

Active Ageing in Europe: Innovating the management of transitions from work to retirement¹

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"Life should begin with age and its privileges and accumulations, and end with youth and its capacity to splendidly enjoy such advantages" (Mark Twain, 1901)

Introduction

The reversion of the life cycle by Mark Twain, unfortunately, is only a dream. But the slogan of 'active ageing' contains already a good deal of that dream. How can innovative management of transitions from work to retirement contribute to increase life quality in Mark Twain's direction? I argue that people's possibility to participate in working life as long as they wish and the opportunity to combine paid work with other self-determined activities are essential elements for high quality of life. Such a policy would also make a contribution to cope with the employment and pension crisis, but I consider this more as an important side effect rather than as the main objective of 'active ageing', on the contrary. In the tradition of transitional labour market (TLM) theory I want to set a counter-mark against the exclusive focus on incentives to work, formulated for instance in many documents of the OECD.³ The TLM perspective aims at increasing the options of transitions from the second to the third life-phase of which gainful employment is only one.

The argument will be developed in four steps: First, I will turn to the conditions and criteria for good 'active ageing' by reminding to the concept of TLM and to the principles of social risk management; in the second step the huge variation in labour market participation of mature aged workers in European member states will be demonstrated, followed, third, by checking push and pull factors that possibly explain these differences; in the fourth and final step some innovative practices for managing transitions from work to retirement will be presented.

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3 See, among others, OECD 2005a, p. 18.

1. Conditions and Criteria for good ‘active ageing’

TLM theory suggests to classify social risks according to the critical events that occur during the life course: First, the risk of *too small or of eroding income capacity* over the life course; second, the risk of *income volatility* due to fluctuating demand or due to transitions between various employment relationships, especially between part-time and full-time work or between dependent employment and self-employment; third, the risk of *limited income capacities* due to social obligations, especially care of children and frail elderly; fourth, the risk of a *total loss of income* due to involuntary unemployment that is of limited but uncertain duration; fifth, the risk of permanently *reduced or zero income capacity* due to disability, chronic illness or old age. This is all well known. However, the theory of TLM and social risk management insists on considering these life course risks as partly new risks that require a recalibration of existing institutional arrangements.

First, the distinct logic of these risks requires – according to the *principle of “requisite variety”* – a *differentiation of existing institutional arrangements*. The risk of eroding income capacity due to new technologies, for example, cannot be treated by unemployment insurance in the narrow sense; prevention of risks through improved information systems on future skills, mitigation of risks through multiple or general skills or coping of risks through continuous education and training are the proper institutions to manage such risk. Limitations of income capacity due to family obligations, to give another example, cannot be individualised and allocated only to women if society values both children and equal opportunity on the labour market high. The institutional differentiation of managing life course risks therefore has to grow as the diversity of the labour force and work organisation is increasing. One important consequence of this principle is extending the unemployment insurance towards a system of Worklife insurance that covers not only income risks due to involuntary unemployment but also volatile income risks due to risky transitions over the life-course. A modern Worklife insurance would be based on three pillars: An extended unemployment insurance covering also income risks due to job-to-job transitions; a proactive labour market policy including a rich set of employment services and social rights beyond employment; various forms of privately or collectively organized supplementary insurances.

Second, *social risk management* requires making distinction between risks caused by external circumstances (*‘external risks’*) and risks caused by people’s own choices (*‘internal risks’*). This has important normative implications for risk management. Only the principles of ethical risk sharing (formulated, for instance, by Ronald Dworkin and Amartya Sen) and not the principles of unconditional outcome equality (formulated, for instance, by John Rawls) can establish a fair balance between individual and collective responsibility. Although individuals

cannot be held responsible for risks caused by external factors, society nevertheless can demand *individual solidarity* in preventing, mitigating and coping with these risks in the range of their capabilities. It is, however, in the responsibility of the society to enable and empower people to perform individual solidarity. On the other hand, individuals must be made responsible for risks resulting from their own choices, such as a personal decision of working less, having certain (may be exotic) preferences or choosing a particular occupation. However, even in such cases unconditional social solidarity is required if individuals lack the capacity to cope with risks challenging their life or a decent living. The new egalitarian ethic, however, emphasises less the equality of material resources in favour of more equality of capabilities. Since income distribution is largely determined by chance and external circumstance, periodic redistributions of capabilities within and between generations are necessary to re-establish equal opportunities. According to the capability approach however, redistributive inheritance and progressive income taxes or cash transfers will only be part of the solution; re-establishing earnings capacities through proactive labour market policies, corresponding job services and social rights beyond employment will have to play an increasingly important role.

Third, in order to achieve growth in new competitive markets, to enhance the adjustment capacities to an extending degree of international labour division and to combine family life with labour market work, more flexibility is required – both for the demand and supply side of labour. Thus, social risk management has to provide not only new securities but also flexibility incentives. To achieve flexibility, systems theory suggests *loose linkages* between (relatively autonomous) subsystems. This principle requires a partial *decoupling* of social security from specific jobs and its linkage with (flexible) life-time employment. One important implication from such a life course perspective is to make social transfers after retirement not closely related to the last income but to the whole work-life income. Only such a decoupling allows and even encourages flexible work arrangements during the life course, and especially part-time work at the end of the work career. Another immediate conclusion from this principle is to care for the transportability of social security entitlements in case of job changes from one employer to another, from one sector to another, or from one region to the other.

Fourth, the increased complexity produced by institutional differentiation, risk-sharing and partial decoupling of social security from work requires greater *coordination* between the various subsystems. Thus checks will have to be carried out to ensure that the interfaces of the various social security subsystems fulfil the principle of *institutional complementarity*. The decision to work or to retire, for instance, depends much on the comparative incentives of social security institutions. These fragmented institutions act like communicative vessels if reforms are not coordinated. Reducing incentives of unemployment insurance for

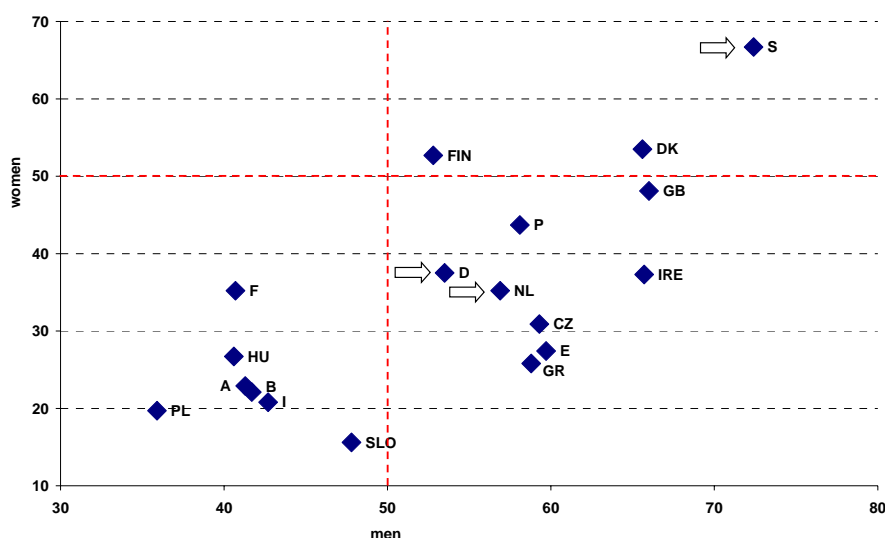
early retirement might show up in higher take-ups of disability or health insurance. Reducing the escape routes of these institutions altogether might lead to declining conditions of work if not compensated by policies of improving working conditions for elderly. The coordination of these complexities requires new forms of governance both in the horizontal as well in the vertical dimension of interacting agencies. According to the TLM approach, only negotiation will be able to overcome trade-offs between flexibility and security. Negotiation is the best institutional device solving asymmetries of information and risk perception, adverse selection effects and moral hazard. It is therefore to be expected that ‘active ageing’ depends much on social innovation in terms of organizational learning and new forms of governance.

Before going on to exemplify these conditions and criteria, the actual situation of employment for elderly in Europe shall be briefly described.

2. Employment rates of elderly (55-64) in Europe

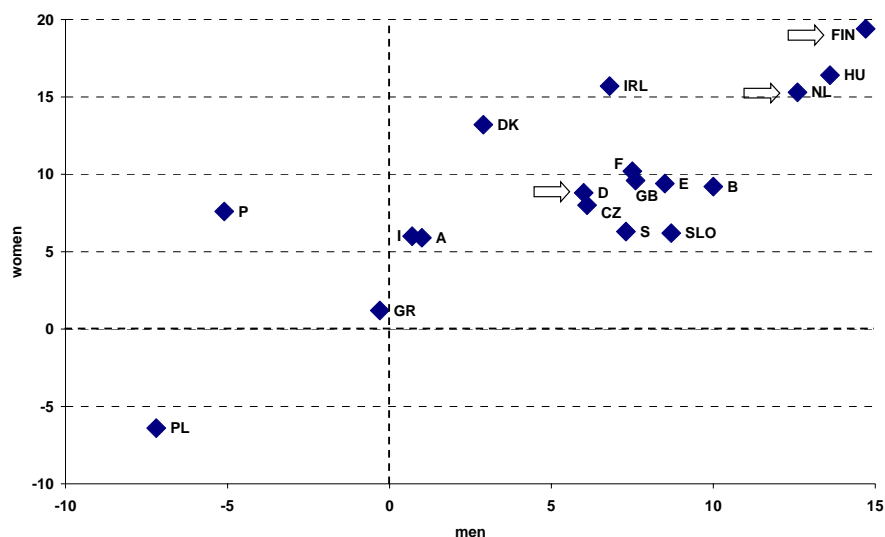
Looking at simple descriptive statistics, three important observations can be made immediately: First and apart from the United States, only Sweden, Finland and Denmark reached the Lisbon target of 50 per cent employment rate both for men and women in 2005. More important to note is that men already surpassed the Lisbon benchmark in many countries. Most countries, however, fail with respect to women (Figure 1).

Figure 1: Employment rates of men and women in age of 55 to 64, 2005



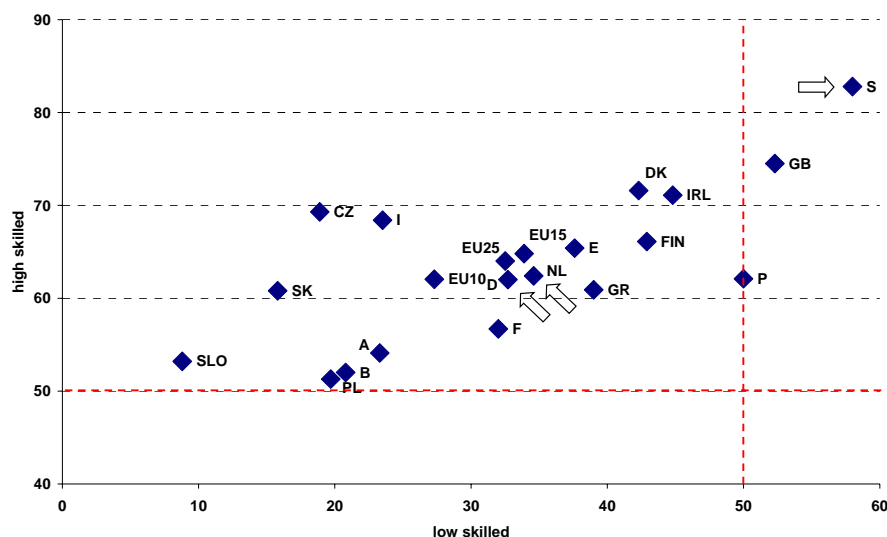
Second, great progress has already been made by most Member states in increasing the employment rates for men and especially for women since the start of the European employment strategy. In this respect, Finland, Hungary and the Netherlands are the best performers; Poland and Greece have not yet contributed much to the Lisbon goal. As impressive the overall development is, it is still far away to meet the challenges from a European point of view. The European Commission estimates that about 50 percent of the 15 million net jobs that have to be created to reach the Lisbon goal of 70 percent by 2010 would have to be filled by people aged 55 to 64 (Kok et al. 2004). Compared to this ambitious goal, the increase in employment rates of the elderly has still to be speeded up (Figure 2).

Figure 2: Changes in employment rates of men and women in age of 55 to 64, 1997–2005



Third, the fact that the failure of the Lisbon goal relates mainly to the low-skilled people provides the first clue where more action is needed. All EU-member states have already surpassed the Lisbon goal for high-skilled people. About 85 percent of high skilled elderly men and women are working in Sweden. In Germany and in the Netherlands the figure is about 65 percent. For the low-skilled, however, only Sweden, the United Kingdom and Portugal surpass the Lisbon goal. Even Finland, the model country for ‘active ageing’, has to do some homework to jump over the Lisbon benchmark of 50 per cent. The education level of the workforce plays a crucial role in raising the employment rate of elderly people. It is especially the low skilled people who have problems of reaching the envisaged retirement age of 65 (Figure 3).

Figure 3: Employment rates by level of education, workers in age of 55 to 64, 2005



However, education alone is obviously not the solution. The factors determining employment are much more complex. Let us try to check briefly other possible determinants. What pushes mature aged workers out of the labour market? What pulls them in?

3. Determinants and explanation of employment in ‘old age’

The first pull factor that comes into mind is *labour demand*. The higher that demand induced by economic growth, the higher the demand also for elderly people. If one takes into account that spatial mobility declines with age, then labour demand has to be qualified in regional terms. Jobs offered should be in the local reach of elderly people. Furthermore, one has to think of the kind of work that suits most to elderly people. Hard physical work as in coal mining or manufacturing does not fit with the physical capabilities of many elderly people. Taken all together, it is to be assumed that labour demand in education, health and social work, in other community services or private households will be favourable for the employment of mature aged workers. This demand factor will have a double pull-effect. The availability of such services on the market allows especially women to go or to stay on the labour market since they can buy such services – by cash or taxes – which they otherwise would provide themselves and unpaid in the household.

Education has already been mentioned as a factor pulling people in gainful labour market work. The share of people in age 55 to 64 with tertiary education is

probably a valid indicator for the complex causal relationships behind this factor. It is probably a mix of economic incentives, skill requirements and non-pecuniary rewards of work. Economic incentives pulling high-skilled people in employment are of two kinds: first the incentive of wages rising with formal skill levels, second the late entry into the labour market which demands a longer stay in old age in order to fulfil the time requirements of pension entitlements.

Since skills are eroding or getting outmoded by age, they have to be refreshed or replaced regularly over the life-cycle. The *participation rate in continuous education and training* is therefore another evident factor pulling elderly people in employment. It varies in my sample of 18 EU-member states between 43 percent in Sweden and only 4 percent in Italy, Portugal, Spain and Hungary.

Next, the TLM perspective requires both flexibility of work-organization as well as flexibility of social security arrangements to provide options of combining work with retirement. Although a very crude measure, the proportion of elderly people working *part-time* is probably a good indicator reflecting both sides of the flexibility coin. Actually, the variation of this measure is tremendous in Europe: It ranges from 49 percent of elderly working part-time in the Netherlands to only 5 percent in Greece. As is well known, the differences between men and women are even greater. 83 percent of elderly women work part-time in the Netherlands compared to 28 percent of elderly men.

Employability is another factor keeping elderly people in employment. The TLM perspective insists here especially on the availability of options for gainful employment outside the regular labour market. Such options have to be provided by proactive labour market policies either in form of in-work-benefits, or in form of jobs adjusted to the capabilities of workers or in form of protected work-places. A good indicator for such options are the expenditure on active labour market policies others than training or placement measures. This indicator varies in my sample between 2 percent of GDP in Denmark and 0.02 in the United Kingdom.

The decision for or against retirement depends also on *job satisfaction*: the more people like their job the more they will stay as long as possible. In 2003, the European Foundation for the Improvement of Living and Working Conditions provided for the first time such information for all 25 EU-member states according to age groups and gender. On a scale from 1 (not at all satisfied) to 10 (very satisfied), the elderly Danes are with 8.6 the most satisfied compared to the Greeks who were with 6.3 the least satisfied.

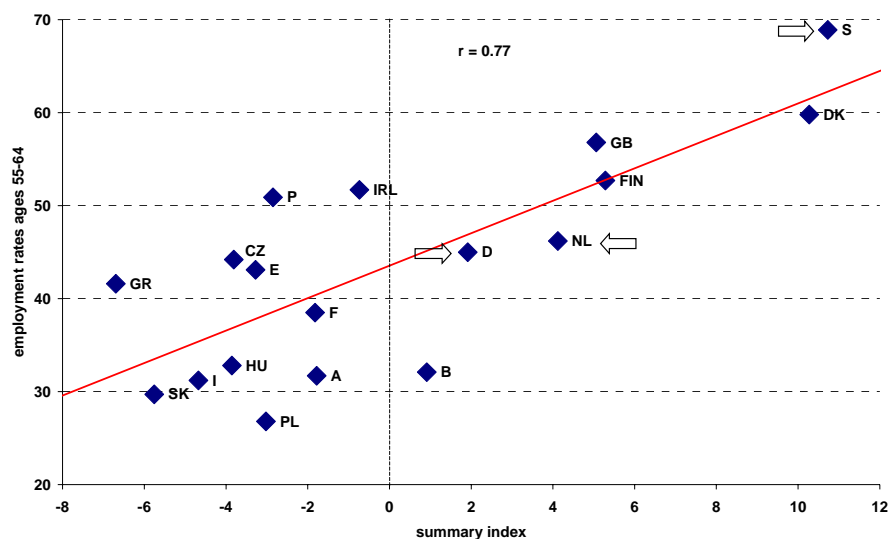
In economics, *relative wage costs* are the central determinant that might people push out of employment: The higher the wages of mature aged workers compared to younger workers, the higher the probability that they are dismissed or not hired

if employers have to downsize their workforce. Of course, implicit contract theory has found good reasons for the efficiency of seniority wages, which means wages rising from below to above the income capacity (or productivity) of workers. However, there are also good arguments that the preconditions of seniority wage schedules are weakening since internal labour markets reflecting stable product markets are eroding. Thus, high wages of elderly people in relation to young people have to be considered as a negative push factor.

Finally, taxes can also play a role pushing mature aged workers out of the labour market. Romain Duval (2004) calculated the implicit tax rate with which workers are confronted when deciding between work and retirement. The higher the taxes on work income related to transfers in retirement, the lower the probability to remain in work. A Belgian worker five years before regular retirement would earn 7 percent more than expected transfers in retirement, whereas a Swedish colleague has 80 percent more in the pocket. The impact of this tax wedge between expected work income and transfers is very strong. It functions like an early retirement trap as demonstrated by an econometric study. Size and change of this tax wedge explain about one third of the declining employment rate of elderly in OECD countries in the 1980s and 1990s.

On the basis of these push and pull factors I have constructed a summary index by simply aggregating the z-values for each country in my sample. This methodology is of course at a crude stage. However, it can be defended with two arguments: First, the elements of the summary index are chosen on a sound theoretical basis and carefully selected to avoid the problem of multicollinearity; data required for more sophisticated econometric models are not available. The summary index explains about two third of the variation in employment rates (Figure 4). Subdivided by gender – not shown here – the model explains even more for women.

Figure 4: Summary index of push and pull factors and employment rates of workers in age of 55 to 64 in Europe, 2005



4. Innovative management of transitions from work to retirement

The determinants explaining much of the differences in elderly employment rates can now be reversed in policy strategies. These strategies can be grouped according to the four principles formulated at the beginning: First, the necessity to differentiate institutions according to the principle of requisite variety, especially the transformation of unemployment insurance into an Worklife insurance; second, the normative principle of risk sharing through a responsibility and capability based egalitarianism; third the principle of decoupling social security from discontinuities of the life cycle; and fourth the principle of negotiation to overcome trade-offs between flexibility and security.

4.1 Moving towards a Worklife insurance system

Given the level of technology, employment opportunities are first of all a function of demand through economic growth. We have seen that regionally located public or private services are especially favourable for employment security of elderly people. Although of high importance, I leave this point aside from the rest of this section since the instruments of proper demand management are universally known; their application is thus not an issue of innovation but rather an issue of political will and opportunity.

We have further seen that wage costs can be a serious impediment to sustainable employment for mature aged workers. In principle, the gap between productivity

and wages can be narrowed in two ways: First by increasing the productivity, second by decreasing the wages or by a combination of both. An extension of unemployment insurance towards mobility insurance would contribute to increased acceptance of lower wages related to job-to-job mobility. The question is: Why should we only insure total wage loss due to involuntary unemployment and not also partial wage loss due to mobility required either for lack of income capacity or for structural change? Before I turn to more general principles of such insurance, let me confront you with a successful example: the wage insurance scheme in Switzerland.

The Swiss “Zwischenverdienst” is an intermediary in-work-benefit which works as follows: If a job is accepted that pays less than a person’s unemployment compensation, the unemployment insurance fund pays an intermediary benefit to compensate for the loss of income. Assume, for example, that the wage before unemployment was 4,000 Euro. The Swiss – in fact generous – unemployment benefit would amount to 3,200 Euro, 80 percent of the former wage. Assume further that the market offers a suitable job for 2,400 Euro, 800 Euro less than the unemployment benefit. The Swiss unemployment insurance system would compensate 80 percent of the 1,600 Euro difference between the former wage and the new wage. The worker would have an intermediary wage of 2,400 Euro plus 1,280 Euro, together 3,680 Euro.

The entitlement to this intermediary benefit is limited to the first 12 months of the new job. For insured persons supporting children and insured persons over 45 years old, the maximum period is two years. Security is further enhanced by the fact that employment with intermediary benefit is counted as qualifying period to renew unemployment benefit entitlement. A rigorous evaluation study gave this scheme the highest efficiency score of Swiss labour market policies (Lechner et al. 2004).

In 2003, Germany introduced a comparable scheme. However it was less successful for various reasons which I leave aside for the moment. If we look more closely to the development of unemployment insurance in various countries, we find some functional equivalents to the principle of wage insurance. Sweden, Finland and the Netherlands pay partial unemployment benefits if unemployed take up involuntary part-time jobs. Working tax credits, as applied for instance in the British “*New Deal 50 plus*”, or in-work-benefits (“*Eingliederungszuschüsse*”) as applied in Germany endorse also the decision of elderly to take up new jobs.

Denmark and Austria practice lay-off schemes in which many unemployed turn back to the same employer. This allows employers to adjust to fluctuating demand by maintaining the trained workforce. I assume – but this needs empirical confirmation – that especially elderly people with small and medium sized employers profit from this implicit mobility insurance. Transition agencies, for

instance the Austrian work foundations, would be another example: They provide intermediary employment for displaced workers until they have found a new job through extensive counselling and placement services.

Austria went further by establishing recently true mobility insurance in 2003. According to the changed severance pay law (“*Abfertigungsrecht*”) each employee receives in case of dismissal a severance pay. He or she can also put the severance pay entitlement into a saving account, even if she has only a brief employment record or quits herself. The size of severance pay increases with the number of years employed. For three years, there is an entitlement to two monthly salaries, 12 monthly salaries for 25 years. Financing comes from employers’ contributions of 1.53 percent of salary. Payment of severance is excluded as long as contributions do not exceed three years, in case of quit or dismissal for personal failure or voluntary quit. However, also in these cases, the entitlement remains virtually on the account, so long until it comes to a legitimate claim of payment. The employees have the choice of cash payment or of an additional premium to the pension fund.

In generalizing the principle of mobility insurance, it is quite obvious that adverse selection and moral hazard problems loom here also large as in any insurance. The entitlement to such insurance, therefore, probably has to be restricted to external risks. One example would be structural change due to globalisation, for instance trade adjustment. The United States are a case having introduced wage insurance related to this risk. Another example would be loss of earnings capacity, for instance due to the attrition of work-ability. It is obvious, that especially mature adult worker need such insurance since they are facing large income losses in case of unemployment and subsequent re-employment. This need is also nourished by the fact that internal labour markets that provided implicit wage insurance are eroding. Mature aged workers might also have difficulties to stand demanding jobs in terms of responsibility and overly long working times. Furthermore the escape to early retirement as an income insurance device is not any longer an option.

Mobility insurance would increase the acceptance to take over lower paid jobs. Apart from social networking, many – even low paid jobs – provide training on the job. As we know from many evaluation studies, on the job training is often more effective than training off the job where reemployment prospects are uncertain. Depending on the situation and on individual need, mobility insurance could or even should be complemented with training vouchers to make the new jobs sustainable or to improve the chances to climb up again in the career ladder. So, as with unemployment insurance, mobility insurance works best combined with active labour market policy.

Mobility insurance would also reduce workers opposition to trade liberalisation which is, according to surveys, high in case of no assistance. The highly contested freedom of services in Europe might become more accepted if such insurance could be institutionalised or at least coordinated and supported at a European level. The likely costs are probably a tiny fraction related to the benefits for the EU from freer trade within the Member States and with the external world. Mobility insurance could be a new equitable and efficient redistribution device to balance the lot between the winners and losers of innovation and globalisation. Mobility insurance might therefore have a big potential in the future European employment strategy for balancing flexibility and security. It could even become one of the first transnational instruments of a European active labour market policy.

4.2 *Enhancing individual responsibility and capabilities*

Enhancing individual responsibility and capabilities first of all requires the establishment of new social rights that go beyond employment. As forcefully presented by Alain Supiot and others, these social rights are new in content, scope and nature (Supiot 2001). They are new in content in that they cover subjects unfamiliar to industrial wage-earners: rights to education and training, rights to appropriate working hours, rights to a family life and to care for dependent family members if they get ill, and rights to further training and retraining or vocational rehabilitation if the old occupation cannot any longer be fulfilled. Their scope is also new since they would cover not only “regular” wage-earners but also the self-employed, the semi-self-employed and people on fixed-term and temporary contract. They are new in nature because they often take the form of vouchers or social drawing rights, which allow workers to rely on solidarity within defined and perhaps collectively bargained limits when exercising their new freedoms.

These new securities can no longer be seen as being given in exchange for subordination (as in the old employment contract), but as the foundations of a new freedom to act. They can be considered as active social securities that go hand-in-hand with worker’s initiatives to shoulder the risks of flexible employment relationships instead of restricting them. In the following, some examples of these new rights relevant especially for mature aged workers shall be given.

First, “*activating entitlements to passive benefits*” into social drawing rights with a wider spectrum: In most EU-member states, the concept of active labour market policy has already extended the insurance principle to those unemployed who need education or training in order to find a new job. Proactive labour market policy would go further. It would generalize the right to use entitlements to unemployment benefits under certain conditions as training vouchers or in-work-benefits. The right to in-work-benefits would enhance the capabilities especially

for low skilled elderly workers. Evaluation research has repeatedly shown that learning on a matched job in a firm is much more efficient than formal training outside the firm for this target group. So, from a TLM perspective it would make more sense to endow elderly employees with vouchers to be used for various employability measures instead of extending the duration of unemployment benefits for this group as is currently debated in Germany. In practice, active labour market policy in Denmark and Sweden has evolved in this direction.

Second, the *entitlement to financially compensated care leaves*: This right is increasingly important for the so-called sandwich generation which has not only to care for children but to an increasing extent also for their frail parents or even grand-parents. The right to care leave is particularly well developed in Sweden. Here, workers have the right to take paid care leave up to 60 days per year.

Third, the *entitlement to career leaves*: Belgium is the pioneer to enhance individual responsibility and capabilities by options of career leaves. According to a recent national agreement, the Belgian state subsidises not only saving accounts for career leaves but entitles employees also to careers interview. Having reached the age of 40 year, employees have the right to a careers interview all two years within their companies, and the right to an interview with an external consultant ever five years about their career direction. From the age of 55, employees now have also the right to reduce their working time to four-fifth of the time and to receive unemployment benefit to cover the day they do not work.⁴

Fourth, *periodic redistribution of life-cycle chances*: The active welfare state should use its redistributive capacity of taxation to ensure a second or third chance for those who were unlucky on the education and training market as young people. Such an intergenerational risk sharing could take the form of financing periodically targeted programmes for lifting the overall level of competence of the disadvantaged. An instructive example is the Swedish “Knowledge Lift” (*kunshaftsliftet*) programme. From 1997 to 2002 it spent an annual sum of about €350 million on upgrading the competence of low-skilled independent of their status as employed or unemployed. The programme is part of the explanation why Sweden has the highest participation rate of elderly people in continuous education and training. Applied to the Netherlands, this would amount to a yearly investment of about €700 million and 200,000 additional participants in continuing education and training.

Fifth, and this might sound provocative, the *entitlement to non-work*: As we know from many surveys on work attitudes, the transition from work to retirement is not only determined by push and pull factors but also by jump factors. *Jump factors* relate to preferences of active leisure, which means self-determined activities that

4 European Industrial Relations Review, March 2006, pp 28-29.

focus on self-realisation in an active "third age" outside – but not necessarily unrelated to – gainful labour market work. The consequence of taking this factor seriously into any active ageing strategy is to *endorse the freedom of choice* between work and leisure especially for mature aged workers. Activation strategies forcing elderly people into the labour market by workfare measures are not compatible with the TLM concept. It is often deplored that especially in Denmark, in Sweden and in the Netherlands, the activation strategies for elderly are not really enforced. This is, for instance, reflected in the fact that more inactive elderly in these countries are living on transfers without being counted as unemployment than for instance in Germany. The recent German labour market reforms have pushed elderly people back into the labour market without sufficient employment opportunities resulting in excessive unemployment figures compared to most other European countries.⁵ To keep a balance between overly costly early retirement options and workfare-kind activation measures is of course a delicate task. My impression is, however, that Germany has gone too far in the workfare direction whereas the flexicurity model countries do more justice to the jump-option but might still have to make some homework in terms of widening employment opportunities.

4.3 *Decoupling social security entitlements from contingencies of the life-cycle*

The implicit tax rate related to transitions between work and retirement gives us a clue on how gradual instead of abrupt retirement could be fostered. Apart from flexible work organization which would allow varying the working time according to individual preferences or capabilities, social security arrangements play an important role in deciding for a combination of gainful employment with unpaid activities. Four strategies contribute to such an ‘active ageing’: First of all, diminishing or mitigating the causes of discontinuities of work-life careers (risk prevention); second, reversing the incentive structure of the present tax wedge in favour of employment; third, providing options to combine transfer income with labour market income; fourth, rewarding instead of punishing wanted or unavoidable discontinuities in the work life career.

As regards to the *first strategy*, the most plausible option – especially targeted to the low labour force participation of women at age 50 and more – is to ‘de-familialize’ caring obligations for the elderly frail as the Scandinavian model suggests. Survey research shows that in Scandinavia virtually no women need to curtail their career in order to care for kin, whereas for example in the Netherlands the burden of care approaches the equivalent of a half-time job, and a full-time commitment in Spain. Denmark spends about 3 percent of GDP for full financial coverage of caring for the frail elderly via home help or residential places. The

5 See Kohnle-Seidel et al. (2006).

Danish model prioritizes home help and seeks to minimize the use of residential care because the elderly prefer the former, and because it is far more cost effective. Even with daily visits, the per client cost of home help is less than a third of a residential place. The model seems to be largely self-financing, since exiting the labour force implies major foregone lifetime income and probably inferior pension entitlements, and to society it implies foregone tax revenue (Esping-Andersen 2005). With increasing educational level especially among women, the opportunity costs of exiting the labour market will drastically increase.

The *second strategy* is to reverse the incentive structure of the present tax wedge in favour of employment suitable for mature aged workers. Such employment might imply lower wages or reduced working time. Pension entitlements, however, are disproportionately reduced if the method of calculation is heavily biased towards the final wage or salary. This disincentive can be easily removed by changing the basis of calculation, for instance by taking average earnings over the life course or by partially offsetting losses of income incurred during spells of part-time work. Most countries have moved already in this direction.

Some countries have turned this idea into a positive incentive measure, stimulating employment beyond the statutory retirement age. To give some examples: In Estonia, one year of employment beyond the qualifying age increases the pension by 11 percent, in Hungary and in the Czech Republic by 6 percent. Spain, France and Greece provide now financial incentives for remaining in employment over the age of 60. Finland applies experience-rating to both disability and unemployment pensions in companies with more than 50 employees. This implies that the employer pays the cost of the benefit stream that is received by those employees who retire from that company. Such an adaptation of social security contributions provides incentives for employers to invest in the work environment, e.g. measures improving health and safety at work. It makes also lay-offs of older workers becoming more costly through raising social security costs for remaining employees.

The *third strategy* is to provide options for combining transfers with labour market income. Such options can take various forms. First priority, here, is to avoid transfer traps by providing incentives to come back to work if work-ability has recovered, for instance through rehabilitation or improved health conditions. The willingness to return to work, however, will diminish if people have to fear losing their transfer entitlements in case that the new job turns out to be not suitable. In UK and Sweden, new work incentive schemes ensure the option of returning quickly to disability pensions; these schemes enhance also partial employment by ensuring independent partial benefit rights. The Netherlands, Sweden as well as Denmark provide also a good deal of employment opportunities in the form of protected jobs.

Good practices are also the so-called '*flexjobs*' in Denmark. The target group is persons with a permanently reduced work-ability who are not entitled to pre-pensions. The employer receives a wage subsidy amounting to one third, one half or two third of the minimum wage depending on the extent to which work-ability of the person is reduced. The person in a 'flexjob' receives wage according to collective agreement. The number of persons in such jobs rocketed recently to a level of 40,000, which would correspond in Germany to a level of 600,000, 1.5 percent of the active labour force. There is, however, rising critical concern regarding substitution of regular jobs and the lack of some general labour market rights for 'flexjobbers', for instance the exclusion of flex-jobbers from regular unemployment insurance. Such critics hint to a general problem of trading-off flexibility and security to which I will come back in the last section.

The *fourth strategy* of decoupling social security entitlements from contingencies of the life-cycle is to make transitions pay. Most European pension schemes make little if any provisions for the risks associated with discontinuous work histories. Positive incentives to encourage people to assume greater responsibility for such risks in order to enhance overall labour market flexibility are rare. One important impediment to flexible retirement, however, is the lack of coordination between old age insurance and flexible work histories.

One innovative way of building flexibility into the social protection system for the elderly would be to institutionalize *flexible entitlements* as a self-regulatory device. The basic idea is to link each entitlement based on real contributions from gross earnings with a virtual entitlement that reflects the risk of fluctuating income streams that is (usually) associated with career breaks. These flexible entitlements would be activated in the event of a risk actually occurring. If a person has reduced income – for example by taking up parental leave, an unpaid sabbatical or an enforced change of occupation with a low starting salary – the flexible entitlement account could be used to top up the gap between former contributions and reduced contributions. If no such risk occurs during an individual's lifetime – in other words: if he or she remains in a standard employment relationship throughout the life course – then that person will have redistributed some of the gains from such an untroubled career to those unfortunates who have had to face such risks, whether deliberately or involuntarily.⁶ Accumulated flexible entitlements could also be used to compensate for loss of earnings during gradual retirement.

A similarly provision aiming to partially offset losses of income exists in *Belgium*. After some qualifying period (15 years), pension entitlements for people with low earnings and/or in part-time work are inflated up to a level of around 45 percent of average earnings. Another example is Spain where – under certain conditions – a

⁶ Such a model has been proposed in Germany by Rabe and Langelüddeke (1999), and calculated by Thiede (2000).

multiplier coefficient of 1.5 for social security contributions of part timers has been introduced to balance the minimum duration requirements. Extending such arrangements from part-time work to other periods of limited earning capacities such as caring periods would be a further innovation to manage old-age risks. A radical application of making transitions pay would even include the transition to unpaid care if society acknowledges such care as real work. In other words: unpaid care could be treated as virtual employment that entitles to social security as if the work would have been provided on the ‘regular’ labour market. The German care insurance has recently opened such an option.⁷

Finally, the Dutch *life-course scheme* introduced in 2006 is – at least in principle – a good practice example for making transitions pay. This regulation goes beyond a precursory collective agreement that existed from 2001 to 2005 and allowed workers to save up to 12 percent of their earnings tax free. The workers could then use these accounts to finance unpaid leave, parental leave or further education, but not early retirement. The maximum amount of time off permitted was 2.1 years at 70 percent of the last drawn wage. Under the new regulation, 12 percent of gross wages can be saved and the maximum time off has been increased to three years, still at 70 percent wage replacement. The lifetime working-time account can now also be used to supplement income in the event of early retirement (Wotschack 2006).

However, some criticism regarding the present conception of the Dutch life-course scheme must be expressed from the normative point of view. First, such purely income-based tax incentives favour high incomes. Second, workers will now presumably use these accounts less often to lighten their work-load or to pursue further education during compressed phases of working life. They will tend rather using the saved-up time simply as a means to early retirement. This incentive structure works against the goals of “active ageing”. A solution might be to apply special tax regulations to periods of long-term further education or unpaid child-rearing or care-giving, even going so far as to apply the concept of “negative income tax” to such flexibility accounts. This would mean that in life phases in which income is low and often no tax is paid, the savings efforts could be supported by means of tax credits.

Apart from these critics, the Dutch life-course scheme is also attractive in another respect. It is a good example of multilevel governance that can be generalized as innovative strategy for managing transitions. It is basically a two-phase approach starting with universal rules for labour market exit whose implementation is negotiated by legally binding collective agreements. The details of

7 The law treats unpaid care now like formal employment. Depending on the unpaid working time, a person can accumulate pension entitlements between €6.83 and 20.49 per month (West-Germany) or €6.00 and 17.99 (East-Germany), corresponding the regular contributions of a wage between €644 and 1,932 (West-Germany) or €541 and 1,624 (East-Germany). Example: A 15 hours per week caring daughter would accumulate pension entitlements corresponding a wage of €858.67 per month.

implementation, however, are then negotiated at sectoral or company level to ensure that prevailing local conditions are met and that compromises between conflicting interests are found. This leads us to the fourth strategy.

4.4 *Managing transitions through negotiated flexibility and security*

In the ideal case, flexibility and security are complementary, leading to a virtuous circle. As in the *Danish flexicurity model*, external flexibility complemented by active labour market policy and buffered by generous unemployment benefits can lead to more job opportunities and thereby higher employment security. In the *Dutch flexicurity model*, high job security complemented by high internal flexibility and buffered by basic income security can lead to higher employment through work and income sharing. However, there is also a worst case scenario where flexibility and security are complementary leading to a vicious circle. For instance, chronic lack of skilled workers lowers external flexibility as well as employment security due to lack of competitiveness.

In practice, however, the flexibility-security nexus is probably dominated by trade-offs. Flexibility goes often on the costs of security, and vice versa, security goes often on the costs of flexibility. In both cases, the conflicting interests can be solved through negotiation in which information asymmetries are reduced and potential win-win-solutions tapped by compromises. It is my contention that the Dutch and Danish models of flexicurity cannot be understood without acknowledging their endowment with successful institutions of negotiated flexibility or negotiated security. Good examples of negotiated flexibility and security, however, can also be found in other countries. Among good practices, three general strategies can be distinguished: first, national compacts focussing information gathering and coordinating activities; second, public-private partnerships; third, local or regional task forces. For each of these strategies, the general logic will be developed and good practice illustrated by one or two example.

National compacts are a kind of negotiated public deliberation based on three steps: first, agenda setting understood as normative and cognitive reframing, second hammering out a programme by including all relevant actors and stimulating corresponding focussed research and third coordinating disparate activities at various levels according to a compact eventually agreed upon by all relevant actors. The outstanding example for this strategy is the Finish „*National Programme for Ageing Workers*“ (FINPAW). Under this 5-year plan Finland has impressively moved from a laggard to one of the leaders in successful policies to guide transitions from work to retirement. The plan followed the principle to move away from standard patterns of retirement age and to take a life-course approach based on three pillars: life-long learning, occupational health and safety

and incentives for flexible retirement. The reform introduced a flexible retirement age between 62 and 68, with a sharp rise in the accrual rate after 62. Entitlements are based on life time earnings instead of formerly basing them on the last ten years of employment. A follow-up compact, the “VETO Programme 2003-2007”, promotes especially the earnings capacities of elderly through training and work-place adjustment based on monitoring the results of earlier activities.

Public-private partnerships – other terms are alliances or covenants – are especially well developed in the Netherlands.⁸ Partnerships are written agreements between two or more parties or partners and signed by each of them with the understanding that they are committed to cooperation for an overarching common goal. In many cases, the state is involved as an initiating and co-signing partner. Unlike private or public contracts, public-private partnerships are voluntary and require no legal framework. Partners thus retain an exit option if the risk-taking appears excessive. On the other hand, the agreements also contain voice options regulating procedures to solve problems step by step as they arise. Because the balance of costs and benefits for the partners involved might change at each step, there must be trust that corrective measures are taken in pursuit of the common goal. Such “induced decision-making” through learning-by-doing, muddling through step by step, and learning-by-monitoring are the essence of compacts to establish such trust relationships.⁹ Partnerships can be characterised as a combination of framework agreements plus ongoing negotiation about the terms of agreement as concrete problems in implementation arise. They are a kind of soft law overcoming state failure in regulating flexibly complex issues, and they close the gaps of inadequate laws that are either not followed properly or even circumvented.

There are reportedly several hundred such partnerships in the Netherlands. They pertain to environmental issues, energy-saving, educational matters, health care, traffic and transport, housing, and especially to working conditions for elderly. There can be chains of partnerships: For instance, the Dutch *Foundation of Labour* came to an agreement recommending to the collective bargaining parties and the firms to implement activating arrangements for older workers. In 2003, bargaining on “*age aware personnel policies*” was an issue in 30-40 percent of the negotiations in the sectors and firms. According to a survey, 40-65 percent of the companies implemented flexible pre-pensions, additional leaves and holidays and flexible working hours in human resource policies. The government stepped in by a policy of sticks and carrots: The obligation of the 57 plus workers receiving unemployment benefits to look for work has been reintroduced and the incentives of early retirement were more quickly abolished than in most other European member states; in exchange the government introduced tax subsidised life-cycle

8 On this point and in the following passages, I rely heavily on the excellent and stimulating paper by Korver and Oeij (2005) who use the term covenant.

9 On the concepts of induced decision-making, learning-by-monitoring and policy learning, see also Hirschman (1967), Sabel (1995), Hemerijck and Visser (2003).

saving arrangements and co-finances occasionally active ageing measures at local or company level (Tros 2005: 304).

Local or regional task forces composed of various actors determined to proceed with a common goal are a third form of negotiated flexibility and security. Such task forces can be result or element of the two former strategies – national compacts or public-private partnerships. The Danes deliver again good examples for such task forces.¹⁰ They are the outcome of a national campaign on social responsibility of enterprises starting in 1994, including some years later a huge corresponding research programme. The so-called “*Enterprise Pools*” are networks of public or private enterprises which can apply for financial support for projects promoting social responsibility of enterprises; elderly people are prominent target groups of such projects. Another institution is the “*Local Coordinating Committees*” established in 1999. All Danish municipalities are obligated to set up such committees alone or together with other municipalities. The aim of the committees is to negotiate agreements between various actors at the local level to promote employment possibilities for citizens in danger of exclusion from the labour market and citizens having special difficulties in obtaining employment under normal conditions. A national “*Council Responsible for Social Initiatives on the Inclusive Labour Market*” coordinates and monitors these activities. The government steps in by “*social clauses*” which prefer suppliers with good social records in their tender policy.

Comparable to the Danish local coordinating committees is the Swedish institution of “*Adjustment Groups*”. Swedish enterprises with 50 and more employees have to establish such groups composed by representatives of the management, the workers, medical experts, the municipality, the local public employment agency and the regional agency for rehabilitation. The task of these groups is to find out and to negotiate an agreement on the future employment possibilities for people faced with serious work-ability problems.

Conclusions

The possibility of working in the later phase of the life course is a central determinant of quality of life. However, this holds only true as long as individual freedom in employment decision, good working conditions and possibilities for combining paid with unpaid work are ensured. Considering active ageing only under the viewpoint of restoring the pension funds and international competitiveness is not sufficient. I thus developed normative criteria for active ageing from the TLM perspective and examined innovative practices in this light. Four generalized conclusions can be drawn.

¹⁰ The following is based on Bredgaard and Larsen (2005) and Rosdahl (2002).

The *first conclusion* is that innovative management of transitions from work to retirement must not be sought mainly in the characteristics of the older workers, for example in their alleged or possible declining productivity. The most important condition of employment opportunities for elderly people is the pace of employment growth in the service sector. A policy that begins here contributes to resolving several inter-related problems: it does justice to the increasingly limited mobility associated with ageing, it creates the kind of economic and social infrastructure that allows young adults with children to reconcile their family life with their work, and it allows especially mature aged women to participate more extensively and for longer periods in working life than to date.

The *second conclusion* is that “active ageing” must not only start with elderly people but much earlier than this. New life-cycle risks require new social rights beyond employment – such as care and career leaves, and even the right not to work in the transition from the second to the third life-phase. The new right beyond employment concerns in particular sustainable employability. This means that qualifications and skills required for gainful work have to be enhanced over the entire life course. Elderly workers must be motivated to participate in further education more than ever before. However, it became also clear that the level of continuous education and training is related more closely to the base level of education than to age. Active ageing, therefore, starts with education in the Kindergarten. Choosing the right timing in life-long learning is also important. Further education opportunities have to be offered already in the middle phase of the life-cycle when the horizon of expectation of the fruits of investment is still long enough to motivate both the enterprise and the employee. There is also a lack of practicable financing instruments that guarantee fairly distributed risk-sharing. In particular, the problem of the time incongruence has to be solved. Low income people need credits for investment, and innovative management tools have to be found to bridge the gap between the moment when education costs have to be paid out and the period when the benefits are finally reaped.

The *third conclusion* is that early intervention is also demanded in view of long-term interruptions of employment. Such discontinuities affect still mainly women and translate into long-term wage penalties, higher probabilities of sustained precarious employment careers and in low labour force participation in advanced adulthood. Labour market policy for active ageing is therefore also to be understood as a policy that reinforces ties to the labour market in critical phases of the life course. On the other hand, every necessary or desired deviation from standard employment still implies an insufficiently insured risk with respect to continuous income flows, occupational careers and social security in old age. This acts as a massive deterrent to established employees who are contemplating to make risky transitions, for instance the transition from full-time to part-time work, from dependent to self-employment, from higher to lower paid jobs or from one occupation to another. In order to be considered worth the risk, such transitions

must pay. It has therefore been suggested to supplement unemployment insurance by Worklife insurance, and elements of such an insurance have been demonstrated, for example wage insurance, mobility insurance, lifetime working-time accounts or in-work benefits.

The *fourth conclusion* states that it is not enough to manipulate single parameters, for example, by reducing labour costs for older workers through wage-cost subsidies. It is also not enough to turn only the regulatory steering wheel in what is considered to be the right direction, for instance, by relaxing dismissal protection or increasing statutory retirement age. The review of good practices in Europe indicates clearly that those countries that have been most successful to date have followed integrated approaches coordinating different areas as well as different levels of policy. Integrated approaches allow package deals in reform policies to arrive at workable compromises, reliable compensation of losers and finally a win-win-situation for all. In hammering out such compromises we detected new and soft forms of negotiated flexibility and security. Especially national compacts, public-private partnerships and task forces at company, regional or sectoral level are innovative forms of governance to manage transitions from work to retirement.

As overall conclusion, the application of these four strategies would debunk two myths: The myth that mature aged workers take jobs away from younger workers and the myth that productivity declines rapidly with age. A sustainable policy reform must, on the contrary, proceed strategically on the basis of the opposite assumption: the productivity of young and mature adults is mutually complementary. Where the employment of older people has increased, so too has the employment of young people;¹¹ and the edge enjoyed by one group with respect to new and standardised (school) knowledge is complemented by the other group's advantage in the sphere of (tacit) experience knowledge.

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11 The OECD (2006, p. 140) reports a correlation coefficient of 0.62 for the period 1992-2002.

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