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Ageing of the Labour Force
in OECD Countries:
Economic and Social Consequences

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Foreword

Because of the decline in fertility rates and the increase in life expectancy in a growing number of countries, the world population will age much faster in the next decades than previously. These demographic developments have important consequences for labour markets. This paper suggests that with a shrinking supply of young entrants, the older workforce will have to remain additional years in the labour market, a consequence, among other things, of the rising financial problems of retirement systems. This requirement to remain active longer periods than before, is casting doubt on the viability of the hitherto pursued early retirement policies. Instead of labour supply reduction by early retirement, labour supply increases by a prolongation of working life are now on the political agenda. The ageing trend will also have to be accompanied by a change of attitude towards the older workforce and proactive policies for boosting training, productivity and decency of work for the older workforce.

The extension of working life in OECD countries, will result in an increase in employment rates and alleviate pressures on pension systems. However this development should not be seen as a win-win situation only. It means that the baby boom generation will not enjoy the same standards as the generation of their fathers and mothers, if pension systems are not adequately reformed. Working longer and retiring later while paying higher pension contributions for reduced pensions can be seen as a departure from a redistributive regime, channelling parts of the fruits of growth to early retirement with sometimes high wage replacement rates. The new welfare state emerging seems to be more and more based on the redistribution of wealth through revenue from actual employment. It implies a general change from “welfare” to “work”. While this may be seen as unavoidable, the social and economic implications of this “paradigmatic change” have yet to be analysed.

The present report analyses demographic trends in OECD countries and reflects on their labour market consequences. It shows some of the new approaches in public policies and company strategies to tackle the challenges of ageing and presents some former ILO activities in the field. It ends with a set of proposals aimed at combining the search for productivity with decent work for the older workforce.

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“There are many big issues to be faced in scrutinizing the proposals for revising the retiring age. That is a very big issue and I do not want to address it so off-handedly but I am just pointing out how conflicts are often seen when none might exist ... Indeed, the combination of the gut reaction to the effect that the source of the problem of an ageing population is that the old cannot work with the gut reaction that the young must lose jobs if the older people did work is to provide a hopeless impasse which rides just on unexamined possibilities, based on a simple presumption of conflict that may or may not actually exist. I am afraid quite a lot of thinking on labour economics is really governed by presumption of conflicts which have not been thoroughly examined.”

Address by Mr. Amartya Sen,
Nobel Laureate in Economics
International Labour Conference, Geneva, 87th Session
15 June 1999

Introduction

Demographic developments such as the decline in fertility rates and increase in life expectancy and their implications seem to cast some doubt on the policies of labour supply reduction through early retirement which were so important throughout the eighties and nineties. Indeed, the reduced inflow of young people into the labour market and the longer retirement periods going together with increased life expectancy have put pressure on the retirement systems, which have to cope with the trend towards early retirement and the increased inflow of the baby boom generation into retirement in general. The policy of reducing labour supply at the exit side of the labour market through early retirement (paralleled at the entry side by an extension of education) has already been restricted in a number of countries. Instead of labour supply reduction, labour supply increases are high on the political agenda today.

Several factors have played a role in this shift: present and especially future costs of early and regular retirement, expressed in increasing old age dependency rates, reduced inflow of the young in the labour markets, the “juvenilization” of the aged, with large cohorts of healthy, employable retirees, and a growing awareness of companies of a loss of experienced human resources through an indiscriminate retirement policy.

The decline of the number of active people per retiree poses in fact the problem of the sustainability of the policies hitherto undertaken. From a pure cost view it is certainly timely that the trend towards earlier exit is reversed. However, this is easier claimed than done. While it seems that all the factors cited above point towards the necessity to alter former policies, there are many barriers, which do not allow an easy u-turn in labour supply reduction policies. For example, insufficient growth, linked often to a low employment intensity of economic growth, does not allow the expansion of labour markets in order to absorb (or even maintain) older workers in sufficient numbers. Companies, faced with continuous restructuring, are rather inclined to downsize than to expand employment and there is no indication that public employment is on the rise. And in both public and private companies, downsizing is still accompanied by early retirement which give companies adjustment flexibility and secure income and status to former workers. It is therefore not yet clear, how firms could maintain (or hire) older workers without facing redundancy problems. Despite Amartya Sen’s important claims that there must not be a trade-off between employment for the old and employment for the young, some substitution between older and younger workers can be expected if there is no sufficient employment expansion.

In addition, in many countries, unemployment is not yet sufficiently low to allow a labour supply expansion. That is also the reason why, despite a reorientation of the debate, the trend towards earlier retirement continues, often supported by the social partners. The support of the social partners for this measure will remain as long as the functional arguments, that the trend of early retirement has led to a loss in human resources, remains unconvincing in the face of companies looking for inexpensive adjustment both in monetary and social terms. This form of coping with the problem is popular among workers who prefer to retire early. Therefore, both companies and their older workforce have to be convinced that longer active periods result in gains.

These problems indicate that the reversal of policies poses a formidable challenge to policy makers, the social partners, company managers and the older workforce. However, while the situation is serious, it is not hopeless. Policy action has been taken in most countries to react to the problems

associated with an ageing labour force. Besides policies of increasing retirement age and/or decreasing retirement benefits, they include incentives/disincentives for companies maintaining/dismissing older workers, partial retirement and company plans for the employment of older workers. While public policy can set incentives/disincentives companies must engage in pro-active policies of changes in work organization and working time and training to allow older workers to remain in productive work. The social partners have to provide their constituents with guidance. They could play a decisive role in a reversal of the labour supply reduction strategy.

“Active ageing” has many dimensions such as the general participation of the older population in society and in the economy, in family life and in salaried and self employment, or in voluntary employment. The following paper mostly discusses the issues involved in the participation of the older workforce in employment for the OECD countries. It shows the dimension of the active and non active population, develops the problems of falling retirement age and its implications for the financing of the retirement systems. It shows that countries face the problem of demographic ageing to different degrees, and that not all have had the same policies towards the aged. It raises the question of the policy options available and gives an overview of some of the public and private policies to cope with the challenge of ageing. It ends with some policy recommendation, based on the ILO’s labour standards and former work undertaken by the office in the area.

1. Population ageing. Trends

The ageing of populations is a global phenomenon. With the continuation of fertility decline and increase in life expectancy, the population of the world will age much faster in the next decades than previously. Fertility decline is the major reason of population ageing (United Nations, 1998). In practically all developed countries fertility is significantly below the level necessary for the replacement of generations¹. As table 1 shows, according to United Nations population estimates and projections, the TFR is estimated to be, in 1995-2000, at or below the level of 2.1 children per woman in all the OECD countries (except in Turkey and Mexico) and in 11 OECD countries, this rate is estimated to be less than 1.5 children per woman.

Table 1
Range of total fertility rate in 1995-2000

2.10-1.80		Less than 1.5		1.79-1.50	
Iceland	2.1	Switzerland	1.47	Australia	1.79
New Zealand	2.01	Japan	1.43	Finland	1.73
United States	1.99	Austria	1.41	Denmark	1.72
Ireland	1.9	Hungary	1.37	United Kingdom	1.72
Norway	1.85	Portugal	1.37	France	1.71
		Germany	1.3	Luxembourg	1.67
		Greece	1.28	Sweden	1.57
		Italy	1.2	Belgium	1.55
		Czech Republic	1.19	Canada	1.55
		Spain	1.15	Poland	1.53
				Netherlands	1.5

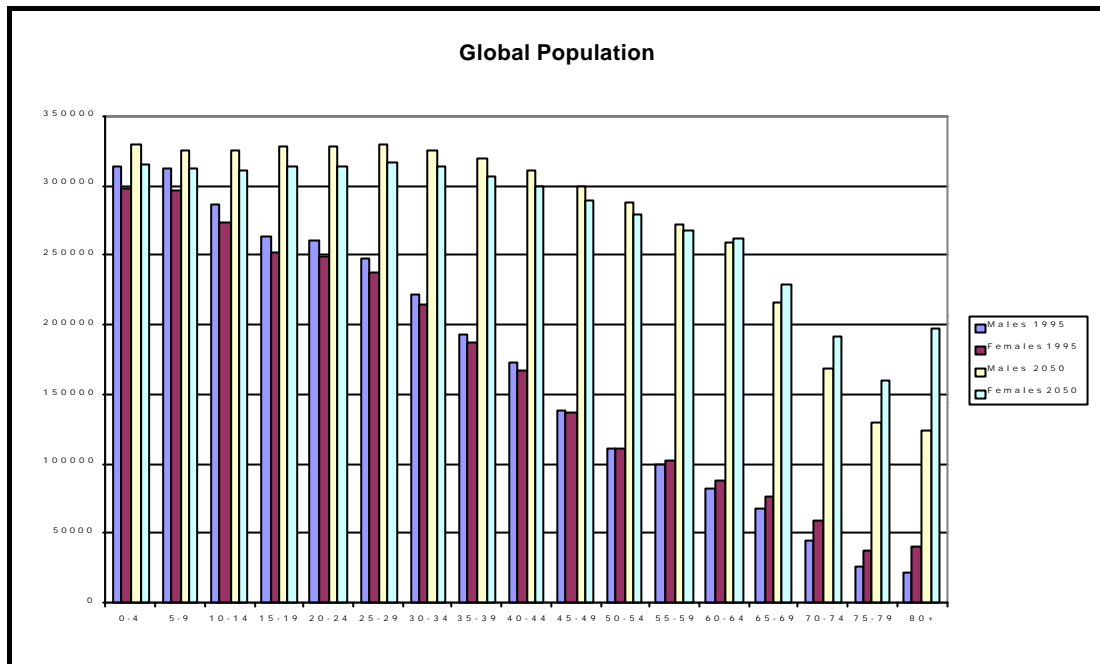
Source: United Nations Population Division, World Population Prospects: The 1998 Revision.

In 1950 there were about 200 million persons aged 60 and over in the world, constituting 8.1 per cent of the global population. By 2050 there will be a ninefold increase and the world's elderly population is projected to be 1.8 billion people, about 20 per cent of the total population. Countries have different rates of demographic ageing. Developing countries still have a relatively young population while populations in industrialised countries are relatively old². As we can see in figure 1, by 2050, the more developed regions will have a very old population, with the proportion of older persons projected to increase to 33 per cent in 2050.

¹ The Total Fertility Rate (TFR) needed for the replacement of generations is approximately 2.1.

² The median age of the world population, increased from 23.5 years in 1950 to 26.1 years in 1998. By 2050, the median age is projected to reach 37.8 years. In the more developed regions the median age increased from 28.6 to 36.8 between 1950 and 1998 and it is projected to reach 45.6 in 2050. In the less developed regions the increase was less pronounced: from 21.3 to 23.9 between the same period and by 2050 the median age is projected to reach 36.7.

Figure 1



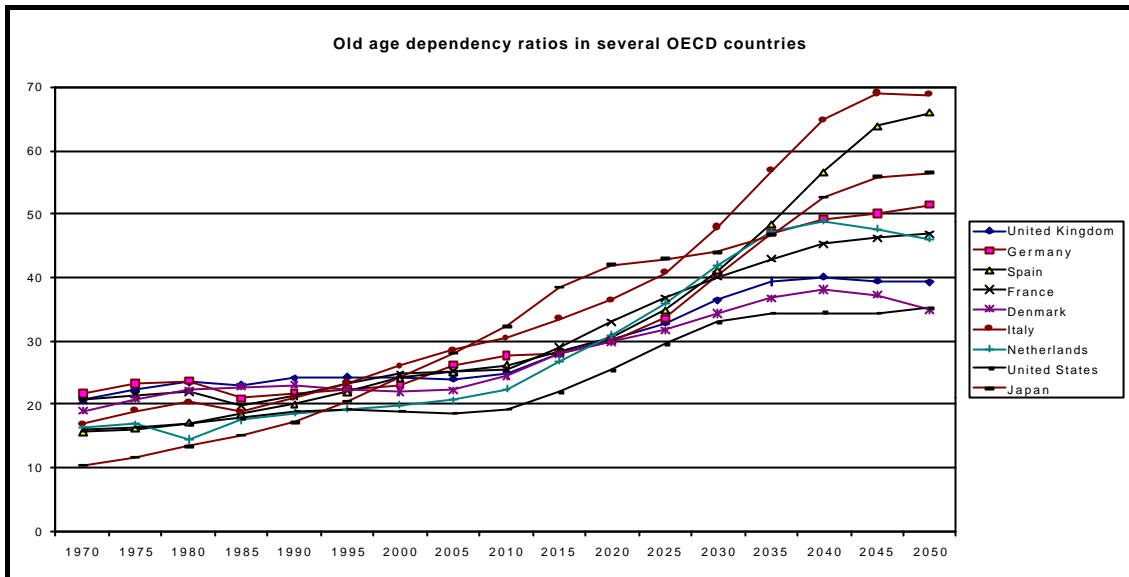
Source: World Population Prospects. The 1996 revision, United Nations

Europe is, and is projected to remain, the area of the world most affected by ageing. The proportion of older persons will increase from 20 per cent in 1998 to 35 per cent in 2050. By then, one in every three persons will be 60 years or above. Southern Europe, with a proportion of older persons of 22 per cent in 1998, is the world region with the oldest population. By 2050, its proportion of older persons will have reached 39 per cent. In 1998, the country with the largest proportion of old people in the world is Italy, followed by Greece, Japan, Spain and Germany. By 2050, the country with the largest share of old people will be Spain, closely followed by Italy. The other areas of the world most touched by ageing are, in decreasing order, Northern America, Oceania, Asia and Latin America and the Caribbean.

Figure 2 shows the prospective demographic transition in nine OECD countries. We can see that there is a large and rapid increase of the old-age dependency ratio³. Italy is the country with the highest increase in the dependency ratio followed by Spain and Japan. This does not, in all cases, mean that the overall old population is dependent on transfer payments (pensions) because some are still economically active. However, given the trend towards earlier retirement and the arrival of the baby boom generation at retirement age, old age dependency is increasing and this trend will continue. The fact that less and less active people have to support more and more inactive people is an issue of major concern especially for the financing of retirement systems.

³That is, the ratio of people older than 65 to those of working age (15-64). This ratio is purely demographic, i.e. it does not take into account labour force participation or benefit dependency.

Figure 2



Source: World Population Prospects, 1996 revision, United Nations

The worker-to-retiree ratio shows a similar picture than the dependency ratio.⁴ Table 2 shows that these countries will face a decline in the number of employed per retiree. In Ireland and Spain, it is expected that by 2020 there will be an average of only 1.5 employed per retiree.

Table 2
Worker to retiree ratios, selected OECD countries

	1990	2020
Finland	3.2	1.8
France	2.5	1.8
Germany	2.4	1.8
Ireland	2.0	1.5
Italy	2.1	1.4
The Netherlands	2.6	1.8
Norway	2.2	2.0
Portugal	2.5	2.1
Spain	1.9	1.5
Sweden	2.3	1.9
United Kingdom	2.2	1.9
Total of selected countries (arithmetic average)	2.4	1.7

Source: H.D. Steinmeyer, 1996.

2. Older workers and the labour market

(i) Participation rates

As figure 3 shows, in most OECD countries, labour force participation rates of older workers (above 55) have declined markedly with the decline being more marked in Europe and in the United

⁴ The worker-to-retiree ratio expresses the number of employed per persons above the age of 65.

States than in Japan. Labour force participation rates of older people vary according to gender, education and the state of economic development of the country. The decline in rates of older workers is associated with the trend towards earlier retirement, influenced by increasing national per capita income. Longer education, shorter working lives and longer retirement periods are all consequences of increased wealth. In addition it was found that urbanization increases this trend.

As we can see in figure 3 included in the Annex, this decline in activity rates has been particularly marked among older men. Instead, female participation rates have been increasing, even among older women. This has partially offset the decline in male labour force participation rates. As the figure shows, the steepest decline in the participation rates of males between 55 and 64 years across the OECD have taken place in the Netherlands, Austria, France, Finland, France, and the United Kingdom. The less significant declines are found in Japan, the United States and Sweden. Japan is the country with the highest older males participation rates (around 95 per cent for the age range 55-59 and 75 per cent for 60-64) and Austria has the lowest (around 61 for the age range 55-59 and 13 per cent for 60-64).

Participation rates of older women are especially high in nordic countries. In Sweden, they have increased continuously since the 1950s and Sweden has now the highest participation rates of older women (around 80 per cent for the group 55-59 and over 50 per cent for the group 60-64). Japan and the United States have also relatively high levels (around 55 per cent for the 55-59 group and around 35 per cent and for the group 60-64). Italy, Spain, Austria, and the Netherlands have the lowest levels (between 20-25 per cent for the group 55-59 and under 10 per cent for the group 60-64). However, since the 1950s, Spain and the Netherlands have experienced some increase for the age group of 55-59.

It is the 60-64 age group which indicates most clearly the extent to which older men have dropped out of the active labour force. Within this age group, differences between countries are more clearly marked. Japan with over 75 per cent has the highest rate, followed by Ireland, Norway, Portugal, Sweden, the United Kingdom and the United States with rates between 50 and 60 per cent. Austria, France and the Netherlands have the lowest rates (around 25 per cent). For the age group over 65, participation rates are low for all countries. Only in Japan, the rate remains over 50 per cent.

If we break down the participation rates in its two components: employment and unemployment rates, the following picture emerges.

(ii) Employment rates

Over the last decade, like participation rates, employment rates for older men have continued to decline in many OECD countries. The decline has been more substantial in some countries than in others. Table 3 shows the decline in employment/population ratios of men and women aged 55-64 in 1980 and 1996. However, the magnitude of the decline varied markedly. The countries with the steepest declines were the Netherlands (-28.6), France (-26.7) and Spain (-21.6). The scale of the decline has been more limited in Japan (-1.6), Luxembourg (-2.2) and the United States (-5).

The employment situation of older women has seen more variability across the OECD area. Some countries have continued to see increases in labour force activity as new cohorts of women with more established patterns of labour force participation reach older ages. In other countries, such as Finland and France, there has been a clear decline in employment participation among older women.

Table 3
Employment/Population ratios for older workers (55-64), 1980-96

	Men			Women		
	1980	1996	1980-96	1980	1996	1980-96
Australia 1,2	59.6	54.4	-5.2	19.9	29.9	10
Austria	..	42.4	..	..	17.3	..
Belgium 2	47.7	32.2	-15.5	11.8	12	0.2
Canada	72.8	54.7	-18.1	32	34.1	2.1
Czech Republic	..	54	..	..	22.3	..
Denmark 2	63.1	58.4	-4.7	39.1	37	-2.1
Finland	55	36.8	-18.2	41.1	32.6	-8.5
France	65.3	38.6	-26.7	37.6	28.8	-8.8
Germany 6	64.1	47.2	-16.9	27.2	24.4	-2.8
Hungary	..	26.4	..	..	13.8	..
Iceland	..	89.9	..	..	77.5	..
Ireland	72.8	58.7	-14.1	19.3	21.8	2.5
Italy 2	55.3	42.1	-13.2	14.6	13.8	-0.8
Japan	82.2	80.6	-1.6	44.7	47.6	2.9
Korea	..	78.5	..	..	49.4	..
Luxembourg 2	37.8	35.6	-2.2	14.1	10.2	-3.9
Mexico	..	78.4	..	..	27.6	..
Netherlands	60.9	32.3	-28.6	14	15.5	1.5
New Zealand	..	66.1	..	..	41.7	..
Norway 2,4	..	71.4	..	..	58.1	..
Portugal	74.2	58.6	-15.6	31.8	35.5	3.7
Spain	71.5	49.9	-21.6	21	17.8	-3.2
Sweden	77.5	66	-11.5	54.4	60.7	6.3
Switzerland	..	75.3	..	..	40.5	..
Turkey	..	56.1	..	..	27.8	..
United Kingdom 5	62.6	57	-5.6	33.4	38.8	5.4
United States	69.7	64.7	-5	40	47.9	7.9

Source: Kalisch D. and Tetsuya A. "Retirement income systems: the reform process across OECD countries", 1997

1. For unemployment, data for the age group 55 to 64 refers to 55 and over
2. 1980 data refers to 1983
3. 1980 data refers to 1979
4. Unemployment rate for 1980 refers to 60 years and over
5. 1983 data refers to 1984
6. 1996 data refers to 1995

Table 4 shows a strong relationship between educational attainment of older workers and the employment rate. The higher the education, the higher the employment rate. As educational qualifications are often closely related to earnings capacity and job stability, these figures suggest that those with lower qualifications (and thus lower earnings) have a greater propensity to retire earlier.

Table 4
Employment rates of older workers (55-64) and level of education

	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FI	S	UK	E15
Men																
High	54	72.2	61.3	56.8	68.7	57.2	71	74.4	71.7	56.7	75.9	65.1	52	72.6	65.8	63.1
Medium	41.1	58.4	44.6	48.9	53.9	36.5	63.4	53.6	33.7	43.9	39.5	52.3	38.9	65.6	61.5	47.5
Low	22.5	57.3	36.8	61.6	48.1	26.1	55.3	36.7	24.1	34.7	33.5	58	33.1	59	54	41.6
Women																
High	23.6	64.7	49	29	48.6	43.4	51.7	46.1	32.6	40.3	35.3	45.9	59.7	77.5	73.1	50.9
Medium	18.5	45.9	31.8	12.4	27	28.5	25.9	30.7	16.8	24.8	18.5	42.8	38.3	61	64.7	32
Low	8.8	26.6	20.8	26.1	16.2	21.7	15.5	11.3	10.4	13.8	15.5	36.3	25.6	49.3	56	20.9

Source: EC Employment Report, 1998

(iii) Unemployment rates

Table 5 presents data on the unemployment rates of older workers and the incidence of long term unemployment. We can see that, in most countries, the unemployment rate of older workers is lower than

the overall unemployment rate. However, once older workers are unemployed they have a greater risk to be unemployed for a long period of time. Belgium, Finland, France, Italy, Ireland, Spain, Portugal and the Netherlands present long term unemployment rates over 60 per cent.

Table 5
Unemployment rates and the incidence of long term unemployment, 1996

	Unemployment rate (Percentage of Labour Force)		Unemployed for 12 months or more (Percentage of unemployed)	
	15-64 years	45-64 years	15-64 years	45-64 years
	Australia	8.5	6.4	28.4	44.8
Austria	5.3	5.4	25.6	37
Belgium	9.5	5.9	61.3	76.6
Canada	9.7	7.3	13.9	21.6
Czech Republic	3.8	2.6	31.6	37.6
Denmark	6.9	5.6	26.5	43.6
Finland	16.2	16.4	39.3	61.8
France	12.1	8	39.5	62
Germany	8.9	10	47.8	57.8
Greece	9.9	3.9	56.7	54.6
Hungary	9.8	6.5	54.4	58.8
Iceland	3.7	2.6	18.4	40
Ireland	11.9	9.5	59.4	72.4
Italy	12.3	4.5	65.6	61.2
Japan	3.5	2.8	19.5	27.4
Korea	2	0.8	3.6	5.7
Luxembourg	3.5	1.8	26.8	33.3
Mexico	4.5	2.4	2.2	5.1
Netherlands	6.5	5.1	50	60.5
New Zealand	6.2	3.9	20.8	34.6
Norway	4.9	2.3	15.4	35.7
Poland	12.7	7.6	39	47.4
Portugal	7.7	5.1	53.1	64.8
Spain	22.4	12.8	55.7	62.9
Sweden	8.1	5.9	17.1	27
Switzerland	3.9	3.5	25	..
Turkey	6.3	2.6	43.6	45.1
United Kingdom	8.3	5.9	39.8	52.2
United States	5.5	3.3	9.3	14.6

Source: OECD, 1998a

3. Reasons for non employment of older workers

While employment characterises the middle phase of our lives, and retirement characterises the end phase, the transition between the two phases is not uniform. Not all older workers pass directly from work to retirement. A part from retirement, there are a number of non-working situations like unemployment, discouragement⁵, invalidity or long-term sickness, and looking after the home or caring for a relative.

There is no clear cross-country pattern to explain the reasons why inactive males in the 55-64 year old age group have left their last job. According to the 1995 European Union Labour Force Survey, in 6 of the 15 countries, more than half of inactive men in this group claimed that the reasons were due to early or normal retirement. The country with the highest share is Austria, where almost 80 per cent of the older men left their job due to early or normal retirement. However, in Sweden, Finland, the United Kingdom and Spain, which are three countries that experienced particularly deep recessions in the early

⁵That is, wishing to work but not looking for a job because it is believed jobs are unavailable.

1990s, the reasons were different. In Finland and the United Kingdom, the high rate of involuntary departures was equally split between dismissal or redundancy and disability or illness; in Spain the termination of fixed contracts also played an important role in addition to health and redundancy; whereas in Sweden the high rate was concentrated on dismissal or redundancy. Table 6 presents the results of the survey.

Table 6

Retired males aged 55-64 (1): Main reasons for leaving last job or business in the EU, 1995 (share of total)

	A	B	DK	FIN	F	D	EL	IRL	I	L	NL	P	ES	S	UK
Dismissed or made redundant	5.1	3.7	23.4	24.1	10.7	9.5	2.5	8.8	2.0	0.0	7.9	1.0	10.2	30.2	22.0
Job of limited duration has ended	0.2	0.7	7.0	3.8	1.5	0.7	1.7	3.1	1.7	0.5	0.1	0.4	11.1	8.2	3.6
Personal or family responsibilities	0.2	1.3	0.2	0.0	0.4	0.6	0.5	1.4	1.2	0.2	1.9	0.0	0.2	2.0	1.6
Own illness or disability	2.6	7.7	9.5	25.0	7.3	22.9	4.1	15.1	5.2	16.6	15.6	2.1	18.3	7.0	22.8
Early retirement	49.0	30.6	37.2	0.0	16.9	33.1	5.1	15.9	9.2	29.1	42.9	2.3	13.0	25.9	14.7
Normal retirement	30.2	19.6	2.3	11.7	38.6	10.9	52.2	12.0	53.4	31.7	0.0	1.2	17.8	12.5	4.8
Other reasons	12.8	36.4	20.3	35.5	24.5	22.3	33.9	43.7	27.5	22.0	31.6	93.1	29.5	14.2	30.6
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Note: 1. Refers to persons aged 55-64 who are not in the labour force, but who had been in the labour force in the 8 years preceding the survey. 2. Other reasons include: education and training, compulsory military or community service and other reasons

Source: The European Union Labour Force Survey, 1995

Queen (1996) reviews for the United States the degree to which the trend towards early retirement reflects voluntary decisions. The results from surveys targeted to men over 65 years of age and taken at approximately 10-year intervals from 1940 to 1980 show that in the early decades, almost nobody suggested that he retired in good health because he wanted to. Health problems and job losses were among the main reasons for early exit. Over time, the proportion of those leaving voluntarily increased, and by 1980, exceeded the involuntary exits. Conclusions are: (i) more people are retiring voluntarily, depending on their wealth and on the financial incentives in the social security and employer pension plans and (ii) the distinction between voluntarily and involuntarily is vague; many older workers face unattractive alternatives in the labour market such as pay cuts or new jobs at lower pay and many leave the labour force.

In Japan (Mitani, 1990 and OECD, 1995a.), while the statutory retirement age has increased over time, a larger proportion of workers have left their firms before reaching this age. According to the Survey on Employment of Older Persons (1988), the proportion of the workers aged 55-59 who leave the firm before the mandatory retirement age increased from 3.3 per cent in 1983 to 4.5 in 1988. This trend was marked in large firms with at least 1000 employees, where the proportion increased from 4.4 to 6.9 per cent. This can be explained by the fact that workers who leave firms before the mandatory retirement age seem to enjoy some advantages. The cited survey shows that the most popular reason for retiring early is "favourable in terms of income including retirement allowance" (47.5 per cent of male retirees), followed by "recommended by firms", "not so physically strong", "better to change job while still young" and "dissatisfied with personnel management or promotion". A part from separation before mandatory retirement age, older workers also leave firms because of transfer⁶. The number of transfers is increasing, reflecting the shortage of posts due to the ageing of the workforce, and the expansion of company

⁶ Transfer (*shukko*) is a system under which workers move from a company to another related company such as a subsidiary, maintaining some employment relationship with the original company. Although most transferees return to the original company after several years service, some never return, especially in the case of older workers.

networks due to the diversification or extension of business activities. The age until which employment is secured in the destination company is roughly the same as the mandatory retirement age in the original company.

4. Falling retirement ages

Over the past decades, most OECD countries have experienced a substantial drop in the average age at which individuals retire from the labour market. As we can see in table 7, in 1950, the average effective age of retirement for males was above 65 in all OECD countries except in Belgium and New Zealand. By 1995, that average had dropped to 59 years, with striking differences emerging between countries. Only in Iceland and Japan men continued to work on average well beyond the age of 65. Austria, Belgium, Finland, France, Luxembourg and the Netherlands arrived at effective retirement ages below 60.

Table 7
Estimates of the average age of transition to inactivity among older male workers

	1950	1960	1970	1980	1990	1995	Decrease 1995-60
Australia	66.0	66.1	65.0	62.4	62.7	61.8	-4.3
Austria	66.4	63.9	62.7	60.1	58.7	58.6	-5.3
Belgium	64.8	63.3	62.6	61.1	58.3	57.6	-5.6
Canada	66.7	66.2	65	63.8	62.8	62.3	-3.9
Denmark	67.1	66.7	66.3	64.5	63.3	62.7	-4
Finland	66.8	65.1	62.7	60.1	59.6	59.0	-6.1
France	66.1	64.5	63.5	61.3	59.6	59.2	-5.3
Germany	65.7	65.2	65.3	62.2	60.3	60.5	-4.7
Greece	68.2	66.5	65.6	64.9	62.3	62.3	-4.2
Iceland	68.9	68.8	66.7	69.3	68.9	69.5	0.7
Ireland	68.3	68.1	67.5	66.2	64.0	63.4	-4.8
Italy	66.9	64.5	62.6	61.6	60.9	60.6	-3.8
Japan	66.7	67.2	67.7	67.2	66.5	66.5	-0.7
Luxembourg	65.8	63.7	62.5	59	57.6	58.4	-5.2
Netherlands	66.4	66.1	63.8	61.4	59.3	58.8	-7.3
New Zealand	64.8	65.1	64.7	62.9	62.2	62.0	-3.1
Norway	67.6	67.0	66.5	66	64.6	63.8	-3.2
Portugal	67.8	67.5	67.2	64.7	63.9	63.6	-4
Spain	68.1	67.9	65.2	63.4	61.6	61.4	-6.5
Sweden	66.8	66.0	65.3	64.6	63.9	63.3	-2.7
Switzerland	67.7	67.3	66.7	65.5	64.8	64.6	-2.7
Turkey	69.1	68.7	68	64.9	63.5	63.6	-5.2
United Kingdom	67.2	66.2	65.4	64.6	63.2	62.7	-3.5
United States	66.9	66.5	65.4	64.2	64.1	63.6	-2.9

Source: Estimates by Scarpetta and Blöndal, 1998.

Table 8 shows that although the effective female retirement age is traditionally lower than that for men, it followed a similar pattern over the last decades. A decrease of the female effective retirement age was recorded in the 24 OECD countries between 1950 and 1995. Currently, more than half of the OECD countries have a female effective retirement age below 60.

Table 8
Estimates of the average age of transition to inactivity among older female workers

	1950	1960	1970	1980	1990	1995	Decrease 1995-60
Australia	63.6	62.4	60.3	58.2	57.6	57.2	-5.2
Austria	64.7	61.9	60.6	59.3	56.7	56.5	-5.4
Belgium	62.9	60.8	59.1	57.5	54.7	54.1	-6.7
Canada	61.2	64.3	63.0	60.5	59.3	58.8	-5.5
Denmark	63	64.6	62.0	61	59.9	59.4	-5.2
Finland	64.7	63.2	60.6	59.6	59.4	58.9	-4.3

France	69	65.8	64.0	60.9	59	58.3	-7.5
Germany	62.7	62.3	62.2	60.7	58.2	58.4	-3.9
Greece	64.3	64.4	64.3	62.5	60.6	60.3	-4.1
Iceland	..	..	69.6	65.8	66.4	66	..
Ireland	68.7	70.8	69.8	66	61.8	60.1	-10.7
Italy	64	62	60.7	59.5	57.5	57.2	-4.8
Japan	65.5	64.6	64.6	63.9	63.9	63.7	-0.9
Luxembourg	64.8	63.8	62.3	60.8	56	55.4	-8.4
Netherlands	64.1	63.7	62.9	58.4	55.8	55.3	-8.4
New Zealand	61.2	62.5	60.9	58.7	59.2	58.6	-4.0
Norway	69.0	70.8	66.2	61.5	63.0	62.0	-8.8
Portugal	68.5	68.1	65.3	62.9	61	60.8	-7.3
Spain	68.9	68.0	64.7	63.6	59.7	58.9	-9.1
Sweden	65.4	63.4	62.5	62	62.4	62.1	-1.3
Switzerland	67.2	66.9	65.4	62.4	61.1	60.6	-6.3
Turkey	70.2	69.2	68.3	67.6	68.3	66.6	-2.6
United Kingdom	63.9	62.7	62.4	62.0	60.5	59.7	-3.0
United States	64.2	65.1	64.8	62.8	62.2	61.6	-3.5

Source: Estimates by Scarpetta S. and Blöndal S., 1998.

There is a direct relationship between older male retirement ages and older male participation rates. In the countries where the effective retirement age is below 60, less than 50 per cent of the male population is participating in the labour force. However, in Japan and Iceland, where the participation rate of the 55-64 years old is above 80 per cent, the effective retirement age is the highest of the OECD area. However, for women aged 55-64 years, the participation rate has remained stable or even increased, while their average retirement age has fallen.

As a result of this trend towards early retirement, few people in most OECD countries, are working after the age of 60 and almost none after 65. Obviously, longer life expectancy and better health has not been accompanied by longer working lives. To the contrary, people are retiring earlier and earlier.

5. Old age pension systems as incentive for early retirement

All OECD countries have established systems to support people in their old age. Typically people contribute to such schemes during their working life in exchange for income support after a certain age. Empirical research (Scarpetta S. and Blöndal S., 1998) shows that expected pension wealth usually falls with continued work after a certain age rather than being independent of it. These disincentives depend on: (i) the statutory and minimum ages of entitlement to pensions, (ii) the pension replacement rate, (iii) the pension accrual profile, (iv) the actuarial adjustment to pensions and (v) the private pensions.

(i) The statutory and minimum ages of entitlement

As table 9 shows, in more than half of the OECD countries, male workers are entitled to public pensions at the age of 65. This statutory age ranges from a low of 60 in a few countries (Japan, France, Italy) to a high of 67 in some Nordic countries (Denmark, Iceland and Norway). The statutory entitlement age is often lower for females. Since the 1960s, most OECD countries have kept the statutory age unchanged; only a few countries have lowered the statutory retirement age, and a few countries have already started to increase it.

Table 9
Statutory age of entitlement to public old-age pensions

	Males			Female		
	1961	1975	1995	1961	1975	1995
Australia	65	65	65	60	60	60
Austria	65	65	65	60	60	60
Belgium	65	65	65	60	60	60
Canada	70	65	65	70	65	65
Czech Republic			60			57
Denmark	67	67	67	67	67	67
Finland	65	65	65	65	65	65
France	65	65	60	65	65	60
Germany	65	65	65	65	65	65
Greece	65	62	62	60	57	57
Hungary			60			56
Iceland	67	67	67	67	67	67
Ireland	70	68	66	70	68	66
Italy	60	60	62	55	55	57
Japan	60	60	60	55	55	58
Korea			60			60
Luxembourg	65	65	65	65	60	65
Mexico			65			65
Netherlands	65	65	65	65	65	65
New Zealand	65	65	62	65	65	62
Norway	70	67	67	70	67	67
Poland			65			60
Portugal	65	65	65	65	62	62.5
Spain	65	65	65	65	65	65
Sweden	67	67	65	67	67	65
Switzerland	65	65	65	63	62	62
Turkey			60			55
United Kingdom	65	65	65	60	60	60
United States	65	65	65	65	65	65

Source: Scarpetta, S. and Blöndal, S., 1998

There are good reasons to think that raising the statutory retirement age will raise participation rates of older workers. However, a rise in statutory age alone does not necessarily entail rising effective retirement age. If we compare tables 7 and 8 with table 9 we see that the effective retirement age has fallen despite unchanged statutory age. Therefore, in most OECD countries, workers have left the labour force before reaching statutory retirement age, showing that there is a strong preference for early retirement. However, the statutory retirement age may act as a barrier for those who remain in employment up to this age and wish to continue working. The opportunity cost⁷ to continue in employment is usually very high.

Several OECD countries allow, under certain conditions, to access pensions before the statutory age. Many European countries have introduced seniority pensions for those who have been contributing for a long time and who have reached a certain minimum age for entitlement. Other countries allow older citizens to obtain their pension prior to the statutory age, subject to permanent actuarial reduction of benefits. The minimum age varies across countries but on average, it is 60 for males. Working beyond this age has a high opportunity cost due to forgone pensions and continued contributions while working with little or no gains in pensions. Also, the receipt of early pensions is often subject to permanent exit from the labour market. Raising the minimum age for entitlements to pension will have an important effect on effective retirement age only if extended early retirement options are not available any longer.

⁷ The opportunity cost of continuing in employment is the high foregone pensions and paid contributions while working, with little or no increase in eventual pensions after retirement.

(ii) The pension replacement rate (PRR)

Table 10 presents gross PRRs that a 55 year old worker could expect to get at standard retirement age if he would continue working until then. We can see that PRR have risen over the last 30 years. However, they differ considerably across OECD countries. At one extreme there are countries where pensions can be expected to be close to the earnings level before retirement (Italy, Luxembourg, Iceland, Portugal, Sweden and Austria), or even to match or exceed earnings from work (Spain and Greece). At the other extreme there are countries (Australia and Ireland) where only about 40 per cent of gross earnings can be expected to be replaced by public pensions. However, for the majority of the countries the PRR indicator is in the range of 47 to 67 per cent.

Comparing tables 7 and 8 with table 10, we see that despite PRRs have risen over the last 30 years, effective retirement ages have fallen. There is no clear relationship between the evolution of the PRRs and that of effective retirement age. For instance in Japan, where participation rates of older workers are very high, the PRR has risen strongly. At the other extreme, France, where effective retirement age has fallen drastically, PRRs have increased modestly.

The structure of PRRs also seems to depend on income levels and the form of employment. The existence of flat pension components, maximum and/or minimum pensions implies that in many countries, replacement rates are higher for those with low earnings than for those with high earnings. This pattern of PRRs may partially⁸ explain why early retirement is concentrated among those with low earnings capacity. In some countries, PRRs are also lower for the self-employed. For example, the self-employed in Japan are only entitled to basic old-age pensions and not to mandatory earnings-related pensions, which implies that the PRR for a single person with average earnings was only 17 per cent for the self-employed compared with 44 per cent for employees in 1995. This could explain the high proportion of self employed among the older actives in Japan (30 per cent). The PRR for self-employed in general, and for farmers in particular, is also much lower than for employees at least in some European countries (e.g. Belgium, Germany, Greece). This is in line with the fact that the self-employed tend to work longer than employees.

⁸ The fact that this incidence pattern is present in countries where the replacement rates are similar across earning ranges shows that other factors play a role as well.

Table 10
Expected old age gross PPRs: Synthetic indicator⁹

	1961	1975	1995
Australia	19.1	32.8	40.9
Austria	79.5	79.5	79.5
Belgium	72.6	70.5	67.5
Canada	31.3	45.1	51.6
Czech Republic			53.2
Denmark	35.9	42.3	56.2
Finland	34.9	58.6	60
France	50	62.5	64.8
Germany	60.2	59.6	55
Greece			120
Hungary			54.6
Iceland			93
Ireland	38.6	28.9	39.7
Italy	60	62	80
Japan	24.6	54.1	52.1
Luxembourg			93.2
Netherlands	32.2	48	45.8
New Zealand	32	43	61.3
Norway	25.3	61.2	60
Poland			53.7
Portugal	85	77	82.6
Spain		50	100
Sweden	53.8	77.1	74.4
Switzerland	28.4	51.7	49.3
United Kingdom	33.4	33.8	49.8
United States	39.1	49.1	56

Source: Scarpetta, S. and Blöndal, S., 1998.

(iii) The pension accumulation rate

The rate at which pension rights accrue has an important impact on the retirement decision. If the pension accrual rate is zero there are no penalties in terms of lower old-age pensions from withdrawing from the labour market. However, if the accrual rate is high there are incentives to continue working. Pension accumulation rates have sharply decreased since the 1960s. However, they differ significantly across OECD countries. In some countries, such as in Australia, pensions are unrelated to employment/contribution records but on length of residence, in which case the accrual rate with respect to employment is zero. In other countries, such as in Germany, the level of pensions increases over the

⁹ The figures refer to theoretical PPR and are based on several assumptions. PRR are averages of two earnings levels (i.e. average and two-thirds of average) and two household compositions (i.e. a single worker and a worker with a dependent spouse). It is assumed that the employee works from the age of 20 until the standard age of entitlement to public pensions. The earnings profile over the working life is assumed to be flat and earnings revalued in line with changes in average earnings. The expected PRR at 55 is computed using pension rules prevailing at that age or announced changes in rules up to the standard entitlement age. The reported PRR cover basic pensions, means-tested supplements and mandatory occupational pensions only. The calculated PRR reflects: (i) flat levels of pensions in flat-rate regimes and/or flat supplements for dependants in earnings-related regimes (ERR); (ii) the profile of the pension accrual factor and the length of contribution periods in ERR; (iii) maximum and minimum levels of pensions in ERR. The main weaknesses of the synthetic indicator are: (i) full indexation of earnings for benefit calculation, so that the PRR is overstated when earnings for pension purposes do not rise in line with the general earnings (e.g. when indexed on the CPI or not indexed at all); (ii) flat real earnings over the reference period used to calculate earnings-related pensions, so that the pension level is overstated when the general level of real earnings rises, when older workers change jobs which often means cuts in earnings, and when the reference period is very long, so that it includes early career years with below-average earnings (ii) the tax treatment of benefits is not taken into account: in countries where pensions are largely untaxed the net PRR is higher than the gross rate. Because of these assumptions, the change in the synthetic indicator does not reflect changes in the earnings base used to determining pensions or alterations in the tax treatment of earnings and benefits.

whole working life. In between are countries where full pensions are earned relatively quickly, implying zero pension accrual rates for older workers.

The incentives embedded in high pension accumulation rates have been weakened in some countries by crediting some form of inactivity over working-age years as equivalent to covered employment. For example, special early retirement schemes involve continued contributions for old age pensions; disability benefit recipients do not experience any drop in their old-age pensions due to their non-employment status; and in some countries (e.g. Germany) the unemployed are entitled to pensions in the same way as the employed.

(iv) Actuarial adjustment to pensions and long-serving pensions

While maintaining a statutory age of entitlement, a few countries¹⁰ allow older workers some flexibility in accessing their pension with some adjustment in the value of the retirement income. The earliest age at which pensions can be accessed is 60 and the adjustment to pensions last at maximum to 70. The most common adjustment is about 0.5 per cent reduced pension per month of early or deferred withdrawal. The adjustment factor is significantly higher in Japan.

In Italy, Greece, Austria and Germany pensions can be accessed before the standard retirement age if workers have contributed for a sufficient number of years. The contribution period required for such early withdrawal is 35 years. However, the earliest age at which such withdrawal is allowed varies considerably across countries¹¹. A common feature of systems that allow for early pension withdrawal is that access is conditional on ceasing work, at least until the standard retirement age has been reached. In some of the countries which allow early pension withdrawal, the earliest age at which such benefits can be paid coincides with spikes in the probability of retiring: early-withdrawal options have thus clearly encouraged retirement.

(v) Private occupational pension schemes¹²

Private occupational pension plans also discourage work at older ages. In recent years, such plans have been expanded considerably and are considered to be part of the answers to financial problems of government pensions systems and to the expected widening pension gap. The role of private pensions varies among countries and their development is linked to that of government systems. In France, Switzerland and Hungary, these schemes are obligatory for employees (except for some categories and the self-employed)

¹⁰ The US, Japan, Canada, Sweden and Finland offer such flexibility on both sides of the standard entitlement age, whereas Greece and Spain have this possibility only available for early withdrawal, and Germany, the United Kingdom, the Czech Republic and Hungary have it only for deferred withdrawal.

¹¹ In 1995, in Italy pensions could start at the age of 52, in Greece at 58, in Austria at 60 and in Germany at 63.

¹² That is, an arrangement organised by an employer or on behalf of a group of employers, to provide pension and/or other benefits for, or in respect of, one or more employees on leaving service or on death or retirement. (OECD, 1998b)

The eligibility age for these schemes is often lower than the statutory age for public pensions. Neither the replacement rates nor the penalty for early retirement rate nor the penalty for early retirement are actuarially neutral and in this sense, their sensitivity to demographic developments is similar to that of public systems. As with public schemes, working beyond the pension age adds little to eventual benefits. This is what happens in the UK, especially for employees whose pension schemes often specify a retirement age lower than that of the public scheme. However, where schemes are of the defined benefit type and specify retirement at an earlier age than the public scheme, and especially where they permit early payment of pensions, the incentives to retire early increase.

6. Women's transition to retirement

In some countries women receive preferential treatment in terms of the age at which they qualify for state pension. As we can see in table 9, in half of the OECD countries, the statutory age of entitlement to public pensions is lower for women than for men. This favourable treatment that women receive may be justified on several grounds (OECD, 1995b). Historically, the retirement pension was awarded on a family basis. The logic behind retirement insurance was that the father would be the family breadwinner and that the mother would care for the home. One of the reasons why women obtained individual pensions at a lower retirement age in certain countries, could be to compensate them to some extent for the years that they had spent outside the labour force caring for children. It may also be based on traditional thinking that older women are physically weaker than older men. The OECD (OECD, 1995b) mentions other reasons such as that it was a way to secure a better match between retirement ages for a couple in which the woman was generally presumed to be younger than the man. It also notes that it may be a way to compensate women since women in earlier generations derived less satisfaction from employment because of the kinds of jobs they were given. However, currently, women are ever more eager to work and are occupying increasingly attractive jobs. It seems that there is no longer a rationale behind different retirement ages for men and women. The EU member states are gradually rising the standard retirement age for women in order to equalise men and women's retirement ages¹³.

In the past, women's participation in early retirement schemes has been low in relation to their share of total employment. In Belgium, by December 1989 only 22 per cent of the beneficiaries of early retirement schemes were women. In France, women accounted for fewer than one third of early retirees. In the Netherlands, in 1990, 15.2 per cent of males between 55 and 64 were on early retirement. This contrasts with only 2.8 per cent for women (OECD, 1995a). There are several reasons for this. First of all, during the 1970s, the retirement age in many early retirement schemes was generally 60, which was the statutory retirement age for women in many countries. Also, during the 1970s, early retirement programmes were de facto targeted at declining manufacturing industries whose work forces were predominantly male. In other words, even when age conditions did not prevent women from taking early retirement under government schemes, the targeting effect made it harder for women to avail themselves of such schemes. Given the limited number of early retirement avenues open to women, some women may have been using the sickness schemes as a route to early retirement. This has been the case in the United Kingdom and Sweden (OECD, 1995b). However, women are also clearly underrepresented in occupational invalidity schemes.

¹³ Different pension ages in occupational schemes are clearly prohibited by Article 119 of the EC Treaty which prescribes equal pay (including pensions) for men and women.

In the EU, there have been important reforms in this area and, as we have already noted, most member states have now equalised their pension age or plan to do so early next century. Equalisation has been achieved mainly by raising women's pension age to that of men. However, women still encounter difficulties in accessing pension schemes because their paid and unpaid work patterns do not conform to the pattern of long-term continuous participation in paid work on which entitlement to those schemes is based. Women are disadvantaged by such requirements because many women have a more discontinuous work pattern. Also, in the EU, the numbers of women involved in part time work is very significant. The European Commission estimated that in 1994, 17 million of the 21 million part time workers in the EU were women. In relation to pay, there is a persistence of an earnings gap between men and women in every member state (Bulletin; 1994), and low pay tends to mean lower benefit rates .

A common rule in both state or employer sponsored national schemes and employer sponsored company schemes, is the requirement of a minimum period of membership to be satisfied before rights are acquired. Long qualifying periods disadvantage women. Also, the reference wage on which pension benefits are based can also be a disadvantage for women, depending on their career pattern. For example, if women end careers on a part-time job and the wage of the last job is the reference wage, such a disadvantage arises.

In the EU, there are two rules which compensate women for the difficulties they encounter gaining access to adequate pension provision because they do not comply with pension entitlement rules geared towards a particular pattern of paid work. The first type of compensatory rule focuses on sex or marital status or a combination of both. Provisions falling within this category include different pension ages, survivors' benefits, dependency additions and derived rights generally. The second rule, makes special provision for caring. The rule requires pensions schemes to treat periods of care¹⁴ as periods of insurance. Also, basic pension systems relax the link between pension entitlement and engagement in full time, continuous relatively well paid work. For instance, basic pension systems provide pension on the ground of residence and nationality rather than on participation in paid employment.

The advantage of the compensatory rules and basic pension systems is that they enable women (and men) without a history of full time, continuous highly paid work to secure an adequate retirement pension income. However, compensation for care provisions does not protect the pension position of workers (women and men) engaged in part time, non continuous, low paid work. The expansion of flexible forms of employment make it likely that the numbers of such workers will increase rather than decrease in future years, thereby increasing the number of people with insecure or inadequate pension rights. Therefore, an adequate response to women's specific disadvantages in regard to pension cannot consist only in an equal statutory retirement age. elements of basic pensions such as guaranteed minimum pension entitlement are required.

7. Are reasons behind early retirement justified?

(i) Do older workers cost more?

¹⁴ Mainly child care but this does not exclude other forms of caring (such as caring for elderly members of the family).

It is commonly believed that, for companies, older workers are more expensive than younger workers, because of higher remuneration, fringe benefits and social contributions. While it is true that wages and fringe benefits often rise with age, there is no reason to believe that performance and accumulated know how of older workers does not compensate for the higher cost.

On the other hand, earnings do not necessarily continue to rise until the end of the working life. In hierarchical systems, such as the civil service, salaries do peak at the end of workers' careers. In technical professions, more linked to output, peak in earnings may be reached in the middle of the career. In Japanese firms, earnings generally peak at around the age of 60, which is the mandatory retirement age in many companies. Under the re-employment system, the firm retires workers who have reached the mandatory retirement age, giving them a lump-sum retirement payment. The firm then rehires these workers, usually in a lower position in the hierarchy of the firm and with a cut in their wages of about 20 to 25 per cent. Similarly, in the United States, about half of the older workers still in the labour force have already left their career jobs and moved into part-time or other less well remunerated jobs to bridge the gap until they are entitled to a full pension. In other countries however, where early retirement benefits are relatively high, older workers prefer to exit rather than take a cut in income. This is linked to the fact that pension remuneration is often based on the level of the last years of earnings (ILO, 1995). There is some change in these systems today and reference periods tend to be extended over a longer period, while it is tried to flatten earning increases in the years before retirement.

It has been argued that older workers may be more expensive not so much in terms of their wage costs but in terms of their non-wage costs such as pension costs (Casey, 1997). A 1995 survey of UK companies, tried to identify the various factors in discouraging the recruitment and employment of older workers. 46 per cent of the firms reported pension costs as being an important or very important reason for being reluctant to hire older people. However, as table 11 shows, there were other, equally important disincentives for recruiting older people. The survey also shows a difference in the practices of those firms where higher pension costs are seen as an important consideration in hiring older people. 55 per cent of the companies which established a maximum hiring age responded that pension costs are important. In contrast, only 25 per cent of companies which found this reasons "not important" imposed such an age limit.

Table 11

Employers' rating of the importance of various factors in discouraging the recruitment and employment of older workers (row percentages)

	very important	important	not important
Rules governing pensions schemes	16	30	48
Payback period on training	6	43	45
Lack of appropriate qualifications	14	23	55
Trade union rules	1	11	79
<u>Shortage of older applicants</u>	<u>9</u>	<u>36</u>	<u>48</u>

Source: Casey, 1997

(ii) Are older workers less productive?

In the relevant literature, little is reported on the relationship between ageing and work performance. However, poor health is stated as one of the main reasons of low productivity at old age. The risk of poor health rises with age, and the beginning of health problems affects the timing of retirement for a significant number of older workers. However, increases in life expectancy have been accompanied by significant health improvement at older ages. The shift of employment away from manual occupations has also diminished the significance of age related health problems for job performance.

Age has been reported to account for a small percentage of the variance in workers' cognitive, perceptual and psychomotor abilities, when experience, education and type of occupation were controlled for. It has also been argued that older workers compensate for declines in various information processing and physical abilities by means of experience and mental and physical load-reducing strategies. In support of this, Warr (1994) cites a study of typists aged between 19 and 72. Older typists performed as fast as younger ones by means of looking further ahead and processing longer chunks of material than did younger typists. Thus, although younger typists performed better in separate speed tests, the superior anticipation of older typists enabled their work performance to be equivalent. Another example is provided by a study of bus drivers. It is known that information processing and reaction times decline with age. Shephard et al. (1988) report that 60-64 year old bus drivers had fewer accidents per kilometre than drivers in any other age category, even after controlling for years of bus driving experience. They concluded that the judgement and patience of older workers, together with the natural selecting out of "accident prone" personnel, compensated for any deterioration in reaction time or visual acuity.

Concerning organizational behaviour issues such as turnover and absenteeism, empirical evidence suggests that older workers demonstrate less absenteeism, lower turnover, fewer accidents, higher job satisfaction and more positive work values than younger workers (Warr, 1994). It has been suggested that voluntary absence (where people take time off work without medical or organizational approval) is less common for older workers, although absence for reasons of sickness tended to be more important (Griffiths, 1997). Taken together, no overall difference in absence rates was apparent.

An important aspect concerning the effects of ageing on productivity, is whether older workers have greater difficulty in learning new skills. Even if ageing typically does not reduce a worker's ability to perform familiar job tasks, a declining ability to adapt to changing skill requirements would tend to lower their productive contribution over time. "Trainability", like productivity, is not easy to measure, but the International Adult Literacy Survey (IALS) is an important source of evidence about the relationship between age, productivity and trainability (OECD, 1998a). The IALS provides continuous scores of several different dimensions of literacy (i.e. competencies using written and quantitative information) in realistic situations. Research concludes that recent trends in work organisation and technology are increasing the importance for job performance of cognitive skills, such as the ability to comprehend, manipulate and communicate symbolic information. This analysis suggests that the literacy skills measured by the IALS are an important determinant of worker productivity. Good literacy skills should also improve the person's trainability, a key aspect of which is the ability to take in and process new information. Evidence from the IALS also indicates that literacy skills improve with practice and deteriorate if not used. Therefore, workers employed in a learning environment appear much less susceptible to a decline in trainability.

Evidence proves that the productive potential of the older people does not appear to be substantially impaired by ageing per se. A decline in performance may be falsely attributed to age, when in fact it may be due to skill obsolescence or a burn out phenomenon which may occur at any age and can be remedied through training practices.

(iii) Substitution between old and young workers

Given the shortage of jobs in the labour market, it is commonly believed that the old should make room for the young, who should be spared the frustration and possible psychological harm of feeling rejected right at the start of their working life by the world of work. Early retirement is often encouraged,

in the hope that it can improve job prospects for the young unemployed. Nevertheless, as A. Sen noted in his address to the International Labour Conference (ILO, 1999; see citation at the beginning of this paper), whether young and older workers are substitutes remains doubtful.

A first reason for this is that entry and exit flows in the labour market do usually not occur in the same sectors, companies or occupations. Early retirement schemes have been popular in the industrial sector and in industrial occupations in big firms. Entries are much more concentrated in the service sector, service sector occupations and smaller firms. On a macroeconomic level there is therefore no reason to believe that those leaving give place to younger entrants in the labour market. Consequently also the extension of statutory and effective retirement age would not lead to rising joblessness among most young entrants.

A different case are retirement options with a replacement condition. In such schemes, workforce renewal is the main target and the schemes had been successful to some extent, but take-up has not been high probably because of the above mentioned problem of diverging profiles of entry and exit flows (ILO, 1995).

8. Reversal of the early retirement trend. Why should the trend be reversed?

The ageing of the populations in OECD countries is posing major economic and social problems for our societies. The effects of declining fertility and the ageing of the baby boom generation discussed in the first section of this paper, will have particularly large implications for policy makers in the future. In the next 25 years, the number of persons at pensionable age will raise by a further 70 million, while the working age population will rise by only 5 million. A consequence is a further decline in employment rates and an increase in dependency rates. A reversal of the early retirement trend would keep the employment ratio from falling. In some countries, increased participation by working age women or by international migration could play a supporting role. However, these effects will be small compared with an extension of employment rates for the elderly (OECD, 1998b).

The exclusion and marginalisation of older people from the labour force has several implications within and beyond the workplace, which have strengthened concerns about the social and economic impact of the ageing populations. The European Commissioner for Employment, Industrial Relations and Social Affairs, Pádraig Flynn expressed this in the European Parliament, “it simply does not make economic sense to allow knowledgeable, experienced and healthy people to be barred from employment by age. There will be no place in the 21st century for age discrimination in hiring, training and firing”¹⁵. The European Commission¹⁶ has also reported that the changes now taking place in firms, with younger workers replacing older ones, are unsustainable over time.

Walker et al (1997) see three main consequences of early retirement in terms of social integration and social rights of older people. First of all, the shift from regular towards early retirement achieved through a variety of mechanisms has led to a loss of control over the retirement process for the individual and has restricted the power to anticipate it. More often, it is the employer who de facto

¹⁵ Flynn, P. “Older People in the 21st Century -a new lease of life” European Parliament, Brussels, 1-2 October 1998

¹⁶ “Modernising and improving Social Protection in the EU”. Communication from the Commission, 1997.

determines the retirement age. There has thus been an erosion of the older worker's right to work. Secondly, entitlement of social rights is now no longer automatic. The nature of the contributory principle has been undermined. Previously, people may have rested in the knowledge that they would have automatic entitlement to a full pension so long as they had contributed for a specified time and attained a specified age. The flexibility of various methods for early exit, and in particular the use of unemployment and incapacity insurance, may not ensure that a person receives a retirement pension upon retirement. Also, early exit has resulted in many older workers who have ceased economic activity preferring to call themselves discouraged workers rather than considering themselves retired. Finally, all this has resulted in the devaluation and marginalisation of the older workers remaining in the labour market. Evidence from the EU Observatory on Ageing and Older People indicates that those over 50 years are over-represented in the long term unemployed in most EU countries and those over 45 experience discrimination in terms of promotion, recruitment and training.

In terms of attitudes towards retirement, the practice of extensive early retirement has led to expectation to retire earlier than at regular retirement age. Early exit has, for many, become an expected social right and a large consensus exists on this form of "cushioned" exits, especially in redundancy situations. However, not all workers are treated equally in respect to early retirement, so that an equity problem arises.

9. The pension problem

Early retirement policies have also set in motion a growing structural problem for social spending. According to the ILO's 1995 World Labour Report, public pension expenditure, as a proportion of GDP more than doubled between 1960 and 1984 to become the largest single item in the public budget of most industrialized countries. The real pension volume more than trebled on average over the period from 1970 to 1989. The largest factor influencing growth in pension costs was the expansion of the range of persons entitled, particularly in Belgium, Canada, Germany, Finland, France and Portugal. Given the increase in old age dependency mentioned earlier, demographic pressure on pension expenditures will begin to increase during the first decade of the next century, when the baby boom generation reaches retirement age. If at the same time, the working population shrinks, as it has done in recent decades owing to the decline in participation rates and the reduction in the numbers of young entrants to the labour market, the contributions and tax base will be considerably reduced. In most countries, the expected increase in pension costs will substantially exceed the projected growth rate of total social expenditure.

Turner et al (1998) note that in the absence of major reforms or sometimes dramatic increases in contribution rates to the OECD public pension systems, a substantial financing problem will emerge as the number of workers per pensioner falls. If policies remain unchanged, the direct effect of public pension commitments (abstracting from interest payments on accumulated debt) would increase government deficits. The largest effect would be for Japan where the pressure of pensions would lead to a progressive deterioration in government financial balances equivalent to 10 per cent of GDP by 2050.

Chand and Jaeger (1996) found that in order to keep public pension accounts in balance, contribution rates (including transfers from central government budgets) would have to rise relative to 1992 by the equivalent of as much as 20 per cent of the wage bill in major European countries, by 6 per cent in the case of the United States, Canada and Japan, but could remain stable in Sweden and the United Kingdom.

Roseverare et al (1996) studied the impact of age-related public expenditures on overall government budget positions and on national savings for 20 countries. Using demographic projections, models were constructed for the evolution of public pension expenditures and contributions, on the assumption that present policies continue. The quantitative analysis suggests that, if no further measures were taken, ageing would have a major impact on government budgets and on national savings in most of the countries considered. Amongst the major seven countries, only the United States and Canada seem to be well-placed to meet the pressures of ageing, both because pensions expenditure rise only modestly and because their underlying budget positions are relatively sound. Japan, Germany, France and Italy face strong pressures from pension expenditures and generally have underlying budget positions that would add to public debt, even if demographic pressures were absent. The United Kingdom faces no significant pressure from ageing, but public debt would nevertheless rise. Austria, Finland, the Netherlands, Portugal, Spain, and Sweden experience a rapid increase in public debt, but Australia, Belgium, Denmark, Iceland, Ireland and Norway experience only a mild increase or, in some cases, a decrease in public debt, between now and 2030. Not all these simulations incorporated recent reforms designed to reduce benefits and the contribution rates.

In conclusion, research points in the same direction. With unchanged policies, projected pension benefit levels will greatly exceed projected pension contributions in most of the OECD countries, resulting in large increases in deficits in the pension accounts, and in public finance in general.

10. What are the policy options?

Different options as to how this problem could be overcome are being discussed. First, contribution rates could be increased. However, this is politically difficult as it would be unpopular and could lead to social conflict, especially as social contributions are already very high in many OECD countries. It is also in contradiction with the goal of reducing non wage labour costs, believed to boost employment growth. Another possibility is to raise taxes selectively or to expand the tax base to include the people hitherto exempted (such as pensioners themselves). Taxing enterprises on productivity gains has also been considered. However, this may have negative effects on production costs, competitiveness and productivity. Even encouraging personal savings on a large scale seems to have disadvantages as it would accentuate social differences and could withdraw too much money from circulation, which would affect economic growth. A more promising solution is the increase of tax revenues through higher employment rates of older workers: governments could allow older workers who are willing and able to work, to remain active longer, possibly beyond the statutory retirement age and companies could accept active retention policies.

Another option is to reduce benefits. However, this has serious consequences for those who already have a low pension. It may be necessary to apply such a reduction selectively or adopt measures to protect the most vulnerable. In some countries, losses in public pensions are compensated by private pensions. A third possibility is to increase the statutory retirement age modifying the rise in the number of pensioners relative to the number of contributors. The statutory retirement age of 65 was fixed early in the century when life expectancy was below 50. Now that life expectancy is close to 80, the retirement age is still the same or even lower. Most OECD countries are engaged in reforming their pension systems and most use a combination of a raise in statutory and effective retirement age, a raise in contributions and a cut in pension levels and an increase in the private pension components. Box 1 presents a summary of these reforms. Reforms differ depending on the country and the pension system. However, some

similarity can also be seen. Pensions are more and more based on a three tier system with a basic pension (often means-tested), a contribution based element and a capital funded private pension. The shares of each component in pensions differs but all countries tend toward such a composed systems.

Extensive changes, such as a non means-tested minimum income for all or a total reliance on capital funded pensions, have not yet been realized. High budgetary costs for the former and high insecurity for the latter have hindered reformers to adapt these solutions. However, the three pillar system has to be seen as a wide compromise between the two radical views and the old contribution based pay as you go systems which admittedly have run into serious financial problems because of the ageing of populations. Together with a rise in retirement age, these reforms are meant to stabilise one of the essential elements of the welfare state.

Box 1

Recent pension reforms: Impact on incentives to work

The motivation for these changes has been cost containment and financial balance in the face of ageing populations. An important component of the reforms has been the lengthening of the reference period used in determining the value of pensions (France, Spain and Sweden) or the length of the contribution history required for early access (Belgium), and changes in the indexation of pensions to net wages (Germany and Japan) or prices (France) instead of gross earnings. Several countries have also increased the standard age of entitlement (United States, Japan, Italy and New Zealand), altered the pension accrual rate and/or the value of pensions (France and the United Kingdom), and given people greater choice to determine at what age they could access benefits (Germany).

United States: The 1983 reform, will be fully implemented in 2022 and includes:

- (i) raising of the standard entitlement age to public pensions from 65 to 67.
- (ii) increase of the actuarial adjustment factor for each year of work beyond the standard age from 3 to 8 per cent, while the pension system will still allow access to pension at 62 but with an adjustment factor of 6 2/3 per cent for each year retirement taken from the age of 64 onwards plus 5 per cent for each year of retirement taken at 62 and 63.
- (iii) invariability of the implicit tax on continued work for ages 62-64 but decreases for ages 65-69.

Japan: The 1994 reform, will be fully implemented in 2025 and includes:

- (i) raising of the standard eligibility age for the basic component of pension payments from 60-65 for employees, access at the age of 60 still being possible but with an actuarial adjustment yet to be decided.
- (ii) raising of the contribution rates until the long-run stability of the system is achieved: this, however, would imply an increase from 14.5 per cent in 1995 to around 30 per cent according to official projections.
- (iii) reduction of disincentives to work for ages 60- 64 (assuming that the actuarial adjustment factor will be similar to that currently applied for the self-employed) but the increase in contributions implies that the implicit tax increases significantly prior to the current retirement age of 60.

Germany: Reforms in 1992 and later will be fully effective after the year 2004 and include:

- (i) Actuarial reduction applicable to seniority pensions from the age of 63 (for males) and actuarial increases for deferred retirement. The adjustment factors are 3.6 per cent per year of early retirement plus reductions due to fewer contribution years; and 6 per cent for each year of retirement after 65, in addition to increases due to a longer contribution history.
- (ii) Old-age pensions available to some categories of workers at the age of 60 (including unemployment pensions) will also be subject to actuarial reduction.
- (iii) Reduction of the implicit tax on continued work for ages 60 to 64 and 67 to 69, but the system will continue to discourage work after the age of 55.

In Germany, new reforms are under way. These reforms plan, *inter alia*, to introduce a (i) moratory on indexation which decreases the pension/wage ratio and (ii) a basic minimum pension.

France: The 1993 reform, which will be fully effective in the year 2008, includes:

- (i) Increasing the contribution period for full pension from 37.5 to 40 years. For an employee who has contributed since the age of 20, strong incentives are given to work until the age of 59 whereas there is an implicit tax on working from 57 to 59 in the current system.
- (ii) However, as there is still the option to retire via the ordinary unemployment benefit system and special early retirement schemes, the implicit tax is unchanged when people retire via the ordinary unemployment benefit system and special early retirement schemes.

Italy: The 1992, 1995 and 1997 reforms will significantly change the public pension system:

- (i) the standard retirement age will be gradually raised to 65 for men and 60 for women (by 2002);
- (ii) the earliest age for seniority pension will be gradually raised (54 currently) and this type of pension will be abolished in the year 2013; and
- (iii) pensions will be gradually determined by contributions over the entire working life. These reforms, when fully implemented, imply that the pension system will be fully contribution based.

United Kingdom: The 1986 reform, which will become fully effective in 2028, implies:

- (i) reduction of the annual accrual rate in the State Earnings Related Pension Scheme (SERPS) from 1.25 to 0.41 per cent. However, the original intention with the SERPS was that maximum replacement rate should be 25 per cent, implying that accrual rates after 20 years of contributions would be zero. The reform thus increased the pension wealth accrual after 20 years 20 years of contributions, but disincentives still remain.

Several of the smaller OECD countries have made changes to their pension system to encourage the elderly to work: Finland has introduced an age-specific pension accrual rate for those continuing to work between 60 and 70 (2.5 per cent increase in pensions for each year compared to 1.5 at younger ages), although it would not affect persons with a long work history because of a ceiling on the pension replacement rate attained before the age of 60. A few countries (Austria) with special systems for civil servants are aligning conditions in these schemes to that of the standard system.

Source: Blöndal S. and Scarpetta, S. (1998)

The ILO believes that ensuring a smooth transition from work to retirement is a desirable option. This implies that retirement should be flexible and that early retirement should be actuarially neutral, so that decisions on retirement would depend on individuals' comparison of the costs and benefits of extra years of work. Incentives to retire early should be removed and those who wish to continue working beyond retirement should be allowed to defer their claim to an old-age pension with a corresponding increase in its value.

Gradual retirement is an option which has important advantages. For instance, Casey (1997) showed that (i) it helps to overcome the supposed "pension shock" associated with a too rapid transition from working to not working; (ii) it permits the demands of work to be better adjusted to any decline in capabilities that might be associated with age; (iii) it enables older people to stay longer in work than might otherwise be the case (by avoiding early retirement or by enabling later retirement) and thus relieves pressure on pension and other income replacement systems; (iv) it provides a more "gentle way" of affecting labour force reductions and might open up employment opportunities for others both young and old; and (v) it retains experience within the employing organisation and, suitably managed, facilitates its transition to next generations.

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A flexible work-retirement transition would be a good example of *active ageing* -the capacity of people, as they grow older, to lead productive lives in the society and economy (OECD, 1999). Incentives to retire early should be removed and those who wish to continue working beyond retirement on a part time basis should be allowed to defer their claim to an old-age pension with a corresponding increase in its value. Despite these advantages and a substantial body of literature advocating its practice, the incidence of gradual retirement in the OECD countries is limited. This seems to be linked to the preferences for full early retirements with high wage replacement rates. It is also interesting to see how in Germany a pervasive gradual retirement system has been changed, by collective bargaining, into a full early retirement scheme. As of 1998, former full early retirement provisions, which turned out to be extremely costly for social security budgets, had been changed in a part time early retirement scheme. If workers went from full time into part time work at the age of 58, their wages would be topped up to around 80 percent (for a 50 percent working time) if they were replaced by new hires. However, in the metal industry, collective bargaining agreements stipulated that workers would retire at 55, work five years full time up to 60 and then retire for good, while drawing 80 percent of their salaries over the whole period. This certainly was not the intention of the changes introduced but shows resistance to altering the old practice of full early retirement.

(i) The realisation of active ageing

The idea of active ageing was raised for the first time at the G8 Denver Summit in June 1997. The heads of state and government discussed how their countries can promote active ageing by removing disincentives to labour force participation and lowering barriers to flexible and part time employment. They also discussed the transition from work to retirement, life-long learning and ways to encourage

volunteers (Final Communique of the Denver Summit of the Eight, 1997).

As we have already mentioned, older people have now the capacity to be active in society beyond the age of 60 and even 70. There is evidence that serious incapacities are concentrated in the last two to four years of life. In section 5 we have seen that there are no valid reasons for terminating work in people's 60s if they wish to continue being active.

Existing demographic and labour market trends have been toward a concentration of leisure in the last third of life and of work in the middle of life. The active ageing reforms described in box 2 suggests that a better alternative would be a more flexible mix of leisure and work (and of learning and care-giving) over the course of life. Lifelong learning and more flexible work-retirement transitions may help to break down the standard sequencing of life in education, payed work and retirement.

Box 2

Active ageing reforms according to OECD

Active ageing reforms are those that remove undesirable constraints on life course flexibility and that strengthen support to citizens in making life time choices. An example of the former is the removal of incentives to early retirement. An example of the latter is lifelong learning which will help people to maintain autonomy as they grow older. Reform directions in many of these program areas are similar. Convergent themes include:

- Greater emphasis on prevention: making inexpensive interventions such as providing public information at an early stage of life and thereby reducing the need for later remedial action.
- Use of remedial interventions that are less fragmented and that are concentrated at critical transition points in life - early identification of problems, use of case management techniques, coordination among various agencies and measurement of outcomes.
- Better balance in the life time costs and benefits of programming to provide less constrained choices and greater responsibility at the level of individuals -such as greater linkage of life time pension contributions and benefits.
- Without a common strategic framework for reform, changes in one area can offset reforms in another; reforms necessarily cut across traditional programme boundaries. A common framework would also improve the quality of on the ground service delivery by facilitating cooperation among many agencies. There would be opportunity for sharing of lessons learned across disciplines and exchange of data and research results.

Source: OECD, 1998b.

Following the Kobe Jobs Conference of November 1997, the G8 countries presented individual action plans on how to cope with the ageing of their populations. Five countries identify in their action plans, described in box 3, their policy priorities to attain the realization of an active ageing society.

Box 3
Active Ageing strategies

France

- Gradual introduction of life long training schemes
- Development of progressive early retirement systems in order to ease the transition from work to retirement
- Limitation of early retirement schemes in order to raise the participation rate of the older workers
- Reforms of the standard and supplementary retirement pensions have been implemented in order to raise the effective retirement age by a progressive increase in the years of service required to obtain a full pension. However, people who started work at a very early age will be allowed to retire after 40 years of service, even if they have not reached the legal retirement age.

Germany

- Implementation of measures towards raising the retirement age limit
- Possibilities for a smooth transition to retirement have been widened by introducing part-time retirement schemes
- Improvement of employment opportunities for elderly workers
- Support to set up of a senior-expert bureau

Italy

- Implementation of measures (law 196/1997) to promote the realization of active ageing such as incentives for part time employment contracts.
- Development of additional voluntary forms of assistance in both the health and social security sectors.
- Creation of private pension funds. Mutual fund management firms, such as banks, securities firms and insurance companies will be allowed to stipulate agreements in order to manage pension fund assets.

Japan

- Promotion of measures to ensure continued employment up to 65 years of age.
- Encouragement of re-employment of older workers with the assistance of public employment services
- Development of “silver human resource centres” -organisations which promote remunerated social activities at local level
- Promotion of certain types of employment tailored to the needs of older workers, such as temporary or part time jobs
- Promotion of human resource development according to the specific needs of older workers.

United States

- The 1965 Older Americans Act provides the framework for addressing the needs of the older workers. The Act fosters independence among seniors by providing social and community services to older persons in greatest social and economic need.
- The Act authorises a wide array of service program through a nationwide network of 57 state agencies on ageing and 660 area agencies on ageing.
- The National Institute on ageing conducts and sponsors research into the biological, social, behavioural and epidemiological aspects of ageing, with the goal of minimizing the physical, psychological and social problems faced by many seniors.

Source: http://library.utoronto.ca/www/documents/g7/adhoc/jobs97_annex1.html

As discussed in the first section of this paper, ageing implies that older workers will become a greater proportion of the labour force in the first half of the next century. OECD labour markets have to face the challenge of integrating the increased supply of older peoples willing to remain active by removing or reducing the barriers to working longer in life.

11. Employability of older workers

Current employment problems of older workers are rooted in their relatively low levels of foundations skills, such as literacy and numeracy (OECD, 1998a). The International Adult Literacy Survey (IALS) undertaken by the OECD and Statistics Canada (Literacy Skills for the Knowledge Society, 1997) concludes that in all countries surveyed, the literacy skills of the younger age group are

higher than those of the older group. At least 25 per cent of the adults in these countries fail to reach level III (out of the V) on literacy proficiency. Level III is regarded by many experts as a minimum for coping with the complex demands of everyday life and work.

As table 11 shows, OECD Empirical research (OECD, 1998a) foresees that the cohort of workers aged 45-64 years in 2015 will be better educated than their counterparts today. The share not having completed upper secondary schooling is likely to fall by over one-third. Although this trend is likely to occur for all OECD member countries, large international differences in the distribution of education levels will persist. The same report stresses that older workers displaced from production jobs, a group with low educational attainment on average, are at a high risk of remaining jobless for an extended period of time and typically experience large earnings losses if they do become re-employed.

Table 11
Distribution of educational attainment of the labour force aged 45 to 64 years, 1995 and 2015

	1995				2015 (1)			
	Less than upper secondary	Upper secondary	Non university tertiary	University	Less than upper secondary	Upper secondary	Non university tertiary	University
Australia	44.8	29	11.6	14.6	37.1	31.8	12.1	18.9
Austria	33	58.7	1.5	6.8	17.5	69.8	2.8	9.8
Belgium	46.2	27	13.3	13.5	25.7	35.6	19.1	19.6
Canada	27.7	24.8	29.3	18.2	14.1	30.1	33.8	21.9
Czech Republic (2)	15.2	72.4	..	12.4	7.1	78.3	..	14.6
Denmark	35.5	42.4	6.1	15.9	23.5	49.6	8.3	18.6
Finland	43.4	36	8.6	12	17.9	56.2	10.5	15.4
France	38.4	44	6.5	11.1	15.4	57.8	11	15.8
Germany	15.4	58.1	11.7	14.8	8.6	63.5	10.8	17.1
Greece	71.4	14.4	3.6	10.6	41.5	29.6	9.9	19.1
Ireland	61.3	18.9	8.5	11.3	36.4	31.4	15.1	17.1
Italy (2)	67.2	21.9	..	10.9	44.6	42.3	..	13.1
Korea (2)	65	24.8	..	10.2	22.6	51.7	..	25.6
Luxembourg (2)	62	20.1	..	17.9	53.2	25.8	..	20.9
Mexico	85.1	7	0.5	7.4	64.7	16.7	1.9	16.7
Netherlands (3)	36.9	38.1	..	25	23.5	46.1	..	30.4
New Zealand	41.6	31.1	17.3	9.9	31.1	41.1	14.2	13.6
Norway	20.6	51.2	11.2	16.9	9.4	53.2	13.1	24.2

(1) The distribution of the labour force in 2015 is based on applying education specific participating rates for individuals aged 45-64 years in 1995 to the population age 25-44 years in 1995

(2) Data for non university tertiary education are included in university education

(3) Non university tertiary education is not applicable

Source: OECD 1998a

This educational upgrading should provide the basis for workers to acquire skills throughout their working life, and thus enter their older age relatively well equipped. Nevertheless, longer duration of schooling cannot be a substitute for lifelong learning. Without lifelong learning, the incoming cohorts of younger workers will continue to have educational advantages compared with older cohorts, especially since their education may be perceived to be more relevant to the current job market.

Another way of increasing the employability of older workers would be to increase the opportunity for people to change mid-life careers. For instance, people who start their career in jobs that require skills that diminish with age such as motor capabilities could change to jobs that require skills that are not influenced by ageing such as communication skills. Such an opportunity would also buffer the pernicious effects of structural changes on the employability for older workers. These older workers with obsolete skills, instead of choosing for the early retirement option, would begin a new career. For such greater flexibility to be a realistic possibility, the potential need for late career job changes must be

anticipated and appropriate training must be undertaken at an early stage in life. Most people can adjust to new work by building on skills acquired over the working life, provided that the necessary learning opportunities exist and provided that the workplace is adaptable.

The ILO's World Employment Report 1998-99 examines the labour market experiences of older displaced workers in developed economies and argues that "policies are needed to allow for training throughout working life in order to avoid the obsolescence of skills". The report stresses that persistent age discrimination has been reinforced by changes in work organization, in social security policies and in the economic environment to increase the vulnerability of many older workers. Redundancy, lay-off and pressure to withdraw from the labour market are a consequence of such a combination of factors.

In conclusion, there is a clear need to adjust skills and competencies to meet the needs of ageing populations and to achieve this goal it is imperative to ensure that education and training policies are adapted to the specific needs of older workers. As we already noted in section 2 the educational attainment is strongly correlated with employment participation. The better educated older employed are those remaining longer in employment.

(i) The role of lifelong learning

There are three main reasons why the need for lifelong learning will be reinforced by the ageing of populations. First of all, lifelong learning can help the adjustment of workers' skills and competencies to labour market demand. Secondly, it can help improve the attachment of older workers to the labour market. As we have discussed, younger workers have on average more years on schooling and have more access to training programmes than their older counterparts. As a result, it is more difficult for older workers to keep up with technological change. Adapting skills will be more fruitful than learning new ones given the relatively shorter time to recoup costs. Thirdly, lifelong learning can help to overcome productivity declines after certain age (OECD,1996).

The ILO emphasized the importance of lifelong learning in the last ILO's World Employment Report 1998-99. The report recognises the need for Governments to develop policies aimed at avoiding the premature exclusion of many older workers from the labour market and stresses that workers are less likely to face redundancy in later life if they have benefited from access to lifelong learning opportunities.

Lifelong learning is also high on the agenda of the European Commission. The 1997 Commission Communication Towards a Europe of Knowledge (1997) places lifelong learning at the centre of an integrated approach to future policy action. The Communication stresses the need "to promote on a lifelong basis creativity, flexibility, adaptability, the ability to 'learn to learn' and to solve problems which are the conditions we must meet in order to avoid the now-rapid obsolescence of skills".

At the Meeting of the OECD's Education Committee at Ministerial Level: Making Lifelong learning a reality for all (1996), Education Ministers stressed the crucial importance of learning throughout life in order to deal with the employability of our ageing population and agreed on strategies to implement lifelong learning (see box 3).

Box 3
Strategies for lifelong learning

Strategies for lifelong learning need a whole-hearted commitment to new system-wide goals, standards and approaches, adapted to the culture and circumstances of each country. OECD Education Ministers agreed to:

- Strengthen the foundations for learning throughout life, by improving access to early childhood education, particularly for disadvantaged children, revitalising schools and supporting the growth of other formal and non-formal learning arrangements;
- Promote coherent links between learning and work, by establishing pathways and bridges that will facilitate more flexible movement between education and training and work, aimed in particular at smoothing the initial transition between the two, and by improving the mechanisms for assessing and recognising the skills and competences of individuals - whether they are acquired through formal or non-formal learning;
- Rethink the roles and responsibilities of all partners - including governments - who provide opportunities for learning;
- Create incentives for individuals, employers and those who provide education and training to invest more in lifelong learning and to deliver value for money.

Source: OECD Meeting of the Education Committee at Ministerial Level: Making Lifelong learning a reality for all. Paris, 17 January 1996

However, a move towards lifelong learning will be a gradual process. Many issues such as its financing remain unanswered. In the meanwhile, there is still the imperative need to help the “stock” of older workers to adapt during the transition. Well targeted training programmes and other labour market policies can help address specific current labour market problems of older workers. However, both stock (the current problems of older workers) and flow (to start seriously a policy of lifelong learning for younger cohorts) policies have to be pursued at the same time.

(ii) Public policies

Older workers do not represent a significant proportion of the recipients of public employment and training programmes but they are an increasingly important target group. In Japan, several public employment and training programmes that help older workers to maintain their jobs do exist. These include subsidies to employers whose workforce contains a specified minimum proportion of older workers, subsidies to employers linked to older workers taking public training courses and public training programmes directed at older workers about to leave at the mandatory retirement age. However, these measures remain small in size and there are no evaluations of their labour market impact.

The United Kingdom raised recently the maximum age of access to its “Training for Work” programme for the long term unemployed from 59 to 63 years to help older workers maintain contact with the labour force. France’s solidarity contracts benefit workers over 50¹⁷. The government has also recently restricted the use of measures that enable unconditional early exit of older workers from the labour market by changing eligibility criteria and introducing penalties for employers making workers over 50 redundant. Other measures encourage partial early retirement of older workers or part time working for those already retired. Part time job sharing encourages employees over 55 to take partial retirement while receiving 80 per cent of their full time salary. The level of the employers’ contribution to these schemes depends on whether a younger worker is taken on at the same time. The reduced activity

¹⁷ As well as long term unemployed, disabled people, disadvantaged youth and those receiving the occupational integration minimum income

measure allows unemployed older persons to supplement their unemployment benefit with a part time job. Other measures encourage employers to retain and employ older workers by providing subsidies or exemptions from contributions (e.g. social security). Initiatives to limit redundancies among 55-60 year old have shown positive effects. However, the same measures have not affected the rate of entry into unemployment among workers aged between 50-54. The overall deterioration of the labour market in France is an important factor to take into account when analysing the data. There is little evidence on the employer take up of government subsidies, solidarity contracts and other measures to encourage the retention or recruitment of older workers. However, there is some evidence that employers are beginning to act on concerns over corporate memory loss as well as a growing appreciation of partial retirement schemes (Labour Market Trends, 1997). In Germany, such work benefits are still rare and part time retirement schemes have yet to be taken up in significant numbers.

Training activities are more common in the United States, Canada and Japan than in other countries. The United States and Canada conduct successful job placement activities targeted at older low income workers, which include training or retraining of some kind. These activities are accompanied by counselling and are conducted mostly by non profit organizations, which have very competent placement rates of 80 to 90 per cent with older low income people (ILO, 1991).

Samodorov (ILO, 1999) notes that the training of older workers can have, *inter alia*, the following advantages for employers: (i) The habits, performance, loyalty and other merits of older workers are better known and (ii) by training older workers, the firm improves its image with the customers and public at large.

(iii) Enterprise policies

The ILO's World Employment Report 1998-99 stresses that employers tend to doubt the ability of older workers to learn new skills, despite ample evidence that these prejudices are unfounded. Biassed attitudes towards older workers and their short "amortisation" time as they approach retirement age act as disincentives to provide them with training. Less access to job-related training undermines their ability to remain employable in the face of changing work requirements. For the unemployed, the report notes the crucial role of job-search and counselling programmes and stresses that they have proved effective for many older workers who possess marketable skills but need assistance in identifying good matches with employers in a changing economy.

However, investing in older workers has a cost and employers may have doubts about the need for such an investment. Some employers do not see the need to adapt to demographic changes because they believe that the current situation of oversupply of labour will continue, as technological improvement will further reduce the need for labour. Other employers may hesitate about the returns of investment in older workers because, for instance, they have a shorter period of service remaining in the enterprise or because they question the learning ability of older workers. The latter argument could be dispelled by research results showing that, if appropriate training methods are used, older workers are able to learn new skills as well as younger ones. Furthermore, in the future there will be not enough young workers to meet all the demand. Skill shortages are already being observed in certain areas.

Auer and Speckesser (1997) analysed employment developments in the automobile industry in Germany, France and the United Kingdom and concluded that age related exit measures have helped to maintaining sound corporate cultures in offering socially cushioned exit options and have also prevented

internal labour market from growing older too fast. However, in the lean employment environment of mature industrial sectors, they have not led to a sustained restructuring of internal labour markets. The ending of many of the age related exit measures owing to their impact on public and company budgets could lead to a growing mismatch between the structure of demand and the structure of supply in internal labour market. This could have negative effects on company performance and increase the probability of unemployment for workers if no proactive policies for managing the age problem are introduced. Such proactive policies might consist of appropriate age related training, age related flexible working time and work organisation patterns. Box 4 presents examples of enterprise programmes undertaken in several OECD countries. These examples illustrate how some enterprises are taking a long term view of their staffing needs and recognized older workers as a valuable resource.

Box 4 Enterprise programmes

Training older workers

- **British Airways'** safeguards the irreplaceable skills and valuable expertise of its older staff. Analysing the age profiles of its workers, the company found that about 50 per cent were within 10 years of retirement. The company decided then to establish flexible training methods for specific target groups, with older workers forming a key group. Such training includes special "learning to learn packages", aimed to provide older workers with the tools for further specialist training in aircraft engineering in a way that suits them.
- **Aerospatiale** (France) has done considerable research to improve human resources management and setting up in house training programmes designed for engineers and project supervisors. This involves analyses of age structure, career paths and state of health. An important effort is being made in terms of training, as regards both content and the methods used, for people over 50.
- **General Electric** (USA) trains its 1,100 engineers and technicians, of whom about one third are aged 50 or older. Although classes are voluntary and on the employee's own time, participation is high because workers realize that updating their skills is essential for continued employment.
- **High Tec Engineers** (USA) developed a successful training programme for its older engineers. Participants received 10-12 weeks of half day training at full salary and on completion of the course were transferred to positions using new technology. **Aerospace Corporation** (USA) values continuity on long term projects and an "institutional memory", and relies heavily on the skills and experience of older workers. Many continue to work beyond 65 and one engineer is even 75 years old.
- **Ford** and **Vauxhall** (UK), in the process of restructuring, focussed on the internal management of human resources and adopted policies of "no enforced redundancy". They made considerable efforts to retrain older workers.
- **The Manducher Group** (France), a subcontractor to the car industry, developed career paths for manual workers which included a very precise programme linking training to knowledge of skills and operations. To ensure a transfer of skills, they introduced gradual retirement where the workers leaving trained their replacements.
- At **Xerox** (USA), the Senior Employee Program allows workers older than 50 to volunteer for jobs with reduced responsibility. The new salary is calculated as an average between the old and new jobs, and pension levels are protected.
- **AT&T** (USA) has trained about 70 job accommodation specialists across the country to work with supervisors to modify the work environment or equipment for employees who experience workplace problem associated with loss of hearing and vision and other disabilities.

Hiring older workers

- The **Days Inns** (USA), has benefited from hiring older workers. The company was suffering from very high staff turnover rates at its reservation centres and decided to replace 30 per cent of its staff by new recruits aged 55 and over. The turnover and absenteeism of older workers were less than 1 per cent and the company reduced costs due to turnover and training by 40 per cent, and guest satisfaction increased. Days Inns tries to retain its senior workers by offering flexible work schedules, opportunities for advancement, a scholarship programme which can be used for grandchildren, incentives and bonuses.
- The supermarket chain **Tesco** (UK) employed at the end of 1989 nearly 5,000 workers aged between 55-70 in a wide range of jobs under its "Mature Entrant Programme". Although older workers represented only 6 to 7 per cent of the workforce, company policy prohibits age discrimination and age bars on access to jobs. Tesco also found that older workers actually required less training than younger staff because they were particularly receptive to customer service. Older workers also exhibited greater stability than younger ones and acted as an stabilizing influence. They were more reliable, had lower levels of absenteeism and were thought to be more conscientious.
- **B&Q** (UK), another supermarket chain which hired workers over 50 years, also found that older workers were capable and competent in all types of work, including training, the use of technology, coping with physical tasks and providing good standards of customer service.
- **First American Bank** (USA) uses highly educated retirees as on call-tellers;
- **Betz Laboratories** (USA) has hired older workers to reduce staff turnover; and
- **Texas Refinery Corporation**, nearly 500 of its sales force of 3,000 are over 60 and are found to relate better to senior citizen property owners.

Health promotion programmes

- **Dupont's** comprehensive worksite health promotion programmes found that participants had 14 per cent fewer sick days than non participants. Many company fitness programmes specifically target older workers. Examples include **Travellers** (Insurance) Corporation's "Pep up your Life" aerobic classes for older workers and retirees and Aquatic Classes especially adapted to those with arthritic conditions;
- **The Swedish General Hospital** has taken important measures to improve working conditions in order to counteract sickness and work injuries among employees.
- **Texas Instruments'** provides "Fitness After 50" classes for older workers and retirees.

12. The ILO's past work on older workers

The ILO has always shown concern about older workers. The first instruments, adopted in the 1930s and revised in 1967, aimed to provide invalidity, old age and survivors' insurance. In the 1960s, the ILO drew attention to the special needs of older workers with regard to training and placement programmes and at the beginning of the 1970s adopted a resolution on labour and social implications of automation and other technological developments, in which it stressed that special efforts should be made to protect the jobs of older workers.

In the late 1970s older workers were increasingly being marginalised from the active labour force. The ILO decided then to recognize older workers as a category of workers who needed protection and placed an item on the agenda of the 1979 International Labour Conference (ILC) entitled "Older workers, work and retirement". The Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), invited member States to respond to the needs of those categories of persons -such as older workers- frequently having difficulties in finding lasting employment.

By far the most comprehensive instrument on the subject is the Older Workers Recommendation (No. 162) adopted at the 66th Session of the 1980 ILC. The recommendation aims to protect the right of older workers to equality of treatment and stresses the measures that should be implemented to protect their needs. Box 5 presents a summary of the recommendation. The whole text is attached in the Annex.

Box 5

ILO Older Workers Recommendation, 1980 (No. 162)

The Recommendation defines *older workers* as those who are liable to encounter difficulties in employment and occupation because of advancement in age.

It states the principle that employment problems of older workers should be dealt with in the context of an overall strategy for full employment which gives due attention to all population groups and ensures that employment problems are not shifted from one group to another.

It calls upon all member States to adopt a national policy that:

- promotes equality of opportunity and treatment for workers of all ages and take measures to prevent discrimination against older workers particularly with regard to (i) access to vocational guidance and placement services (ii) access to employment of their choice that takes into account their personal skills, experience and qualifications (iii) access to vocational training facilities, in particular further training and retraining; and (iv) employment security.
- aims to improve the working conditions and the working environment at all stages of the working life and devise measures designed to enable older workers to continue working under satisfactory conditions.

It recommends that measures should be taken to ensure that (i) the transition from work to retirement is gradual, (ii) retirement is voluntary and (iii) the age qualifying a person for an old-age pension is flexible.

Further work by the ILO has concentrated on expanding pension coverage to a wider geographical area and increasing the protection of workers in old age and in case of invalidity. To follow up the recommendation concerning the need to train or retrain older workers, especially those who have lost their jobs in declining industries and older women seeking work after having been out of the labour force due to family responsibilities, the ILO has produced a series of publications on training of older workers and a hand book designed to promote training and retraining.

The ILO shares the view that training and education are particularly important in helping older workers to adapt to changing demands and opportunities. In 1991, a series of Training Discussion papers on how to train older people have been produced. They aim to provide information on methods to improve the efficiency and effectiveness of training programmes for older workers, including helping older workers to find productive employment. Also in the early 1990s, a series of studies was carried out in seven countries (Canada, France, Japan, the Netherlands, the United Kingdom and the United States) to examine national policies and enterprise practices in regard to older workers with special emphasis on their conditions of work and transition to retirement.

The ILO's 1995 World Labour Report devoted one chapter to older workers. Among its conclusions, it stresses the need of a better distribution of work without sex and age discrimination. It highlights that this would imply a reduction of working hours and greater flexibility in working lives cycles thus permitting a better inter generational distribution of work. It suggests that the pension system should be reformed and entitlement to a full pension should be based on a determined number of years of contributions regardless when the contributions are made over the worklife cycle of an individual. Everyone would be required to work a certain number of years and the level of pension would be based on the best years. This system would allow for interruptions with income support at any time of the working life. The report emphasizes that policy should move towards the break down the traditional sequencing of life (preparation for work, payed work and retirement). This would meet the interest of the workers concerned, would give the employers the flexibility they need and would help to overcome the financial crisis that the pension systems will have to face in the coming years.

In the G7 meeting that took place in Kobe (Japan) in November 1998, the ILO stressed that special policies towards youth and older workers are necessary to redress current imbalances and that without strong employment creation they risk being zero sum in nature (as maintaining older workers in employment would restrict the entry of younger workers). Therefore, promoting strong overall employment growth must remain the overriding goal.

The ILO's World Employment Report 1998-99 examines the labour market experiences of older displaced workers in developed countries. It argues the need for training throughout the working life. The report stresses that once unemployed, older workers face little chance of finding new jobs. Often, the response is discouragement and withdrawal from the labour force. The report stresses that governments should develop policies aimed at avoiding premature exclusion of older workers from the labour market

Conclusion and Policy Recommendations

Reduced inflows of younger workers and increased life expectancy of the older ones will alter the age structure on the labour markets. The proportion of older workers will increase, while those of younger workers will decline. Also, the old age dependency rate will increase dramatically. While ageing on the labour market needs specific responses in terms of training and changes in work organization, the increase of the dependency rates points to the problem of financing the retirement systems. Policies of reducing labour supply by early retirement will increasingly be affected by the need to prolongate working life in the face of these changes.

Reforms are underway in all countries, but they still face barriers. Companies are not spontaneously inclined to maintain their older workforce in their jobs and also public sector jobs are rather reduced than increased. For both the private and the public sector, early retirement has become a preferred way of cushioning the impact of redundancies in many OECD countries.

On the one hand, cutting the trend towards early retirement and maintain the older workforce in their jobs until a later retirement age seems to be a rational answer to the problem. However, this is merely wishful thinking, unless we have an aggregate increase in the demand of labour. It presupposes also that employment is strongly expanding, because otherwise the maintenance of the older workforce in the labour market will displace new hires. That is to say, that offering longer job tenure for the older workforce might well lead to another inter-generational problem: the substitution between older and younger workers. On the other hand, cutting the trend towards early retirement and continue present redundancy policies might simply result in more unemployment at the end of working life, a bleak prospect for developed welfare states.

In order to cope with these problems, a pro-active policy of the governments, the social partners and the companies is required. Incentives could be given to firms which maintain the employment relationship with their workers, e.g. in the form of a bonus as is the case in Austria. The bonus systems might be topped up by subsidies for training or changes in work organization. Although it would be better to convince employers, that it is in their interest to maintain the older workers in their jobs, disincentives in the form of so called "malus" (e.g. payment of some month of unemployment benefits as in France and Austria) might be appropriate if companies focus retrenchment on older workers. The money levied could be used to design special labour market programmes for older workers or simply be given to employers who retain older workers.

Other policies needed are carefully designed progressive retirement systems, which allow workers to work part-time above a certain age limit, without losing their full pension entitlement. Some systems (e.g. in Germany) foresee that the wages for a part-time job are topped up by the companies. The top up is refunded by the state if a replacement is hired. Also the option of full-time early retirement should not be excluded. In some countries, full-time early retirement comes with a replacement obligation, whereby government (or the social partners, when they administer the unemployment benefit system) subsidizes replacement hires.

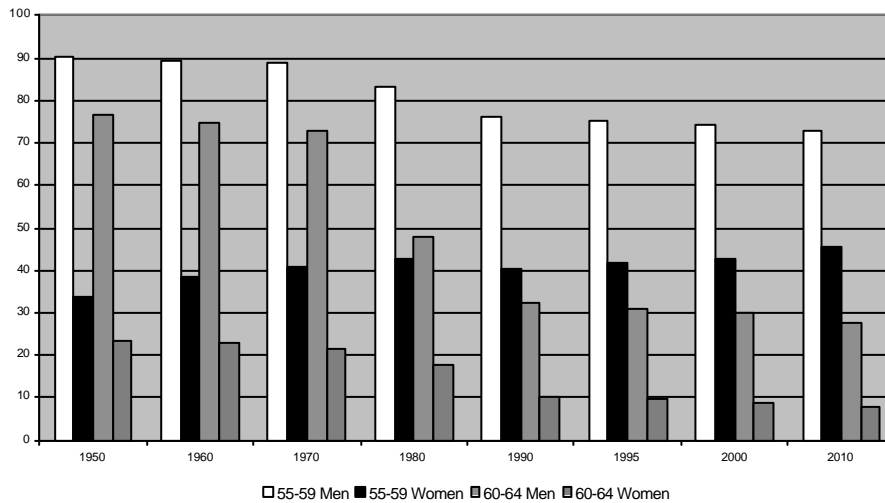
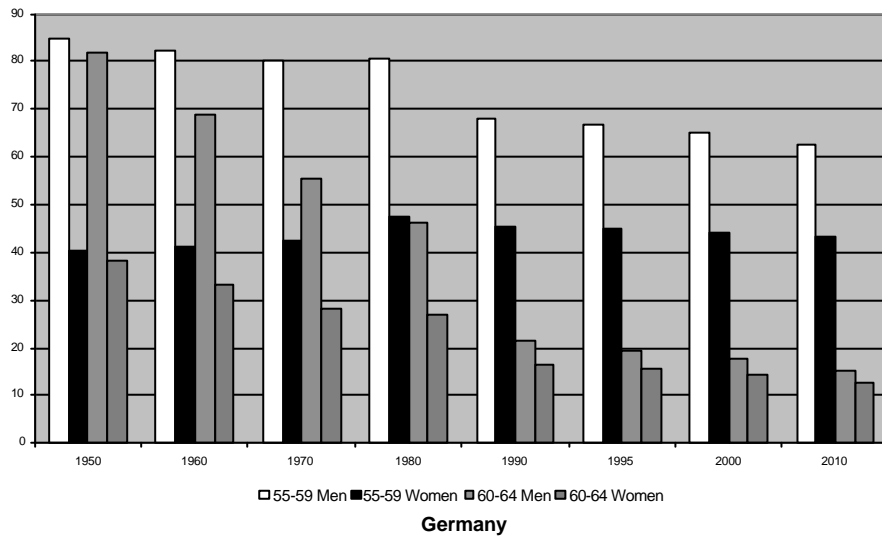
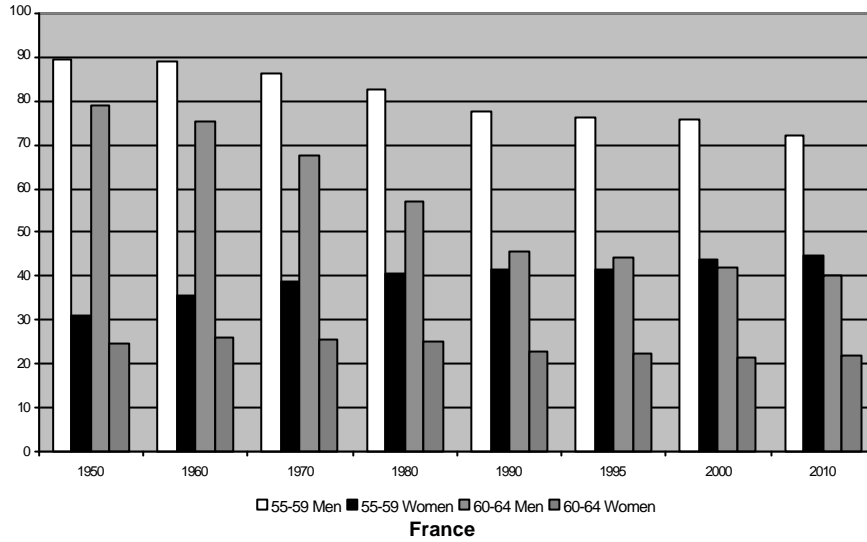
It seems also required that equity issues in (early) retirement practices are addressed by policies. While possibilities to unconditional early retirement on the sole basis of reaching a defined age should be reduced, earlier retirement ages could be considered for workers with difficult working conditions or long contribution periods.

For many countries it is essential that older workers participate longer in working life. This will result in an increase in employment rates and alleviate pressures on the pension systems. However, while necessary, this development should not be seen as a win-win situation only. It means also that the baby boom generation will not enjoy the same rights as the generation of their fathers and mothers. Working longer and retiring later while paying higher pension contributions for reduced pensions can be seen as a departure from a redistributive welfare state, distributing parts of the fruits of growth through early retirement with decent wage replacement rates. The new welfare state emerging is more based on the redistribution of wealth through revenue from actual employment and implies a general change from “welfare to work”. While this might be a necessary step, the social and economic implications of this “paradigmatic change” have yet to be fully understood.

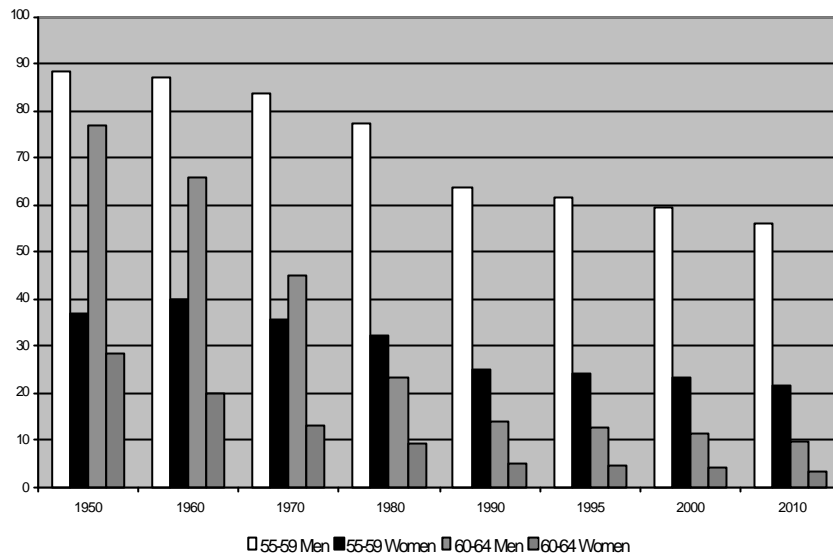
ANNEX

Figure 3
Participation rates of older workers (by gender and age group)

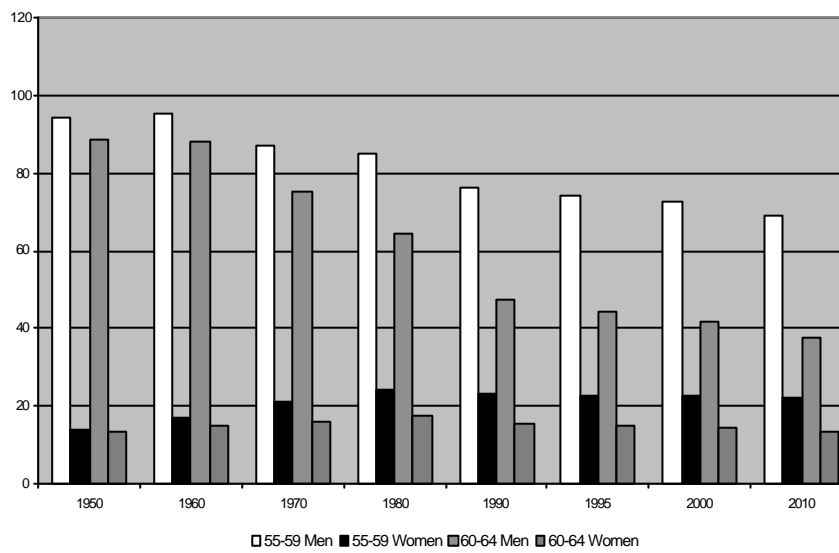
More developed regions



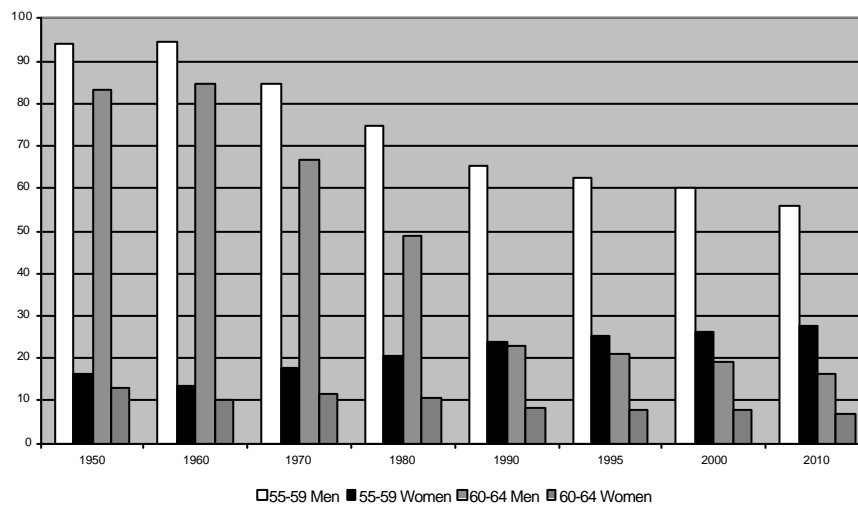
Austria



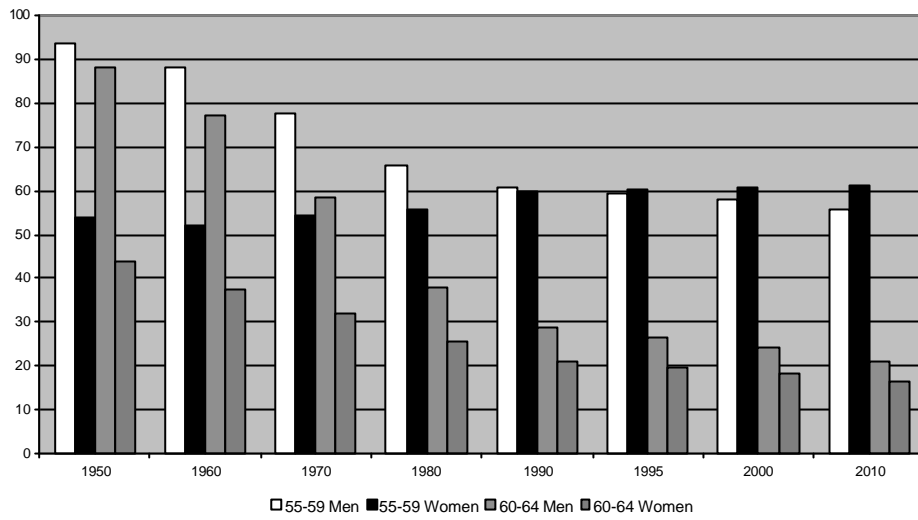
Spain



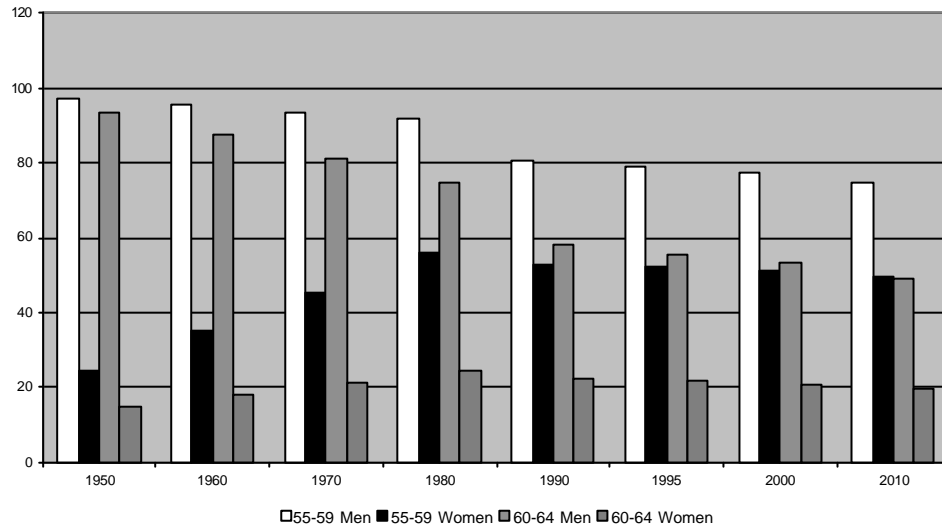
The Netherlands



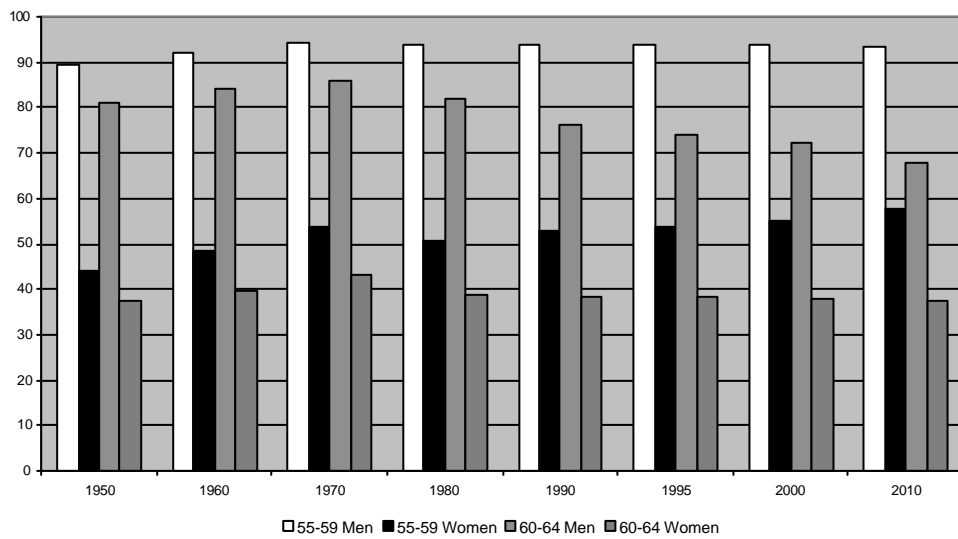
Finland



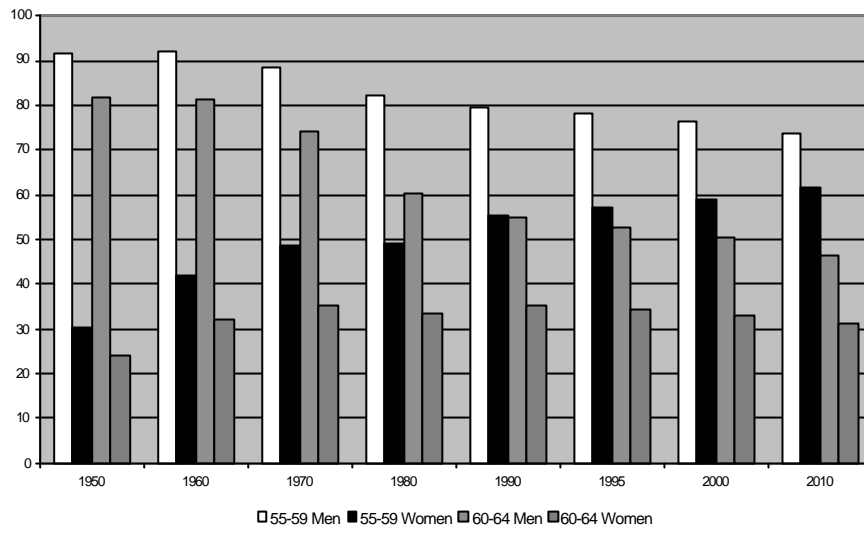
United Kingdom



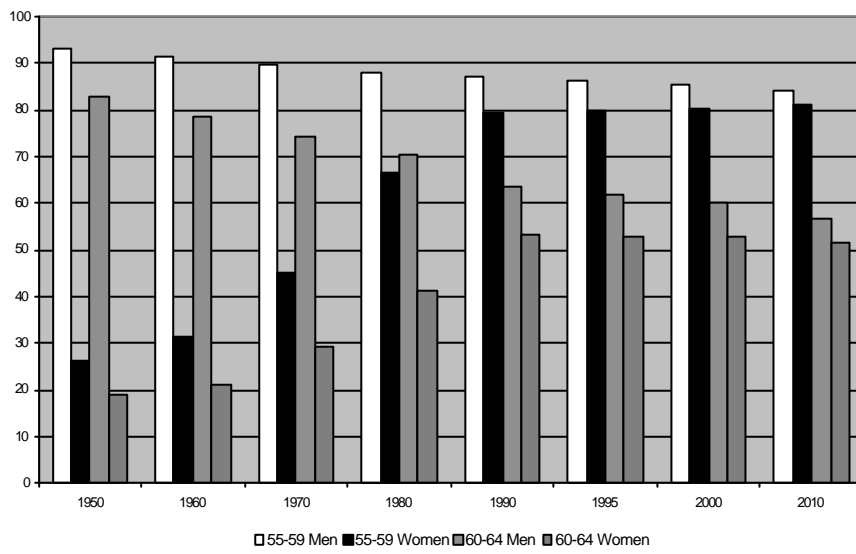
Japan



United States



Sweden



Source: ILO, Economically Active Population 1950-2010. Fourth Edition, 1997.

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