

AGEING AND EMPLOYMENT IN EUROPE – A SUMMARY OF OECD EVIDENCE AND PERSPECTIVES

Report for the International Longevity Center France

OECD, Paris*

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INTRODUCTION

Older people play a key role in providing the labour market with valuable experience and skills. Unfortunately, many public policy measures and private employment practices discourage work at an older age, and involuntary retirement is often the result. In an era of rapid population ageing, this represents a waste of valuable resources for society. At an individual level, it may also lead to hardship in the form of social exclusion and reduced opportunities to ensure an adequate income in retirement.

This report seeks to highlight the important contribution of older people to the labour market and the obstacles that are preventing them from participating more actively in the labour force. It is based on preliminary findings of an OECD thematic review covering 21 countries and on the country reports that have been published as part of this review in the OECD series on *Ageing and Employment Policies*. The report begins in Section 1 with the demographic challenges facing European countries and the growing importance of mobilising the potential labour resources of older people. In Section 2, it identifies the main work disincentives and barriers to employment that older people face in a range of European countries. In Section 3, it addresses some of the myths that underlie the various barriers to employment of older workers. The report concludes in Section 4 with a call for comprehensive action to improve employment opportunities for older people.

1. DEMOGRAPHIC AND LABOUR FORCE PERSPECTIVES

The demographic challenge

All OECD countries, inside and outside Europe, are facing major socio-economic challenges arising from population ageing. With fertility rates falling and life expectancy rising, all of these countries will see a substantial decline in the proportion of the population aged 20-64 over the next half-century and a sharp increase in the elderly population. Thus a particular challenge to economies will be their ability to sustain an adequate supply of labour.

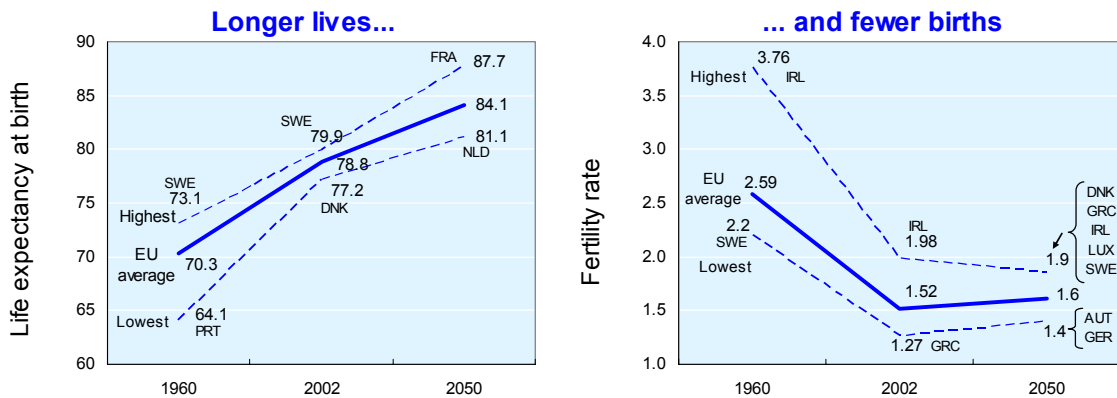
As the productivity of these economies increases, it may to some extent be possible to sustain a ratio of working to non-working populations below historic levels. However, if this ratio falls too far, it is likely to be difficult to maintain social provision and especially retirement incomes at acceptable levels without large increases in taxes. It could also lead to labour shortages and a sharp slowdown in economic growth. This is why it is so important to address the many institutional settings and private employment practices that currently discourage work at older ages. Thus, governments, employers and trade unions will all have to take action to improve opportunities and incentives for older workers to remain in the workforce rather than leaving it prematurely.

Figure 1 summarises the demographic challenge. As people live longer, the proportion of people above today's retirement ages will grow steadily over the coming decades. Declining birth-rates initially reduce rather than raise the "dependency ratio", since children are dependents, but the longer-term effect is for the relative size of the working age population to decline, while the older population continues to grow.

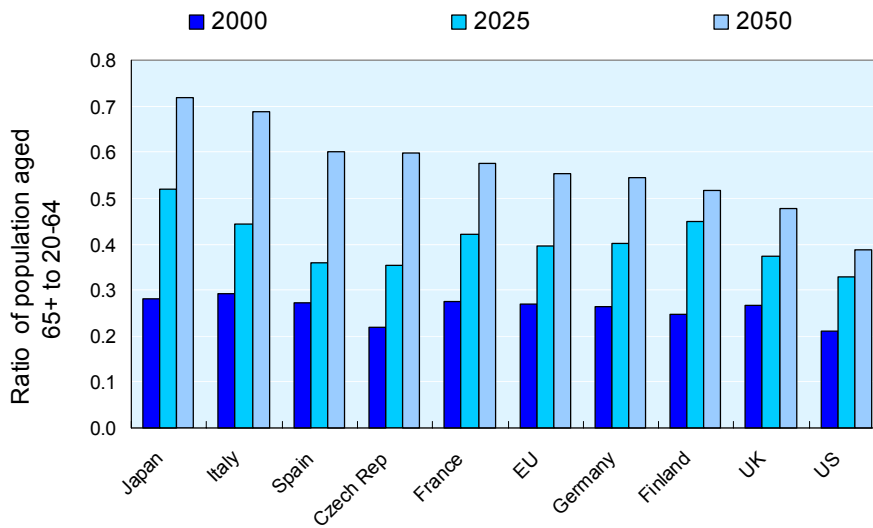
The impact of ageing on these ratios varies considerably across countries. For example in Italy the ratio of the population over 65 to those aged 20-64 will rise from about 0.3 to 0.7, and in the Czech Republic from 0.2 to 0.6, over the first half of this century. In the United Kingdom on the other hand, the rise is somewhat less dramatic, from 0.3 to 0.5.

However, the overall influence of demography on "dependency" (including the dependency of children), shown in the bottom graph, will be relatively similar across countries by 2050. In general, countries are moving from a ratio of around three people of working age to two of non-working age towards much closer to equal numbers in each group.

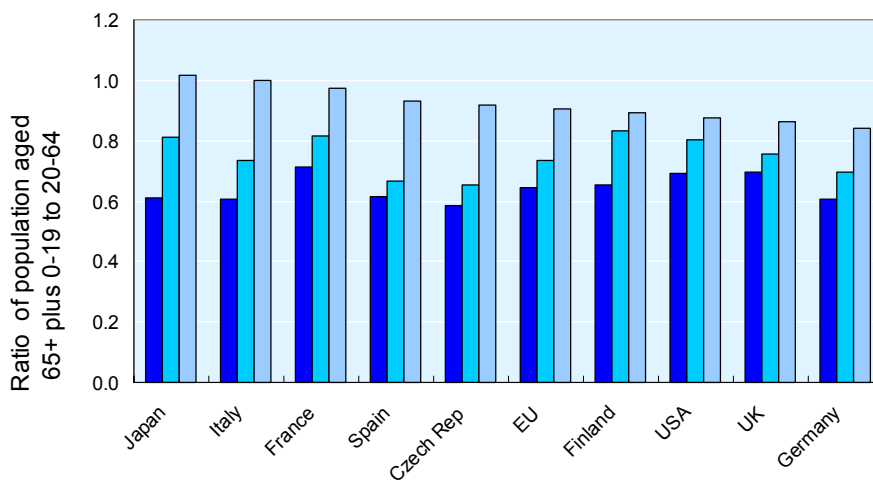
Figure 1. The demographic trends



... will mean that by 2050, for each adult aged 20-64:



a) the number of persons over 65 will typically be more than double what it is today.



b) There will be up to one person to support aged over 65 or under 20.

Source: OECD "Ageing and Employment policies" database.

Future labour force growth will increasingly depend on older people

The implications of demographic change for the relative size of the working population will depend on how many men and women in each age group work, and particularly on older people's rates of participation in the labour market.

If labour force participation rates remain the same as today, the size of the labour force will fall in many countries. In others the absolute number of people working will remain fairly steady, despite a rising overall population. This is illustrated in the first scenario in Figure 2. Falling or stagnating labour supply would represent a major long-term change in European countries, where the number of workers has grown substantially in recent decades, although in some cases such as Sweden and Finland, there has been no overall labour force growth since 1990.

On the other hand, as shown in the second scenario in Figure 2, if the long run decline in the participation of older workers is reversed, this would have significant effects on the overall size of the workforce. This scenario assumes that by 2030, participation rates for each age-band of men and women over 50 converge with the country where the rate for that group is currently the highest. In the European countries shown, this would allow steady labour force growth to continue at least until the 2030s, and contain the decline thereafter. But it would make more of a difference in some countries than others (see Box 1).

Box 1. Future demography and labour participation: four different country contexts

Italy has very low birth-rates, lengthening life expectancy, and below-average labour participation. There are already almost 1.5 non-workers for every worker in the Italian population, compared to 1.2 in the EU as a whole, and the Italian ratio will rise to over 2 by 2030 if participation rates do not rise. This would involve a 17% contraction of the labour force, but by bringing participation of older Italians up even to the OECD average, most of this fall could be avoided. If Italy were to raise participation to the highest rate in the OECD (the scenario shown in the lower graph in Figure 2) the workforce would expand by almost one fifth.

In *Finland*, where population ageing is also occurring relatively quickly, the labour force will shrink by about 12% by 2030 if participation remains constant, but could grow by 7% if participation rates of older people were to rise to the highest OECD levels. The participation of older Finns has already grown substantially in the past decade, but from a low level.

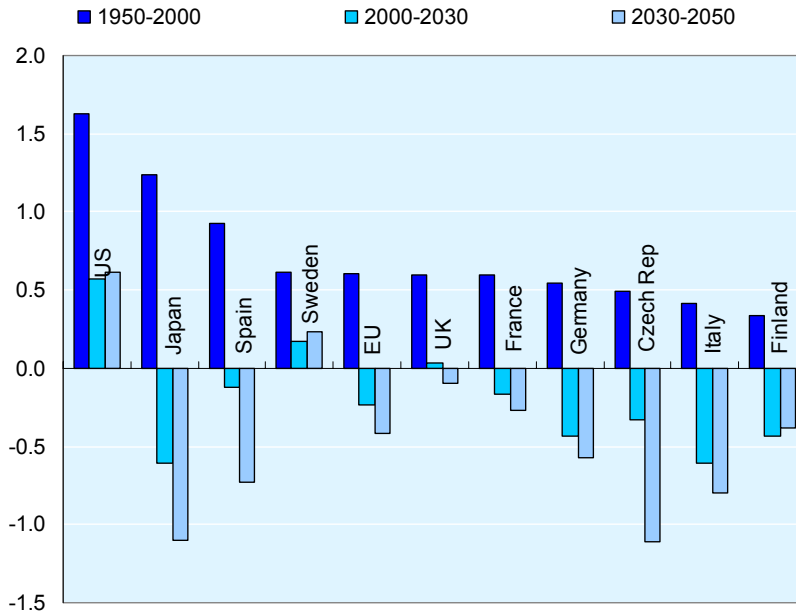
In the *United Kingdom*, demography will change less than in many countries in the next two decades, so the workforce will stagnate rather than shrink if participation remains constant. On the other hand, this would be a big change from the trend growth of the workforce by about 6% per decade in the past 50 years. Higher participation by older people would allow this trend to continue at only a somewhat lower pace until 2030.

In *Sweden*, demographic change will also progress relatively slowly, and the old-age dependency ratio will go from one of the highest to close to the OECD average by the middle of this century. Despite a long-term fall in the average age of retirement, Sweden has one of the highest participation rates for both older people and women of all ages. If these rates are maintained, the labour force will rise modestly by about 5% by 2030 but it would stagnate or shrink if participation rates declined towards the OECD average. On the other hand, if participation rose to the highest in the OECD, the labour force would grow by 16%.

Figure 2. Demography, participation and labour force growth: two scenarios

1. Under present patterns of participation ...

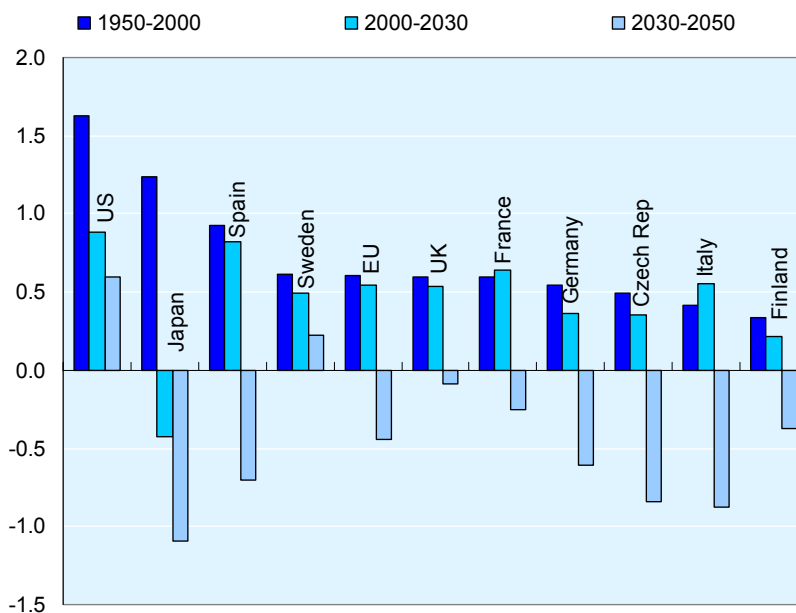
Average annual growth in percent



... the labour force will soon begin to contract in many countries

2. But if participation of older people increases between now and 2030 ...

Average annual growth in percent



... this would substantially offset the negative impact of population ageing on labour force growth over the next 30 years

Definition of participation growth scenario: In each country, the participation of men and of women in each five-year age group above 50 rises to reach the highest level observed across OECD countries in 2000 (excluding Iceland and Mexico). This rise is spread evenly between 2000 and 2030.

Source: OECD "Ageing and Employment policies" database.

2. PARTICIPATION IN THE LABOUR MARKET AT OLDER AGES: A DIVERSE PICTURE

Considerable diversity across countries

Participation rates vary considerably

Currently, the extent to which people continue to participate in the labour market as they age varies substantially across OECD countries. Thus some countries face a much bigger challenge than others if they want to mobilise more fully their potential labour resources in order to offset the negative impact of population ageing on labour force growth. For example, in Italy, four in ten men between 50 and 65 are not in the labour force, but in Sweden, only two in ten (see Figure 3). These differences in overall participation rates are even greater for women: 70% of Italian women aged 50-64 are outside the labour force, whereas 75% of Swedish women are in it. In the case of women, cross-country comparisons are complicated by different overall female participation rates: in Greece, Italy, Ireland and Spain, for example, 30-40% of women do not work even in the “prime” working-age group of 25-49 – twice as many as in the Nordic countries.

Another consideration in relation to mobilising potential labour supply is the number of hours that people work. On average in OECD countries, men aged 50-64 work 40 hours a week and women 30 hours, but in some countries part-time work or relatively short working weeks among this age-group are common. For example in Finland and Denmark older men work fewer than 35 hours on average, and in the Netherlands, Norway and the United Kingdom, older women work only 20-25 hours. The opportunity to work part time can be one factor that helps keep older people in the labour force, and in this sense it contributes to labour supply. However, it must also be borne in mind that employment rates do not provide a full picture of the volume of labour. For example, in countries like Sweden and Norway, where employment rates of older people on a head-count basis are very high, a substantial proportion of these older workers are actually absent in any given week because of sickness. Thus, while the proportion of older women working is much lower in Portugal than in Norway, the total number of hours work contributed by the average woman aged 50-64 in the two countries is about the same since Portuguese women work on average 34 hours a week and Norwegian women only 25.

In many countries the actual age of retirement is well below the official age

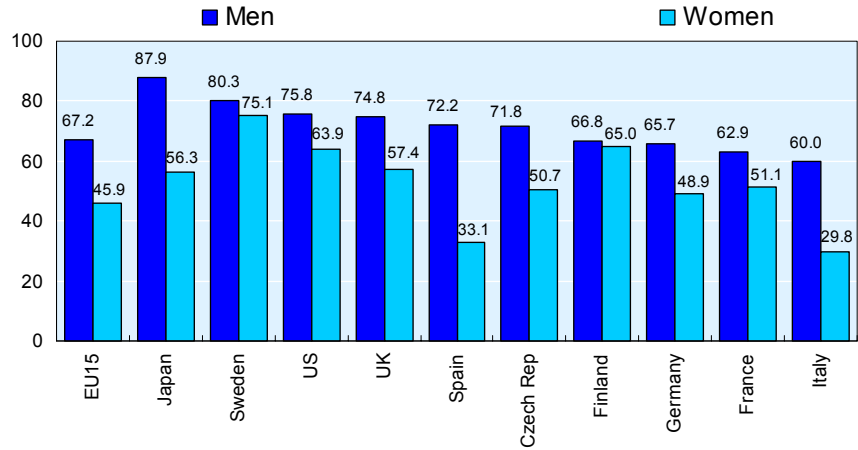
These country differences in participation partly reflect differences in the average age at which workers retire as well as, for women, their degree of participation at earlier ages. One indicator of the average age of retirement is the average age at which workers effectively withdraw from the labour market, which can be derived from changes in participation rates as workers age. The average age of withdrawal varies considerably. Men on average are still in the workforce at age 65 in Denmark, Iceland, Ireland, Portugal and Switzerland, but have left work by their 60th birthday in Austria, Belgium, France, Hungary, Luxembourg and the Slovak Republic. In Iceland and Ireland women also work beyond 65 on average, but in nearly half of the OECD European countries they withdraw from the labour force on average at or before 60. Some of the latest retirement in OECD countries is in non-European countries like Japan and Korea: in Japan, men work on average until five months before their 70th birthday.

Figure 3. Participation and retirement of older workers

Older people ...

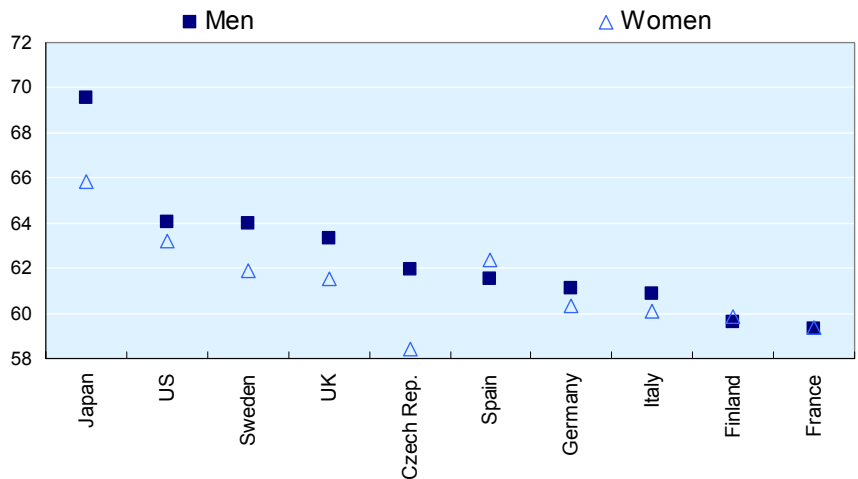
participate in work much more in some countries than others

Participation rates for persons aged 50-64, 2003



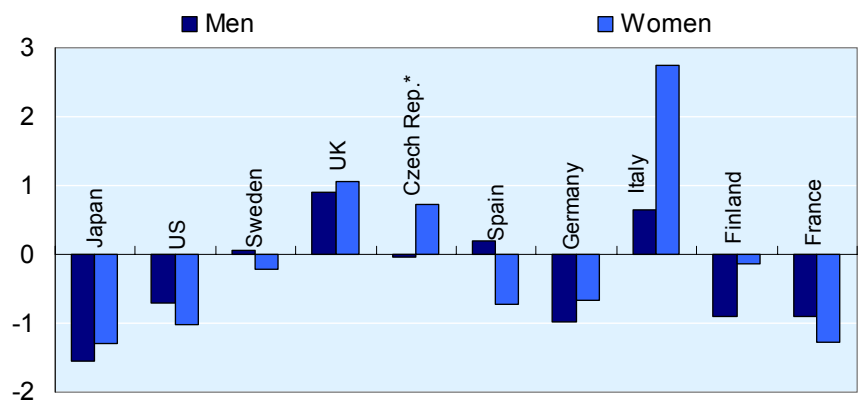
they also retire much later in some than others ...

Average age of withdrawal from labour force, 1998-2003



and have changed their retirement behaviour in different ways in recent years

Change in age of withdrawal over past 10 years



* Change over period 1991-1996 to 1998-2003.
Source: OECD "Ageing and Employment policies" database.

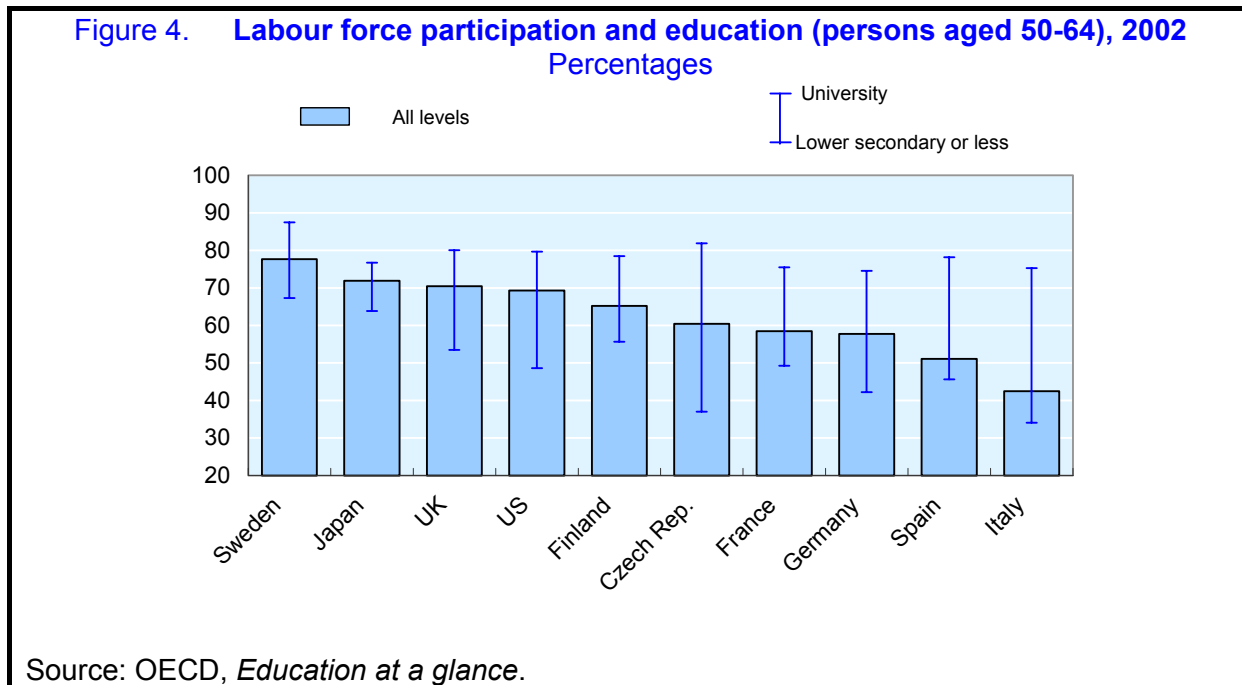
Note that these effective retirement ages are not the same as the “official” ages at which state pensions normally become payable. In many countries, greater use of early retirement means that people on average leave the labour force before this age, although in some countries, especially outside Europe, the reverse is true. A striking contrast is between the Netherlands, where men and women retire at 61 and 59 respectively despite an official age of 65; and Japan, where men work to 70 and women to 66 despite an official age of 60.

In general, the effective retirement age has declined over the long term. However, the past decade has seen somewhat more ambiguous trends, with some sign of an upturn. In Italy and the United Kingdom for example men’s retirement ages, which had been declining continuously since the 1960s, appeared to rise in the late 1990s.

There is also considerable diversity within countries

Not only does the labour market situation of older people vary considerably between countries but there is considerable diversity within each country. Thus, labour force status, pay, working conditions and retirement decisions vary widely among older people in each country according to their skills, work experience, geographical location, household status (e.g. whether married or single) and a range of other personal factors. For example, older women participate less than older men in the labour market on average but this gender gap in labour force participation is much larger in some countries than others (Figure 3 above).

In all countries, there are also marked differences in participation rates by level of education (Figure 4). Generally, participation rates are much lower for older people with a lower level of educational attainment than for those with a higher level.



3. DISINCENTIVES AND BARRIERS TO CARRY ON WORKING

The differences in the labour market situation of older people both across OECD countries and within each country reflect a range of disincentives and barriers to employment. These can be classed into three broad groups. First, there are various disincentives or penalties to carry on working which may be embedded in each country's pension and social welfare system. Second, among employers, there are the barriers to retaining or hiring older workers. Third, there are the barriers facing older workers themselves, which make it difficult for them to remain in their existing job or find a new job.

Disincentives to working

There is, of course, a need for a balance between guaranteeing an adequate income for older people in retirement and maintaining appropriate work incentives. Nevertheless, social support can unduly distort decisions about labour force exit in several ways, in particular:

- By providing an excessively high “replacement rate” (*i.e.* the ratio of out-of-work to in-work income), which can weaken the incentive to continue working.
- By failing to increase benefits sufficiently as a reward for staying in the labour force longer. In some cases this means that a person's “pension wealth” effectively declines as a result of later retirement, since the expected duration and therefore total value of a pension drawn from a later age is lower.
- By being rigid rather than flexible, for example by setting a fixed retirement age.
- By creating other perverse disincentives, for example discouraging people on disability benefits from working for fear of prejudicing their future ability to claim.

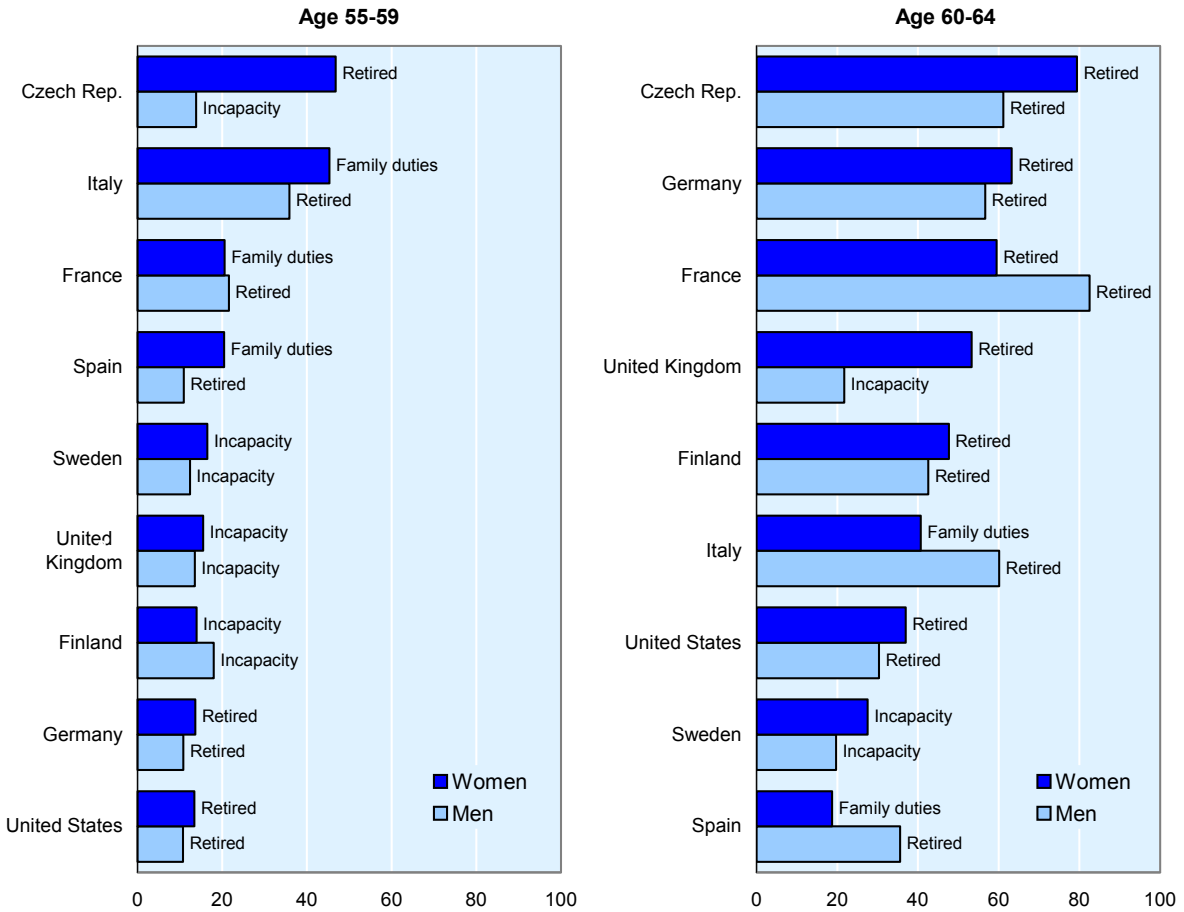
As indicated in Figure 5, people approaching pension age may be outside the workforce for a variety of reasons, which may be influenced by these distortions in the social support system. Four important reasons for not working are:

- *Sickness or disability*, where someone is considered not to be fit for work;
- *Retirement*, where a person has withdrawn permanently from the workforce;
- *Household or caring* roles that keep someone voluntarily out of the workforce; and
- *Unemployment*, where an older person is actively seeking work but unable to find it.

It is not always easy to distinguish clearly between these reasons in ways that are internationally comparable. For example, an older person who has been out of work for a long time may be more likely to classify themselves as disabled rather than unemployed in systems where it is easier to access disability benefits than unemployment benefits in such circumstances. Similarly, people who have in reality withdrawn permanently from the workforce may be influenced in whether they describe themselves as “retired” by the timing of entitlement to pensions.

Figure 5. In some countries the main reason older people are not working is early retirement, in others it is incapacity or family duties

Older people not working by main reason as a proportion of all older people



Source: European Union Labour Force Survey; US Current Population Survey.

Thus, as discussed below, sickness and disability benefits can sometimes disguise either long-term unemployment or early retirement. However, the following observations can be made:

- Explicit early retirement plays an important role from the age of about 55. In the EU15 countries, 50% of people aged 60-64, and 14% of those aged 55-59 report that they are retired; but in the Czech Republic and Italy, for example, over a quarter of people in their late 50s report that they are already retired.
- Sickness and disability, together with associated benefits, play an important role in keeping people out of work. For example, in the United Kingdom, about a third of men outside the labour market in their 50s would like to work, but the great majority of these say that they are not looking for work because of long-term illness. In Sweden, two-thirds of all men and women in their 50s outside the labour market report they are not working because of illness or disability. This represents over 12% of all Swedes in their 50s. The proportion is similar in the

Netherlands, the Slovak republic, Norway and the United Kingdom, while in Poland it is almost 20% of the age-group.

- In some countries traditional gender roles continue to influence labour market participation strongly. In Spain and Italy, low participation by women over 50 is closely linked to more general reasons for women not working. For example, in Italy, 43% of women say that they do not work because of family responsibilities – compared to only 2% in Finland.
- Unemployment is also another important reason for not working, although it is not the main reason for inactivity among older people over the age of 55 in any of the countries shown in Figure 5. In Germany for example, 10% of men and of women in the labour force aged 50-64 are unemployed. In the UK in contrast, older people's unemployment is below half that level and has declined steadily.

Thus, pensions, sickness benefits and unemployment benefits are the areas of income support most likely to create strong disincentives for older people to work. However, the importance of each of these as a pathway to early retirement varies across countries and reform efforts have been designed accordingly. For example, unemployment benefits that can be claimed for long periods and are reasonably generous have been the target of reforms in Finland and Spain, but are less of a concern in the United Kingdom or Italy. In countries including the Czech Republic, Finland, Sweden and the UK, a particular worry is that sickness and disability benefits are commonly used as a substitute for early retirement. On the other hand in Italy, the emphasis of reform has been on retirement pensions themselves, since they have been accessible from relatively early ages with high replacement rates.

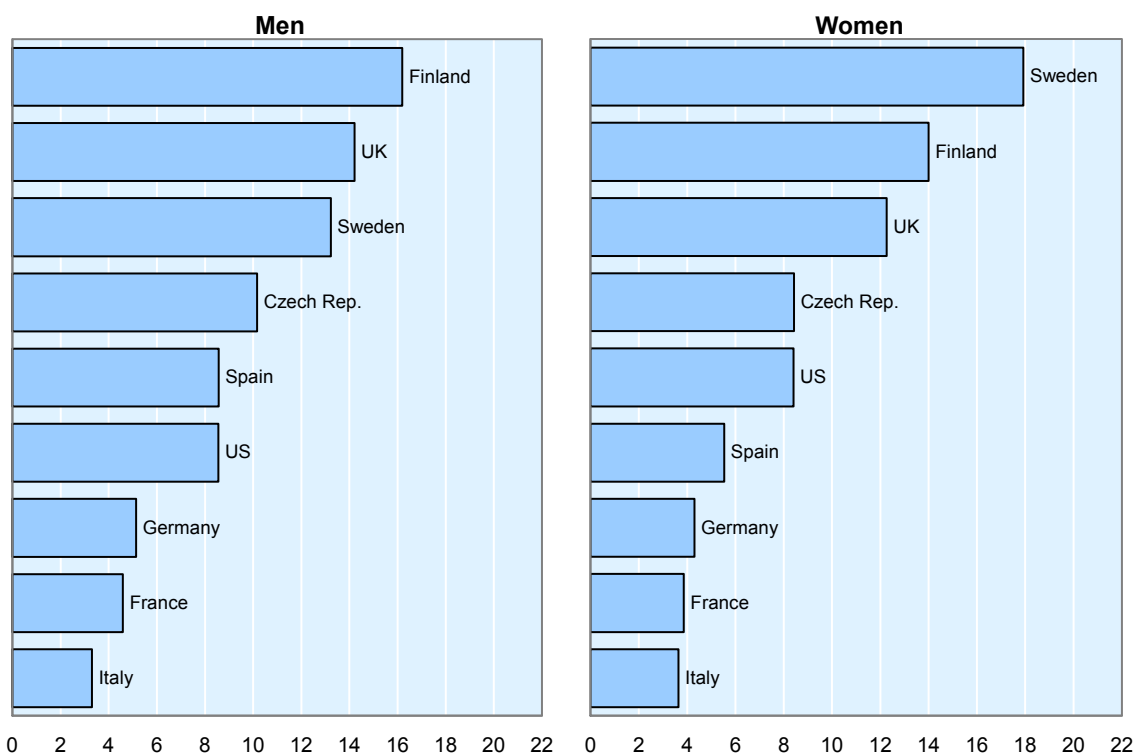
Pensions

The context of the pensions system creates the most obvious incentives and disincentives for retirement. Governments with ageing populations are considering both the financial sustainability of their pension schemes and the effect of their structure on decisions about when to retire. In general, there are three types of potential reform strategies that could contribute to later retirement: lowering entitlements generally, increasing the marginal rate at which pensions rise with age or contribution years, and restricting the minimum age at which they may be drawn.

In practice, all three strategies have become common in Europe, with many countries adopting a combination of more than one of them. For example, both Sweden and Italy have reduced the overall generosity of their pension systems, to improve their financial sustainability, while at the same time improving marginal rewards for staying in work by linking benefits more directly to lifetime contributions. Italy has also directly restricted options for retiring early. The United Kingdom has sharply increased the pension reward for those who delay drawing it beyond the main pension age, and has raised the basic, minimum age for women from 60 to 65, while keeping it at 65 for men. Germany and Spain have introduced benefit reductions for early retirement and benefit increases for late retirement, while France has extended the contribution period required to access a full pension. In several countries, such as Belgium, Finland and France, where there have been explicit publicly-financed schemes of early retirement, these schemes have been either abolished or severely scaled back.

Figure 6. Illness and disability are important reasons for early retirement in some countries

Percentage of older people (aged 50-64) inactive because of illness or disability, 2003



Source: European Union Labour Force Survey; US Current Population Survey.

The common thread of these reforms is that they all, in different ways, reduce the extent to which individuals can leave the workforce early without bearing at least some of the cost of doing so. Looked at another way, they reduce the extent to which individuals are penalised in terms of pension “wealth” by remaining in the workforce, in the sense that their lifetime expectation of total benefits is reduced if they choose to work until they are older. Though these reforms are a step in the right direction, the extent to which they will be enough to meet the challenges of ageing remains to be seen. Moreover some reforms will take decades to complete – Italy’s will not be fully realised until 2035. Nevertheless, it is clear that all countries are working in a common direction.

Sickness and disability benefits

One function of social support systems is to replace income for people who are too sick or disabled to work. However, in practice, there are cases where such benefits act as a form of early retirement pension for some workers in European countries. As shown in Figure 6, as many as one in five workers in some countries are now classified as sick or disabled in the years leading up to the state pension age. The fact that in other countries the figure is only a fraction as high supports the hypothesis that these rates are not purely a reflection of the health and disability level of the population at these ages. There are close relationships between the number of claimants and the generosity and conditions for claiming sickness

and disability benefits, which help explain cross-country differences, differences in the number claiming different benefits within countries, and changes in these numbers following a change in rules.

Thus, for example in Sweden and the Czech Republic, high numbers of people on long-term sickness benefits are partly explained by the relatively high replacement rates that they offer, although they are also in many cases a step on the route to receiving disability benefits. One important feature has been the degree to which disability benefits have served a role in providing for people who have difficulties in the labour market. In the United Kingdom they have done so implicitly, and over 80% of people over 50 receiving benefits to replace work income get incapacity benefits. In the Nordic countries, disability benefits have been explicitly linked to labour market disadvantage, although in Sweden for example assessments can now only take health factors into account. Spain has a good record of focusing on the needs of those facing ill health and suffering accidents, but the generosity of benefits now threatens to lure people out of the labour market. In Finland, the very high rate of claims among people in their early 60s is linked to the fact that those with disabilities are given access to explicit early retirement pensions at this age.

Despite a desire to curb the use of sickness and disability benefits as a route to early retirement, countries where this phenomenon appears most widespread have not generally managed to restrict access or replacement rates decisively. An exception is Italy, which had the highest number on such benefits in 1980, but subsequently tightened up access and now has relatively few claimants. Some countries such as the United Kingdom have attempted to reduce inflows partly by tightening up assessment procedures. However, in general, countries have found it difficult to enact measures that risk penalising those who are genuinely too sick or disabled to work, or appearing to do so, which is politically uncomfortable. Rather, they have tended to rely on carrots rather than sticks to “activate” workers on such benefits, devising measures aiming to help them access jobs rather than cutting their benefits. One potential difficulty with relying on such a strategy is that it is hard to take preventative action to stop people moving onto benefits, since it is hard to identify at-risk groups, while once they are out of work, reintegration becomes difficult and expensive. Thus, the issue of access to sickness and disability benefits and replacement rates, and hence the overall incentive to work or claim benefits, will continue to be on the policy agenda in many countries.

Unemployment benefits

Older workers who become unemployed, particularly manual workers with redundant skills, can find it extremely difficult to re-enter work. In this context, unemployment benefit can effectively turn into a form of early pension. Some unemployment benefit systems explicitly accept this, by reducing or withdrawing obligations to seek work. The risk is that the social support system gives up too readily on the possibility that an older person gives up trying to find a job, makes it too easy for people losing their jobs to move into a form of early retirement, and fails to provide active support to that could aid unemployed older people to re-enter work.

In some countries, there is relatively limited scope for unemployment benefits to play this role. For example in the United Kingdom, unemployment benefits offer relatively low replacement rates, and unemployed people are treated as active labour market participants up to age 60, rising to 65 as the women’s pension age is raised to this level.

In contrast in Belgium, unemployed people over 50 who have been out of work for over a year receive higher benefits and the chance to get early retirement pensions. Until a reform in 2002, unemployed Belgians over 50 had no obligation to seek work. In Spain and Finland too, unemployment benefit is a particularly common route to early retirement. Both of these countries have made some efforts to change this situation. In Spain, reforms have made limited progress against wide opposition, and there remains a concern that the public employment service still functions primarily as a provider of benefits and does not enforce job search requirements. In Finland, around a quarter of the population is receiving unemployment benefits by the time they turn 60, when they transfer to an “unemployment pension”. Although this pension is being phased out, one concern is that access to the disability pension for the over-60s is becoming easier and it will serve a similar purpose.

Older people face many barriers that may prevent them from working apart from financial incentives that may be “pulling” them into early retirement. Efforts to help people to extend their working lives need to work on several fronts. They must address both factors that cause people to lose their jobs, and those that make it difficult to regain employment. Moreover, they should address both the actual characteristics that make older people more or less employable and aspects of age discrimination that cause employers and others to assume unduly that older people cannot play a useful role in the workforce. Governments need also to decide the extent to which they aim principally to ensure that older people are treated equally in the workforce, or whether they should go further in offering special help such as wage subsidies that aim to counteract older workers’ disadvantages.

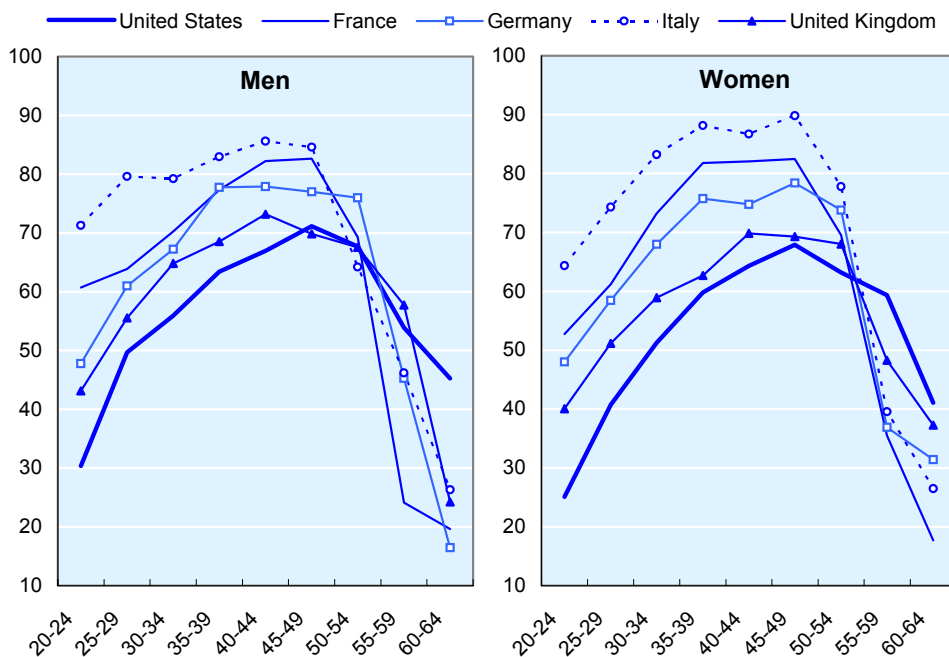
Barriers relating to the retention and hiring of older workers by employers

A range of evidence suggests that employers are often reluctant to retain or hire older workers. One concern, especially in hiring, is that an older worker will not remain at the firm long. Such a concern may often not be justified for a worker aged 50, whose projected job tenure can be *longer* than for a worker in their 20s or 30s, but as pension age approaches, the reverse becomes true. Figure 7 illustrates this by showing the probability that an employee at a given age will remain a further four years with his or her current employer. In general this rises with age until workers reach their 50s, but then falls sharply. The exact nature of this pattern varies by country. In Italy, job retention rates are high from early on in working life, but start to decline markedly by the early 50s, as they do in France. In the United Kingdom and the United States, on the other hand, there is much higher job turnover among young workers, and the late-life decline in job tenure starts later, so that even people in their late 50s are more likely to remain in a job for four years than those in their 20s. In these countries, it is only when a worker reaches their 60s that the chance of them leaving soon becomes high.

Nevertheless, the older unemployed face greater difficulties than the younger unemployed in finding jobs. In the EU, half of unemployed people over 50 have been out of work for a year or more, compared to about 40% of 25-49 year olds. In Italy, over 60% of unemployed men and women over 50 are long-term unemployed, but in the UK only 41% of men and 26% of women.

Figure 7. Job retention declines considerably for older workers

Percentages all employees in 1998 who were still in the same job in 2002^a



a) The age groups refer to the age of workers in the initial year.

Source: US Current Population Survey (Job Tenure Supplement); European Labour Force Survey.

Negative employer attitudes and age discrimination

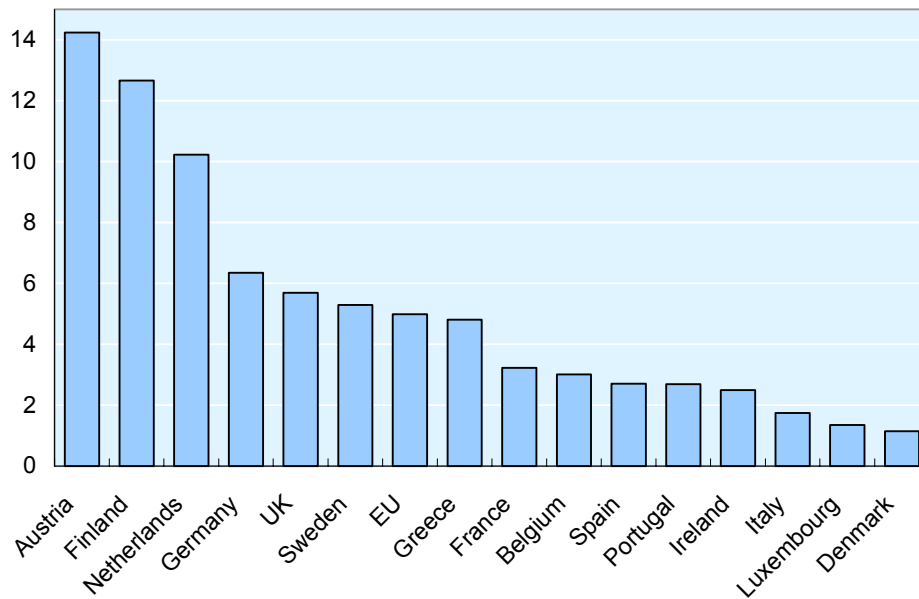
These barriers on the part of employers to employing older workers may reflect a certain degree of “ageism”, and survey evidence suggests that a small but significant proportion of older workers have experienced or witnessed age discrimination in their workplace (Figure 8).

Two approaches have been taken to tackling age discrimination and negative age stereotypes more generally: some countries have introduced specific legislation banning age discrimination (e.g. the United States), while others have relied on general information campaigns (e.g. the Age Positive campaign in the United Kingdom) and employer guidelines (e.g. Japan, Korea, Norway and the United Kingdom). However, under a European Directive on equal treatment in employment, all EU countries are obliged to enact legislation against age discrimination by 2006. Many countries now see legislation and promotional campaigns as complementary.

One specific issue concerns whether mandatory retirement should be allowed or should be banned outright as part of any age discrimination legislation. One argument has been that mandatory retirement is an integral part of implicit long-term employment contracts that can be beneficial for both firms and workers. Employers, in particular, have often been keen to retain it. Nevertheless, mandatory retirement in the United States was progressively restricted under federal age discrimination legislation, and banned outright in 1986 (except in certain exempt occupations). Mandatory retirement is no longer permitted before 67 in Sweden or before 60 in Japan but has not been banned outright in those countries.

Figure 8. **Age-discrimination at work**

Proportion of workers aged 50 and more exposed to age-discrimination, 2000^a



a) Workers who reported having directly experienced age discrimination or who reported having witnessed age discrimination in their workplace.

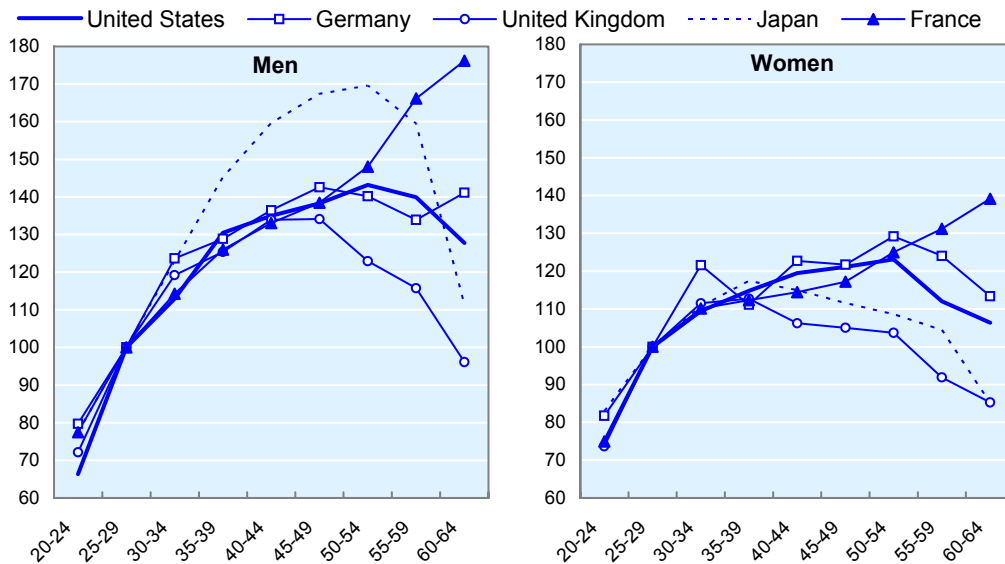
Source: European Survey of Working Conditions, 2000.

Labour costs and employment protection legislation

The reluctance of employers to employ older workers may also reflect more objective factors. In some countries, employers may think that older workers are too expensive: specifically, that the increase in the cost of employing people as they get older is not matched by increases in productivity. This can apply to wages and (for example in Finland) to social security contributions, which can rise with age to cover extra contingencies such as disability pensions.

The profile of earnings by age varies greatly by country, as shown in Figure 9: men in France earn twice as much in their late 50s as in their late 20s; in the UK only about 20% more. In the past, wage systems built on seniority rather than individual performance may have made sense: an implicit contract that pays workers less than their value early in their careers, and more than their value later, may buy worker loyalty. However, in an era of ageing workforces, this become less sustainable for companies as the proportion of older workers, who are being paid more than their productivity, rises relative to the proportion of younger workers, who are being paid less than their productivity.

Figure 9. Earnings in some countries rise steeply with age^a
 Index (Earnings of 25-29 years olds = 100)



a) The data refer to 1998 for Germany and to 2002 for the other countries.

Source: French Labour Force Survey; German Socio-Economic Panel; UK Labour Force Survey; Japanese Basic Survey on Wage Structure; US Current Population Survey.

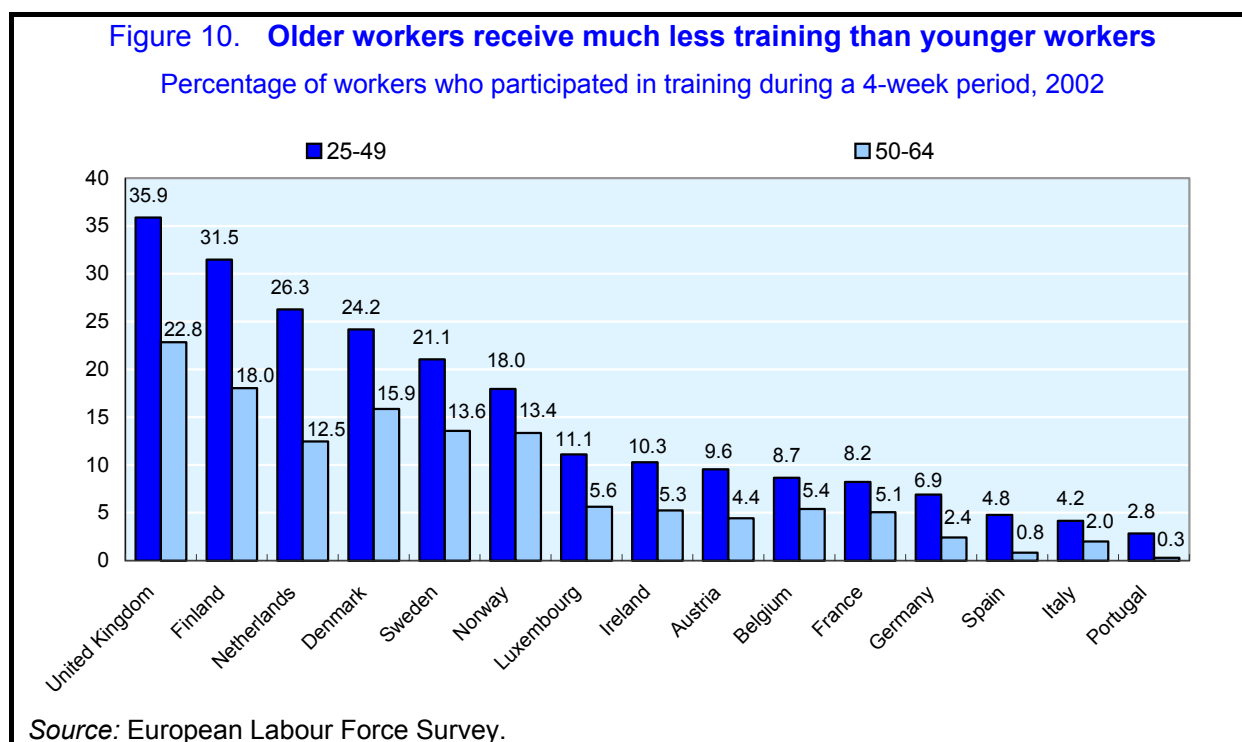
Employment protection rules may also affect employer behaviour. Levels of employment protection vary greatly across countries, and in some cases are in practice higher for older workers because protection increases with the time spent in a job. Strong employment protection can help some permanent employees to keep their jobs, but at the same time can deter new hires and encourage the use of temporary contracts. Therefore, its effect on the overall employment rates of older workers is ambiguous. It may also be the case that overly strict employment protection rules encourage employers to offer attractive early-retirement packages to older workers when they need to shed labour and so older workers may end up bearing the brunt of any company restructurings. In some countries, such as Belgium and France, this practice became widespread as a result of public subsidies to finance these early retirement schemes.

Barriers relating to older workers' capacity to access more and better jobs

Improving financial incentives to remain in work longer and encouraging employers to be more receptive to an age diverse workforce is only half the battle. If older workers lack the skills required by employers, suffer from poor health or face onerous working conditions, they may still be pushed into early retirement. A lack of access to good employment services and career advice will also reduce their options in terms of continuing to work longer. These aspects all affect an older worker's "employability". They are likely to become increasingly important as the number of older workers rises and more of them seek to continue working for longer.

Low participation in training

One crucial way to help older workers to find or retain a job is by enhancing their skills. Governments, employers and individual employees each have a role to play to this end. In all countries, the incidence of training declines with age but in some countries the gap between younger and older workers is particularly large and in others the overall incidence of adult training appears to be low (Figure 10). Workers of all ages with low initial qualifications face the greatest risk of receiving little or no training. However, improving incentives for employers to offer greater training opportunities and for workers to take up opportunities for both firm-sponsored and non-firm-sponsored training has proved to be a major challenge in most countries. Some countries (e.g. the Netherlands) have experimented with tax deduction schemes that give an extra deduction to firms for training older workers.



One problem is the shorter expected working life of older workers relative to younger workers and hence the shorter period that both employers and older workers themselves may have to recoup any investment in training. Even though, as discussed above, expected job tenure can be greater at 50 than at 25, as workers grow older there comes a point where the number of future expected working years is limited. This suggests that more flexible and short or modular courses need to be made available to older workers that build on existing skills and competencies (e.g. as in Australia, through its colleges of Technical and Further Education). Of course, later retirement itself will help to raise the potential net returns to training.

It is also important to take a lifecycle approach to training issues. The experiences of workers at younger ages will have an impact on their labour market decisions and outcomes when older. For example, workers who have ample opportunities mid-career for upgrading their skills or for learning new skills may be better placed in terms of labour market outcomes when older than those with fewer opportunities. Thus, some policy interventions to

encourage greater investment in training should, in fact, focus on workers at younger ages in order to improve their labour market prospects when older. In France, lifelong learning and vocational training among experienced workers is being promoted more generally through a national collective agreement on “employee lifelong access to training”.

Lack of access to help in finding work

Over the past two decades, governments have made major efforts to improve help for unemployed people to enter the labour market, particularly through the operation of public employment services and active labour market programmes. An important principle promoted by the EU, the OECD and individual governments is to replace passive support in the form of benefits with active help to enter work.

However, in many cases this help has been targeted on younger workers, and only recently has the “activation” of older workers become, to some degree, a priority. Often, public employment services have not considered it worth trying to help people thought to be too old to have promising work prospects.

Two countries, Sweden and the United Kingdom, that have a strong general commitment to activation measures, have taken somewhat contrasting approaches with regard to the inclusion of older workers. In Sweden, older people are starting to participate more in labour market programmes that are designed for the general population. For example, between 1997 and 2001 the number of over-50s participating in programmes open to unemployed people of all ages increased more than threefold. However, the effectiveness of such programmes, at least in the minds of participants, appears to decline with age: the older the participant, the less likely they are to believe that job prospects are being raised. Other programmes are specifically designed to cut unemployment among older people, but not generally by getting people into jobs: rather, by helping them withdraw from the regular labour market.

In the UK, on the other hand, the welfare to work strategy of the past eight years has been structured around the needs of particular groups, through “New Deals”, including the “New Deal 50 Plus”. This programme serves people who have not worked for six months, whether they are unemployed or on disability benefits. It combines practical help through personal advisers with a financial incentive in the form of a wage supplement lasting one year, as well as offering an in-work training grant. Evaluation indicates that this programme has enjoyed a considerable success rate in terms of job entry and retention, albeit with a high “deadweight” effect and a high number going into low-paid, low-skill jobs.

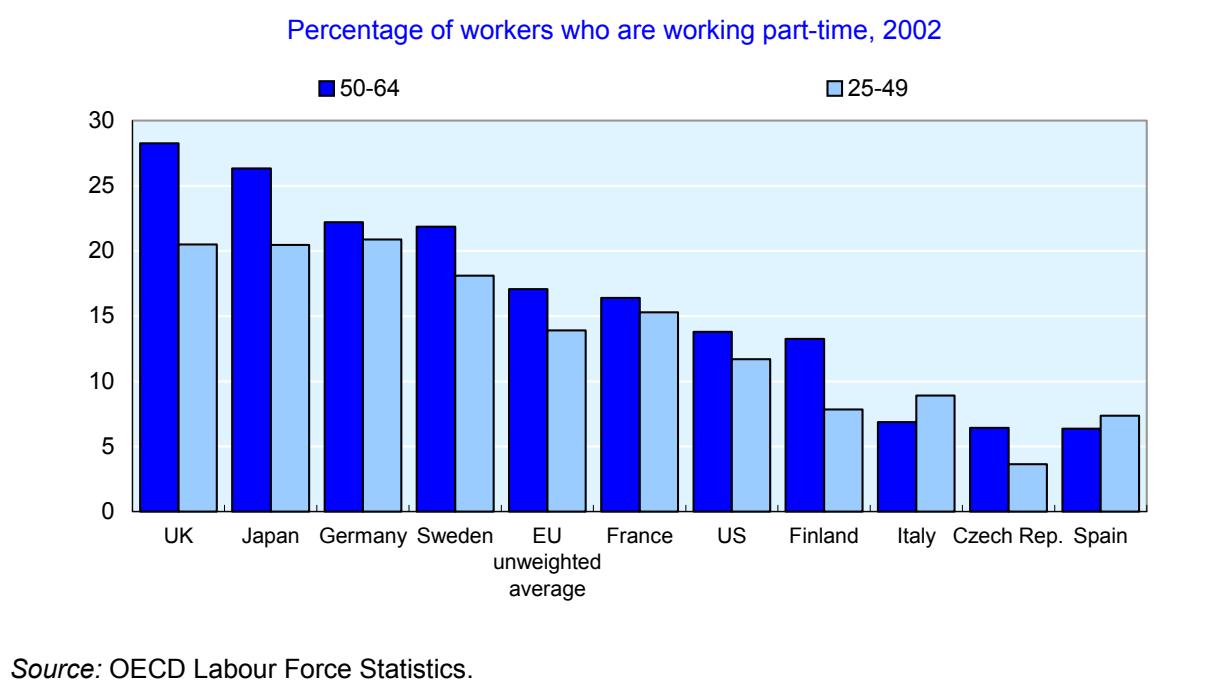
Wage subsidies for older workers are also used in a number of other European countries, including Austria, Belgium, Denmark, France, Germany and Sweden. Typically, unlike in the UK, they go to employers, often in terms of reduced insurance contributions. They also tend to have longer requirements in terms of time out of work – a provision that may help to target the most disadvantaged, but on the other hand may delay offering assistance until a time when it becomes very difficult for an individual to reintegrate into the labour market.

Inflexible working-time arrangements and poor work conditions

Inflexible working-time arrangements may discourage older workers from continuing to work longer and result in a “cliff-edge” pattern of retirement where older workers go from

working full-time to not working at all. A number of factors may contribute to rigidities in working-time arrangements. These may include various pension rules restricting the right to combine pensions with income from work. For example, in the United Kingdom, workers cannot switch to part-time work and receive their occupational pension while remaining with their current employer and instead must switch employers to do so. It may also reflect the reluctance of some employers to allow workers to switch from full-time to part-time work. Currently, the incidence of part-time work varies considerably across OECD countries but, in general, it is higher for older workers than prime-age workers (Figure 11).

Figure 11. Part-time work is more common for older workers than younger workers but varies considerably across countries in importance

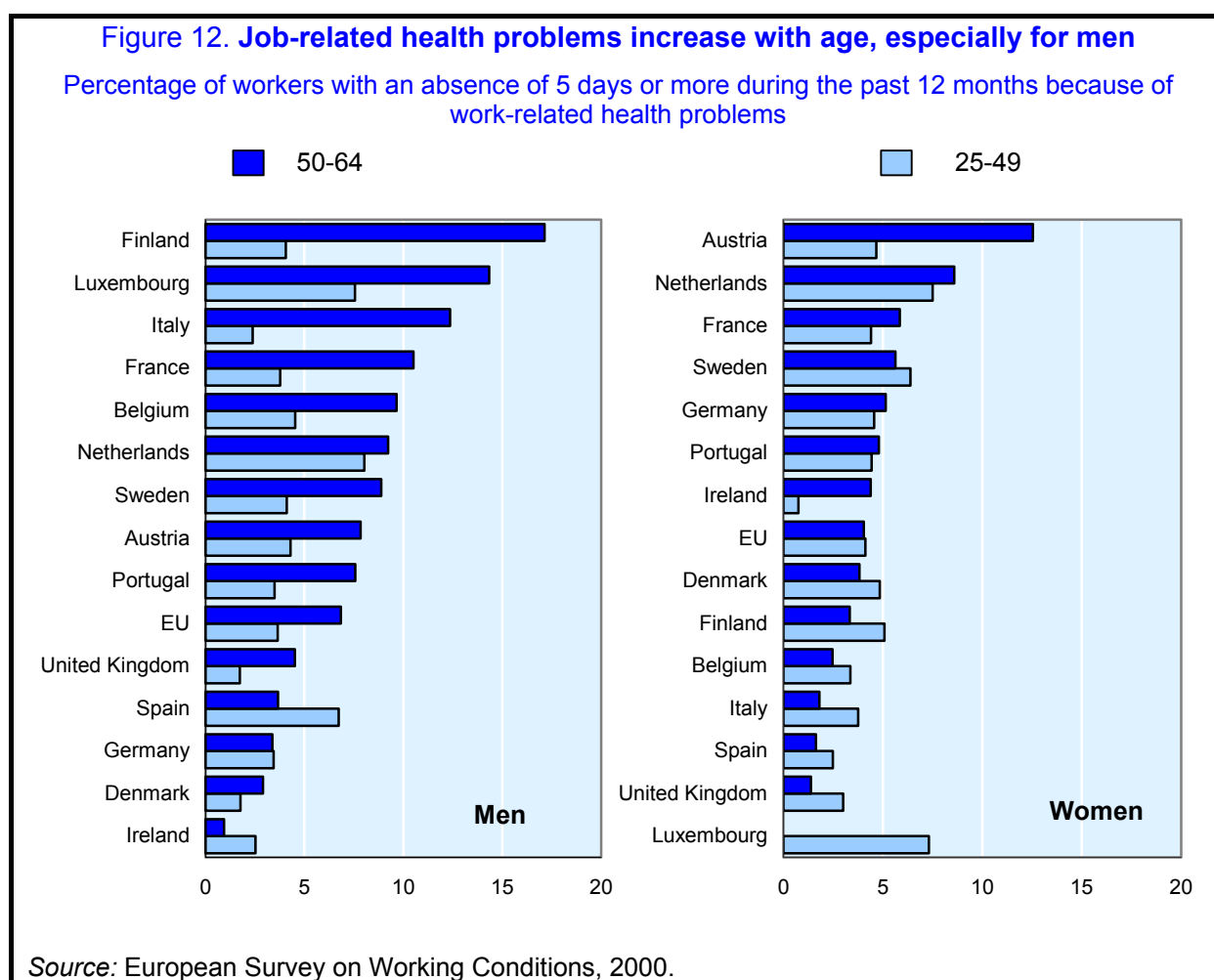


In several European Union countries a number of initiatives have been taken to encourage progressive retirement through some form of income support to help allow working-time reductions. However, while these schemes may encourage some full-time workers to postpone retirement and opt to work part-time instead, there is a risk that they may also encourage other full-time workers who did not intend to retire to switch to part-time work. Thus, one crucial consideration in building more flexible pathways to retirement – especially, if publicly subsidised – should be the expected net impact on the effective labour supply of older people. Indeed in Sweden, where in the 1990s very generous incentives to work part-time were accompanied by a reduction in full-time working, these incentives have now been reduced.

Poor working conditions are another important factor that may be pushing older workers into early retirement. According to the European Survey of Working Conditions, 43 per cent of men and 26 per cent of women aged 50-64 are exposed to physically unpleasant working conditions at least half the time. While this is slightly lower on average than for younger workers in most countries, the accumulated effect of working, for example, with vibrating machinery or exposed to loud noises can start to take a toll on older workers. Perhaps even more important is the exposure to psychological pressures causing stress, and a high

proportion of older people coming onto sickness benefits suffer from mental rather than physical conditions.

The toll taken on health by working conditions is summed up in Figure 12. In Finland, France, Italy and Luxembourg, at least one in ten men aged 50 to 64 experience substantial absences from work because of job-related health problems, and in Austria this is true of over one in ten women. This is just the visible tip of a much larger iceberg of health problems arising directly or indirectly from experiences at work. Many of those who have prematurely left the workforce suffer from mental or physical health problems that are likely in part to have been influenced by their experiences at work.



Few countries have taken specific initiatives to improve working conditions for older workers. One exception is Finland, where several initiatives have been taken, including its National Programme on Ageing Workers launched in 1998. In these initiatives, improving working conditions for older workers has not just been tackled in isolation but has been part of a much wider attempt to improve “work ability”, which addresses for example the ways in which work is organised and the attitudes and expectations of older workers. A key driver of the Finnish strategy has been a concern for occupational health, based on research showing that the overall work environment encountered by workers is a key predictor of their future ability to work, with mental health issues such as stress at least as important as physical

capacities. This research also shows that organisational features of the work environment such as the amount of control that people have over their jobs are important alongside physical factors.

It is important to adopt a lifecycle perspective when seeking to improve working conditions and flexibility in working-time arrangements. For instance, improvements in occupational health and safety for workers of all ages will assist future generations of older workers to remain in employment longer. This perspective underlies Finland's National Programme for Ageing Workers which seeks to maintain the working capacity of the labour force at both younger and older ages. Clearly, though, certain types of work environment and work tasks may be particularly onerous for older workers and, for instance, Belgium has created a special fund to assist employers to adapt the work environment to the needs of older workers. A lifecycle perspective is particularly important in the case of women, to permit greater labour-force attachment at all ages by helping them to combine more easily work and family responsibilities throughout their working lives.

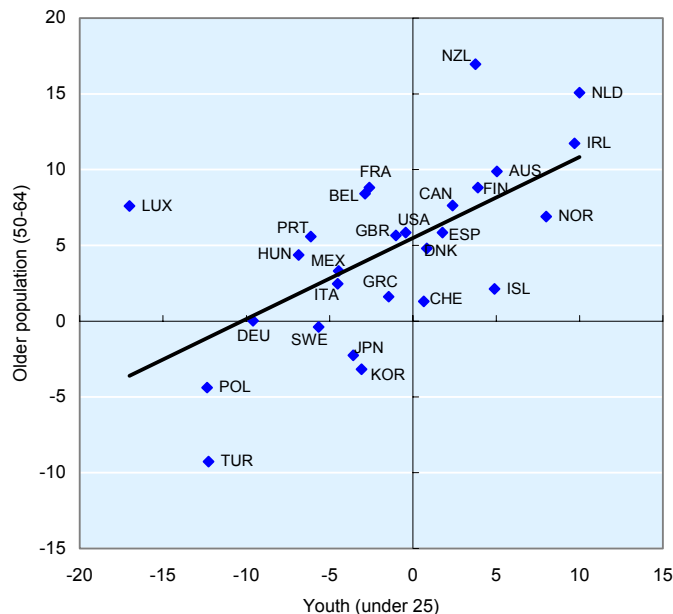
4. DISPELLING THE MYTHS

A number of policies and employment practices date from a bygone era and reflect a number of myths about the capacities of older workers and the way the labour market functions. It is important that these myths be dispelled.

Fewer jobs for older workers means more jobs for younger workers. In the context of high and (in some countries) rising youth unemployment, it is sometimes argued that measures that encourage older people to remain in work longer may be at the expense of worse youth employment. This is based on the fallacy (sometimes referred to as the “lump of labour” fallacy) that there are a fixed number of jobs to go around. In practice, this is not true, as can be seen most starkly in cases where countries (such as Israel in the mid to late 1980s) that see a sudden surge of immigration but a parallel expansion of jobs and therefore an unchanged employment rate. Neither is the employment rate itself fixed. This is why it has been possible to expand the number of women working over the past generation without a reduction to the same extent of employment among men.

Figure 13. **More jobs for older workers do not mean fewer jobs for younger workers**

Percentage point change in employment-population ratios, 1992-2002



Source: OECD estimates based on data from OECD Labour Force Statistics.

In terms of labour market policies, it may be true that on its own a policy giving a subsidy to employers who hire an older person would risk displacing other disadvantaged groups such as the very young from the labour market. However, a package of structural reforms aiming to remove overall barriers to employment can help expand employment across the board. Note that across OECD countries there is a positive correlation between employment

outcomes of older and younger people (Figure 13). That is, countries with relatively higher increases in employment rates for older people tend to have higher increases (or lower decreases) in employment rates for younger people.

Older workers are less productive. There is no evidence showing that people's overall working capacity systematically deteriorates with age. Most studies on older and younger workers show that each have relative strengths and weaknesses that they can contribute to the workforce – the most obvious strength of older workers being those that derive from maturity and experience. This points to the need for *age diverse* workforces, that are able to draw on a range of strengths from different groups.

One difficulty in confronting age discrimination is that it would be unrealistic to deny either that *some* older people find it difficult to adapt to change, or that the process of growing older can in some cases impair capacities. Yet equally, there are many case study examples of older people adapting well, showing that it is wrong to use chronological age itself as an indicator of someone's capacities. Moreover, much discrimination is directed at people who are below conventional retirement ages – in their 50s and early 60s – who in developed countries typically have nearly a quarter of a century of remaining life expectancy. Many such people are still in their prime, both mentally and physically.

Work pressures are more intense. One argument for early exit from the labour force is that jobs today are so demanding that it is unrealistic to ask people to continue working until they are in their 60s. While it is true that some people feel “burned out” by the time they are in their 50s, there is no justification for regarding this as an inevitable feature of a modern workforce. Overall, health and life expectancy have both improved, so that in principle it is possible for people to enjoy a longer period of healthy working *and* of healthy retirement. There has been a general switch over time to less manual forms of work, meaning that some of the ailments that some of the physical strains that have stopped people working have become less important. On the other hand, stress is more often cited as a reason for giving up work early.

If it were economically feasible and socially desirable for working life to be compressed into a frantic 30 years between age 25 and 55, it may be possible to argue that the solution is to facilitate early retirement. However, not only does this not make economic sense in the context of lengthening life expectancy, but such a strategy would ensure that people would be working long hours at precisely the time when the home demands associated with bringing up children are the greatest. Some countries have made efforts to create better work-life balance and to facilitate prolonged working lives with the help of part-time working. Such strategies regard excessive work pressures and their long-term consequences for health as not being inevitable. Structuring working lives in ways that make them sustainable for longer will ultimately increase the overall supply of labour, even if initially demanding fewer hours from some existing workers.

5. CONCLUSION – DIRECTIONS FOR POLICY ACTION

This short review has shown that in aiming to mobilise the potential labour supply of older people, European countries need to consider both the shape of options available to individuals in terms of incentives and opportunities and the dynamics of how they move between work and non-work options. The influences on these pathways are important: what is it that causes individuals to leave work; how do they return; and how are they moving between different forms of unemployment and labour inactivity? These patterns are not identical across all European countries, which have different kinds of labour market and different social support systems.

Thus, each country is having to think about existing pathways of older workers between work and retirement and how they can lead in more positive directions. There are many commonalities in the direction of reforms aiming to improve the incentives and opportunities for older people to play a part in the labour market for longer. However, in all countries a comprehensive strategy is required to tackle the various disincentives and barriers to employment facing older workers. This will require action by both the public authorities and social partners in the following areas:

- Reform retirement and social welfare systems to strengthen work incentives
- Encourage change in attitudes of employers and workers
- Adapt wage-setting practices and employment protection rules to promote employment of older workers
- Promote training for upgrading skills and acquiring new ones
- Improve access to high-quality employment services for older job seekers
- Improve working conditions

Of course, the specific details of such a comprehensive strategy will depend heavily on the particularities of the pathways between work and retirement and the various barriers to employment that older workers face in each country.