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Promoting Longer Working Lives in Europe

INTRODUCTION

In view of an ageing population, the statutory retirement age has been increased or is going to be increased in many European countries. However, as far as the sustainability of pension systems is concerned, the timing of the effective exit from the labour market is crucial. This often occurs quite a long time before individuals reach the statutory retirement age. Raising the effective retirement age is therefore of highest importance from a sustainability perspective. There are several ways to promote longer working lives. This article deals with incentives for hiring older workers, measures to promote the health and well-being of workers and partial retirement schemes as approaches to enabling people to work longer.

DEMOGRAPHIC CHALLENGES AND THE RETIREMENT AGE

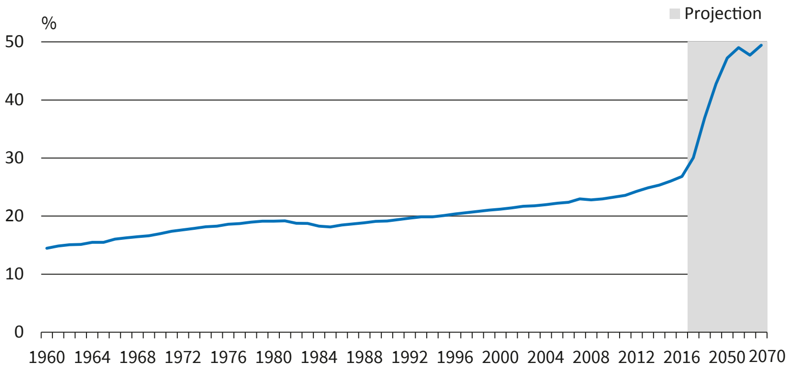
In European countries, two demographic trends have developed in recent decades. Firstly, fertility rates have decreased significantly. While the average fertility rate in Europe was around 2.6 in 1960, it was only about 1.6 in 2013 (DICE Database 2017b, Eurofound 2016c). Secondly, life expectancy has increased substantially in Europe: in 2013, average life expectancy was almost 81 years – representing an increase of around eight years since the 1960s (Eurofound 2016c). The combination of these two demographic trends implies that the old-age dependency ratio – defined below as the ratio of people of retirement age (65 years and older) to people of working age (15 to 64 years old) expressed per 100 persons [of working age] (Eurostat 2017b) – has increased considerably. Since both trends are projected to continue for the decades ahead, the old-age dependency ratio will increase further in the future.

Figure 1 shows the historical development and future projection of the old-age dependency ratio in Europe. In 1960, the ratio was almost 15; at the beginning of the 1980s, it reached a value of around 19. After slightly decreasing during the first half of the 1980s, the ratio constantly increased until 2007. It decreased marginally in 2008, before rising steadily to a value of almost 27 in 2016. The old-age dependency ratio is forecast to exceed 35 in 2030; in the very long run, it is even projected to converge to a value of 50. The substantial increase in the old-age dependency ratio has far-reaching implications for pension systems that are financed by current contributions to old-age insurance systems made by the working-age population. Since this channel of funding is very widespread in public pension systems in Europe, the demographic changes pose considerable challenges to the sustainability and adequacy of pension systems (Eurofound 2016a). An increase in the old-age dependency ratio means that there are fewer people of a working age to finance the old-age income of retirees. An old-age dependency ratio of almost 15 in 1960 implies that there were around seven people of working age per retiree.[2] A projected old-age dependency ratio of 50 in 2080 implies that the ratio of people of working age to retirees is projected to be only two to one.

There are two ways to maintain a certain level of old-age income: increasing contributions to pension systems and raising the retirement age. Since the demographic changes are of a significant magnitude and since there are also reasonable upper limits for pension contributions, an increase in the retirement age is the focus of policymakers. In many European countries, the statutory retirement age has already been increased or is going to be increased in the near future (DICE Database 2014, European Commission 2015). However, the aspect that is relevant with regard to the sustainability of pension systems is not the statutory retirement age, but the effective retirement age. In Europe, the average age of exit from the labour market is significantly below the statutory retirement age (DICE Database 2017a, European Commission 2015).

Figure 1

Old-Age Dependency Ratio in Europe
History and projection



Source: Author's calculation based on DICE Database (2017b).

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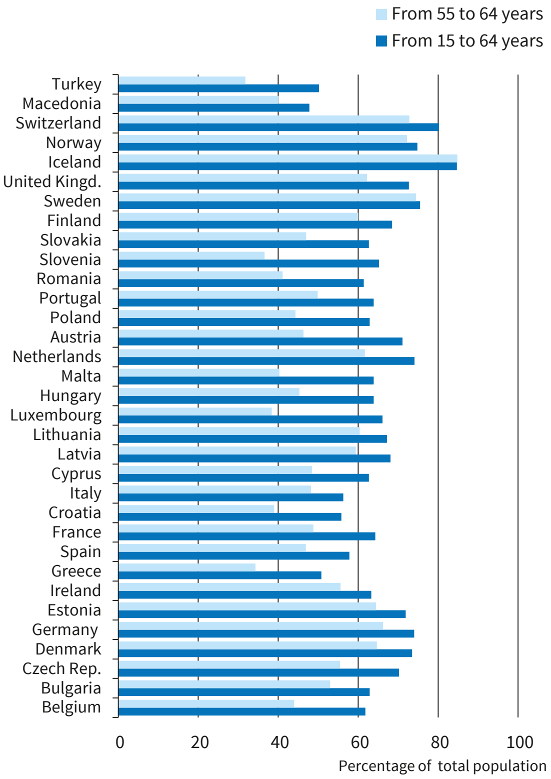
[2] The inverse old-age dependency ratio is defined as 100 divided by the old-age dependency ratio.

Figure 2

Employment Rates by Age Group, 2015



Source: Eurostat (2017). © ifo Institute

LABOUR MARKET PARTICIPATION OF OLDER WORKERS

Figure 2 shows a comparison between the employment rate of the total working-age population (15 to 64 years) and that of the older working-age population aged between 55 and 64 years. It becomes obvious that in most European countries, the labour force participation of older people is considerably lower than that of the total population of working age in 2015. The difference was largest in Slovenia, where it was over 28 percentage points; it was also particularly large in Luxembourg, Austria, Malta and Romania with values of over 20 percentage points. On average, the difference between the two employment rates amounted to around 13 percentage points. Iceland was the only country in which the employment rate of those aged between 55 and 64 years was marginally higher than that of the total working-age population (+0.1 percentage points). In Sweden, the labour force participation rate of older people was only one percentage point lower than that of the total population of working age.

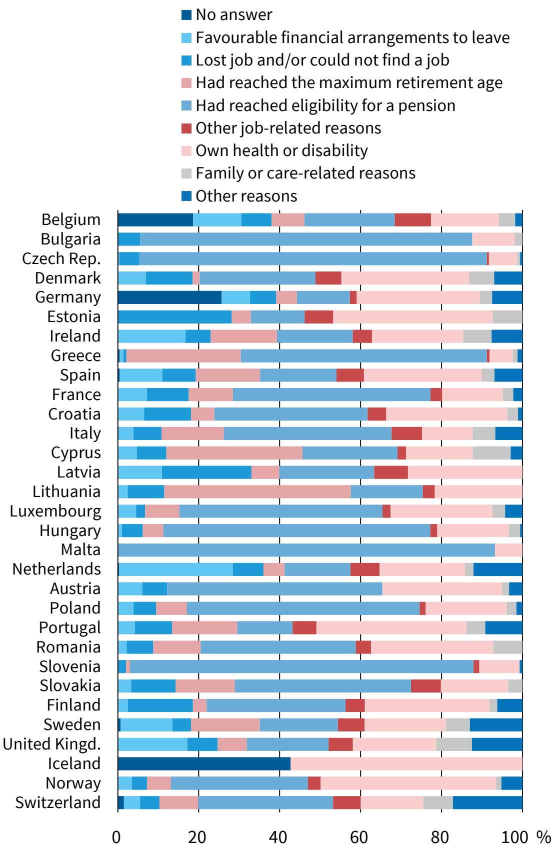
Figure 3 shows the main reasons retirees indicated in a survey conducted in 2012 for not participating in the labour market any more (Eurostat 2012). It becomes evident that a very large number of people did not retire because they had reached the maximum retirement age or eligibility for a pension. On average across European countries, eight percent of respondents reported having lost their job and/or having been unable to find a job. Over 22 percent of survey participants reported that their own health or disability were crucial to their exit from the labour market. This share was even larger than 30 percent in several countries (for example, in Portugal, Norway and Estonia).

PROMOTING RECRUITMENT OF OLDER WORKERS

Given that a significant share of people stated that their retirement was due to the fact that they had lost their job and/or were not able to find a job, actively promoting the hiring of older employees is an important measure to raise the effective retirement age in Europe. Incentives for companies to employ older workers include financial subsidies like a reduction in social security contributions (Eurofound 2016c). In Poland, for example, firms that hire people aged 50 years or older benefit from reduced social security contributions; they also have to pay sickness benefits for a shorter period of time (Polish Ministry of Family, Labour and Social Policy 2008). In Spain, companies hiring workers aged above 45 years have to pay lower social security contributions. In Greece, the employment of older people is also promoted, among other things by setting disincentives for dismissing older employees.

Figure 3

Main Reason Why Pension-Receivers Exit the Labour Market, 2012



Source: Eurostat (2012). © ifo Institute

Companies that make employees aged between 55 and 64 years redundant have to pay a share of their social security contributions for a certain time period after their dismissal. Apart from financial incentives, there are also other support measures in place in several countries. In Germany, unemployed workers above the age of 50 are offered specific support services to help them to successfully reintegrate into the labour market. Spain has introduced similar support measures: people above the age of 45 years are given priority access to job training programmes. In addition to providing financial incentives to companies and support measures to older workers, a number of countries (like Germany, Spain and the Netherlands) have started to promote public consciousness of the work values of older employees and the contribution that their work makes to society. These strategies include various information campaigns targeting employers and the general public (Eurofound 2016c).

PROMOTING HEALTH AND WELL-BEING OF WORKERS

The percentage of respondents who reported retiring because they had lost their job and/or were not able to find a job was much lower than the share of those individuals who attributed their exit from the labour market to their own health or disability (eight percent compared to 22 percent, see the section on the labour market participation of older workers). For this reason, it is of the highest importance to create working conditions and a work environment that enable people to work longer. While in general, the number of work accidents has been reduced due to an improvement in occupational safety in Europe in recent decades, musculoskeletal and psychosocial risks have increased (Eurofound 2016c). In order to tackle these risks, several risk prevention measures have been implemented in various countries. In Germany, for example, companies have to conduct a risk assessment that covers physical as well as psychological risks. In Belgium, companies have to conceive an annual plan for addressing workplace adaptation and risk control measures. Greece is another example of a country in which risk assessments and prevention measures are obligatory. Several countries have also introduced measures to promote the gradual reintegration of workers who have been sick for a longer time period. In Germany, employers are obliged to offer employees who have been sick for over six weeks the opportunity to discuss measures to facilitate their reintegration within the framework of an occupational rehabilitation management (Bundesministerium für Arbeit und Soziales 2016). Adaptation of work to employees returning to work after a longer period of sickness is stipulated in the Netherlands. In some countries, incentives are set to promote measures to improve working conditions of older employees. In Belgium, for example, stopping older staff from working night shifts is supported. There are also countries (like Finland and the Netherlands) in which programmes have been introduced to tackle stress and depression at work (Eurofound 2016c). Another aspect to take into account when discussing ways to promote the health and well-being of workers is the reconciliation of working life and private life. Allowing employees to better reconcile working and non-working life has positive effects on their health and well-being, which contributes to a later exit from the labour market. More flexible working time arrangements have been introduced in many countries in recent years (Eurofound 2016c).

PARTIAL RETIREMENT

Introducing partial retirement schemes is another way of promoting longer working lives (Eurofound 2016a). According to a survey conducted in all EU Member States in 2011, almost two thirds of respondents considered partial retirement more appealing than full retirement (Eurobarometer 2012). Findings from the Sixth European Working Conditions Survey indicate that over a quarter of workers aged under 55 years did not have the feeling that they would be able to continue doing their current job until the age of 60 (Eurofound 2016b). If people are not able or willing to work full time until they reach the statutory pension age, partial retirement can contribute to a later exit of workers from the labour market; and thus to the increased sustainability of pension systems. If older employees work a reduced number of hours instead of fully retiring, this can also be beneficial for employers, as the knowledge of older staff remains in the company and can be transferred to younger workers. Partial retirement schemes have been introduced in around half of all EU Member States in recent times (DICE Database 2017c, Eurofound 2016a). The schemes are implemented at the national level, at the sectoral level or at both levels. Most countries have partial retirement schemes in place either at the national level (for example, Austria, Finland, Italy and Spain) or at both the national and the sectoral level (for example, Denmark, France, Germany and Sweden); the Netherlands and the United Kingdom are the only two countries in which schemes have only been introduced at the sectoral level. There are three different ways of financing partial retirement schemes: public funds, employer funds and employee funds. Recently there has been a trend towards reducing or abolishing public funding. In Austria, entitlement criteria have become stricter; in Germany, public funds have been completely removed. In Finland, Norway and Sweden, publicly funded national schemes have finally been abolished after periods of tightening entitlement criteria. Applicants for partial retirement usually must have reached a minimum age or have contributed to the pension system for a minimum period of years. In France, for example, employees in the chemical industry have to be at least 55 years old, and in Italy, contributions need to have been made for a period of 42.5 years for men and 41.5 years for women in order to be entitled to participate in a partial retirement scheme. In Spain, a combination of these two eligibility criteria is necessary. In most countries, the minimum age has been increased in recent times (Eurofound 2016a). As far as the reduction of working time is concerned, there is often a minimum and a maximum amount. In the French national scheme, for example, the working time of partial retirees ranges between 40 and 80 percent of that of full-time employees; in the Spanish national scheme, it ranges between 25 and 50 percent. There are also schemes in which partial retirees have to work a fixed percentage of the full working time (this share is 50 percent in the German national scheme, for example).

CONCLUSION

Promoting longer working lives is a challenge to all European countries, although the labour market participation of the older working-age population varies considerably across countries (see Figure 2). As population ageing is projected to continue all across Europe, the issue of maintaining the sustainability of pension systems will become even more pressing in the future. Various measures to raise the effective retirement age have been implemented so far in many European countries; it remains to be seen whether they are successful at promoting a later exit from the labour market.

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