of people aged 50-69 in Estonia, 58% in Latvia and 47% in Lithuania keep working after retirement for this aim (based on 2012 ad-hoc module “Transition from work to retirement” for the Labour Force Survey, Eurostat). In Latvia and Lithuania, it is also more often shared with the aim to establish/increase future retirement pension entitlements (for 20% and 32% of respondents respectively). These are considerably above the EU average of 37%. All three Baltic countries report the lowest shares in the EU of non-financial reasons to continue employment (after Romania and Slovakia) with 8-9%. In the EU on average, almost a third of people who continue employment in retirement age, do so due to non-financial reasons.

As a crisis measure, in 2009 it was decided in **Lithuania** to reduce social insurance pensions (Lazutka 2013) in order to balance the budget of the SSIF. The reduction was entrenched in the Provisional Law on

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<sup>31</sup> Authors' own calculations based on annual reports „Pensioners“ by Estonian National Social Insurance Board

Recalculation and Payment of Social Benefits (“The Provisional Law on Recalculation and Payment of Social Benefits” 2009) effective in Lithuania during 2010-2011 (i.e. the initial level of pensions was restored since January 2012). The provisions of this law did not apply to persons receiving social insurance pensions below LTL 650. By virtue of this law, pensions to not employed retired persons were cut by 7.88% on average, whereas the employed persons at the retirement age received a pension that was cut by 24.58% on average (Ministry of Social Security and Labour 2011). In fiscal terms, it was one of budget-balancing measures, but it was stricter than in Europe on average (Aidukaite, Moskvina, and Skučienė 2014). Statistical data suggests that this approach had implications, although minor, for employment indicators of persons aged 65 and over.

Similar decisions were made in **Latvia** during the economic crisis. Old-age pensions were reduced by 10% and pensions of working pensioners by 70% (the amendments to the 2009 budget). The changes were introduced with a short notice and forced many retirement-age employees, who otherwise would continue working, out of their jobs, causing an extremely negative effect on the labour force participation of older people (immediate implications for the participation rate of older workers with a 42% reduction in the number of working pensioners from June 2009, being 60.8 thousand to July 2009 - 35 thousand) (Ministry of Welfare 2009). In December 2009 the Constitutional Court acknowledged that the government’s action was unconstitutional and that the reduction in benefits should be reversed. Following this judgment, pension deductions were cancelled from 1st February 2010 and the deductions made for the period from 1 July 2009 to 1 February 2010 were reimbursed in April 2010 (Vanags and Krumina 2012). But it was impossible for many pensioners to go back to their former employers or to find another job<sup>32</sup>.

In **Estonia**, in addition to the possibility to receive simultaneous income from work and pensions, working after pension age also ensures a higher pension in the future (even for a person who already receives pensions). The monetary effect depends on the relative monetary values of the insurance component and the base component. For example, each year of working with average wage (assuming that there are no contributions to the compulsory funded pension scheme) added 4.7 EUR to the monthly pension in 2013. As the base amount is indexed at more rapid pace, additional year of working contributes relatively less to pensions over time. Additional working year with average wage would add 1.5% to the average pension in 2013 and 1.4% in 2030.

In **Estonia**, an important role in the move from labour market to retirement is played by **work incapacity pensions**. To illustrate, in the beginning of 2013, about 16% of men aged 55 to official retirement age received various types of old-age pensions, and 26% received work-incapacity pensions. Among women, the share of old-age pensioners is slightly higher (22%) and share of work-incapacity pensions lower (24%). In the last decade the inflow into the pension system through work-incapacity pension scheme was influenced by the recent economic crisis. In the structure of new pensioners the share of people retiring via work-incapacity pensioners peaked in 2011-2012, when it reached 50% of total new pensioners.

Incapacity for work pension (or shortly incapacity pension or invalidity pension), either on the grounds of an illness or injury, is one of the major reasons for inactivity in Estonia among people aged 45 to pension age. Since the beginning of the 1990s the number of persons receiving a disability pension (until 2000)

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<sup>32</sup> Direct communication, Ministry of Welfare, 2014.

and that of persons receiving pension for incapacity for work (since 2001) has grown rapidly both in absolute figures and as a share from the population.<sup>33</sup>

The growing number of persons receiving a disability pension (incapacity pension) could have many explanations: general deterioration of health in the population, increased awareness of impairments among employees and medical staff, larger share of people applying for disability pension because of increased unemployment.

The attractiveness of the disability pension has been also large, because it is bigger than unemployment assistance benefits.

In Estonia, receiving an incapacity pension does not exclude working at the same time. On the one hand, this kind of situation promotes employment; on the other hand, it motivates some people to apply for incapacity pension even without any prerequisite health conditions.

The government is preparing an incapacity for work reform that should be implemented from July 2015. Compared to current system, the plan is to move away from evaluation of incapacity, and instead assess an individual's capacity to work on the basis of not only health, but also taking into account suitable conditions of employment and a reasonable job. According to the new system, benefit eligibility rules will be changed so that people with a partial capacity for work will be eligible for benefit, only if they are employed, unemployed and actively seeking a suitable job or participating in active employment services, or take part in formal education. The aim is to support employment among people with partial incapacity for work and reduce the share of people receiving disability pensions.

The reform also foresees changes in the social and vocational rehabilitation services to provide further help and assistance to employers in improving and adapting the work environment and working conditions. It is hoped these measures will support reactivation and employment opportunities. The Ministry of Social Affairs foresees that the reform should take the number of people on disability pensions down to 80,000 by 2020. In 2012 the number stood around 95,000 and it has increased continuously (National Audit Office of Estonia 2014). Whether these aims will be filled, remains to be seen in the future.

In the current situation, there are some preconditions created by the Estonian labour policy and social policy for increasing the employment of disabled people. Firstly, people receiving an incapacity pension can also receive employment services and, for example, be employed with the help of the subsidy to employer for employing a less competitive person. Secondly, the state alleviates the tax burden of those incapacity pensioners who work, by paying the social tax on an annually specified amount.

In addition, disabled people can receive special social benefits (in addition to incapacity pension), the aim of which is to help them cover the extra expenses arising from their special needs. Such extra expenses are primarily expenses related to education, going to work, rehabilitation, care, use of special aids, transport, and other services. Some social benefits, such as education allowance, rehabilitation allowance, and further training allowance, are more specifically aimed at promoting the integration of disabled persons into the labour market. According to the Social Welfare Act, the local governments offer disabled people counselling, rehabilitation, housing services; personal assistant, welfare and other social services, which support independent living, improve the quality of life and support social integration. In addition, state aid includes among other things the funding for the rehabilitation of people with mental disorders, support to services connected with living and working, and to providing technical aids, which are all

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<sup>33</sup> Various legislative changes from 1991, 1993 and 2000 do not allow the values to be compared directly. The main change in 2000 was that the incapacity pension may be granted only to people in their working age. For a more detailed overview on the legislative changes see the overview in Leppik 2003.

indirect measures facilitating employment. However, it is important to note that the choice and availability of services depends greatly on the priorities and means of a specific local government, and can therefore vary. (Leetmaa, Vörk, and Kallaste 2004a)

Also, the current reform plan has received criticism from various parties. For instance, representative organisations of people with disabilities held a picket in front of the parliament building on 17 June 2014 criticising the poor employment opportunities available for them – these are not ensured by the current reform (ERR 2014). In addition, experts have criticised the lack of a comprehensive approach to the reform and lack of coordination between various public bodies involved in the process, lack of measures to prevent job loss for people with health problems and reduction in employability (Veldre 2014).

### **Employment protection legislation**

In general, older workers seem to be covered by more strict rules in Latvia and Lithuania while Estonia has moved towards a more flexible model. Older workers have higher employment protection compared to younger people based on two main principles: higher employment protection to people who are in pre-retirement age (or reached retirement age) and higher employment protection to people with longer job tenure (based on the assumption that older people have more often longer job tenure). Though there is no evidence from research allowing to judge on the impact of this additional protection on employment opportunities of older workers, we may presume that this could act as disincentive for employers for hiring older workers.

**Estonia** does not have any special conditions for people in pre-retirement age. At the same time, **Lithuanian** employment legislation includes several special clauses, including the following:

- According to the Art. 130 of the Labour Code of the Republic of Lithuania (LC), employer is entitled to terminate an employment contract by giving a written notice to the employee against signature 2 months in advance (employees who will be entitled to the *full old-age pension in not more than 5 years*, persons under 18 years of age, disabled persons and employees raising children under 14 years of age *must be given a notice of dismissal from work at least 4 months in advance*);
- According to the Art. 129 of the LC, an employment contract with employees who will be entitled to the *full old-age pension in not more than 5 years*, persons under 18 years of age, disabled persons and employees raising children under 14 years of age *may be terminated only in exclusive cases* where the retention of an employee would substantially violate the interests of the employer;
- Article 135 of the LC enshrines the right of *priority to retain the job in case of redundancy*. According to this Article, in the event of reduction in the number of employees on economic or technological grounds or due to the restructuring of the workplace, the right of priority to retain the job shall be enjoyed *inter alia* by employees who will be *entitled to the old age pension in not more than three years*;
- According to the Art. 127 and 140 of the LC upon the termination of an employment contract without any fault on the part of the employee concerned, *in any case he shall be paid a severance pay in the amount of his two monthly average wages if employee became entitled to the full old-age pension working in that enterprise, establishment or organisation*.

In **Latvia**, in case of a formal lay-off procedure, preference to continue in employment is given to those employees who have higher performance results and qualifications. If performance does not substantially differ, the Labour Law determines priority groups of employees to be kept in work in case of redundancies.

Older employees for whom less than five years remains to retirement age are one of this predefined priority groups (along with nine other categories of employees).

In all three countries, job tenure provides additional protection in cases of layoffs and termination of employment contract. In the example of **Estonia**, Labour Force Survey indicates that in the age group of 50-74, almost half of people (49%) have a job tenure of 10 or more years compared to 24% among people aged 25-49. Thus, older workers have more often longer job tenure and special conditions based on job tenure also increase labour market protection for older age groups.

With the labour law reform in 2009 in **Estonia**, the protection of workers in the labour market moved towards more flexibility. The EPL in general took a considerable leap towards the high-flexibility model. According to its most recent calculations, OECD considers Estonia among the countries with highly flexible EPL (after New Zealand, United States, Canada, United Kingdom, Chile and Australia) (OECD 2013).

Against this background, the protection of workers in the labour market based on their job tenure has moved towards more flexibility as well. For instance, length of notice periods has been reduced by one month in case of individual dismissals (1.5 months for people with job tenure of up to 1 year). Since 2009, severance pay for employers is no longer dependent on job tenure, meaning that the expenses for dismissal of employees with longer job tenure has become cheaper for employers reducing by 1 – 3 month average salary, depending on the length of job tenure. Also, until 2008, people with longer job tenure had a preferential right to keep a job during layoffs in certain cases. These preferential rights have not been included in the new Employment Contracts Act.

As at March 2014, people with longer job tenure hold slightly higher protection in the labour market regarding advance notice periods in cases of dismissals. Different levels of employment protection can be brought out for people with up to 1 year (advance notice period at least 15 calendar days), 1-5 years (notice period of at least 30 calendar days), 5-10 years (at least 60 calendar days), and 10 or more years (at least 90 calendar days). In addition, severance pay varies according to job tenure, although this variation is covered by Unemployment Insurance Fund, not the employers.

In **Lithuania** and **Latvia**, longer job tenure ensures mostly higher redundancy benefits. According to the Art. 140 of the LC in **Lithuania**, upon the termination of the employment contract on the initiative of an employer without any fault on the part of an employee, the dismissed employee shall be paid a severance pay in the amount of his average monthly wage *taking into account the continuous length of service of the employee concerned* at that workplace. Severance pay vary from 1 average monthly wage in case the length of service is less than 1 year up to 6 average monthly wages in case the length of service is more than 20 years. In **Latvia**, Labour Law determines the that the amount of redundancy compensation increases with the length of tenure (redundancy compensation is equal to one month average earnings if the employee has been employed by the relevant employer for less than five years; two months average earnings - for five to 10 years; three months average earnings - for 10 to 20 years; four months average earnings - for more than 20 years)<sup>34</sup>.

In order to increase labour market protection even further, **Latvia** has reported cases when retirement age employees volunteer to be part of collective redundancies if they are trade union members, as they tend to receive higher redundancy settlements as part of their collective agreement<sup>35</sup>.

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<sup>34</sup> These compensations are paid by the employer.

<sup>35</sup> Direct communication, Free Trade Union Confederation, 2014.

On the contrary, labour market protection was reduced slightly for older workers temporarily in **Lithuania** during the economic recession. Temporary changes of the LC were applied in Lithuania during the crisis – during August 2009-December 2010 shorter periods of notice (accordingly – 1 and 2 month instead of above mentioned 2 and 4) were allowed in case it was agreed in collective agreement. Moreover during this period collective agreement might stipulate restriction to terminate employment contract (except exclusive cases) with employees who will be entitled to the full old-age pension in not more than 3 years (instead of 5 years).

Both **Latvia** and **Lithuania** report that despite the relative strict regulations, employers try to avoid these conditions in practice. As social dialogue is underdeveloped in Lithuania, employees are often unable to defend their rights or, what is even worse, they do not know their rights. The fact that people often do not know their rights and thus labour law requirements are not followed, has been confirmed in a research on the implementation of Employment Contracts Act in **Estonia** (Masso et al. 2013). Both Latvia and Lithuania have reported cases where employment contracts were terminated “by agreement between the parties” or people left the job “voluntarily”, i.e. without the aforementioned notice periods and/or severance pays, see for instance Gruzevskis and Blaziene (2013), Kamerade (2012).

**Latvia** still reports laws that limit the opportunities available to older employees, setting the legal age limits for individuals working in specific sectors or professions i.e. civil servants, as well as judges, prosecutors, police officers, border guards (The Civil Service Law, the Office of the Prosecutor Law and the Military Service Law). Civil servant after reaching the retirement age loses the status of civil servant, and his/her work unless there is a special permission (issued by the director of the organisation or the ministry) for them to continue work. Age limits have been also applied to<sup>36</sup> the Law on Institutions of Higher Education until 2003 when the Constitutional Court has recognized these restrictions illegitimate (Kamerade 2012). Similar provisions were declared invalid in **Estonia** in 2007. In 2007 the Estonian Supreme Court declared invalid the articles of the Public Service Act that legally permitted the dismissal of public sector employees aged over 65 years, merely on the basis of their age. Moreover, if the dismissed employee had an employment history of more than five years, the compensation for dismissal based on the employee’s age was smaller than that of regular redundancies. Similar articles of the Employment Contracts Act affecting private sector employees were changed a year earlier, in 2006 (see also Nurmela and Karu (2007)).

### **Labour market measures**

There are mostly no special targeted active labour market measures to older workers in any of the Baltic countries. Instead, older workers are offered labour market measures within the general package of activation measures.

**Latvian** report brings out three active measures that were popular among older workers.

The ‘*work experience with a stipend*’ programme (in place until the end of 2011) has been particularly popular among older individuals. The measure aimed to provide work and income support for those unemployed who no longer receive unemployment benefits, but are willing to engage in community jobs in municipalities, performing low-skilled non-commercial work such as cleaning, development and maintenance of public infrastructure and local social services. Within this programme, local authorities created new (mainly unskilled) jobs for unemployed people where they could work for up to six months

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<sup>36</sup> The age limits (up to 65 years old) were applied to administrative positions and academic positions in the state research institutions and organisations, as well as positions in elected collegiate scientific institutions, to university professors, assistant professors and administrative positions (rector, vice-rector, dean)

and receive a stipend of LVL 100 (EUR 142) (Latvijas Lauksaimniecības and Meža Zinātņu Akadēmija 2011). In 2011 the amount of allowance was reduced to LVL 80 (EUR 114).

According to SEA data, 36% (19052 individuals) of all participants (total number of participants – 52821) of the programme in 2010 were individuals 50+, and 41% (20507 individuals) respectively in 2011 (the total number of participants being equal to 50628).

Despite high participation rates and overall very positive evaluation (Latvijas Lauksaimniecības and Meža Zinātņu Akadēmija 2011), the programme was also criticised in the media for bringing only short-term benefits, as it does not create permanent working places and programme participants are not socially insured.

*The subsidised workplace programme* is another initiative provided by the SEA for older individuals. This initiative is considered to be particularly efficient in promoting older people employment as well as continued employment (after the end of the subsidy period). “The aim of the measure is to facilitate the development of sustainable and long-term working places for unemployed with lower productivity level and preserve their skills and competencies” (LR Labklājības Ministrija 2012). In this programme, private employers provide jobs subsidised by the SEA and offer them to unemployed people for a period up to 12 months. Those over 50 years of age were 31%, 32% and 36% of all beneficiaries of the programme in 2010 (the total number of participants - 2131), 2011 (the total number of participants - 1577) and 2012 respectively. The programme had a positive impact on continued employment, according to SEA data; around 26% of individuals of pre-retirement age after their participation in the programme were able to find a permanent job in 2011 (LR Labklājības Ministrija 2012). Around 74% of individuals of pre-retirement age who took part in this programme found a job within three months of it ending<sup>37</sup>.

*‘Training with employer’* was also rather popular (LR Labklājības Ministrija 2012) – almost 20% of all participants of the measure both in 2010 (the total number of participants - 1129) and in 2011 (total number of participants - 1094 individuals) were people in the age group 50 and over. This measure provided the updating of professional skills and competences, while attending SEA provided training on the basis of employers’ pre-orders. The measure was offered starting from 2009 and is still in place up to the middle of 2015. There are no evaluation studies on the impact of this measure available.

Prior research in **Lithuania** has also identified more successful measures for older workers. According to Peer PES Paper (“Peer Review ‘PES and Older Workers’.” 2012), 13,600 individuals over 50 years of age participated in active labour market policy measures in 2011 (25.4% of total participants). In 2011, the monitoring of active measures for older workers showed that 6 months after the measure: 70% of them were employed after participation in subsidised employment, 47% - after vocational training, 20% - after public jobs (community work). Likewise, persons over 50 account for quite a big share of those starting activities under a business certificate: in 2013, they accounted for 22%<sup>38</sup> of the total number of unemployed persons who started employment under business certificates. It can be therefore concluded that more active participation of persons in this age group in the above-mentioned active measures could significantly improve their employability.

**Lithuania** has also provided some interesting examples of special activities/programmes aimed at activation of older age groups. A cooperation agreement was signed by the Lithuanian Labour Exchange

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<sup>37</sup> Projektu un kvalitātes vadība, *NVA nodarbinātības pasākumu novērtējums* (Evaluation of SEA employment measures), Rīga, 2013; *NVA pakalpojumu darba devējiem novērtējums* (Evaluation of SEA services for employers), Rīga, 2012

<sup>38</sup> Lithuanian labour market 2012/02. 2014. LLE. <http://www.ldb.lt/Informacija/DarboRinka/Publikacijos/Attachments/2953/LIETUVOS%20DARBO%20RINKA%202014-02.pdf>

(LLE) and Lithuanian Pensioner Affairs Council back in 2005. One of the results of this agreement is LLE's initiative called the 'Bank of Seniors', which aims to provide information on potential employees to employers willing to hire older workers. Jobseekers at the retirement age can directly log in to the 'Bank of Seniors' database on the LLE's website. Employers have a direct access to the database. However, this CV base has not earned much attractiveness yet: from 2007- to 2012, about 4,000 pensioners were registered in the Bank of Seniors. In 2013, approximately 1,000 older jobseekers were registered at the Bank of Seniors (of whom nearly every fifth was over 60 years of age) (Mrazauskaitė 2013). For comparison, in 2013, there were 34,408 unemployed persons aged 55-64 registered with the LLE ("Lithuanian Labour Market in Figures 2013" 2013). Persons looking for low-skilled jobs (blue-collar worker, cleaner, auxiliary worker) appear to be dominant in the Bank of Seniors. According to employer surveys carried out by the LLE, 90% of employers cooperating with the LLE do not use the Bank of Seniors ("The Results from the Evaluation of the Services for the Employers. 2012 Survey Data"). Therefore, this measure can be said to be a low contribution to increasing employment of older persons.

According to the information provided by the Ministry of Social Security and Labour (MSSL)<sup>39</sup>, collaboration at regional level is being developed with Lithuanian Pensioners Union 'Bočiai' in the area of information, knowledge and experience exchange. In order to help older workers to maintain their jobs, to allow them to use LLE's information technologies, consulting services and the labour market measures, in 2012 a cooperation agreement was signed between the LLE and the Lithuanian Association of the Elderly People ("Peer Review 'PES and Older Workers'." 2012). In implementing this agreement the LLE organises meeting with the heads of organisations, presents them services provided by the LLE (including "Bank of Seniors")<sup>40</sup>.

The role of the European Social Fund should also be acknowledged in supporting various active labour market measures/programmes for older age groups. For example, in **Lithuania**, on 2 January 2014 the LLE started ESF-funded project 'Stay in the labour market' intended for the working-age population aged 50 and over and integration of long-term unemployed persons into the labour market. It is expected that almost 15,000 unemployed persons (more than 8,300 long-term unemployed persons and 6,300 persons aged 50+) will participate in project activities. Most of older project participants will be included in the measure of subsidised employment<sup>41</sup>. While implementing the project unemployed also participate in subsidised employment, support for acquisition of skills and job rotation measures.

In **Estonia**, ESF financing for labour market measures is implemented through the measure "Increasing the Availability of Qualified Labour Force". ESF support under this measure is implemented through national level programmes and projects funded through calls of proposals that support return to the labour market of different labour market groups. During the EU financing period of 2007-2013, five rounds of calls for proposals have been held under the measures of "Increasing the Availability of Qualified Labour Force". Three rounds have focused among other target groups also on supporting projects targeted specifically at older workers. Altogether 52 projects across Estonia have identified older people aged 50-74 as the (or one of the) target group of their project<sup>42</sup>.

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<sup>39</sup> Lietuvos Respublikos Socialinės apsaugos ir darbo ministerija. Nacionalinės gyventojų senėjimo pasekmių įveikimo 2005-2013 metų strategijos priemonių įgyvendinimo 2009-2010 metais ataskaita. 2011-04-15. Nr. (26.4 -35) – SD.) [http://www.lrv.lt/Posed\\_medz/2011/110427/12.pdf](http://www.lrv.lt/Posed_medz/2011/110427/12.pdf)

<sup>40</sup> <http://www.ldb.lt/Informacija/Veikla/Naujienos/UserDisplayForm.aspx?ID=6884>

<sup>41</sup> [www.ldb.lt](http://www.ldb.lt)

<sup>42</sup> For further information, these projects are listed in: [http://esf2007.sm.ee/index.php?id=186&theme\\_id=14&county\\_id=0&target\\_id=12](http://esf2007.sm.ee/index.php?id=186&theme_id=14&county_id=0&target_id=12)

ESF support is also implemented through national level labour market programmes. For instance, the programme “Development of Labour Market Policy 2009-2013” (Ministry of Social Affairs 2009a) in Estonia foresees special activities targeted at supporting labour market entry and competitiveness for older age groups. The activities include research on older age groups in the labour market as well as attitudes of employers towards older workers, knowledge campaigns targeted to older age groups as well as employers to support active ageing and continuous policy development in the area.

### **Occupational health in the labour market**

Occupational health and safety are subject to different regulations and restrictions in all Baltic countries. The following chapter aims to bring out some examples of activities that have a potentially positive impact on older workers in the labour market.

One of the activities of the State Labour Inspectorate (SLI) in **Lithuania** is the initiative to develop economic means to encourage employers seek a reduction in the number of accidents at work and occupational diseases. Amendments to the Law on Social Insurance for Occupational Accidents and Diseases were introduced in 2008. Amendments provided for the differentiation of the amount of insurance contributions paid by the insurer, depending on the number of accidents at work. Furthermore, it refers to the methodology of ascribing insurers to the groups of rates of social insurance contributions of accidents at work and occupational diseases, adopted by the GRL<sup>43</sup>. Seeking to reduce the number of accidents at work caused by inebriated workers, it has been laid down that a person representing an employer in an undertaking might permanently dismiss from work a worker who fails to comply with occupational safety and health requirements.<sup>44</sup>

In **Estonia**, the planned occupational accidents and illness insurance scheme could potentially support healthy ageing at the workplace. A tripartite agreement between the government, employers and trade unions that foresaw the creation of occupational accidents and illness insurance scheme was concluded already in 1993, but since the parties have not been able to reach an agreement, it is still up in the air (for previous debates see Karu and Nurmela 2009; Osila 2011). Employers have pointed out that they will not agree to the scheme due to already high tax burden and because it would increase their expenses even further (Karu and Nurmela 2009). They have however brought out that they would consider the scheme in case social tax is reduced to an equal extent so that employers would not face an increase in their expenses (Karu and Nurmela 2009).

For several years, fringe benefit tax on employers’ expenses to improve employees’ health has been the subject of heated discussions in **Estonia**. While both, employers and trade union representatives have supported the abolishment of the tax (Kallaste 2007; Osila and Turk 2011), the state has opposed it (Tamm 2010). The state argues that the abolishment of the tax is not in accordance with its expected effect as it would decrease social tax revenues and thereby have a negative effect on the health and pension insurance financing (Tamm 2010).

**Estonian** employer representatives have also brought out the need to review the sickness cash benefit system that was implemented in July 2009. At the time, the aim was to improve Estonia’s budgetary position by reducing public spending in order to fulfil the Maastricht criteria and adopt euro (Osila and

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<sup>43</sup> Resolution No 1368 (20 12 2005)

<sup>44</sup> Sixth report on implementation of the European Social Charter (Revised) (2008). Reporting Period: From 1 January 2005 to 31 December 2007. Council of Europe. 22/12/08 RAP/RCha/. LI/VI(2008) [http://www.coe.int/t/dghl/monitoring/socialcharter/reporting/statereports/Lithuania6\\_en.pdf](http://www.coe.int/t/dghl/monitoring/socialcharter/reporting/statereports/Lithuania6_en.pdf)

Nurmela 2010). The new system increased the number of days not covered by the sickness benefit from two to three days, the rate of the benefit was reduced from 80% to 70% of the average wage of the employee and first five paid days of the illness will be financed by the employer (after that by the Health Insurance Fund). The government has argued that one of the aims of the new system was to motivate employees to more seriously take care of their health and employers to improve their work environment so that employees fall ill less frequently (Osila and Nurmela 2010). However, the new system has been criticised by employers who found that this will shift the responsibility and expenses from the state to employees and employers (Osila and Nurmela 2010). Other organisations have also criticised the benefit system - the Estonian Patient Advocacy Association expressed their fear that under the new system, persons, especially with low income would not stay sick at home, but would still work in order to not suffer any loss in pay (Osila and Nurmela 2010). According to available statistics, the number of sick leaves has dramatically decreased after the system was changed from 283,000 in the first half-year of 2007 to 146,000 in the first half-year of 2011 (Niitra 2011). However, the available statistics does not include information on all sick leaves as many employers do not send the information on sick leaves that last up to 8 days and are now financed by employers to Estonian Health Insurance Fund. According to a poll conducted by Estonian recruitment service provider CV Keskus in January 2013, 86% of employees go to work while ill because they do not want to lose in pay (Velsker 2013).

As a positive development that could encourage working in older age in **Estonia**, a Supreme Court decision reduced discrimination faced by older workers based on their health in the labour market. In 2011 the Supreme Court declared unconstitutional provisions of the Health Insurance Act according to which persons older than 65 years had the right to shorter sickness benefit compared to younger persons (250 days compared to 90 days) and lower limit on consecutive days of sickness leave (182 days compared to 60 consecutive calendar days) (see also Leetmaa and Nurmela 2012).

ESF financing also has an important role to play in supporting active ageing, healthy workplaces and increasing healthy life years in the society. In Estonia, during 2007-2013, two ESF measures supported these aims: measure 1.3.2 “Improving the Quality of Working Life” and measure 1.3.4 “Health awareness”. Below, some of the highlights of these measures are outlined regarding supporting healthy working environment.

Under the measure “Improving the Quality of Working Life” activities are implemented as a national measure and as projects funded through calls of proposals. The activities focus on health of workers, but also employment relationships, flexible working opportunities etc. The projects funded under this measure have mainly focused on assessing and improving the working environment in individual companies. Under the national programme, more wide-spread activities are implemented. For instance, several knowledge campaigns have been conducted regarding health risks at work, including prevention of falls (2009), guidance and training of employees regarding occupational safety (2009), raising awareness among employers and employees regarding their rights, healthy and safe working conditions (2012), working environment management in companies (2012), campaign on psychosocial risks at workplace (2012) (see also Ministry of Social Affairs 2010; Ministry of Social Affairs 2009b).

An interesting example implemented under the ESF financed national programme is also collection and dissemination of best practices regarding the work environment. With the financial support of ESF, Labour Inspectorate collects descriptions of good and innovative examples from Estonian enterprises regarding their measures of work environment and work organisation. The examples represent cases where companies have contributed more to their employees’ welfare than is requires by legislation. During the ESF financing period, Labour Inspectorate has developed a template for the collection of good practice

and has created a database of best practice<sup>45</sup> which have been subject for continuous development. According to the Labour Inspectorate, they have received feedback that people active in work environment topics regularly follow the database and have found several interesting ideas. Also, the visiting statistics of the web site of Labour Inspectorate confirms that the database is among the highest visited sites on their page. In 2013 the aim was to reach 185 good examples in the database (by the end of 2012 the database included 165 examples). In addition to the database, since 2010 three best practices are chosen annually to provide special recognition. (see also Ministry of Social Affairs 2009b; Ministry of Social Affairs 2010)

The ESF financed measure “Health Awareness” focuses on reducing inactivity in the labour market due to health reasons and prevention of health problems in the society. The activities under this measure are also implemented as a national measure and as projects funded through calls of proposals. The projects are mostly initiatives of different local governments to assess the health situation at the local level and plan measures accordingly (mostly financing different sporting events for the local community). Some of the examples implemented under the national programme include management and development of the Network for Workplace Health Promotion<sup>46</sup>. The network was started already in 2005, since 2006 its activities are coordinated by the National Institute for Health Development. With the ESF support, the network is widened with new members. Also, members receive opportunities to participate in training and receive counselling regarding workplace health promotion. As at 4 June 2014, the network had 222 members (different enterprises, organisations).

### **Lifelong learning measures**

In **Estonia**, a new lifelong learning strategy has been introduced recently, which turns attention to both economic gains and personal development through participation in lifelong learning. The general aim of the strategy is to “provide learning opportunities that are in accordance of the needs and abilities of all Estonian people during their whole life course and to ensure possibilities for self-realisation in the society and in family and personal life” (Ministry of Education and Research 2014). Thus, at least in rhetoric, there has been a shift towards acknowledging the life-course perspective and the need to address all age groups in the society. It has been stressed that “learning should become an integral part of an active way of life, including among older age groups” (Ministry of Education and Research 2014). The aim is to ensure flexible opportunities and versatile choice in learning, i.e. provide conditions that support participation in learning for those groups who have not been participating in learning so far (Ministry of Education and Research 2014). Also, career counselling should support making informed decisions in learning, avoiding usual gender and age stereotypes (Ministry of Education and Research 2014). However, as at April 2014, the action plan for implementing the strategy has not yet been introduced so specific activities to achieve the above mentioned goals have not been introduced yet.

In addition, “Active ageing strategy 2013-2020” was introduced in 2013 in **Estonia**, which also addresses participation in lifelong learning among older age groups. According to the strategy, the aim is to address attitudes towards learning among older age groups and their knowledge on available learning opportunities (Ministry of Social Affairs 2013). Also, the strategy takes the aim to improve opportunities for learning among older age groups, including providing innovative solutions to support learning, raise awareness among teachers and trainers on the specific needs of the older age groups, improve

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<sup>45</sup> As at June 2014, best practice database is available on the website of Labour Inspectorate: <http://www.ti.ee/index.php?page=1128&>

<sup>46</sup> Web-site of the Network is available at: <http://www.terviseinfo.ee/et/tervise-edendamine/tookohal/tervist-edendavate-tookhtade-tet-vorgustik>

cooperation between different parties to create suitable opportunities for learning among older age groups, widening the lifelong learning target group to older age groups and providing learning opportunities related to social welfare and activeness in the community (rather than only labour market related training) (Ministry of Social Affairs 2013). However, again there is no clear action plan or timetable introduced to reach the aims introduced in the strategy.

At the same time, the impact of the **Lithuanian** lifelong learning strategy on older age groups is assessed relatively low. Implemented since 2004, the *Strategy for Ensuring Lifelong Learning* (2004) seems to have had no influence on the participation of this age group in LLL (“Applied Research on Adult Education” 2011). This opinion is supported by the president of Lithuanian Adult Education Association, Vilija Lukošūnienė<sup>47</sup>, who notes that the objectives addressing integration of older people into lifelong learning activities that are set in strategic documents (*Strategy for Combating the Consequences of the Population Ageing 2005-13; Programme for Employment Increase 2014–20*) are rather declarative in general and often not supported by any financial mechanisms. In addition, from the point of view of the experts (Lukošūnienė, Totoraitis<sup>48</sup>), the group of older people is not strictly defined in the context of lifelong learning policy.

A national audit of 2013 (National Audit Office of Lithuania 2013) in **Lithuania** revealed that financial injections to non-formal adult education increases the supply of this type of education but does not ensure inclusion of the groups of the population for whom such education brings most benefits (including older people (55-74)), whereas the share of adult learners remains to be relatively small in Lithuania (about 5% in 2007–12). Currently, non-formal adult education is organised and coordinated without having priority trends setting out main guidelines, financing priorities and principles, while funding is allocated without having identified the training needs<sup>49</sup>. About 96% of non-formal adult education funds are allocated for non-formal vocational training of adults (National Audit Office of Lithuania 2013).

A good example of targeting older age groups is highlighted in **Latvia**. Evaluating measures that specifically target older age group or target this group among other vulnerable groups, *Lifelong learning measure for employed persons* (a preventive measure) was the one to be definitely mentioned (in place from 2010 till the end of 2013). The purpose of this measure is to ensure the opportunity for employed persons to supplement and develop knowledge and skills necessary for work, by acquiring vocational in-service training and informal educational programmes related to working life<sup>50</sup>. This measure can be considered to be extremely important, raising the competitiveness and productivity of the employed individuals. Persons that have less than 5 years left till the retirement age were within privileged groups, receiving 100% SEA financial support for the training (max 355 EUR). Other groups had to make co-financing of 30% of the training costs. In the beginning of 2012 – 10% of all LLP participants were individuals 55 and over.

A good practice implemented in the area of non-formal education has been identified in **Lithuania**. The National program on European active aging and intergenerational solidarity 2012 (Ministry of Labour and Social Research 2012) stated that non-formal adult education institutions are considerably contributing to the education of the elderly; the potential of Universities of the Third Age (UTA) are to be strengthened. UTA activities have been identified in the national audit report of 2013 as a good practice of including

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<sup>47</sup> Interview with Mrs. Vilija Lukošūniene, President of Lithuanian Adult Education Association, performed on 15 04 2014.

<sup>48</sup> Interview with Mr. Ričardas Totoraitis, the head of the Academic Mobility and Continuing Education Division of the Department of Higher Education, Science and Technology, Ministry of Education and Science, conducted on 24 04 2014

<sup>49</sup>Giedrė Švedienė (Auditor General) Press release. Jul 9, 2013; <http://www.youtube.com/watch?v=OI3vTajDO6k>

<sup>50</sup> The participants can choose their own field of training from predefined ones. In reality the choice is almost unrestricted (very broad categories).

older people into non-formal adult education (National Audit Office of Lithuania 2013). At the end of 2012, the total number of UTA students was around 6,000 in Lithuania (almost double the number in 2008). Women aged 60-75 with at least vocational education attained account for most of UTA students (“Social Information and Training Agency. Analysis on the Third Age Universities System’s Performance.” 2012). On national adult education policy level, UTA activities are considered to be the main education and training measure for older people. Development of non-formal education services and creating new learning opportunities to third-age learners is foreseen within the framework of the currently implemented national project “Development of the adult education system by providing generic competences to learners”<sup>51</sup> (carried out by the Ministry of Education and Science and the Education Development Centre). The projected and implemented activities for older people are also mainly related to UTA<sup>52</sup>.

It is interesting that the growing number of UTA students is in part inconsistent with statistics on the motivation of older people to participate in learning: according to the Eurostat’s data, 95.2% of non-participants in lifelong learning in age group 55-64 indicated that they do not want to participate in education and training. Lukosuniene explains this contrast by assuming that when asked about their willingness to participate in education and training older people tend to answer negatively because they often identify this with returning back to the formal education system, whilst motivation of UTA students is usually based on the willingness to improve, broaden their horizons and have pleasant communication with new people, i.e., reasons not related to the participation in the labour market (“Social Information and Training Agency. Analysis on the Third Age Universities System’s Performance.” 2012). This leads to the conclusion that older people are more willing to participate in non-formal training sessions focused on personal development rather than in education and training related to improvement of professional competencies. And UTA activities contribute to older people’s learning longer, not to working longer.

Various financing programmes play an important role in financing lifelong learning opportunities for older adults.

The assessment of EU structural funding in 2007-13 in the area of lifelong learning in **Lithuania**, carried out in 2014 (PPMI Group 2014), has shown that the majority funds were allocated for the training of high-skilled employees, unemployed persons and those facing redundancy in the area of public services. Quite significant support was allocated for companies to promote their investment into employee training. However, companies also invested most into the continued training of highly skilled employees. Training of unskilled and low-skilled workers who represent more than half of total labour force in the country has been insufficiently emphasised so far. Therefore, in the period between 2014 and 2020 such workers are to be offered financial incentives to assess their competencies and complete general education or vocational training programmes. In addition, it is planned to provide opportunities for older people to attain the first higher education and for seniors – to study at universities of the third age.

For instance, the Nordplus programme – the Nordic Council of Ministers’ programme in the area of lifelong learning provide financing for institutions involved in lifelong learning and folk high schools through their Nordplus Adult programme. The project database<sup>53</sup> brings out some interesting examples of projects targeted at older age groups in the Baltic countries.

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<sup>51</sup> Project webpage: <http://www.suaugusiujuvietimas.lt/lt/apie-projekta/apie-projekta/>

<sup>52</sup> Interview with Ms. Jūratė Tamošaitytė, Project manager at Education Development Centre, conducted on 16 04 2014.

<sup>53</sup> Project database available at: <http://www.nordplusonline.org/eng/Projects2/Project-database>

Project: Late Life Learning - Discovering the Pathways for Cooperative Partnerships. The project is implemented during June 2015 – May 2015. Partners include Utena Third Age University (Lithuania), Utena A. and M. Miskiniai Public Library (Lithuania), Pärnu Central Library (Estonia), Campus Lidköping Adult Education School (Sweden), Riga Central Library (Latvia), Public Library of Lidköping (Sweden) and Lidköping Municipality, Community Care Services Department, Senior Center (Sweden). This project will unite trainers from 4 Nordic/Baltic countries around a common idea of late life learning, accelerate their learning, cooperation and experience exchange. The aim of the project is to improve project partner institutions' potential in the older adults training through strengthening inter-institutional partnerships, sharing experiences, and exchanging ideas. In order to fulfil this goal, partner institutions will offer exchange opportunities for groups of seniors' trainers. They will have an opportunity to get acquainted with different approaches applied in partner countries.

Project: Libraries for Information access for elder people. The project is implemented during September 2012 – May 2014. Partners include Martynas Mažvydas National Library of Lithuania (Lithuania), Tallinn University (Estonia), Latvian Adult Education Association (LAEA) (Latvia), Kobenhavns Universitet Institut for Engelsk, Germansk og Romansk (Denmark), UAB LearnKey (Latvia). The goal of the project is to create online interactive, multimedia based training module for elder people to improve their ICT skills for better usage of e-services that are provided by the libraries. This training module with specific topics for elder people will be accessible on the internet platform, integrated into public libraries web pages, and disseminated via public libraries.

Also, the Grundtvig programme finances the voluntary service for people aged 50+ to support citizen activity in the age group (Grundtvig Initiative on Volunteering in Europe for Seniors). During 2010 – 2013 8 projects for senior volunteering exchange have been financed in **Estonia**. In **Lithuania**, the programme has been implemented since 2009. Within the framework of these projects in Lithuania, seniors have volunteered in ten countries: Bulgaria, the United Kingdom, Estonia, Greece, Italy, Poland, Romania, Turkey and Germany. The majority of the Grundtvig projects have been implemented in the area of social support for people and societies. There have been training and cultural events held in this context<sup>54</sup>.

Activities of **Lithuanian** Caritas are also focused on senior volunteering in the social sphere (training and seminars on opportunities for volunteers: trainings have been attended by more than 300 persons learning the principles of social work and sharing their volunteering experience).<sup>55</sup>

In **Latvia**, a project "Get Connected, Latvia" (introduced in 2008) has been outlined. This is a unique project to reduce the digital divide implemented in cooperation between the Latvian government and Lattelecom (Internet service provider and Telecommunications Company in Latvia). The initiative provided free computer courses available for anyone interested aged 50 and over. According to Lattelecom data, 1500 individuals aged 50+ participated in the activity in 2008. During the next year participation number increased more than four times, being 6680 participants in 2009.

### **Age management at organisational/company level**

The current chapter illustrates some of the examples identified as company level practices to support active ageing in the Baltic countries. The chapter is based on the national reports from Estonia, Latvia and

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<sup>54</sup> <http://www.paf.lt/main.php/id/281/lang/1>

<sup>55</sup> <http://www.caritas.lt/index.php?id=new&new=21>

Lithuania. Also, some research results are outline to illustrate the implementation of various activities to support active ageing.

### **Overview of previous research**

People in the Baltic countries generally believe that flexible working opportunities or training is not widely available to older age groups in the labour market. A Eurobarometer survey on active ageing has outlined that when asked about the reasons that might potentially stop people aged 55+ working, the results are:

- As people get older, they are more likely to be excluded from training in the workplace (67% of respondents in Estonia, 69% in Lithuania and 70% in Latvia consider this an important reason to potentially stop working against the EU27 average of 71%);
- There are not enough opportunities to retire gradually by reducing working hours (63% in Estonia, 73% in Latvia and 62% in Lithuania consider this an important reason to stop working against the EU average of 72%);
- Work places are not adopted to the needs of elderly people (60% in Latvia, 61% in Estonia and 61% in Lithuania consider this an important reason against 57% in the EU on average). (TNS Opinion & Social 2012)

This is also confirmed by various national level surveys. For instance, a research in **Latvia** has indicated that there are 28% of employers who have never organised any training of their employees aged 55+, 52% never adjusted a workplace, 36% have never provided any additional holidays and 42% have never given an option for those aged 55+ to work part time (“Pirmspensijas ledzīvotāju Ekonomiskā Potenciāla Izvērtējums [The Assessment of Economic Potential of Pre-Pension Aged Individuals]” 2014).

Recent research in **Estonia** has indicated that only a small proportion of enterprises has special measures targeted to older workers while most of activities supporting longer working lives are targeted to all employees in the company or necessary action is taken on a case-by-case basis (Espenberg et al. 2012).

### **Role of different organisations in implementing active ageing**

A Eurobarometer survey has outlined that in tackling the challenges of aging population, most positive role is believed to be played by:

- 1) religious organisations and churches (67% in Latvia, 62% in Estonia and 54% in Lithuania consider their role as positive on national level against the EU27 average of 63%);
- 2) older people’s organisations and other NGO’s (58% in Latvia and Lithuania and 69% in Estonia consider their role as positive against EU average 70%) (TNS Opinion & Social 2012).

Perceptions on the positive role of other organisations varies across countries. For instance, in Latvia the role of media and journalists is also considered positive by 55% of respondents while the shares fall slightly below 50% in other countries (in EU on average the role of media is considered as positive only by 39% of respondents). Also, in Estonia, the role of local government institutions is considered as positive by 56% of respondents while the shares are considerably lower in Latvia (46%) and Lithuania (24%). The role of all other organisations is considered positive by less than half of all respondents, including the national government and businesses. (TNS Opinion & Social 2012)

It is stressed in the **Estonian** active ageing strategy, that there are different parties that have a role to play in supporting active ageing in the society and the implementation of the strategy requires cooperation by

all parties, including the state, local government, non-profit and the private sector (Ministry of Social Affairs 2013). In addition to the age group 50+, who is the direct target group of the strategy, the document brings out as different important parties: policy makers at state and local government level, employers, social and health care workers, cultural and educational specialists, media, representatives of different age groups, family members and carers of older people etc (Ministry of Social Affairs 2013). The strategy 2013-2020 provides a framework for action for the state, local governments, non-profit and private sector to proceed from in implementing the active ageing strategy into practice (Ministry of Social Affairs 2013). Thus, at least on strategic level, there are different parties that have a role to play in supporting active ageing in the society in addition to the national level.

### **Role of social partners/ collective agreements**

According the Eurobarometer survey on active ageing, the role of trade unions is considered as positive in tackling challenges of the ageing population by just a third of respondents in all Baltic countries (36% in the EU27 on average) (TNS Opinion & Social 2012). However, there are some examples of collective agreements that might support active ageing in company level.

In **Latvia**, almost none of the pre-defined conditions in the collective agreements are designed specifically to target aged employees but affect all employees irrespective of age. Conditions that may stimulate older workers to stay longer in the workplace and improve their health and working conditions as well as work organisation are included in some of the collective agreements (about 13% of all collective agreements have issues on medical services, health insurance and supplementary pensions; in 6% of all agreements - conditions in terms of work and family life balance (work from home or telecommuting opportunities, flexible working hours, additional holidays), 13% cover principals of gender equality and principals of equal opportunity). In order to popularize collective agreements among small and medium size enterprises and provide financial incentives to sign collective agreements, experts of the Free Trade Union Confederation are intensively working on tax reduction initiative for social responsible enterprises, i.e. enterprises where collective agreements are in place.<sup>56</sup>

In **Lithuania**, the interviewed representatives of the social partners noted that data on organisation/company-level practices is not known/gathered/filed. However, where possible, the organisations of social partners take part in various projects, including those related to the target group of older workers.

One of such projects was identified<sup>57</sup> as one of more successful: EQUAL project “Support network for reintegration into the labour market in the counties of Utena and Vilnius”. Target group – pre-retirement age (40+) population. The project objectives were (a) increasing access of the pre-retirement age people to the labour market in the counties of Vilnius and Utena regions by fighting discrimination which they experience and by promoting equality; (b) creating the support mechanisms to assist pre-retirement age people in returning to the labour market, qualification and competence development, and staying in the labour market with the help of the created support network. The project was implemented by 9 Lithuanian organisations, it joined the efforts of private and NGO partners, representatives of trade unions, employers and vocational training providers. The activities implemented in the area of reintegration of pre-retirement age people into employment served for creating a cooperation network of active organisations in the counties of Utena and Vilnius, and organisation of vocational training for the target group (older people). Following activities were implemented during the project: research, design and implementation of support network for the integration of pre-retirement age people into the labour

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<sup>56</sup> Information based on interviews with the Free Trade Union Confederation

<sup>57</sup> Interview with Mrs. Janina Matuiziene, Secretary General of the LPSK

market, motivating work with target group, training activities, information campaign. Though intentions of the partners implementing the project were rather ambitious, from our point of view the main result of the project was that it increased abilities of project participant themselves, first of all – in creating the networks, knowledge sharing, research and so on.

In general, the conducted interviews suggest that the Lithuanian social partner organisations are currently actively involved in activities promoting the dissemination of knowledge in the area of age management. The Lithuanian Trade Union Confederation initiated international project funded by the European Commission (DG Employment, Social Affairs & Inclusion. Social Dialog, Industrial Relations) – “Age Management Strategy for Sustainable Growth in Era of Crisis”. During the project, experts from various countries will exchange their experience in the area of age management. The project will contribute to developing competencies of Lithuanian employers and their representatives in the area of age management. Trade unions and old age NGOs from Poland, Romania, Spain, Montenegro and Great Britain are participating in the project. Training seminars and national level meetings are organised during implementation of the project; it is planned to issue the Age Management Manual at the end of the project activities<sup>58</sup>.

In addition, the Siauliai Chamber of Commerce, Industry and Crafts is implementing activities under the Best Agers Lighthouses Project<sup>59</sup> focused on age management interventions in Siauliai State College. As it was mentioned by Daiva Jonuškienė<sup>60</sup> during an interview, the project is particularly important for allowing to change negative attitudes of employers and employees to the ageing phenomenon and to learn how to manage such processes at specific workplaces. In 2013, the Lithuanian Real Estate Development Association<sup>61</sup> started the ESF-funded project “Improvement of the professional qualifications of employees in the Lithuanian real estate sector”. During the project, 64 employees will seek professional development, including older employees. According to Mindaugas Statulevičius, employers are interested in retaining all employees who are receptive, willing to work and adapt to today’s reality (e.g., digital design, computer literacy, knowledge of foreign languages, being ready for trips, etc.).

In **Estonia**, the role of collective agreements in active ageing has been analysed in 2003. Research analysing the role of collective agreements in age management at company level has indicated that 60% of all collective agreements analysed contain some sort of differing conditions for older workers (Leetmaa, Võrk, and Kallaste 2004b). Based on the analysis, there are three main types of provisions included in collective agreements: 1) financial support for long job tenure (including financial support on jubilee, financial bonus or additional vacation days for length of employment); 2) additional support in case of ending employment contract with a person in pre-retirement age; 3) preferential treatment for older workers in case of layoffs (Leetmaa, Võrk, and Kallaste 2004b).

To compare, a more recent analysis of collective agreements has indicated the main contents of collective agreements as at the end of 2011 (Põldis, Proos 2013). The analysis shows that working conditions regulated by collective agreements most often include various fees/salaries (93% of all agreements valid at the end of 2011), working and rest time (92%) and vacations (89%) (Põldis, Proos 2013). Financial

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<sup>58</sup> It is planned to present more information about the project in June 2014 at [www.lpsk.lt](http://www.lpsk.lt)

<sup>59</sup> [http://www.best-agers-](http://www.best-agers-project.eu/Portals/18/Activities/Lighthouses/Best%20Agers_Lighthouses%20in%20a%20Nutshell.pdf)

[project.eu/Portals/18/Activities/Lighthouses/Best%20Agers\\_Lighthouses%20in%20a%20Nutshell.pdf](http://www.best-agers-project.eu/Portals/18/Activities/Lighthouses/Best%20Agers_Lighthouses%20in%20a%20Nutshell.pdf)

<sup>60</sup> Interview with Daiva Jonuškienė, Senior Officer at the Chamber of Commerce, Industry and Crafts, conducted on 16 04 2014.

<sup>61</sup> Interview with Mindaugas Statulevičius, Director of the Lithuanian Real Estate Development Association, conducted during the project “Ageing society: how are we prepared?” (Lithuanian Social Research Centre)

agreements most often include payments for non-job-related aspects like Christmas bonuses (59% of all collective agreements), additional payment for overtime work (39%), and additional bonus for good work results (39%) (Põldis, Proos 2013). Collective agreements also often include conditions of vacation (70%), additional vacation/ free days not regulated by law (66%) and conditions of using the vacation (47%) (Põldis, Proos 2013). Collective agreements rarely regulate part-time work (7%), working time limitations (7%), additional free time (10%) or on-call time (10%) (Põldis, Proos 2013). Analysis also showed that 24% of all collective agreements include conditions of preferential treatment in cases of lay-offs, 18% include principles of offering new/another job after lay-off, 17% regulate advance notice periods and financial benefits in cases of ending employment contract and 14% regulate benefits in cases of redundancies (Põldis, Proos 2013). Various training agreements are included in 73% of all collective agreements, whereas 53% included agreements on access to training (employer-provided training), 45% include agreements on covering the costs of training, 27% regulate agreements of additional vacation related to education/training and 24% regulate financing of this type of vacation (Põldis, Proos 2013). Agreements on occupational health and safety in collective agreements are relatively less common in collective agreements as compared to individual or collective working conditions (Põldis, Proos 2013). Most common (48%) are agreements on health care services (e.g. health check-ups, compensation of visiting specialised doctors etc) (Põldis, Proos 2013). Almost third of all collective agreements include agreements on supporting measures for healthy lifestyle (e.g. healthy food at workplace, opportunities for sporting activities etc) (Põldis, Proos 2013). Thus, the research shows that there are quite a few aspects often regulated by collective agreements that have a potential to support active ageing. However, this research did not analyse working conditions specifically targeted at older workers. Thus, it is difficult to make any conclusions related to active ageing. Due to data access issues, it has not been possible to draw out data related to older workers from the database of collective agreements.

At the same time, it is also important to keep in mind that collective agreements are not very common in Estonia and collective agreements are mainly concluded on enterprise level, rather than sectoral or national level. In 2009, Working Life Survey indicated that 6% of enterprises have concluded a collective agreement and 33% of employees say they are working in a company where a collective agreement has been concluded. Collective agreement coverage varies considerably according to age group – 41% of 50-64 year old employees work in a company with collective agreements compared to 27-29% among 15-49 year olds. Thus, collective agreements have more potential in influencing the working conditions of older age groups. Also, data based on Collective Agreements Registry at the Ministry of Social Affairs has indicated that collective agreements are concentrated in specific sectors. Based on valid collective agreements as at the end of 2011, 15% of all agreements are concluded in the education sector, 13% in transport and storage, 13% in public sector, followed by health care and social welfare (11%) and art, entertainment and spare time (10%) (Põldis, Proos 2013). All other sectors fall below 10% level.

### **Access to training**

The share of enterprises providing training to their employees varies across Baltic countries. According to Eurostat data, 68% of all companies in Estonia, 52% in Lithuania and 40% in Latvia provide training to their employees. However, access to training for older age groups is probably further limited.

Increasing interest of older workers in participating in training is an important prerequisite to support lifelong learning among the age group. According to a survey of **Latvian** employers, ICT training, increase in flexibility, more interest in training and requalification and overall change in stereotypes in society are considered to be factors that may increase competitiveness of elderly people in the labour market by 20%,

19%, 12% and 9% of all entrepreneurs correspondingly (“Pirmspensijas ledzīvotāju Ekonomiskā Potenciāla Izvērtējums [The Assessment of Economic Potential of Pre-Pension Aged Individuals]” 2014).

According to Tadas Tamošiūnas et al (2005), in **Lithuania** employers mainly recognise the need of education for administration staff; executive officers and professionals are ranked the second and third respectively. According to employers, in the overall structure of employee groups, the need of education and training is the lowest for blue-collar workers.

### **Company level practices**

A good starting point for identification of company level practices are various awards/recognition issued to socially responsible enterprises. An example of a “senior friendly enterprise” award comes from **Latvia**. National Action Plan of the European Year (2012) for Active Aging and Solidarity between the Generations included several activities mostly focused on the intergenerational cooperation, addressing of stereotypes and elimination of age discrimination in the labour market. One of them has been “senior friendly enterprise” nomination. The Ministry of Welfare together with Free Trade Union Confederation, the Employers’ Confederation and Institute for Corporate Sustainability and Responsibility (responsible also for the above mentioned Sustainability Index) identified best practices in the field and as a result five enterprises<sup>62</sup> were awarded a “senior friendly enterprise” status.

The main aim of the award was to promote best practices regarding seniors' employment and to show and explain with practical examples how to create suitable working environment for seniors and to develop appropriate motivation policies.

The process was implemented in two stages. First of all, additional questions regarding aged employees were added to the regular questionnaire of the Sustainability Index activity. Secondly, enterprises (from those who participate in sustainability index activity) employing individuals of pre-pension and pension aged were selected. These enterprises were asked to submit their good practise examples of the employment of elderly people.

Experts from the Welfare Ministry, the Latvian Free Trade Union Confederation and Institute for Corporate Sustainability and Responsibility participated in the evaluation. Five enterprises submitted their best practise examples in the second round of competition and were granted a “senior friendly enterprise status”. The list of senior friendly enterprises is publicly available online<sup>63</sup>.

2012 was the first and the only one year when such evaluation was implemented. The Ministry of Welfare identifies that the evaluation contest might be on in future, earliest from – 2015, depending on how EU Structural fund supported activities will be organised.

In **Estonia**, good occupational health and safety practices are acknowledged on the initiative of Labour Inspectorate. With the financial support of ESF, Labour Inspectorate collects descriptions of good and innovative examples from Estonian enterprises regarding their measures of work environment and work organisation and organises them into a single database<sup>64</sup>. The database currently includes around 200 examples. The examples represent cases where companies have contributed more to their employees’ welfare than is required by legislation. In addition to the database, since 2010 three best practices are

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<sup>62</sup> SIA Rimi Latvia, AS Latvijas Balzams, SIA Grifs AG, VAS Starptautiska Lidosta Riga (Riga Airport), SIA Janis Roze

<sup>63</sup> <http://www.puaro.lv/lv/puaro/par-senioram-draudzīgiem-atziti-pieci-uzņemumi>

<sup>64</sup> As at June 2014, best practice database is available on the website of Labour Inspectorate: <http://www.ti.ee/index.php?page=1128&>

chosen annually to provide special recognition. (see also Ministry of Social Affairs 2009b; Ministry of Social Affairs 2010)

## **Estonia**

A company example often presented as a good practice regarding implementation of an active ageing strategy at the workplace is the Estonian energy company, Eesti Energia (see also Panteia 2013). Eesti Energia Group is the biggest employer in Estonia with 7,680 employees. Eesti Energia's main economic activity is electric power generation, transmission and distribution. Since in a few coming years almost one third (ca 2,500 employees) of company's personnel will become older than 50 years, it became clear that the ageing workforce will become an obstacle for the company in the longer perspective and in order to maintain company's sustainability, immediate action needed to be taken.

Implemented measures were chosen after careful consideration and research of best practices that companies with similar profile have implemented in different countries. In addition, the company organised a study tour to one company in Sweden that had tackled similar obstacles. Time factor was the main criteria for choosing these particular measures, since the company needed measures that would have recognisable results in limited time period and that could be implemented right away and without significant preliminary work. Therefore this factor was important since for example the training of new/young employees (mentorship and on-site training) to the level where their skills would match the skills of their older colleagues generally takes up to 5 years.

The target group was chosen by the personnel service together with department managers, who developed the strategy. The target group of these measures was chosen based on age (had to be 50 or older) and work difficulty as it is harder to find qualified and experienced employees to workplaces with complicated and difficult work assignments.

The company's age management strategy includes four different measures:

- 1) Shared jobs- (as older workers capacity to work decreases with age, they were offered shorter flexible (part-time) and trainees were recruited. This enabled to utilise older workers work experience and help trainees to settle in better; 3 cases
- 2) Mentorship programme- older and experienced workers are mentors for their younger colleagues who have moved up in their career ladder (this helps to keep and share the valuable knowledge in the enterprise); 30 cases
- 3) Training- some of the workplaces in Eesti Energia demand very specific skills/knowledge, which are not taught in universities, therefore young and inexperienced workers will have on-site work training under older and much experienced workers; 85 cases
- 4) Personal stories of different older vibrant employees, with a long tenure, still working in Eesti Energia are shared through intranet within the company in order to show that Eesti Energia values all its employees irrespective of their age and to set a positive example to other employees. 5 cases

Different research have also identified some company level practices in Estonia. There are various types of financial benefits provided by employer that are paid upon leaving employment (early retirement, redundancies etc) for older workers or people with long job tenure in the company. According to analysis of collective agreements, the most common type of benefit to older workers in collective agreements is higher benefits than required by legislation in case of ending the employment contract (Leetmaa, Võrk, and Kallaste 2004). This is typically provided to people in (pre-)retirement age upon ending their

employment contract and it is conditional upon employment tenure – mostly starting from 10-15 years of employment with the same employer (Leetmaa, Võrk, and Kallaste 2004). These types of support mostly add 1-2 monthly salaries to the support foreseen by legislation (Leetmaa, Võrk, and Kallaste 2004). Estonian Social Survey has shown that these one-off payments by employer upon retirement are very rare – only a few cases were detected in the nation-wide representative survey in 2012 making any generalisations to the whole population unreliable.

In addition to one-off payments, collective agreements also foresee benefits similar to early retirement pensions paid by employers – in cases of lay-offs of people in pre-retirement age and in case the person remains out of employment, employer pays a monthly benefit until retirement age, mostly in the amount of national minimum wage, a certain proportion of the previous salary of the person or the size of the pension (Leetmaa, Võrk, and Kallaste 2004). This is also mostly conditional upon employment tenure and in case the person has up to 2 years until retirement age (Leetmaa, Võrk, and Kallaste 2004).

However, more recent data from 2012 (Estonian Social Survey) has shown that these one-off payments upon retirement from employer are very rare and only very few cases have occurred during the year making generalisations to the whole population unreliable.

The main advantage of these types of benefits is that they reward long employment in the company and provide higher financial support compared to statutory benefits for older workers or people with long job tenure. Also, they probably hold employment of older workers in the company more stable compared to the situation without these benefits (Leetmaa, Võrk, and Kallaste 2004). At the same time, they might be supporting early retirement and reduce incentives to find a new job after redundancy. These also make it more expensive for employer to lay off older workers. However, since these require rather long employment history in one company, they probably do not influence considerably recruitment decisions of older workers (Leetmaa, Võrk, and Kallaste 2004).

Regarding flexible working time opportunities, Different research results have also indicated that older workers do not have much opportunity to make decisions on their working time. A survey of older people in Estonia has shown that just 14% of older people have the opportunity to make decisions on their working time while another 14% say they have this opportunity sometimes (either in their current workplace or previous workplace if already retired or unemployed) (Espenberg et al. 2012). European Working Conditions Survey (European Foundation for the Improvement of Living and Working Conditions) has indicated that similarly to the EU average, slightly less than half of older workers can vary their start and finishing time of work in Estonia. In 2010, 59% of Estonian employees had fixed starting and finishing time of work. There is not much difference by age – 63% among 30-49 year olds compared to 58% among 50+ age group.

Eurostat data also shows that reducing working hours in the move towards retirement is not common either in Estonia or EU on average – 6.5% of 55-69 year olds say they have reduced their working hours due to reaching retirement in 2012 (the share is the same in Estonia as well as EU-28).

Although data shows relatively low share of flexibility in the working time of older people, only a small share has requested this from their employer. Survey of older people in Estonia indicated that 89% of the age group have not requested a change in their working time from their employer, although 23% would like to work part-time (Espenberg et al. 2012). Also, employers have not initiated these changes – only 4% of older people say that their employer has made them an offer to reduce working time (Espenberg et al. 2012).

At the same time, survey of employers shows their readiness to offer flexible opportunities to older workers – 54% of enterprises offer an opportunity to reduce working hours for older workers and another 4% is planning to introduce this opportunity in the future (Espenberg et al. 2012). Around a third of companies say that it is possible to change working schedule for older workers in their company, it is possible to reduce physical intensity of work or adapt working conditions in accordance to age (Espenberg et al. 2012). Comparing this to the relatively low level of flexible work practices among older workers in general shows that the relatively positive attitudes of employers have not been implemented in practice very often. Furthermore, according to a recent Eurobarometer survey, 63% of Estonians think that the lack of opportunities to retire gradually by reducing working hours is an important reason why people over 55 might stop working (although it is considered a larger problem in other EU countries with the average standing at 72%) (TNS Opinion & Social 2012).

## Latvia

The most common measure in the companies is pay for longer tenure. Companies recognize those with longer years worked in a company and include opportunities for third tier pension level funds in their offers, which is a serious incentive for aged individuals. Health insurance and regular annual health check-ups are also among the measures provided by employers. From the list of supporting longer working lives and lifelong learning in older age measures most of companies use listed measures, not focusing exactly on pre-pension or pension age employees<sup>65</sup>.

**Pharmaceutical company Grindex** Personnel Manager commented, that the title of senior friendly company Grindex received, because of the fact that 10% of all Grindex employees<sup>66</sup> are people in pension age.

The areas where experienced older people work are mainly technical areas, where practical knowledge and experience of technical processes is needed. Experience of the long term employees in Grindex is very valuable; it could not be acquired quickly and just theoretical knowledge is not sufficient.

For the company it is very important, that technical knowledge is passed on, therefore older employees do serve as mentors.

Company is ready to accommodate the needs of their aged employees, in the form of shorter working hours, switching work to less physically and stress demanding jobs and considering ergonomic needs.

Still, eventually situation is determined by the operational needs of the company production process and employee's willingness or unwillingness to work and meet the needs of the company. If both sides are willing to cooperate, then working hours or ergonomic needs are accommodated. When employee is willing to carry on working after pension age, next decision is about how much longer it will go. Very few employees keep working until age of 70. In general in the legislation there is no restriction in how long person carries on working.

Speaking about the recruitment process (work applications of elderly people), it was admitted that there are practically no job applications from pension age people, probably, because of the fact that work at Grindeks requires specific skills.

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<sup>65</sup> Based on interview with the Executive Director of Association of Personnel Management

<sup>66</sup> The total number of Grindex employees is about 720 people.

The interview with the Head of the Personnel Department of the Retail Supermarket chain **Rimi** was started with the comment from the Rimi representative on the prejudice and stereotypes that widely exist in society.

Rimi also received the title of the Senior Friendly Company. Employees aged 45-50 represent around 20% of the staff and the age group of 55-64 accounts for 11% of the total staff of 5100 employees. There are a few employees over 70 year old and one aged over 80 years. Personnel policy in general is supportive to social risk groups and Rimi employ people with disabilities, older people and teenagers during school holidays in summer. Primary decision to work depends on the ability and willingness of the person. Most of the work in Rimi is simple and rather physical. The policy of Rimi allows its employees to choose the intensity of their work (how many hours to work per week) themselves.

Rimi has a practice of financial benefits for longer tenure. In addition to standard package of the medical insurance, employees with longer tenure receive supplementary dentist insurance and medication allowance, but this is related to all employees with long tenure, not just pension age ones. Discussing mentoring it was mentioned that work in Rimi is not complicated; therefore becoming a mentor is not linked to the age but to willingness and experience. Ergonomic, health and safety matters are looked at for all age workers in Rimi.

## **Lithuania**

One of a few studies - "The opportunities for the integration of older people (50+) into the labour market (or vocational activity): the view of employers, employees, and the unemployed" – was conducted in Lithuania in 2011 within the framework of the Best Agers project<sup>67</sup>. The study covered interviews with companies based in Northern Lithuania (N=27) in order to find out the situation about employment of older people.

All the respondents said their companies do not apply individual agreements about wages/salaries to pension-age employees; there are no special conditions set for older employees in terms of working time. In the respondent companies, older employees were usually included in team work in mixed age groups (N=12). Other findings of the study are as follows: experience of older employees is applied in multiple areas (N=10); they are offered adequate and attractive workplace within the company (N=9). The areas used the least included mentoring programmes (N=1), competence development (N=1), career opportunities (N=1), special technical/ergonomic infrastructure (N=1), and wellness/sports programmes (N=2) for older employees. Mentoring programmes, competence development, horizontal career opportunities still represent novelties and are assimilated with difficulties by employers in Lithuania. It is quite probable that these areas will be better developed in the future.

The interviews with employers showed that according to their views key activities and initiatives likely to contribute the most of all in maintaining older people in employment longer are economic incentives (i.e. possibility to receive both – the old age/early pension and wage) and better social work environment (positive attitudes of employers and employees to older workers, working conditions adopted to the needs of older employees). The respondent employers also identified the following measures as important for extending working lives of older employees: working hours and work content individually adapted to older employees, competence development and better technical-ergonomic infrastructure.

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<sup>67</sup> Laima Miklintaitė. The opportunities for the integration of older people (50+) into labour market (or vocational activity): the view from the employers, employees, and the unemployed. Project "BEST AGERS – the best use of the professional knowledge and experience to promote business and entrepreneurial skills in the Baltic Sea region". Research report. Šiauliai, 2011. [http://www.nrda.lt/files/Best\\_Agers\\_tyrimo\\_ataskaita.pdf](http://www.nrda.lt/files/Best_Agers_tyrimo_ataskaita.pdf)

Data of the qualitative research “The job placement and retention of the older employees in Lithuanian organisations. Incentives and Barriers”<sup>68</sup> carried out in 2013 confirmed the dominant negative attitude of Lithuanian employers towards older workers (50+). According to the research findings, “employers’ prejudice and low older workers’ competence levels often result in older workers being ignored and discriminated in the labour market. Common barriers for older workers being more recognized in the labour market are a lack of transferable skills, post-Soviet attitude towards work and employers’ prejudice. Measures that would enhance employability and retention of older workers may include promotion of life-long learning culture, raising awareness of benevolent human resource management policies and practices, and forming a positive societal attitude. Liberalizing the labour law (first of all – abolishing of additional EPL for older employees) and support for job creation (job subsidies) would also help integrating older workers into the labour market. It is important to note that according to the employers, the problem of an aging workforce is not relevant at the moment. Employers do not give attention to forming a favourable work environment or adjusting their human resource management practices to older workers”.

As regard HR management practices or policies used in Lithuanian organisations in respect of older workers, the overwhelming majority of respondents reported not applying any special measures dedicated to employ or retain older workers in employment. Some single practices mentioned by the respondents as applied specifically to older workers usually included thanking employees for work experience (mentioned 6 times), congratulations on the 50<sup>th</sup> and/or 60<sup>th</sup> anniversary (mentioned 4 times), better retirement conditions by paying additional compensation (mentioned 4 times). The respondents also mentioned that they apply additional leaves that accumulate on the basis of the length of work record in accordance with the Labour Code of the Republic of Lithuania (mentioned 8 times). The practice of mixed working groups is quite common in Lithuanian organisations, but such groups are formed naturally, without any special purposes or intentions.

The problem of retaining older workers at work is not very relevant in organisations; a part of the respondents do not see the sense in such retaining at all. More than half of the respondents mentioned that, as far as the retention of older workers in employment is concerned, employees should not be differentiated by age groups at all, whilst employers should respect all employees and try to retain all their workers and uphold their motivation. The adaptation of workplaces and the use of older employees’ potential in transferring knowledge and experience may be useful for organisations both now and in the future. Retirement-disincentive policies also appear to be important in the view of employers (mentioned 6 times). In order to retain older workers at work, it is very important to raise their qualifications (mentioned 5 times).

The fact of mixed-age teams being quite actively applied by Lithuanian employers (whether naturally or intentionally forming HR management strategy in the organisation) has been also confirmed by the results of the National Responsible Business Awards organised by the Ministry of Social Security and Labour. Out of more than 40 nominees who filed applications in 2012, many socially responsible enterprises reported

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<sup>68</sup> Irena Pupienienė. The job placement and retention of older employees in Lithuanian organisations. Incentives and barriers. ISM University of Management and Economics. Master thesis. Vilnius, 2013. [http://archive.ism.lt/bitstream/handle/1/298/ETD2014-1\\_Irena%20Pupienien%C4%97.pdf?sequence=1](http://archive.ism.lt/bitstream/handle/1/298/ETD2014-1_Irena%20Pupienien%C4%97.pdf?sequence=1). The empirical results have been obtained from semi-structured interviews. During this qualitative research 20 representatives from different business sectors were interviewed. Respondents: 16 HR management officers and managers of HR management units, as well as 4 CEOs of organisations.

applying job coaching or "fellow" programmes at work<sup>69</sup>. Although these measures are focused on the integration of young professionals in the workplace, participation of older workers in the process shows that employers recognise and use the experience of this age-group employees.

In order to identify good practice examples applicable in Lithuanian companies and organisations in the area of age management, national umbrella organisations of employers and employees were contacted. It should be noted that at first all the contacted representatives said they had not heard anything of such initiatives, but they voluntarily offered to carry out mini-surveys in their organisations. This method enabled to identify the aforementioned Best Agers Lighthouses project (part-financed by the EU (European Regional Development Fund); Best Agers Lighthouses <http://www.best-agers-lighthouses.eu/>). In Lithuania, it is implemented by the Siauliai Chamber of Commerce, Industry and Crafts and Siauliai State College. During the project, employees of the College were surveyed (N=200) in order to identify the impacts of age on employees' work. Questions of the survey dealt with such aspects as work engagement, motivation, health and age management practices. The survey revealed that ageing topics are avoided in the College in general, whilst the employer is not interested in retaining older employees at work longer due to the unfavourable demographic situation (decreasing number of young students).

The national project developer (Siauliai Chamber of Commerce, Industry and Crafts) preferred mild intervention techniques to implement age management methods in the College. The following activities were implemented: trainings for the managers "Age management and workability" using biiugi platform<sup>70</sup> and face to face reflection moderated by external advisor, as well as trainings for the managers and employees of different age groups ("Conflict solutions and stress management", "Age influence on decisions making", "English course for 55+"). The internet technologies enabled to implement a part of the trainings online (using biiugi platform).

As it was mentioned by Jonuškienė during the interview, today we can already say that the project activities had an impact on the attitude of older workers themselves towards ageing and their future perspectives in the labour market, mobilised the staff to independently look for ways to mitigate the negative consequences of ageing.

Another example of good practices is the experience of small construction company Elis Electric (up to 50 employees) which successfully applies practices of adaptation of older workers (including those at the retirement age) to working conditions. This example is also interesting in that the company does not identify itself as a socially responsible enterprise and was randomly selected during a pilot survey<sup>71</sup>. As far as 55+ persons are concerned, it was pointed out that, in order to retain skilled and experienced workers at work, they are offered various opportunities enabling them to fully use their professional potential and, at the same time, reconcile their family and work obligations, perform tasks that meet their health condition. For example, experienced older electricians are offered to perform only a part of the task that requires high-level qualification, preciseness and proficiency, whereas tasks related to heavy physical loads, endurance or climbing (e.g., lifting heavy loads, working at height, etc.) are delegated to younger workers who are less experienced but physically stronger. In addition, formation of mixed-age teams indirectly contributes to improving qualifications of younger-generation employees. The following examples of more flexible work organisation applicable in the said company can be mentioned: flexible

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<sup>69</sup> Interview with Jelena Polijančuk, senior officer at the Division of Labour Law, Ministry of Social Security and Labour, conducted on 28 04 2014.

<sup>70</sup> For more information please see: <http://biiugi.eu/content/history-biiugi-0>

<sup>71</sup> Interview with the head of the company was conducted on 24 03 2014 during the pilot survey under the research project "An aging society: how we are prepared?" (Lithuanian Social Research Centre).

working schedules (adapted to individual needs), part-time work, transfer to other positions. Furthermore, the retired ex-employees, at their request, are invited to do one-off jobs requiring specific skills under fixed-term employment contracts. Older workers of the company are also provided additional health insurance covers.

It is interesting to note that the head of the company would like to apply training incentives for older workers. However, he faces the problem that older workers themselves are not willing to participate in training.

## Summary

This report is part of the MOPACT project – Mobilising the Potential of Active Ageing in Europe<sup>72</sup>. The report is an input in the research field Extending Working Lives, Task 2: overview of the “state of the art” of current innovative, successful and sustainable approaches to working and learning longer. This report covers three Baltic countries – Estonia, Latvia and Lithuania.

The aim of this report is to provide an insight into practices implemented in Estonia, Latvia and Lithuania to support active ageing in the labour market and lifelong learning in older age. The report consists of three main parts.

First, the report started out from creating a picture of the **Baltic context** and the macro-level similarities/differences of these countries. The chapter showed that as far as welfare state models are concerned, Baltic countries are most often fitted under a single model. Although the grouping of countries largely depends on the number of countries included into the analysis and the level of similarity or difference, and also the number of end result i.e. the number of models or regimes generated. The following statistical overview also showed that the similarities and differences of Baltic countries can vary across time or specific indicators analysed. Based on Eurostat population prognosis (EuroPop2010), the demographic developments have a similar starting point in the Baltic countries in 2013 as well as compared to EU average – there is almost four people aged 15-64 per one person aged over 65. After an initial increase in old-age dependency ratio, all three Baltic countries are expected to go through a decline in old-age dependency ratio which is followed by stabilisation period, although the decline will start earlier in Lithuania than in other countries. By the end of the forecast period (2080), Lithuanian population is projected to be the most youthful out of the three Baltic countries while Estonia shows highest share of old-age population relative to working-age population.

Employment in all Baltic countries has been above the EU average for most years since 2000 with a growing trend. After a set-back in the years of economic crisis, the employment rate of people aged 50-74 has started increasing again in the Baltics, moving further away from the EU average level. By 2012, all three countries were among the ten countries with highest old-age employment rates in EU. At the same time, a worrying trend is that inactivity due to illness or disability in the 55-74 age group is considerably high in Estonia and Lithuania, especially among males (25% and 17% respectively). There are also notable gender differences in the expected healthy life years – in Estonia women are four years and men 8 years below the EU average, in Latvia the figures are 3 and 7 and in Lithuania men are 5 years below the EU average and women have managed to caught up to the average woman in the EU.

Regarding lifelong learning, older age groups in Baltic States have considerably higher educational level than in the EU on average. Although, again attention should be turned to the high gender gap in tertiary education attainment (highest in Estonia at 10% points, 6 and 7% points in Latvia and Lithuania respectively among the 55-64 age group). Furthermore, gender differences are even higher in younger age group, thus indicating a future trend in older age groups as well. Similarly, participation in lifelong learning is to the advantage of women in all three countries.

The second part of the report concentrates on **national level policies for extending working lives and lifelong learning** in older age groups based on the country reports from Estonia, Latvia and Lithuania. Main conclusions by the topics covered in the report are as follows:

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<sup>72</sup> More detailed information on the project available at: <http://mopact.group.shef.ac.uk/>

- *National level strategies for active ageing*: only Estonia has managed to introduce a strategic document (in 2013) guiding the implementation of active ageing policies on national level. However, in this case as well, a specific action plan has not been introduced yet to assess the implementation of the strategy. In Latvia, an active ageing strategy is due to be finalised by March 2014 while there is no such initiative in Lithuania. Still, all countries report that several strategic documents on national level cover active ageing as a horizontal principle across various policy documents and programmes.
- *Incentives in social security system to prolong working lives*: in the support of longer working lives, all Baltic countries are going through an increase in pension age for both men and women. In the economic crisis, the popularity of early retirement option was relatively popular in Latvia (at EU average level) compared to Estonia and Lithuania, despite relatively strict regulations applied. Estonia shows the most flexible regulations of early retirement. In the example from Estonia, majority of people who enter early retirement scheme come from unemployment or inactivity. A relatively strong incentive to work after retirement age in all the Baltic countries are low size of old-age pensions and possibility to receive simultaneous income from work. This is confirmed by Eurostat data - the need to provide sufficient household income is the main reason in all three Baltic countries for continued employment among people who receive pensions. 78% of people aged 50-69 in Estonia, 58% in Latvia and 47% in Lithuania keep working after retirement for this aim (Eurostat data). Estonia is the only country where it is reported that an important role in the move from labour market to retirement is played by work incapacity pensions. A respective reform is planned from July 2015, with the aim to move away from evaluation of incapacity, and instead assess an individual's capacity to work.
- *Employment protection legislation*: in general, older workers in Latvia and Lithuania seem to be covered by more strict rules of employment regulation while Estonia has moved towards a more flexible model. Latvian and Lithuanian employment regulation ensures some level of higher protection to people in pre-retirement age while Estonia has no such regulations. At the same time, all of the Baltic countries have higher employment protection to people with longer job tenure (based on the assumption that older people have more often longer job tenure). In Estonia, this is based on length of advance notice periods in case of layoffs, while in Latvia and Lithuania, longer job tenure ensures mostly higher redundancy benefits. In Estonian case, redundancy benefits are higher as well in cases of longer job tenure, although these costs are not covered by the employer, but by the Unemployment Insurance Fund.
- *Labour market measures*: there are mostly no special targeted active labour market measures to older workers in any of the Baltic countries. Instead, older workers are offered labour market measures within the general package of activation measures, the report highlights the most successful examples based on prior research. An interesting example is outlined in Lithuania, where the Lithuanian Labour Exchange and the Lithuanian Pensioner Affairs Council initiated a "Bank of Seniors", which aims to provide information on potential employees to employers willing to hire older workers. However, this has not proved to be popular among employers. The importance of European financing mechanisms in providing active measures to older age groups is also highlighted. For instance, in Estonia, 52 projects across Estonia have identified older people aged 50-74 as the (or one of the) target group of their project during 2007-2013.
- *Occupational health in the labour market*: within the wide array of occupational health and safety measures and regulations, the report aims at highlighting some examples supporting longer

working lives, including: reducing number of accidents at work (Lithuania), planned occupational accidents and illness insurance scheme (Estonia), supporting employer's expenses on the health of employees (Estonia). Again, the role of ESF is highlighted based on the example from Estonia. For instance, EU financing supports collection and dissemination of best practice regarding work environment and Network for Workplace Health Promotion in Estonia.

- *Lifelong learning measures*: the importance of older age groups in lifelong learning measures tends to vary across the Baltic states – all three countries seem to be in a different starting point. For instance, in Estonia, the respective strategic documents stress the importance of lifelong learning participation among older age groups and life-course perspective in rhetoric, although whether this will be backed up by specific measures or financial incentives, remains to be seen in the near future as the specific action plans will be approved. In Lithuania as well, the impact of lifelong learning strategy on older age groups is assessed relatively low. Although some good examples in the area of lifelong learning are also highlighted, including higher financial support for work-related training for people in pre-retirement age (less than 5 years until retirement age) in Latvia and Universities of the Third Age in Lithuania, senior volunteering in Lithuania and project “Get connected” in Latvia as well as projects financed by Nordplus programme and Grundtvig across all Baltic countries.

The third part of the report concentrates on **age management practices at organisational/ company level** based on national reports from the three countries. The chapter brings out previous research results on the topic and highlights national level examples from company practices. This chapter will be a starting point for further investigation of good practice examples from the Baltic countries, which will be collected during August – September 2014.

Prior research shows that opinions why people might stop working after the age of 55 in the Baltic countries tend to be similar to the EU average level – exclusion from training, lack of opportunities to retire gradually by reducing working hours and lack of workplaces adapted to the needs of elderly people. The lack of supporting opportunities is also confirmed by national level research. The chapter also highlights the importance of collective agreements and social partners in regulating the practices at company level. Although these are just some examples since social partnership in the Baltic countries is not very strong and thus the impact of collective agreements on national level tends to remain low.

Recognition and awards issued to socially responsible enterprises have proved to be a good starting point for the identification of good practice. This includes for instance, “senior friendly enterprise” award in Latvia and award for good occupational health and safety practices in Estonia. The report follows by highlighting some good examples in all three countries, including for instance a comprehensive active ageing strategy in energy company Eesti Energia in Estonia, pharmaceutical company Grindex and supermarket chain Rimi in Latvia, Best Aged Lighthouses project and Elis Electric in Lithuania.

## List of interviews

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- Olga Timmermann, ESF Programme Communication Specialist, Labour Inspectorate, 2 May 2014
- Ene Olle, Managing Director of the Estonian Human Resource Management Association, 21 May 2014

### Latvia

- Anita Sane, Personnel Management Association, May 2014.
- Evija Kula, Ministry of Welfare, May 2014.
- Ieva Freiborne, Free Trade Union Confederation, May 2014.
- Inese Kaleja, Grindeks, May 2014.
- Liga Stabulniece, Rimi, May 2014.

### Lithuania

- Janina Matuizienė, General Secretary; Lithuanian Trade Union Confederation, 11 April 2014
- Danutė Šlionskienė, Project manager; Lithuanian Trade Union Confederation, 11 April 2014
- Vilija Lukošūnienė, President of Lithuanian Adult Education Association, 15 April 2014
- Daiva Kvedaraitė, International Secretary; LPS "Solidarumas", 15 April 2014,
- Jūratė Vosylytė Abromaitienė, Chief specialist at Bureau of Strategic Programmes; Ministry of Education and Science, 15 April 2014,
- Jūratė Tamošaitytė, Project manager; Education Development Center, 16 April 2014
- Daiva Januškienė, Senior Officer; Chamber of Commerce, Industry and Crafts, 16 April 2014,
- Rūta Skyrienė, Executive Director; Investors' Forum, 17 April 2014
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# Appendix

## 'Worlds of Welfare' and older workers' employment rates

Jürgen Bauknecht

As outlined in the proposal, MoPAct work package 3 research is focused on a selection of EU countries representing different welfare regimes, which in turn are related to employment policies. The report below is based on economic incentives, which are one but of course not the sole determinant of older workers' employment rates.

For example, Jensen (2014: 6) states that "most probably, changes in the incentive structure will not change behavior". Jensen divides between (1) push, (2) pull, (3) jump, (4) stay and (5) stuck factors, whereas Jensen (2014: 10, based on Danish data) also mentions prototypical worker groups mainly affected by the five main groups of reasons.

- (1) Push factors such as economic crisis and unemployment victimise older workers and lead to involuntary labour market exit: "Those pushed out are not able to react to changes in the incentive structure. Undermines the political logic". Besides the labour market situation, health is an important aspect here.  
The prototypical group here consists of "manual unskilled workers leaving the labor market at 60-61 years of age".
- (2) Pull factors are based on assumptions of rational actors, where retirement is a "deliberate and *calculated* voluntary decision. Older workers are lured out of the labor market by generous welfare benefits (anchored in economic theories)" (Jensen 2014: 5, emphasis in original). Besides economic incentives, also norms and conventions are pull factors, i.e. the legal retirement age is a signal and retirement decisions are socially structured.  
Prototypes are "white collar workers (are actually calculating future pension/economic situation before retirement)" (Jensen 2014: 10). In contrast, Jensen (2014: 21) states that pull factors do not apply to the most vulnerable groups, „i.e. those who entered the labor market when they were very young, have had harsh working conditions, no education/life long learning, poor salaries...Often this group of people has no other option but to retire early.“ Further, Jensen states also well educated and highly paid workers are not strongly affected by pull factors.
- (3) Jump factors consist of two types, (a) social gains and (b) experience gains. This is "basically voluntary". Here, "early retirement benefit is only one out of many factors conditioning social action. Retirement is an out-come of reflexivity and reflexive processes" (Jensen 2014: 6).  
Prototypes here are families, whereas Jensen asks if it is reasonable that women's retirement decisions are based on men's.
- (4) Stay factors are considered "basically voluntary". Examples for stay factors are human resource management providing for "good and interesting jobs, good relations with colleagues and management, good wages etc. Work is formative for identity" (Jensen 2014: 7).  
The prototypical group is "the creative class; jobs are attractive, functional flexible labor markets" (Jensen 2014: 10). One of the goals of company/organisation best practice (see MoPAct work

package 3 “Best Practice” report) is to enable actors to create circumstances which will motivate workers to stay longer in the labour market because their jobs are attractive.

(5) Stuck factors. Reasons here are “basically involuntary”. These factors inhibit the respective person to leave the labour market if early retirement schemes are considered too ungenerous, or if social reasons such as the risk of social isolation inhibits labour market exit (Jensen 2014: 8).

The prototypical groups are high-income groups and single women (Jensen 2014: 10), possibly since the first group has high income expectations and the second group the financial necessity to work since the alternative is relative poverty.

‘Worlds of Welfare’ are mainly related to

(1) if social policies and taxes/contributions affect the labour market situation of older workers so that they are pushed out of the labour market or not due to wage costs too high or not too high for their productivity. Further, public employment creates employment for those who’d otherwise be unemployed (and possibly vice versa for others),

(2) if generous or ungenerous retirement benefits incentivise older workers to retire or to work longer, and to

(5), which is related to (2), if pensions or replacement rates are too low and therefore incentivise workers to delay retirement.

As Jensen (2014: 9) notes, Danish data shows that for different groups of workers different reasons are the main factors. One might expect that this applies to other countries as well and that also between countries different reasons are prevalent. This implies that factors depicted below affect some groups stronger and some less, and their effects on older worker employment rates are interdependent with

(1) other political measures (see e.g. national policy reports in the main part of this report, also policies focused on employability),

(2) training or lifelong learning circumstances (see respective MoPAct work package 3 report), and

(3) measures at other levels, such as the level of collective bargaining (trade unions, employers’ organisations) and measures on the company/organisation level (for both see best practice report).

### **Welfare regimes**

Different welfare state arrangements (benefit levels and benefit earnings-relatedness) primarily in the fields of pensions and unemployment benefits provide financial incentives for labour market exit or longer working lives.

### *Conservative welfare states*

Rooted in Bismarckian tradition, Conservative (or 'Corporatist' or 'Catholic') welfare states preserve status differences. Entitlements to welfare benefits depend on prior work and income (Esping-Andersen 1990: 27, 48): "A family's welfare entitlements are based on workplace contributions that the (typically male) breadwinner and his employer have made..." (Goodin 2001: 13). Families are supposed to be the basic providers of welfare (Taylor-Gooby 2001: 137). The male breadwinner model affects various policies affecting labour supply:

Assuming that there is no second wage in the household, e.g. pensions and unemployment benefits are high and long-lasting (in the case of unemployment benefits) and the level depends on prior earnings/contributions. High and long-lasting unemployment benefits lead to high reservation wages and can lead to longer unemployment spells. High pensions, meant to be high enough for two retirees, are high in the case of two earners (which occur more often now than at the time when pension systems were created), which can incentivise workers to retire.

Further, female labour force participation is not encouraged (Orloff 1993: 312), since the division of labour between men (paid work) and women (household, child-rearing, elderly care) belongs to Conservative welfare state conceptions (Castles 1994: 22). Therefore, female participation in paid work is discouraged by tax breaks for families with only one earner and a narrower range of child care offered to working parents, at least in comparison to social democratic states (Esping-Andersen 1990: 27). Empirically, Esping-Andersen (2007: 644) shows that e.g. in Germany within couples earnings are negatively correlated. It is possible that factors outside of the tax system contribute to this negative correlation. For example, it is possible that especially in conservative countries with weak public provision of childcare and elderly care high-earner husbands have little time for child/elderly care labour so that their wives are pushed into part-time jobs or being out of paid work, which reduces or eliminates their income. Yet the more plausible explanation is that the progressive tax system where married couples' income is split, resulting in savings especially for couples with huge income differences between partners, disincentivises female work. Further, as already mentioned, based on the male breadwinner conception, active government support for female employment was traditionally weak in Conservative welfare states (on the one hand policies giving women time for paid work such as public child/elderly care provision, on the other hand labour demand policies partly resulting from the first factor, e.g. public service jobs, also in child/elderly care facilities).

Amongst MoPAct work package 3 countries, according to Esping-Andersen (1990: 74) Belgium, Germany and Italy belong to the Conservative regime. This is also supported by Borchert (1998: 166f.), Taylor-Gooby (2004: 137, plus Spain), Maître et al. (2005: 158) and Jehoul-Gijsbers and Vrooman (2008: 13; they use the term 'Continental'). Others deviate from this view, e.g. Arts and Gelissen (2001: 290) state only Germany belongs to the regime while Belgium and the Netherlands are social-democratic hybrids.

The example of Germany shows that incentives provided by welfare state arrangements are but one part of explanations of older workers' employment rates. Of course several other factors are crucial, but Germany's de-Bismarckisation policies in the last decade possibly has contributed to higher older worker employment rates (e.g. shorter earnings-related unemployment benefits mean a lower level of status preservation, so this can be considered a move into the liberal direction).

### *Social democratic welfare states*

Based on Beveridgean universalism (Esping-Andersen 1990: 48), ideal-typical social democratic welfare states provide benefits not depending on prior work and contributions, yet on citizenship or (long-term) residence (Peillon 1996: 180; Taylor-Gooby 2001: 137; 2004: 13).

Ideal-typical flat-rate unemployment benefits should foster job search amongst those who can expect high earnings and discourage potential low earners (since their unemployment benefit replacement rate is higher).

Social democratic welfare states foster female employment rates by providing support for people trying to combine parenthood and paid employment (Orloff 1993: 312) or by providing jobs in the public sector (as pointed out in the Conservative section, both factors partly facilitate each other).

In Esping-Andersen's (1990: 74) original welfare regime classification amongst MoPAct work package 3 countries Denmark, Finland and the Netherlands are categorised as being social democratic. While the categorisation of the first two countries is or has been unambiguous (Jehoul-Gijsbers/Vrooman 2008: 13; Maître et al. 2005: 158; Castles 2004: 77; Bonoli 1997: 361; Arts/Gelissen 2001: 290), the Dutch case has also been considered typically Corporatist with family-centred benefits (Schmidt 2002: 179f.). A similar stance is taken by Bonoli (1997: 361), Huber and Stephens (2001: 110ff.), Castles (2004: 77) and Schmid (2008: 718ff.). This is also supported by Fenger's (2007: 21) cluster analysis, whereas here partly variables are included in the analysis not belonging to welfare state policies. In contrast to these authors, Borchert (1998: 166f.) states that the Netherlands are no longer a conservative welfare state. In contrast, Maître et al. (2005: 158) categorise this country in the social-democratic cluster, whereas due to liberalisations after 1982 in the unemployment and pension scheme (Green-Pedersen 2001: 971f., Schmidt 2002: 180; Esping-Andersen's data are from 1980) and strong earnings-related elements (Becker 2000: 226) this can be outdated. Accordingly, Borchert (1998: 164) states that the Netherlands is a mixed case and (2005: 335) that it is no longer conservative and does not belong to any regime type.

Also the cases of Denmark and Finland are ambiguous. Both countries underwent remarkable changes (Kuhnle 2000: 116), in both countries the fields of pensions and unemployment benefits have been 'Bismarckised' (Clasen/van Oorschot 2002: 109).

Alongside the Netherlands, traditional social democratic Denmark has been termed "model case(s) of welfare reform in Western Europe" (Cox 2001: 463ff.), and for Denmark Goul Andersen (2002: 156) states that "significant (although most incremental) path breaking was possible". Implemented in the 1980s, market-provided earnings-related occupational pensions now cover nearly all Danish wage earners (Green-Pedersen/Lindbom 2006: 254) and the basic pension loses ground (Goul Andersen/Larsen 2002: 15). Bismarckian elements became stronger in the last decades (Ebbinghaus/Schulze 2007: 276); Denmark now combines Bismarckian with Beveridgean elements (Werdning 2003: 12). In the case of unemployment benefits, the Danish 'flexicurity' (Goul Andersen 2002: 143) model combines high unemployment benefits (Clasen/Clegg 2006: 200) with weak employment protection (Goul Andersen/Jensen 2002: 42).

Similarly, in Finland national pensions are supposed to supplement employment-related pensions if the latter are insufficient. A growing number of Finns receive their full pension income from the employment-related part; already in 2003 (582ff.) Hinrichs and Kangas stated that only one fifth of Finnish pension incomes came from the national part (and declining further, down from three fifths in 1960/1965), so that Finnish pensions are work-related as in Bismarckian schemes. The idea is not that new: Already Esping-Andersen saw a "possible inclusion" (1990: 86) of Finland to the Conservative group. The growing relevance of the employment-related part could foster labour supply, primarily if national pensions are increasingly considered insufficient.

### *Liberal welfare states*

Amongst MoPAct work package 3 countries, merely the UK has been originally included in the liberal welfare state category (Esping-Andersen 1990: 74). Here, ideal-typical benefits are low and means-tested (Esping-Andersen 1990: 26). Liberal welfare states can positively affect employment rates due to low taxes on labour (which should increase labour demand) and due to low replacement rates in social security systems (and therefore low reservation wages and high labour supply).

In Esping-Andersen's original classification (1990: 52), the UK had only a medium degree of liberalism, yet later reforms (under PM Thatcher and her successors) strengthened liberal elements (Borchert 1998: 166f., Schmid 2008: 716), accompanied by a strong increase in earnings inequality (Clayton/Pontusson 1998: 72f., Esping-Andersen 2007a: 641; of course welfare policies are not the sole cause, also the declining in manufacturing and the rise in services is part of the story). Therefore authors term the UK as 'weak' liberal (Edlund 1999: 109, whereas the non-liberal parts are primarily in the health sector), as Europe's most prominent liberal country (Taylor-Gooby 2004: 219) or just as liberal (Pierson 2001: 81; Böhnke 2002: 33).

### *Southern welfare states*

According to Esping-Andersen Italy belongs to the Conservative regime. Even more so: If one subtracts 'contamination' from other regimes from the regime value, with the value 12 Italy and Austria are the most strongly Conservative countries. This squares with the assumption that Southern/Mediterranean/Latin welfare states are extreme cases of conservative welfare states (e.g. Katrougalos 1996: 40 or Fenger's 2007: 22f. cluster analysis). Besides Italy, amongst work package 3 countries also Spain belongs to the Southern cluster (for an overview see Bauknecht 2013: 88). Therefore, benefits are strongly earnings-related (Ferrera 1996: 20ff.). There is a strong division between (protected) labour market insiders and (unprotected) outsiders (Ferrera et al. 2001: 157). Reliance on the male breadwinner model and on intra-familial solidarity is high. Minimum old age and invalidity pensions are far lower than in other European countries and there is or has been no minimal social provision (Katrougalos 1996: 41). Elderly care is primarily the family's responsibility; while in conservative countries the burden is divided between family and state (Jehoul-Gijsbers/Vrooman 2008: 12). The share of self-employed is high (Karamessini 2008: 46), whereas strong employment protection fosters 'false/quasi/dependent self-employment' (Román et al. (2011: 2), which can be the case in Southern Europe. The labour market insider/outsider division benefits incumbent older workers but reduces re-employment chances of older unemployed workers. Reliance on intra-family solidarity, probably rooted in Catholic traditions, reduces female employment rates.

### *CEE welfare states*

With Poland, the Czech Republic and the Baltics five former socialist countries are part of MoPAct work package 3 research. Mostly relevant for our research are firstly Socialism's (officially) high (also female) labour force participation rates. Employment was guaranteed by government, so there was no open unemployment (Cerami 2008: 5, see also Vodopivec et al. 2003: 13).

Secondly, legal retirement ages were low (but life expectancy was so too). After 1990 CEE countries began to raise these ages of mostly 55 years for women and 60 years for men (Deacon 2000: 153; Fultz/Ruck 2000: 3, Cerami 2008: 4) to 55-60 years for women and 60-65 years for men (Fultz/Ruck 2000: 13).

Various attempts have been undertaken to categorise or sub-categorise these countries. The Visegrád countries and amongst them the Czech Republic and Poland had a Bismarckian tradition prior to their Socialist era (Keune 2009: 63, Obinger/Schmitt 2011: 251; for the Czech Republic see also Saxonberg/Sirovátka 2009: 189ff.). These countries and the Baltics also belong to the group developing

systems similar to Western Europe's (Deacon 2000: 146ff., see also Alber/Standing 2000: 110). On the other hand, according to Stuchlík (2008: 220) especially the pensions systems in Poland and the Baltics bear Anglo-Saxon characteristics.

In Visegrád countries early retirement regulations were generous until the early 2000s (Brown 2007: 1468). Whereas Poland has followed the World Bank's 'three pillar' model of pension privatisation (Aidukaite 2004: 31), the Czech Republic could resist World Bank reform suggestions because it was not in deep financial trouble and therefore less dependent on loans (Potůček 2007: 140f.): Albeit advantageous from a government budget perspective, private pensions reduce government's power to induce workers to delay retirement if these workers are increasingly independent of public pension payments.

After the 1998 reform (a faithful implementation of the World Bank's proposal, see Natali 2004: 364 and Piątek 2001: 215f.), the Polish pension system transformed into a Bismarckian/liberal hybrid (Wóycicka and Grabowski 2007: 108 stated that replacement rates will be inadequate). In terms of unemployment benefits, the Czech system resembles Western systems yet with lower replacement rates and rapidly declining benefits (Baum-Ceisig et al. 2008: 142ff.), which could raise labour supply, possibly with negative side effects such as relative poverty or work despite grave health impairments. Since 1990, Poland had one of the highest unemployment rates in the region (Brown 2007: 1470) and a low employment level (Wóycicka/Grabowski 2007: 100). In contrast to the Czech Republic's successful endeavours to bring unemployed citizens back into work, Poland's unemployment policies are or have been passive (Brown 2007: 1472).

All Baltic countries have raised their retirement ages (Aidukaite 2006: 261). Estonia and Latvia have equalised them between men and women. For example, in the 12 years from 1996 to 2008 Latvia has raised women's retirement age from 56 to 62 years, which is very fast in international comparison (yet although one might add they started from a low level, healthy life expectancy is and has been lower in these countries). These countries' pensions systems come closest to the basic security model (Aidukaite 2004: 41) which provides flat-rate benefits (Korpi/Palme 1998: 666). This is supplemented by earnings-related elements. Baltic unemployment benefits are modest, have a short duration and are financed through contributions by employers and employees (Aidukaite 2006: 263, see also Trumm/Ainsaar 2007: 198). As with pensions, Estonia's unemployment scheme is considered liberal or Bismarckian (Trumm/Ainsaar 2007: 188ff.) and could raise labour supply yet with the usual possible negative side effects of such unemployment programmes. Also in Latvia unemployment benefits are low and drop fast (Baum-Ceisig et al. 2008: 170). Lithuania's unemployment scheme is the most liberal one with basic targeted and basic security ones (Aidukaite 2006: 267f.).

### **Welfare regimes: Earnings-related or –unrelated benefits and labour supply**

#### *Pensions*

#### *Flat-rate and earnings-related benefits and labour supply*

Not just basic factors indirectly related to welfare regimes affect labour supply, but also defining characteristic of welfare states do so.

Figure 1: Welfare regimes, benefit levels and benefit earnings-relatedness

Benefit levels/ replacement rates	strong earnings-related weak		earnings-unrelated
	High	<b>Southern</b>	
Low	CY/ES/GR/IT/PT/TR	AT/BE/DE/FR/(NL)	<b>Liberal</b> IE/UK/(CH)

Based on Bauknecht 2013: 90 (with adaptations). The bottom regions of the Southern and Conservative fields are impossible since approximating the zero benefit region earnings-relatedness become less and less relevant and finally irrelevant.

Figure 1 shows welfare regimes are ideal-typical theoretical location. The vertical axis shows benefit levels (or replacement rates) and the horizontal axis shows benefits' earnings-relatedness. Ideal-typical means e.g. that benefits cannot be only earnings-unrelated or weak or strong earnings-related, but firstly something in-between and secondly this also depends on the duration of earnings-related benefits (it is not just unemployment benefits which can drop to some flat-rate sum sooner or later. Also pension benefits may drop to a flat-rate level for widows or still be earnings-related for widows).

*Labour supply effects of declining replacement rates in Bismarckian/Beveridgean schemes*

If pension benefits are strongly earnings-related, higher pension income should reduce unemployment because the lower effective tax rate encourages job search, whereas for Beveridgean flat-rate pension this does not apply (Fisher/Keuschnigg 2011: 5ff., Cigno 2008: 72). Conversely, this implies that declining replacement rates lead to higher effective tax rates and therefore higher unemployment: In (Bismarckian) earnings-related schemes, the additional gain for working more/paying in more is smaller if benefits decline, whereas in (Beveridgean) flat-rate schemes there is no contribution/taxes-benefit-link anyway.

Given that between 2004 and 2050 gross replacement rates in the first pillar will converge at a common lower level (Pedersen and Finseraas 2009: 199ff. based on 14 Western European countries), this implies an work discouraging effect. Clearly, in earnings-related schemes at given contribution levels lower replacement rates imply that workers get less back for their contributions (work is taxed). A countervailing effect is that higher pension levels reduce older workers' labour supply (Riedel/Hofer 2013: 10).

*Pay-as-you-go schemes as involuntary low-interest investment*

Another issue is that in pay-as-you-go pension schemes contributors receive effective interest rates lower than in the capital market (in funded schemes contributions get average interests but of course worse or better than the individual worker would have got). This is a tax on labour and should diminish work incentives (Demmel/Keuschnigg 2000: 22ff., Cigno 2008: 68f.). This would not be the case if the system is actuarially fair and agents are not credit rationed (Cigno 2008: 75), which could allow them to borrow money while they are forced to lend money until retirement.

*Pension entitlements benefits as net assets*

Clearly, if workers perceive retirement benefits as net assets, the expectation of these benefits after retirement should reduce work effort prior to retirement (Danziger et al. 1981: 983, which seems to be

confirmed by the Riedel/Hofer finding above. Myles and Pierson 2001: 321 state that such pension schemes “become invested with quasi-property rights in the same way as life insurance or equities”).

This effect clearly depends on benefits’ earnings-relatedness, where on the flat rate side work disincentives should be strong (working longer does not raise benefits levels), and on the strong-earnings-related side weak or absent since all benefits depend on previous earnings and therefore work. Again this depends on the level of interest rates in the pension scheme. If they are sub-market, also strong earnings-related schemes discourage work.

#### *Employers’ contributions and their perception*

To which degree pension contributions are considered a tax on labour by workers also depends on how workers perceive employers’ contributions. If they consider these contributions as some form of gift, then pension schemes do not punish but reward work (e.g. if half of contributions are considered to be really paid by someone else, most or all pension schemes are a good investment). If workers perceive employer contributions as what they are, e.g. part of the wage, then they see the real losses and the real tax on work. Obviously employers calculate with the whole costs of a worker and not his gross earnings: On first sight lower employers’ contributions to social security (either pension or unemployment insurance) should reduce the unemployment rate, since labour becomes cheaper for employers. Yet, lower employer contributions could lead to higher gross wages due to higher demands by workers to compensate for missing contributions, offsetting the diminishing effects on labour costs on the companies’ side (Corneo/Marquardt 2000: 300). The sole exception is the minimum wage case, since the abolition of employer contributions pushes more workers into the sphere of profitable employment, that is, some people would work at the minimum wage without employer contributions instead of being unemployed.

#### *Earnings-related schemes and residual life expectancy*

The question if pension schemes tax (and therefore discourage) labour is answered by a comparison of payments-in, foregone income from interest (or, mostly higher, necessary interest payments since ‘savings’ in the pension scheme are unavailable) and benefits. The total sum of the latter (pension wealth) largely depends on the number of benefit years, so that residual life expectancy is crucial. On the macro level estimates are more or less reliable (but not even here if one compares low and wrong past estimates of the German Statistisches Bundesamt with the higher and correct ones of the Max-Planck Institute for Demographic Research; cf. Doblhammer et al. 2008: 27ff.). On the micro level one can only guess taking individual factors into account. Guesses become better when people get older (someone 30 years old does not know what happens between 30 and 60, someone 60 years old does if he/she is still alive). Further, individual residual life expectancy is status-dependent, so that on average higher earners can expect a higher age of death. This implies that in earnings-related pension schemes where additional working years often imply higher pensions, higher-status workers are incentivised to work longer because later pension receipt and higher monthly pension benefits could be a good deal if one still has lots of pension years. For low-status workers this does not apply. Therefore, this mechanism incentivises those whose labour market chances are better.

#### *Unemployment benefits*

##### *Benefit level and duration: Effects on unemployment levels*

Several studies show that generous unemployment benefits raise unemployment levels (e.g. Belot and van Ours (2004: 631ff.) based on 17 OECD countries in the period between 1960 and 1999, Bassanini and Duval (2006: 9) based on in 20 countries (15 European) between 1982 and 2003, and Venn (2012: 7). Other studies show mixed results. For example, Goul Andersen and Jensen (2002: 22) cite several studies showing that not high benefit level but long benefit duration (of high earnings-related benefits) fosters

unemployment. This finding squares with the model of Pisauro (2002: 739ff., see also Nickell and Nunziata 2002: 4), where benefit duration and disqualification rules are crucial for search efforts. Importantly, Atkinson and Micklewright (1991: 1711ff.) summarise evidence for the US from various authors, showing that around benefit exhaustion there is a spike in the outflow from unemployment, while replacement rates matter less. Therefore, an early exhaustion would incur the spike sooner and reduce unemployment levels.

A rather comprehensive view is offered by Kenworthy (2003: 1187ff.) stating that high and long-lasting benefits reduce job search efforts, but partly are the price employees and unions demand for weak employment protection (possibly Denmark is the ideal case here). Kenworthy cannot find any significant bivariate relationship between employment growth (1979-1997) and replacement rates (1980-1997) in 18 OECD countries. But Kenworthy (2003: 1198ff.) finds evidence for positive effects of long benefit duration on unemployment levels.

Disproving evidence is provided by Baccaro and Reil's (2007: 541ff.) analysis of 18 OECD countries between 1960 and 1998. Here, replacement rates in the first year of unemployment had no significant effects on unemployment. Similarly, Danziger et al. (1981: 975ff.) summarise US studies which show merely weak effect of benefit level/duration on unemployment duration. Also Oesch (2010: 45f.) could detect no effects of one-year or five-year replacement rates on low-skilled unemployment (21 OECD countries 1991 – 2006). This also applies to Furåker's (2002: 123ff.) results showing that in Sweden there is no "principal impact" of benefits on unemployment levels.

A (tricky) argument for higher benefits is that higher benefits reduce search efforts primarily of low productivity (or low-skilled) workers, since workers' reservation wages depend on their skills and following, rising benefits push some low-skilled workers into the area of non-effort. Given that firms are partially ignorant concerning a particular applicant's qualifications, the higher mean skill levels (since the low-skilled do not search anymore with high benefits) will lead to increasing demand and therefore lower unemployment due to higher unemployment benefits (Atkinson/Micklewright 1991: 1704). Probably this applies only to flat-rate benefits, since rising earnings-related benefits should reduce search effort across skill levels proportionally. Here, one must state that there is virtually no proof that higher unemployment benefits reduce unemployment.

A different (possibly better) argument for higher unemployment benefits is matching: Since the reservation wage declines when benefit expiration comes closer (Holmlund 1998: 116), lengthy and generous benefits may allow for longer job searches, better matches and therefore lower frictional unemployment (Furåker 2002: 138). Related to this is the 'efficiency argument', according to which long and high unemployment benefits allow for a long job search and a better allocation of labour (Tzannatos and Roddis 1998: 4f., and also to higher labour taxes/contributions). The authors add that this argument from full-employment periods possibly does not apply to surplus labour periods. A natural experiment from Slovenia seemingly supports this view: Shorter benefit duration due to changing legislation did not lead to a higher share of fixed-term contracts or shorter tenures in the new job (Van Ours and Vodopivec (2006: 3ff.).

Yet the results of previous analyses presented by the authors suggest that evidence concerning this question is mixed. In some analyses, higher replacement rates led to higher post-unemployment wages, in some there is no significant relationship. In one analysis, benefit generosity positively affects durations of post-unemployment jobs (see van Ours/Vodopivec 2006: 3f. for a comprehensive listing of previous analyses and Tatsiramos 2006: 2ff., whose analysis of eight European countries came to the conclusion that benefit generosity raises unemployment duration as well as subsequent employment duration; "matching effect", Tatsiramos 2006: 23).

### **Welfare regimes' existence and non-existence**

Based on above chapters it can be concluded that MoPAct work package 3 countries represent different welfare regimes, which in turn can be related to different policies affecting older workers' employment rates.

Svallfors (1997: 285f.) asks if welfare regimes are ideal types in the Weberian sense or empirical categories "where the 'lack of fit' between regime type characteristics and existing welfare states becomes a troublesome issue". The idea of 'regimes' suggests that a basic principle can be traced across different policy fields, or in other words: With knowledge concerning one policy field one can give a rather good guess how a different welfare policy field is organised. This indeed is not the case. Scruggs and Allan (2006: 68f.) show that intercorrelations between generosity scores in the three policy fields pensions, unemployment benefit and health insurance are low (between .3 and .45). A similar finding emerges between pensions and unemployment benefit equality figures. Based on data provided by Scruggs, Bauknecht (2013: 64) shows that intercorrelations are weak here too. Comparing welfare spending as percentages of GDP in 23 countries and four policy fields, Castles (2009: 49ff.) comes to a similar result. Jordan (2010: 866) summarises: "Though a state's regime type may define its overarching strategy, states often employ a variety of different approaches across the many policy areas [...]". Yet in the case of employment policies, also against the backdrop of intra-regime differences tendentially governments outside of the social democratic and liberal regimes have neglected employment growth, especially amongst older workers.

### **Employment, equality and tax burdens**

The 'Trilemma of the Service Economy' (Iversen/Wren 1998: 508) argument is that governments can achieve only two of these three goals simultaneously: Budgetary restraint, employment growth and income equality. According to Iversen and Wren (1998: 514; cf. Pierson 2001: 86, 100), social democratic countries will forego fiscal discipline, i.e. via public employment these countries create high employment rates with comparably equal wages, yet this comes with significant tax burdens. Liberal countries are believed to rely on labour markets' price-setting mechanism, i.e. low social security benefits lead to low reservation wages, so that labour market clearing creates high employment with high earnings inequality. Increasing wage flexibility to achieve a clearing of the labour market is the response chosen by English-speaking countries, among them the UK (Iversen 2005: 246). Conservative welfare states try to keep unemployment figures down via reduced labour supply. Here, artificially low labour supply leads to a comparatively high market clearing price, so that earnings inequality is comparatively low (since benefits compress wages, since there are no really low wages (social security benefits are de facto minimum wages). This is supposed to be compatible to budgetary restraint.

The three responses are ideal types as welfare regimes are. Alternatively to the pure type responses, the attainment of one goal may be regarded as highly important while both others may be neglected. Or it may be tried to achieve all three goals simultaneously, yet every goal can be attained to merely a small degree (Iversen/Wren 1998: 515). Esping-Andersen (1996: 25) has considered this not a trilemma yet a dilemma between equality and employment (see also Goul Andersen/Halvorsen 2002: 8).

The main issue here is the relationship between earnings equality and employment growth. Both could be considered incompatible (holding government expenses constant). International trade pushes manufacturing in highly developed countries towards high-paid and nevertheless profitable work without employment reduction (Iversen 2005: 228). Yet in (nontrade) service sectors, where most new jobs are

created (Goul Andersen/Jensen 2002: 24), higher wages lead to higher prices and reduced employment in the private service sector (Iversen 2005: 228). An important factor here is the price elasticity of demand. As Iversen notes, it may be low in high-skilled service sectors like medicine and consulting. In low-skilled sectors, demand is more price-elastic. The larger the share of wages of the price and the more price-elastic demands is, the more rising wages will lead to declining employment. Since rising wages in low-skilled service sectors mean higher earnings equality (because in these sectors wages are low), higher earnings equality comes with the cost of lower employment. Basically a low figure resulting from income of the 10<sup>th</sup> earnings percentile divided by income of the 50<sup>th</sup> earnings percentile (i.e. high wage differences between both) lead to strong employment in low-skilled services and strong overall employment because services are comparatively cheap for the median earner (if earnings are normally distributed obviously lots of earners are near the median earner). Kenworthy (2003: 1182, see also Goul Andersen/Jensen 2002: 22ff.) refers to several studies doubting a connection between pay equality and employment rates or unemployment rates. Further, he refers to studies showing that the employment gap between low-skilled and high-skilled workers is in the US not smaller than in most European countries. He (2003: 1183) admits that Iversen and Wren's figures are impressive in showing the negative relationship between pay equality and employment in private-sector consumer services (first link) and admits that this kind of employment is positively correlated to total employment (second link) and that total employment is negatively related to wage equality (direct link). Iversen and Cusack (2000: 337) explain this causality: Productivity rises slower in services than in manufacturing, so that services will be expensive relative to manufactured goods. This depresses demand for low-skilled services and consequently job creation in this sector. Since centralised wage bargaining is located at the beginning of the causal nexus and compresses wages, they see this job-destruction effect primarily in northern Europe, where centralised wage bargaining is predominant.

Yet Kenworthy (2003: 1184) doubts the Iversen-Wren argument. One point he brings forward is against the second link (employment in private-sector consumer services is positively correlated to total employment) and is based on OECD studies showing that only half of the employment gap between Europe and the US may be attributed to low-income employment, and that employment growth in the 1980s and 1990s has been caused by economy-wide factors or one or a few sectors whose employment boom also fostered employment in other sectors, so that there is no such thing as a low-wage strategy leading to high employment.

There is a detailed depiction of the Iversen/Wren and Esping-Andersen view that there is a trade-off between equality and employment and Kenworthy (2003:1180ff.) stating that there is only a weak trade-off (see Bauknecht 2013: 149-153), yet seemingly the debate boils down to the size of the effects (in Kenworthy's calculation and this depends on the number of control variables) whereas the general relationship seems largely undisputed (because the control variables such as wage-setting institutions and unionisation are preconditions of and correlated with wage equality so that they may be "soaking up part of the effect of pay equality on employment growth" (Kenworthy 2003: 1196)).

Wage inequality presupposes wage flexibility, which in turn "means lower de facto minimum wages" (Goul Andersen/Halvorsen 2002: 9; "de facto" points to a low reservation wage), which in turn presupposes low social protection (Goul Andersen/Halvorsen 2002: 9).

In conservative countries, employment growth has been neglected, primarily among the young, the old and women (Iversen 2005: 247f.). Tax incentives discourage wives to work, and early retirement had been encouraged (Esping-Andersen 1996: 18). The young were kept out of labour markets due to long training periods, conscription (for males) and the system's inherent protection of labour market insiders.

The main result here is that in the past especially conservative welfare states' policies contributed to lower employment rates and to lower older worker employment rates. The chapters in the policy report

show what different countries have done in recent years. Data from 2008 gives a glimpse on 'normal' (pre-crisis) circumstances. Whereas employment rates had been higher in social democratic and liberal welfare states, they have been lower in other welfare states (whereas employment rates do not pay heed to full-time or part-time work). This primarily applies to older workers, so that the employment ratio 15-64/55-64 is markedly lower (i.e. older workers' underrepresentation is lower) in social democratic and liberal welfare states and higher in Southern, CEE and Conservative welfare states (while older worker employment rates can partly result from a generally weak labour market, this ratio depicts differences between age groups, for figures see Bauknecht 2013: 156f.).

**MOPACT is a four year project funded by the European Commission under the Seventh Framework Programme to provide the research and practical evidence upon which Europe can begin to make longevity an asset for social and economic development.**



To achieve this aim, MOPACT concentrates the highest possible quality of scientific analyses into the development of innovative policies and approaches that can assist public authorities and other key actors, at all levels in Europe.

MOPACT starts from the conviction that Europe requires a new paradigm of ageing if it is to respond successfully to the challenges of demographic change. Ageing is currently understood as a time of decline, frailty and dependence and policy responses to it still reflect the historical era when retirement took place for a majority at state pension ages and post-retirement years were relatively short. Changes in the labour market and social behaviour coupled with a remarkable extension in longevity have transformed the experience of later life. The boundaries of frailty are being pushed back and, for a growing number of older Europeans, 70 is the new 50.

- A multi-disciplinary team will target the key challenges of ageing:
- The continuing longevity revolution
- A shrinking and ageing labour force
- The fiscal sustainability of pensions, welfare systems and health care
- The structural lag between changes in society and subsequent changes in societal institutions and attitudes
- The rising need for long-term care
- Changing social and political roles

MOPACT brings together 29 partners from 13 countries across Europe in a unique collaboration of leading researchers to address the grand challenge of ageing.

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The MOPACT project aims:

- To conduct the most comprehensive review to date of the social and economic challenges of ageing
- To collect and analyse social innovations and policy initiatives
- To map the steps required to realise active ageing in Europe and to propose innovative ways of doing so
- To involve key end-users and stakeholders, such as policy-makers, practitioners, product producers, designers and older people in all project activities
- To undertake the wide and effective knowledge transfer and dissemination of the work of MOPACT

MOPACT's core theme is focused on realising active and healthy ageing as an asset. This will be supported by eight scientific themes:

- **Economic consequences of ageing:**  
Understanding and alleviating the economic effects of population ageing
- **Extending working lives:**  
Raising the employment of older workers, aided by lifelong learning
- **Pension systems, savings and financial education:**  
Ensuring pension adequacy and pension system sustainability
- **Health and well-being:**  
Driving healthy life expectancy and the social engagement of older people
- **Biogerontology:**  
Delaying the onset of frailty, dependence and age related diseases
- **Built and technological environment:** Shaping housing, mobility, transport and ICT to support an ageing population
- **Social support and long term care:**  
Matching supply and demand for long-term care and social support
- **Enhancing active citizenship:**  
Enhancing the political participation of senior citizens and improving the capacity for adapting to societal change