Active ageing: a lifelong strategy

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Introduction

The OECD, the IMF and the European Commission frequently put forward catastrophe scenarios of how the ageing population will give rise to a large structural public deficit by 2040–50. Borrowing, prefunding and an increase in the fiscal burden are all ruled out as solutions to this problem. Policy recommendations to alleviate the situation mainly focus on reducing or maintaining at current levels pension, health and long-term care spending. The need to increase the effective age of retirement to 65 years is also recurrently expressed, and this mainly by terminating early retirement schemes and by strengthening the incentives stemming from pension schemes to retain older workers in the labour market. Some focus is put on discrimination against older workers and the perverse effect of some companies’ human resource policies. However, this often figures at the bottom of the list of remedies. Nevertheless, active ageing has become a major policy concern in most EU member states during the past ten years. Retaining the over-55s – or even the over-45s in some countries – in the labour market is seen as increasingly important for the sustainability of the social security system and, to some extent, to compensate for tight labour markets.

However, few countries have succeeded in reversing the effect of increasingly earlier retirement, and most EU member states still have a long way to go. Policy-makers have realised that reversing the trend
of early retirement is far from straightforward, but demands a complex and multidimensional approach. While an integrated public policy seems to be the way forward, only Finland stands out as applying this approach in a coherent manner.

The need to raise the employment rate of older workers is a priority for the very near future in order to guarantee the sustainability of the pension system. Undertaking reforms that will be effective by 2035 is inadequate because most pension systems will face financing problems as early as 2010–20. This is quite apart from the problem of labour force scarcity that has already been encountered or that will arise in the European Union. Other solutions that have been proposed to alleviate the burden on the pension system – such as funding, immigration and increasing the contributions/decreasing the benefits of younger generations – are inappropriate or not politically feasible. People need to work for longer than the currently prevalent norm and the question is how this change is to be achieved.

The ETUI has conducted a two-year research project on ‘Active strategies for older workers’. The aim of this project was twofold: first, to identify the various situations of older workers in nine European Union member states and the policies adopted to encourage them to stay in the labour market; and second, to conduct an in-depth analysis of the main policies used to keep older workers in the labour market. The research results from the first stage of the project are published in Jepsen et al. (2002).

Several publications have identified the main policies used to retain older workers in the labour market as:

- removing incentives to early retirement and encouraging later retirement and flexible retirement;
- legislation to counter age discrimination and awareness-raising campaigns among employers with a view to effecting a change in attitudes;
- guidance and training programmes targeting older workers;
employment incentive schemes, including active employment policies and special job offers for older workers.

Two other policy issues identified as vital to an integrated approach to active strategies, albeit rarely implemented, are care infrastructures and working conditions.

An in-depth analysis of these policy areas has resulted in the five papers published in this volume.

This concluding chapter draws on the main conclusions from these five papers and aims to highlight the advantages and disadvantages of the strategies currently used to promote active ageing. The main finding is that all the above-mentioned issues are of equal importance and that all are multidimensional and complex. Furthermore, active ageing seems to be a lifelong commitment and not just something reserved for the over-50s. This makes the issue of active ageing even more challenging for policy-makers.

1. Preliminary evidence concerning what keeps older workers in employment

The aim is to create the right incentives for people to remain in the labour market, while preventing a situation whereby one section of the working population experiences conditions even more precarious than they are today. When it comes to identifying what will induce people to work longer, evidence shows that a dynamic labour market – with good jobs available – is a prerequisite for keeping seniors in work or persuading them to return to work. Economic growth and job creation are key notions. Other factors play a major role, however, such as the firm’s attitude towards older workers. Older workers are considered less productive and this image persists even though several studies have shown that differences in productivity are greater within age groups than between age groups. The difference in productivity that has been found between age groups should not be exaggerated and in some cases productivity even increases with
age (gains attributable to experience). It seems that firms that do employ older workers are those that have no choice or that deliberately choose them as part of their strategy of diversity in human resources. Research evidence shows us also that these tend to be firms that have improved the working conditions of their workforce in general: no special efforts have been undertaken to retain older workers as such, but rather the effort has been made to retain workers in general (see Section 3 for more details).

When it comes to workers’ attitudes, it is vital that, besides collective agreements, the social security and taxation systems should offer the right incentives. Several studies have shown that countries with high employment rates for the over-55s are those with social security systems that make it worthwhile to work. This complex issue is dealt with in Section 2.

Apart from these three basic elements, what is needed for firms to find older workers more attractive and for older workers to remain in the labour market? Firms often complain about the high cost of older workers, as well as their lack of up-to-date skills. Yves Chassard proposes a possible trade-off between abolishing the link between promotion and seniority and promoting workers’ employability. This implies changing the wage system, but most importantly it demands that lifelong learning becomes an integrated component of professional experience as a means either of becoming highly specialised or of expanding the professional horizon. Unfortunately, lifelong learning is much preached and little practised. The preventive approach is far surpassed by the curative one. However, it is difficult to imagine the abolition of seniority-based wages or promotion, making remuneration completely skill-based, unless employees are offered the possibility of acquiring the needed skills, which requires an increase in the preventive aspect of lifelong learning in order to promote employability.

This leads to the next main issue, namely the debate on preserving employment opportunities and promoting the mobility of older
workers. Most current policies seem to concentrate on keeping older workers in employment, but it is vital that intra-firm as well as extra-firm mobility be debated. This issue is difficult because, although mobility may leave the worker better off than if he/she had left the labour market, it can equally well make him or her worse off. What are the relevant ways and means? Where are the limits? Is Europe ready to accept a system like the Japanese one, where older workers can remain in the company but receive less wages for the same job?\footnote{In Japan older workers are workers that have already retired but remain in employment.} These issues need to be discussed.

Working conditions stand out as being a core element in the promotion of active strategies for older workers. Firms need to adapt working conditions to the needs of their entire workforce, not only those of older workers. It is possible to take a curative approach to working conditions whereby they are directly targeted at older workers in order for them to remain productive, but the best approach is to ensure that working conditions are adapted in such a way as to keep up the productivity of the workforce throughout their working lives.

However, all three aspects require caution as they imply a certain degree of re-regulation of the labour market. This cannot be envisaged without the necessary security for employees and calls for trade unions to reflect on new ways of combining increased positive flexibility with security for the workers. This aspect is even more important as the discourse on the three aspects often relates to core workers and disregards the situation of ‘outsiders’, that is, part-timers, tele-workers, home-workers, low skilled and temporary workers, a majority of whom are women. Will they be able to benefit from training, better working conditions, new evaluation methods, or will they become even worse off in the process of increasing the employment rate of the over-55s?

\footnote{In Japan older workers are workers that have already retired but remain in employment.}
Common to these issues is the importance of effective public policies, as well as negotiations between the social partners in order to promote the above three aspects. A solid and comprehensive framework is needed, together with local negotiated implementation. The Netherlands and Finland stand out as providing good examples of successful policies that have turned around the downward employment trend: their policies and programmes have been carefully negotiated between the social partners from conception to application.

2. Incentives and disincentives deriving from the tax and social security systems

One of the most widely discussed instruments to keep older workers in the labour market is incentives related to the tax and social security systems. Lei Delsen reviews the very complex puzzle of incentives and disincentives and provides a good overview of the various systems and reforms that have taken place in the EU. The main focus is on changing the incentives for older workers (supply side: benefits and contributions) rather than on the employers (demand side: contributions). The main challenge for EU countries has been to reform their social security systems away from the excluding mechanisms introduced during the 1970s–1980s and to introduce attractive measures that will encourage older workers to re-enter or remain in the labour market. The EU member states seem to use similar instruments in order to achieve their goals of assuring the financial viability of pension systems and reversing the trend of ever-earlier retirement. Abolishing the mandatory retirement age, raising the age of pension entitlement, introducing flexible and progressive retirement, increasing the required number of years of contribution, increasing the contribution rate and cutting benefits are the most common policies. However, moves can also be observed towards efficient social security systems with incentive-compatible contribution schemes, including defined contributions, privatisation and funding.
In spite of these major reforms, little change has been observed with regard to retirement patterns. The effectiveness of these policies is questioned for two main reasons. First, increasing the age of pension entitlement or reducing benefits may not have the desired effect if other public or private pathways out of work are available (‘communicating vessels’). Second, when increasing contributions and/or decreasing the benefit entitlements that follow, the increase in the pension accrual rate might just not be large enough to induce the older worker to remain in the labour market. The reforms might even go so far as to decrease the pension wealth at the end of the career and hence induce early retirement. The privatisation and individualisation of pension accounts may also have a counter-productive outcome as it may lead to segregation and adverse selection. While the well-off and highly productive workers will have the possibility of retiring early, or may even be induced to do so, the less well-off and less productive workers will not have this choice, since they will be financially constrained to continue working in order to build up more pension rights. This effect is not only undesirable for social reasons, it also leads to a narrowing of the tax base.

Policy measures that focus on tightening access to benefits or reduction of pension levels impose a disproportionate burden on the low-income population, who are more reliant on social security provisions than those with higher incomes. Flat-rate pension benefits give incentives to the low-income population to retire early. Earnings rules and means-testing lead to pension, poverty and unemployment traps,² notably for those at the lower end of the earnings scale. However, doing away with these mechanisms and introducing pensions solely based on actuarial fairness may result in inadequate retirement income, which could lead to poverty, segmentation and polarisation.

² By earnings rules we mean the right to accumulate pension and earnings from employment.
Introducing a flexible pension age and a favourable progressive retirement via part-time retirement regimes is a necessary but not sufficient step towards raising the effective retirement age. If other public and private early-exit schemes (for example, full-time early retirement) are not abolished or altered, such a step might result in no perceptible change. Furthermore, research shows that the change in incentives needs to be substantial in order to have an impact on the worker’s decision to retire or to combine work and pension. More importantly, all decisions taken in relation to employment will have an influence on the retirement decision, that is, changes in contributions as a result of change in employment characteristics result in changes in the later benefit level. This implies that all reforms should be seen in light of the working life perspective and not only in light of the last years of work. Working-time preferences of all individuals should be taken into account at all stages of life, as this will have an impact on the later retirement decision. Social security reforms have in general been ‘stick’-based – that is, punishing early exit – and the results have been quite meagre. Maybe policy-makers should start thinking of introducing ‘carrot’ reforms by better rewarding late exit from the labour market.

3. Training and employment policies

The importance accorded to the incentives from the social security system is justifiable; however, creating the right incentives alone will never solve the problem of early retirement. Tight labour markets, training and employment policies, as well as changing the attitudes of both employers and employees (individuals and trade unions), are also of vital importance. Céline Lafoucrière concentrates on training and employment policies that are aimed at older workers. While the European Employment Guidelines acknowledge the importance of lifelong learning and other active labour market policies in order to maintain older workers in the labour market, an in-depth analysis of the national action plans for employment shows a lack of coherent strategies, mainly due to a lack of overall understanding and truly
targeted approaches, although some member states do focus on measures taken with regard to anti-age discrimination legislation and initiatives (campaigns), age-neutral personnel and training policies and in-house training, as well as public employment programmes. Recent studies seem to confirm that targeted labour market policies and programmes are effective in reversing the trend of early exit from the labour market. In particular, training/retraining appears to be a central element in the retention of older workers on the labour market as well as in facilitating the reintegration of the long-term unemployed via an updating of their skills. However, it could also appear that training alone cannot change the face of the labour market as it now stands. Job-creation schemes, personal guidance initiatives, anti-age discrimination policies and campaigns are all vital factors if older workers are to be perceived as being an integral part of the labour force and not only a ‘reserve army’. Paradoxically, the opposite may also be true. When dealing with shortages and/or erosion of skills, the above-mentioned active labour market policies and programmes must nearly always be linked to vocational training programmes. These measures must complement each other in order to be successful. Another crucial issue related to the policy measures mentioned above concerns where the responsibility lies and where the decisions come from. In this context state and industrial relations and traditions play a vital role. Examples from the different EU member states do not point towards a unique model for distributing responsibilities and decision-making powers. They do, however, tend to point to the fact that there is a need to establish formal government legislation providing an overall framework within which further actions can be taken. The combination between a high degree of regulation and industrial self-organisation eased by government structures capable of devolving much to regional government, coupled with a demand-led system which provides for a high level of specialisation and consultancy practices, involving different actors, appears to respond well to the issues concerned. Finland and Denmark, albeit via quite different systems, seem to point to an efficient mode of further development.
It must be stressed that, despite all discussion of the principles of lifelong learning, the issue remains inadequately understood. The tightening of the labour market seems to have induced better training processes, but a malfunctioning of the different systems is apparent. It is essential to understand the concept of lifelong learning as a preventive and lifelong process, whereas the national experiences are evidence of a general tendency to regard the issues as end-of-career problems, thereby introducing a curative aspect instead. The social partners, therefore, have an important role to play in altering mentalities and actively encouraging training practices to take place throughout an employee’s working life. Although patterns of lifelong learning differ tremendously according to different national contexts, the obligatory pattern witnessed in countries such as France has, more often than not, sent the ‘wrong’ message, sometimes serving to strengthen the negative perception of older workers’ skills. These obligatory patterns are certainly not to be condemned, for they can indeed be useful in providing a formal framework, but they should be accompanied by further financial contributions, as well as clearer quotas and targets. More incentives/rewards are needed for lifelong training in order to make sure that workers never become ‘older workers’ but remain ‘employable’ throughout their career. The general trend of curative measures for older workers, which often predominates, is evidence of an overall malfunctioning of lifelong-learning systems in general. It is crucial, therefore, that national social partners seize the opportunity given them by the European Employment Strategy and create a synergy within which concrete preventive responses can be found and coherent national strategies arise.

4. Working conditions

Another prerequisite for keeping workers on the labour market for longer relates to working conditions. This subject encompasses two issues, namely working time as a way of adapting working conditions, and the ergonomic aspect of working conditions.
With regard to working time two aspects arise, namely flexible working time and reduced working hours. It is assumed that more appropriate working-time patterns help to promote higher labour market participation among older workers. Reduced working time seems to entail many advantages. It limits the reduction in productivity that might come with age, while the reduction in duration can offset the need to adapt the nature of the working conditions themselves, and both workers and firms might be less reluctant to compromise, insofar as their preferences are better met.

Annie Jolivet identifies a wide range of already existing schemes to reduce working time in the EU member states. Some are aimed at older workers in particular, while others are aimed at workers in general. The effect and desirability of the scheme depends on its features. Is it actually helping to raise the age at which individuals retire and thereby increase the labour supply, or is it decreasing labour supply by encouraging part-time instead of full-time work? Notwithstanding the fact that from a social point of view it might be desirable to redistribute hours worked through part-time retirement, even if no more labour input in total is made. However, from an economic point of view the result is less helpful than an outcome where more hours are worked. It is also questionable whether the schemes should be targeted towards older workers alone, insofar as this might stigmatise them. Access conditions and wage compensation naturally play a major role in the success of the schemes; equally important, however, is the availability of good quality part-time jobs and how older workers are managed in general. Another criticism, or feature to note, is whether reduced working-time is available in the internal labour market (as in Belgium) only, or whether the schemes are also available for older workers changing jobs or re-entering the labour market. This last question is rarely touched upon.

Turning to the ergonomic aspect of working conditions, it should not be forgotten that ageing is partly a product of work. In order to
combat this aspect a multitude of complex factors need to be considered. Three crucial elements can be identified: working conditions, the option of acquiring/developing skills, and the characteristics of the career path.

The initiatives undertaken in EU member states can be divided into two possible approaches. In the first, older workers are perceived as a special group for whom special solutions need to be proposed: ‘soft’ jobs and end-of-career routes within or outside the firm. This policy approach implies two risks. The first is that the number of people involved will be out of step with the number of posts available, and the second is that ‘sidelining’ these workers will cut them off from the activity of the firm. The second approach is an overall approach covering both working conditions and career pathways, and it involves adapting work organisation and the management of mobility to suit the diversity of the workforce. The positive aspects are that it avoids stigmatisation, offers a wider range of opportunities for an older workforce with very different characteristics, and encourages advance management of the situation. It no longer implies, for example, that all older workers are shielded from certain working conditions but creates, instead, a less demanding combination of working conditions for everyone (by introducing greater autonomy and freedom of action). On the other hand, this type of approach is more difficult to implement because it involves rethinking working conditions, organisation, mobility and changes that might be regarded as being dictated by exogenous variables to the firm, such as the economic and competitive situation.

An analysis of the policies currently applied in EU member states clearly shows the need for a renewed look at the issue. Several recommendations can be made to policy-makers. The most important are: to put an end to the conventional way of thinking of end-of-career schemes as only for those in the internal labour market and to start including those in the external labour market; to identify what makes some decline participation in the schemes on offer; to
make the schemes reversible; to be clear about the aim of the working-time reduction (WTR); to give serious support to the introduction of WTR; to encourage discussions on working conditions in firms as well as at sectoral level; to introduce preventive as well as curative dimensions into age management.

The main message is that it is important not to introduce short-sighted, inflexible measures. What is definitely needed in the current landscape is a more flexible approach to WTR, as well as an appropriate adaptation of working conditions. A warning should be issued concerning the narrow focus on the internal labour market, which leads to neglect of the external one, which is equally if not even more important.

5. Care infrastructures

The last issue dealt with in this paper is often wrongly overlooked when discussing active ageing, namely provision of care for children, parents and spouses. Although this aspect might seem to be less of a priority when discussing active ageing for men, Pacolet and Hedebouw demonstrate its importance for women, and hence also indirectly for men, insofar as couples tend to retire together. The significance of social spending on family/childcare for female labour market participation in general has been demonstrated by several studies, but very little is known about the influence on older women’s labour market participation. Nevertheless, the scant evidence that does exist points to the fact that grandmothers play a major role in the care of grandchildren. This implies that future grandmothers will be placed in a dilemma as their parents will still be living and probably also needing care, hence the term ‘sandwich’ generation. Figures show that even in countries with a well-developed system – that is, formal care is provided – the bulk of the care is provided by the household, family or neighbours, even though it is not a full-time job. This implies that formal care cannot work completely as a substitute for informal care, though it can alleviate the situation. The
demand for care is bound to rise and this needs to be taken into consideration when discussing active ageing.

An important factor is that a high employment rate amongst younger women seems to produce higher employment rates among older women as well. There appears to be a continuity in the rate of employment. This means that childcare provision ensuring higher employment rates among younger women will, over time, have a positive effect on the employment rate of older workers and could encourage them to remain in employment for longer. In the worst case scenario, ensuring adequate formal care provision to replace informal care, for children as well as the elderly, will prevent the employment rate from decreasing as the demand for care increases with the ageing population. Once again, the less skilled are more likely to withdraw from the labour market to provide informal care, thereby contributing to their already fragile position as older workers. However, one should not lose sight of the fact that the decision to leave employment to provide care is an individual choice; however, it is also a social choice to provide care or not and this can influence the individual choice. The more formal care is provided, the less will be the pressure to leave the labour market; however, the demand for care provision should be evaluated on a life-cycle basis, as older women’s labour market participation will be strongly influenced by having participated at an earlier stage.

6. General conclusions

From the research undertaken at the ETUI it is obvious that an appropriate mix of measures targeted towards both employers and employees is essential for the successful promotion of active ageing; both demand-side and supply-side perspectives are needed. Partial approaches are bound to lead to failure to reach the goal of retaining older workers in the labour market. Furthermore, although special measures are needed for older workers, the main conclusion to be drawn is that, in order for older workers to stay in the labour market,
action should be taken on a lifelong basis. Many of the measures discussed in connection with active ageing (incentives from the social security and taxation systems, WTR, training, working conditions, social infrastructure, and so on) should actually apply to all workers. Applying the measures to older workers alone will stigmatise them and may not have the expected effect, as they are not sufficient to keep older workers in the labour market. Most of the policies proposed for older workers would be appropriate for the entire workforce. One could say that specific anti-ageism legislation and campaigns targeted towards employers, employees and trade unions are needed; however, it must be hoped that they are needed only on a temporary basis until older workers are seen as being fully a part of the labour force and not as a ‘reserve army’; however, if women are taken as an example of this, the temporary might not be so temporary. Another very important issue is the debate on the internal/external labour market. Many of the policies proposed focus on the intra-firm situation of older workers; however, it is very important to include or even promote the idea of external labour markets. It might not be the best idea to create special jobs/careers for older workers as it might lead to the development of precarious conditions. This leads to the next conclusion to be drawn from the discussion on active ageing. When closing the pathways for early exit from the labour market, very little focus is placed on the ‘weaker’ individuals in the labour market (temporary workers, part-timers, low skilled). When designing the strategy for active ageing, these groups need to be made the centre of attention as otherwise there will be a high probability of creating segregation, poverty and a new precarious group on the labour market. The flexibility of schemes is another issue. The schemes need to be flexible in order to fit the various sectors, jobs and individuals. They should also be reversible; a decision taken at one point should not necessarily be the final one.

Finally, we insist on the fact that changing incentives in the social security system alone will not work; training alone will not work;
introducing WTR alone will not work; and so on. The complexity encountered when dealing with early-exit challenges and senior issues calls for an appropriate mix of measures. Whether or not supported by formal legislation, anti-age discrimination campaigns will undoubtedly be condemned to failure if not accompanied by deeper personnel policy reforms, involving all actors. The fiscal and financial aspects of early retirement trends are key issues; policy-makers and social partners therefore have a crucial role to play in establishing age-neutral pay systems and reducing employers’ costs, thereby truly helping to change employer attitudes. Employees should be given real ‘carrots’ for staying in the labour market, for example via specific tax reductions. The role of social partners should not be neglected as they have an important part to play, not only at the national level, but also at the local level in order to motivate change in the workplace. Although their intervention should motivate reform agreements in the long term, they should also be highly proactive in finding responses for the shorter term. Changes in government policy should entail a series of reforms, mainly in the field of social security, taxation, recruitment, training policies, working conditions and, last but not least, care provision. However, the attempt to influence behaviour via incentives/disincentives is fraught with difficulties: one must not only take account of the financial incentives stemming from the social security system, but also the situation and wishes of the spouse/partner, as the decision to retire is rarely a ‘solo’ one.

Although some efforts have been made in this direction, an integrated public policy approach considering the link between employment, pensions and training is still needed. Furthermore, it is vital that the policies directed towards older workers be compatible with other policies. Policy-makers need to reflect on the balance between policy goals. With the economic downturn and growing unemployment, it will be interesting to see whether governments remain as eager to undertake reforms to encourage older workers to stay or re-enter the labour market as has been the case for the past five years.
As such, the main conclusions of the research project undertaken at the ETUI do not conflict with those of the European Trade Union Confederation (ETUC). In fact, the ETUC has never accepted the ever-earlier retirement of men and women as irreversible, in particular since the original social response (early withdrawal) to an economic problem (high youth unemployment) was subsequently diverted from its original objective, namely to create more employment opportunities for young workers. Indeed, very soon the social measure of early retirement was turned into a convenient tool for companies to get rid of older employees at a low cost at an ever-earlier age. The ETUC disapproves of the systematic exclusion of older workers from the labour market, but at the same time it does not agree with the European Commission’s radical stance on generally discouraging early withdrawal from the labour market. For the ETUC, early retirement schemes should remain available as instruments of last resort to alleviate painful industrial restructuring if no other jobs are available and also as an exit route for particularly heavy or unhealthy jobs. As regards the activation of older workers, the ETUC believes that, before starting to discuss increasing the statutory retirement age – as some employers are doing – Europe should look for policies which allow and encourage men and women to remain active until they reach the normal statutory retirement age.

Bibliography