

Active Ageing in Europe: Managing the transitions from work to retirement¹

Günther Schmid

Mark Twain once said: "*Life should begin with age and its privileges and accumulations, and end with youth and its capacity to splendidly enjoy such advantages*". Of course, this reversion of the life cycle is only a dream. But I see the task to introduce this workshop in developing all kind of arguments how we can realize at least part of that dream.

I will argue that people's possibility to participate in working life as long as they wish and the opportunity to combine work with other self-determined activities are essential elements to realize such a dream. Such a policy would also make a contribution to cope with the employment and pension crisis. However, I consider this more as an important side effect rather than as the main objective of active ageing. In fact, I want to set a counter-mark against the exclusive focus on incentives to work. In the spirit of Mark Twain, I see the main aim of active ageing in extending the range of options and the freedom to act in the transition from the second to the third phase of life.

I will develop this argument in four steps: First step is a summary of the principles for good active ageing; second, a demonstration of the huge variation in employment rates of old workers in Europe; third, an explanation of these differences by a simple statistical model; fourth, a presentation of good practices.

Principles for good active ageing

Since my time is limited, I can only list the four principles of good active ageing which you will find developed in my paper. The first principle is the differentiation of labour market institutions according to the growing diversity of risks during the life course. From this principle it follows that unemployment insurance should be extended towards a system of employment or work-life insurance.

The second principle is risk sharing through a responsibility and capability based egalitarianism. From this principle it follows that individual and

¹ Introductory speech to the conference on the European Social Model: "*Joining forces for a social Europe*" under the German European Presidency in Nuremberg, 8-9 February 2007, workshop 1: „Careers at age 50 to 65“

collective responsibilities have to be rebalanced on the basis of how internal and external risks and the capabilities to manage these risks are distributed.

The third principle is the partial decoupling of social security from the contingencies of the life course. 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. Another immediate conclusion is to care for the transportability of social security entitlements in case of job mobility.

The fourth principle is negotiated flexibility and security. The increased complexity of working life requires better *coordination* between the various social security systems in order to ensure their *complementarity*. The coordination of these complexities requires negotiation to overcome trade-offs between flexibility and security. Negotiation is the best institutional device solving asymmetries of information and risk perception, adverse selection effects, moral hazard and in finding compromises if interests are conflicting. Involving key actors – especially social partners – in policy decision making and implementation is of utmost importance.

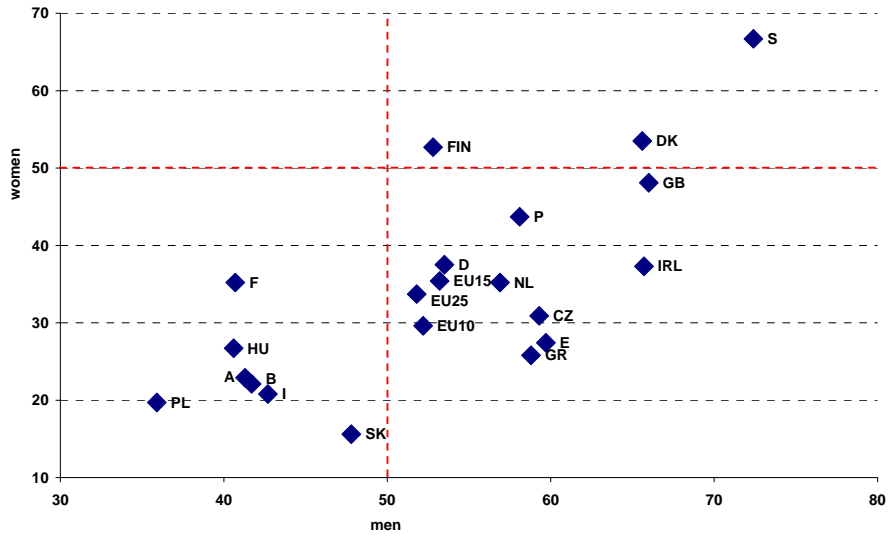
Before going on to exemplify these principles, I will briefly describe the actual situation of employment for elderly in Europe.

Employment rates of mature workers (55-64) in Europe

Simple descriptive statistics shows: Apart from the United States, only Sweden, Finland and Denmark reached the Lisbon target of 50 percent 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).

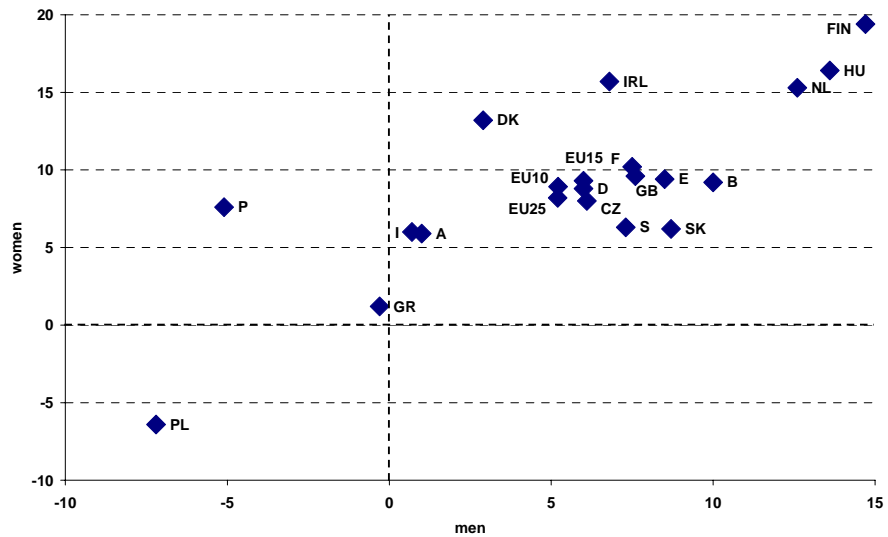
Second, great progress has been made by most member states in increasing the employment rates for men and especially for women since the start of the European Employment Strategy. In this respect, Finland, Hungary and the Netherlands are the best performers. As impressive this development is, it is still far from meeting the challenges. The European Commission estimates that about 50 percent of the 15 million net jobs that have to be created, would have to be filled by people aged 55 to 64 to reach the overall Lisbon goal of 70 percent by 2010. Compared to this ambitious goal, the increase in employment rates of the elderly has still to be speeded up (Figure 2).

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



Source: Eurostat

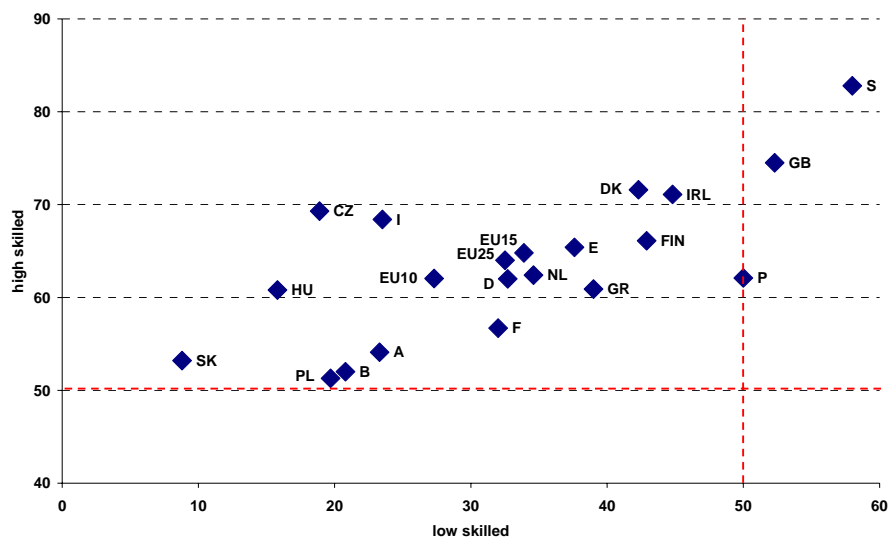
Figure 2: Changes in employment rates of men and women in age of 55 to 64, 1997–2005



Source: Eurostat

Third, the failure of the Lisbon goal relates mainly to the low-skilled. All member states have already surpassed the Lisbon goal for the high-skilled. In Sweden, for example, about 82 percent of the high skilled elderly people are working. In Germany and in the Netherlands the figure is about 62 percent. For the low-skilled, however, only Sweden, Great Britain 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 for the low-skilled (Figure 3).

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



Source: Eurostat

More education alone, however, 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 workers out of the labour market? What pulls them in?

Determinants and explanations of employment in 'old age'

The first pull factor that comes in mind is *labour demand*. 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. Heavy work as in coal mining or manufacturing does not fit with their physical capabilities. However, labour demand

in education, health and social work, in community services or private households will be favourable for the employment of elderly people. This demand factor will have a double pull-effect. Especially women can go on to stay on the labour market when they can buy such services – by cash or indirectly by taxes – which they otherwise would provide themselves in the household.

Education has already been mentioned as a factor pulling people in gainful labour market work.

Since skills are eroding or getting outmoded by age, they have to be refreshed or replaced regularly over the life course. *Continuous education and training* is therefore another evident factor pulling elderly people in employment. The participation rate 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, gradual or postponed retirement require flexibility of work-organization as well as flexibility of social security arrangements. 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. Part-time of elderly people, however, varies tremendously in Europe: It ranges from 49 percent in the Netherlands to only 5 percent in Greece. 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 pull factor. Mature workers often need special employment relationships since their work capacities are restricted. 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. Employability for elderly requires in many cases a shift from fitting workers to jobs to fitting jobs to workers.

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. 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.

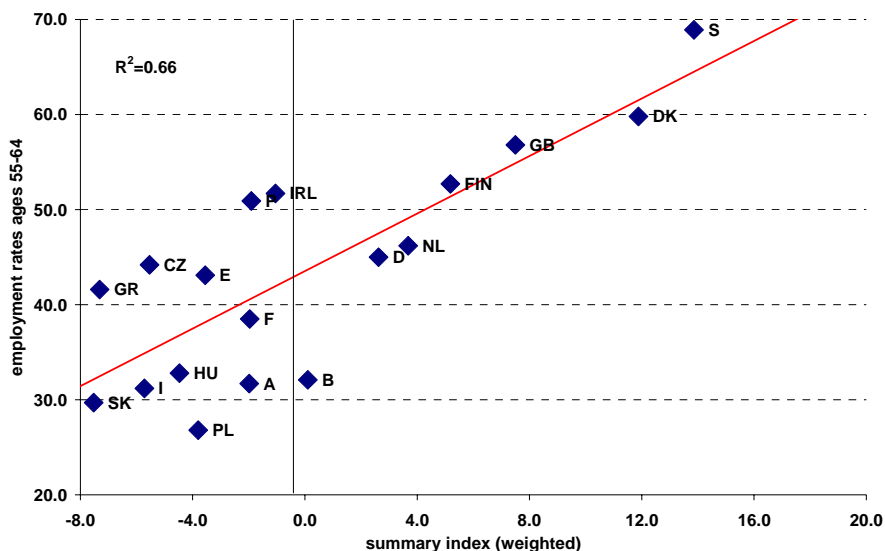
In economics, *relative wage costs* are the central determinant that might push people out of employment: The higher the wages of old compared to young workers, the higher the probability that they are dismissed or not hired if employers have to downsize their workforce. Of course, implicit contract theory has found good reasons for the efficiency of senior-

ity wages, which means wages rising from below to above the income capacity of workers. However, there are also good arguments that the preconditions of seniority wage schedules are vanishing with the erosion of internal labour markets. High wages of elderly people in relation to young people therefore have to be considered as negative push factor.

Finally, taxes can also play a role pushing old workers out of the labour market. The higher the taxes on work income related to expected transfers in retirement, the lower the probability to remain in work. A Belgian worker, for instance, five years before regular retirement would earn 7 percent more than he or she can expect from transfers in retirement, whereas a Swedish colleague has 80 percent more in the pocket. The negative impact of this tax wedge on old age employment is very strong.

On the basis of these push and pull factors I have constructed a summary index which explains about two third of the variation in the employment rates (Figure 4). That means that the factors I have just listed can safely be taken as an orientation for age oriented labour market policy. Looking for good practices, I will order these factors according to the four principles of good active ageing. Due to time limitations, I can select only a few examples.

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



Source: Eurostat, OECD, own calculations

Good practices for managing transitions from work to retirement

Let me come to the first strategy: *Moving towards a work-life insurance system*. We have seen that regionally located public or private social services are especially employment friendly for elderly people. The state has to play a special role in creating such jobs – either through supporting the proper institutional framework for marketed services affordable to all people or through creating itself corresponding jobs as employer of the last resort. It is widely known that the state in Scandinavian countries acts as huge employer, especially for the elderly. It is, however, less well known, that the most recent “job miracle” of liberal Great Britain is largely based on the expansion of public service jobs.

We have further seen that wage costs can be a serious impediment to sustainable employment for mature workers. The gap between productivity and wages can be narrowed in two ways: First by increasing the productivity through education and training, second by decreasing the wages or by a combination of both. An extended unemployment insurance that also covered income risks related to job-to-job transitions would contribute to increased acceptance of mobility, even if this leads to lower wages. 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 earning capacity or for structural change? The existence of such insurance could contribute substantially to employment security of elderly people. A good practice in this respect is the wage insurance scheme in Switzerland, the so-called “Zwischenverdienst”.

There are functional equivalents to such wage or mobility insurance. 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. Transition agencies such as the Austrian work foundations, the German “Beschäftigungsgesellschaften” or the Swedish Trygghetsrådet are other examples, and we probably find in almost all other EU-member states good practices of such transition agencies.

Mobility insurance would increase the willingness to accept lower paid jobs. Apart from social networking, even low paid jobs can 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. Mobility insurance should therefore 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, like in unemployment insurance, mobility insurance works best combined with active labour market policy.

Mobility insurance would also reduce workers' opposition to trade liberalisation. 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.

Let me come to the second strategy: *Enhancing individual responsibility and capabilities* requires first of all the establishment of new social rights that go beyond employment – for instance 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.

An example of such active securities would be the possibility to *transform activate entitlements to passive benefits* into social drawing rights with a wider spectrum than just receiving wage replacement for involuntary inactivity. 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 generalise 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 especially enhance the capabilities for low skilled elderly workers.

Another good practice is 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 to care for 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. Belgium can be mentioned as the pioneer country for enhancing individual responsibility and capabilities through *entitlements to career leaves*. And Sweden is again a good example for the principle of giving people a second or third chance during their *life-cycle*: the Swedish "Knowledge Lift" programme from 1997 to 2002 provided many mature low skilled workers the possibility to uplift their knowledge and to enhance thereby their life-long employability.

Finally, one can even think of an *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 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 age-

ing strategy is to *endorse the freedom of choice* between work and leisure especially for mature workers.

I come to the third strategy: *Decoupling social security entitlements from the contingencies of the life course*. The implicit tax rate related to transitions from work to retirement gives a clue on how gradual instead of abrupt retirement could be fostered. Social security arrangements play a particular important role for people to decide for a combination of gainful employment with unpaid social activities in the family or neighbourhood. Four approaches could contribute to such an active ageing:

The *first plausible option* is public support of families in their care obligations for the frail elderly. The Scandinavian countries seem to be model in this respect. In Scandinavia virtually no woman needs to curtail her 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.

The *second option* is to reverse the incentive structure of the present tax wedge in favour of staying longer in employment. Most countries have moved already in this direction. 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 now provide 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.

The *third approach* is to provide options for combining transfers with labour market income. Such options can take various forms, and I don't need to go in details. Good practice, in my view, is especially the so-called '*flexjobs*' in Denmark. The target group consists of persons with a permanently reduced work-ability who are not entitled to pre-pensions. The employer receives a wage subsidy depending on the extent to which the work-ability of the person is reduced, and the person in a '*flexjob*' receives wage according to collective agreement. The only flaw in this example is the exclusion of flex-jobbers from regular unemployment insurance.

The *fourth option* of decoupling social security entitlements from contingencies of the life-cycle is to make transitions pay. One important impediment to flexible retirement is for instance the lack of coordination between old age insurance and flexible work histories. Examples of a better co-ordination are *flexible entitlements* discussed in Germany, the *inflation of pension entitlements* for people with low or reduced earning

capacities in Belgium and Spain, and the *life course saving plan* in the Netherlands.

The Dutch life-course scheme, however, needs probably a recalibration. First evaluations show that men tend to use the scheme for early retirement instead for sharing family responsibilities or training leaves. But the Dutch scheme is attractive in another respect. It is a good example of multilevel governance in which the state sets the general rules and the social partners negotiate the details. This leads me to the fourth strategy for active ageing.

Managing transitions through negotiated flexibility and security

In the ideal case, flexibility and security are complementary, leading to a virtuous circle. In practice, however, the flexibility-security nexus is 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. The successful Dutch and Danish models of flexicurity cannot be understood without acknowledging their endowment with successful institutions of negotiated flexibility or negotiated security.

Among good practices, three general strategies can be distinguished: first, national compacts focussing on information gathering and coordinating activities; second, public-private partnerships; and third, local or regional task forces. For each of these strategies, my paper provides selected good practices especially from the “flexicurity” model countries Denmark, Finland and the Netherlands. Time limitations prevent me to repeat these good practices. I am sure, that we will get more examples and fresh insight from other countries in a few minutes. Let me therefore turn to the conclusions.

Conclusions

The *first conclusion* is that the management of transitions from work to retirement should not be sought mainly in the characteristics of the older workers, for example in their alleged declining productivity. The most important condition of employment for elderly people is the pace and range of employment growth in the service sector. Job creation in human services 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 family life with work, and it allows mature men and women to participate longer than to date in the labour market.

The *second conclusion* is that “active ageing” has to start early in the life-cycle. Active ageing must even start with education in the Kindergarten since the level of continuous education and training is related more closely to the base level of education than to age. Further education and training opportunities have to be offered already in the middle phase of the life course in order to extend the horizon of expectation to reap the fruits of investment for employers and employees. Practicable financing instruments have to be developed to solve the problem of the time incongruence. Low income people need credits for investment, and policy tools have to be found to bridge the gap between the moment when education costs arise and the period when the benefits are finally reaped.

The *third conclusion* is that early intervention is also demanded in view of employment interruptions. Such discontinuities still affect mainly women and translate into long-term wage penalties, in higher probabilities of sustained precarious employment careers and in low labour force participation in advanced adulthood. Labour market policy for active ageing has 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 is still insufficiently insured in most countries. This acts as a massive deterrent to established employees who contemplate making 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. Not only work, transitions must also pay off. I have therefore suggested extending unemployment insurance to a system of employment or work-life insurance. Elements of such insurance are wage insurance, mobility insurance, long-term working-time accounts and in-work benefits in case of reduced earning-capacities.

Fourth and final conclusion: It is not enough to manipulate single parameters, for example, reducing labour costs for older workers through wage-cost subsidies. 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.