# RETHINKING THE ROLE OF OLDER WORKERS:
## Promoting Older Worker Employment in Europe and Japan

**Introduction**[1]

Concern about the sustainability of public pension and health care systems in the face of aging populations has policymakers in developed countries looking to the contributions that older workers might make to economic growth and the alleviation of rising support burdens. Governments in countries throughout Western Europe, where employment rates often fall sharply after age 55, have recently introduced a number of measures designed to increase employment rates and prolong working life. For many countries, an acknowledgment of older workers as a resource represents an effort to reverse well-entrenched policies promoting early retirement with generous pension benefits.

Even in Japan—where the labor force participation rates for older persons are among the highest in the industrialized world—government officials are eager to improve labor market opportunities for the older population. In fact, for more than three decades, older workers have been high on the policy agenda in Japan, one of the most rapidly aging countries in the world.

The situation is somewhat different in the United States. Here the demographic picture is more favorable than it is in many other developed countries; labor force participation rates in the 55-plus population are relatively high; and public pension benefits are not overly generous. Although older worker employment in the United States is not the pressing political issue that it is throughout Europe and Japan, a number of legislative changes over the past four decades have served to make it easier and/or more rewarding for older workers to remain in the labor force, and many do.

This issue brief reviews older worker employment and retirement trends and examines efforts to foster older worker employment in the European Union (EU) and Japan, where older workers are a policy priority. Particular attention is paid to EU efforts to increase both the employment rate of older workers and the effective retirement age.

In May 2004, an additional 10 countries were admitted to the European Union, making a total of 25 member states. Discussion in this brief, however, is limited to the 15 countries (referred to as the EU-15)[2] that were members in 2001 and 2002. It was at this time that two important older worker targets (discussed below) were set by the European Council, the body that establishes policy guidelines for the European Union.[3]

In addition to providing a broad overview of the status of older workers in the EU-15 countries and Japan, with comparative data for the United States, this brief singles out for special attention some of the policies and programs that do or may yet promote the employment of older workers in four nations that have varied approaches to encouraging more work at older ages: Finland, the Netherlands, Sweden, and Japan.

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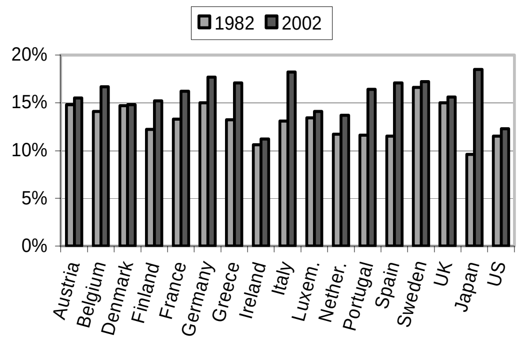
[2] These countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The 10 new members are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

[3] The Council meets twice a year in the country that holds the Presidency, which rotates every six months.

## Population Aging

The high birth rates of the baby boom era have given way to very low fertility in Japan and the European Union that, when coupled with rising life expectancy, is causing populations to age—in some cases dramatically. In seven of the countries in Figure 1, 17 percent or more of the population is at least age 65. In four of these countries, the aged 65 and older population has increased by almost 40 percent or more over the past two decades. It nearly doubled in Japan between 1982 and 2002.

**Figure 1: Percent of Population Aged 65+, EU-15 Countries, Japan, and the United States, 1982 and 2002**




Source: Organization for Economic Cooperation and Development (2003b).

With somewhat more than 12 percent of its population aged 65 or older, the United States is relatively young—at least when compared to the EU-15 countries and Japan. Of these countries, only Ireland is younger than the United States.

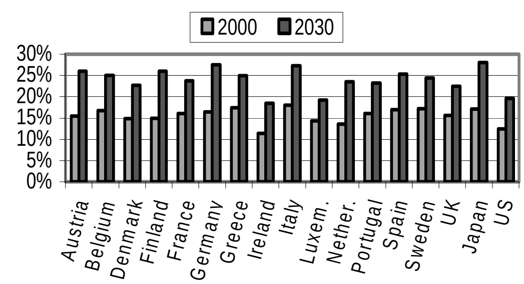
The European Union, Japan, and the United States will continue to age (Figure 2). By 2030, some 20 to more than 25 percent of the populations in all of the Figure 2 countries except Ireland and Luxembourg are projected to be 65 or older. Ireland and Luxembourg will not be far behind (U.S. Department of Commerce 2004, accessed 9/24/04).

Since the early 1960s, life expectancy in the EU-15 countries, Japan, and the United States has risen by 7 to 10 years for men and by 8 to nearly 13 years for women. It is projected to increase by another 4 to 5 years in the EU-15 countries and the United States and by over 6 years in Japan between 2000 and 2050 (United Nations 2003: Table 4).

Population aging is also reflected in a county's median age, which is already close to or over 40 in most EU-15 countries and Japan (Table 1). The median age will continue rising and may reach 45 years or more in most of the countries by 2050 (United Nations 2003: Table 8). The median ages of Austria, Greece, Italy, Japan, and Spain are expected to exceed 50 by 2050, 12 to 14 years higher than in 2000. In contrast, a median age of just under 40 is projected for the United States by 2050, an increase of 4.5 years from 2000.

From the early 2020s onward, the aggregate population of the EU-15 countries will begin to fall, and the working-age population will shrink as a result of labor force withdrawal rates by older persons that exceed the entry of younger persons (European Commission September 2003). If labor force participation rates for older people remain as low as they are in most of the countries under review in this paper, population aging augurs ill for the sustainability of pension, health, and social service systems. With aging populations, stable or falling labor force participation rates, and continued decline in the number of young workers, workforces will shrink. Economic growth may falter, resulting in living standards that increase slowly or not at all.

**Figure 2: Percent of Population Aged 65+, EU-15 Countries, Japan, and the United States, 2000 and Projected 2030**




Source: U.S. Bureau of the Census, International Data Base (2004, accessed 9/24/04).

| Table 1: Median Age, EU-15 Countries, Japan, and the United States, 2000 and Projected 2050* | | |
|---|---|---|
| **Country** | **2000** | **2050** |
| Austria | 38.3 | 50.3 |
| Belgium | 39.1 | 46.3 |
| Denmark | 38.7 | 45.3 |
| Finland | 39.4 | 45.8 |
| France | 37.6 | 45.1 |
| Germany | 39.9 | 46.8 |
| Greece | 39.1 | 51.3 |
| Ireland | 31.9 | 43.3 |
| Italy | 40.2 | 52.4 |
| Luxembourg | 37.0 | 43.0 |
| Netherlands | 37.6 | 44.9 |
| Portugal | 37.0 | 48.5 |
| Spain | 37.4 | 51.9 |
| Sweden | 39.6 | 46.3 |
| United Kingdom | 37.7 | 43.8 |
| Japan | 41.3 | 53.2 |
| United States | 35.2 | 39.7 |

*Medium variant.
Source: United Nations (2003, Table 8).

## Age and Labor Force Participation

In almost all developed countries, labor force participation rates at upper ages have fallen sharply over the past several decades as growing numbers of men have left the labor force at ever earlier ages. Participation rates for older women, especially those between the ages of 55 and 64, have been increasing in most countries, but not enough to offset fully the decline among men.

The decline in participation rates for older men has been especially marked in Austria, Finland, France, the Netherlands and the United Kingdom (Auer and Fortuny 2000/2). Increases in participation rates for older women also vary across countries, with sharp increases occurring in some of the Scandinavian countries, followed by Japan and the United States. Although above what they were in 1950, labor force participation rates for older women remain quite low in a number of countries, especially Austria, Belgium, and Italy.

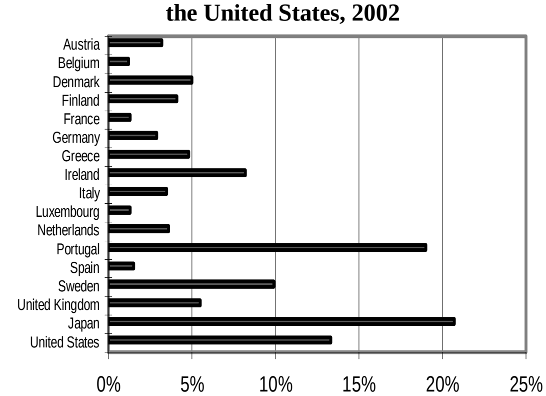
In some countries, virtually no one remains in the labor force after the age of 65. In 2002, for example, fewer than 2 percent of persons aged 65 and over were in the labor force in Belgium, France, Luxembourg, or Spain (Figure 3). Not many more could be found in the labor force in Finland, Germany, or Italy. On average, only 3.5 percent of the EU-15 65-plus population were working or seeking work in 2002 (European Commission June 2003).

At 20.7 percent in 2002, the labor force participation rate for persons aged 65 and over was highest in Japan, followed by Portugal at 19 percent and the United States at 13.3 (Japan Ministry of Internal Affairs and Communication 2005; Organization for Economic Cooperation and Development 2003b; U.S. Department of Labor 2003). In all of the countries in Figure 3, the labor force participation rate for persons aged 65 and over was below what it was as recently as 1980.

In many of the EU-15 countries, the labor force participation rate for persons between the ages of 55 and 64 is also very low, with most workers in this age group leaving their last job as a result of early or normal retirement (Figure 4).

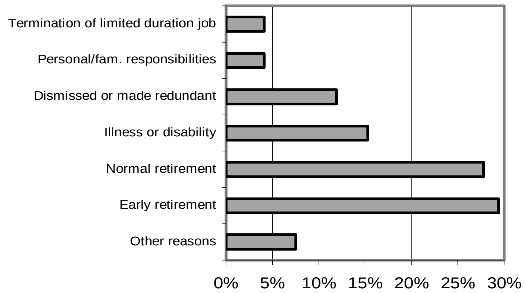
In Austria, Belgium, and Luxembourg, fewer than 30 percent of 55-64-year-olds were in the

**Figure 3: Labor Force Participation Rates for Persons Aged 65+, EU-15 Countries, Japan, and the United States, 2002**




Source: Japan Ministry of Internal Affairs and Communication (2005); Organization for Economic Cooperation and Development (2003b); U.S. Department of Labor (2003).

**Figure 4: Reason for Leaving Last Job Given by Workers Aged 55-64, EU-15 Countries* (average over 1995-2002)**




*Percent of all reasons given.
Source: European Commission (September 2003).

labor force in 2001 or 2002. At the other end of the continuum in 2002 were Sweden (almost 72 percent), Japan (65.5 percent), and the United States (61.8 percent) (Japan Ministry of Internal Affairs and Communications 2005; Organization for Economic Cooperation and Development 2003b; U.S. Department of Labor 2003). Participation rates for this age group have also fallen in recent decades in all the countries except Japan, mainly as a result of the early retirement of men.[4] As will be discussed subsequently, it is this age group that is the focus of EU efforts to increase employment rates in the older population.

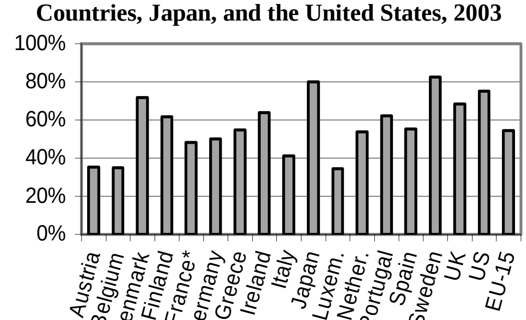
The variation across countries in age-related decline in labor force activity stands out especially clearly in ratios of the participation rates for older persons to those for the prime-age population (ages 25-54). As a percent of prime-age participation, the employment of the 55-64-age group ranges from below 40 percent for Austria, Belgium, and Luxembourg, to 80 percent or more for Japan and Sweden. At 75 percent, the ratio in the United States is also quite high (Figure 5).

## A Retiring World

The so-called "effective retirement age," or age at which workers actually leave the labor force, was 61.4 years in the EU-15 countries in 2003, according to Eurostat estimates (European Commission 2005, accessed 8/16/05).[5] Because the measure devised to calculate this age for the European Union is new, trend data are unavailable. It is known from other sources, however, that EU workers (like their American counterparts) are leaving the labor force at far younger ages than they were during the decades just following World War II.

Blöndal and Scarpetta (1999) estimate, for example, that the retirement age for men in all but one of the 15 EU countries, Japan, and the United States was above 65 and was generally closer to 67 or 68 in 1950. According to their calculations, it had fallen by at least three

**Figure 5: Labor Force Participation Rate for Persons Aged 55-64 as a Percent of the Participation Rate for Persons Aged 25-54, EU-15 Countries, Japan, and the United States, 2003**




*2002.
Source: Organization for Economic Cooperation and Development (2004c).

[4] Participation rates for the 55-64-age group in Japan have actually risen since 1982, with women accounting for the increase. The rate for 55-64-year-old men fell from 85.9 percent to 82.8 percent between 1982 and 2002, a 4 percent decline. For men aged 65 and over, the participation rate fell by 20 percent during the same period (38.8 percent to 31.2 percent). Although lower to begin with, the participation rate for women aged 65 and over fell by almost as much (16 percent to 13.2 percent, an 18 percent decline) (Organization for Economic Cooperation and Development 2003b).

[5] Data on the Eurostat and International Data Base web sites referenced in this paper are updated periodically, so users may find different numbers from those cited in this paper. Access dates are therefore noted.

years by 1995, and generally by considerably more. In some countries (Austria, Belgium, Finland, France, Luxembourg, and the Netherlands), the estimated average retirement age for men was below 60 in 1995. Only in Japan did it remain virtually unchanged over the 45-year period examined by Blöndal and Scarpetta (Table 2).

**Table 2: Estimated Average Age of Retirement by Sex, EU-15 Countries, Japan, and the United States, 1950 and 1995**

| | Men | | Women | |
|---|---|---|---|---|
| **Country** | **1950** | **1995** | **1950** | **1995** |
| Austria | 66.4 | 58.6 | 64.7 | 56.5 |
| Belgium | 64.8 | 57.6 | 62.9 | 54.1 |
| Denmark | 67.1 | 62.7 | 63.0 | 59.4 |
| Finland | 66.8 | 59.0 | 64.7 | 58.9 |
| France | 66.1 | 59.2 | 69.0 | 58.3 |
| Germany | 65.7 | 60.5 | 62.7 | 58.4 |
| Greece | 68.2 | 62.3 | 64.3 | 60.3 |
| Ireland | 68.3 | 63.4 | 68.7 | 60.1 |
| Italy | 66.9 | 60.6 | 64.0 | 57.2 |
| Luxembourg | 65.8 | 58.4 | 64.8 | 55.4 |
| Netherlands | 66.4 | 58.8 | 64.1 | 55.3 |
| Portugal | 67.8 | 63.6 | 68.5 | 60.8 |
| Spain | 68.1 | 61.4 | 68.9 | 58.9 |
| Sweden | 66.8 | 63.3 | 65.4 | 62.1 |
| United Kingdom | 67.2 | 62.7 | 63.9 | 59.7 |
| Japan | 66.7 | 66.5 | 65.5 | 63.7 |
| United States | 66.9 | 63.6 | 64.2 | 61.6 |

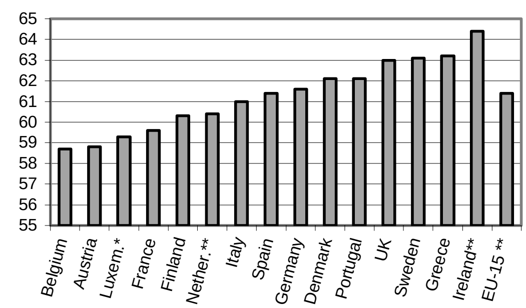
Source: Blöndal and Scarpetta (1999, Table II-1).

Exit ages were substantially lower for women than for men in most countries in 1950 (Blöndal and Scarpetta 1999). France, Ireland, Portugal, and Spain appear to be exceptions.

The average retirement age for women fell in all of the Table 2 countries over the next four and a half decades. Because the overall decline was sharper among women than men, the male/female gap in retirement age was even wider in 1995 than it had been in 1950. In most countries, the average retirement age for women was under 60 as of 1995; in none did women have a higher average retirement age than men that year.

As of 2003, the third year for which the new Eurostat estimates were available, the average age of exit from the labor force continued to vary widely across the EU-15 countries (Figure 6). It was lowest (58.7 years) in Belgium and highest (64.4 years) in Ireland (provisional value). In every country, the average effective retirement age was below the statutory retirement age. This was the case even in France, where the statutory retirement age is only 60.

**Figure 6: Average Age of Exit from the Labor Force, EU-15 Countries, 2003**




*2002.
**Provisional.
Source: European Commission (2005, accessed 7/22/05).

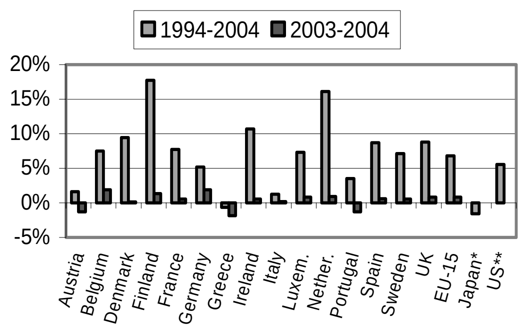
A comparable measure for the United States does not seem to be available. However, if the average retirement age is the youngest age at which half of the population is out of the labor force, then men have been retiring at an average age of about 62 and women at about 60 (Burtless and Quinn 2002).

## An End to Ever Earlier Retirement?

Because the age at which workers retire has not increased along with rising life expectancy, the length of time workers have been spending in retirement has been increasing (European Commission February 2003). However, the trend toward ever earlier retirement seems to have come to a halt in the EU-15 countries, as well as in the United States. Nonetheless, the European Commission's Fritz von Nordheim warns that "Europe is far from a situation where it can safely boast of having reversed the stampede towards early exit" (von Nordheim 2003: 9). Still, efforts to discourage very early exit from the labor force may be paying off.

Employment rates for the critical early retirement age group of 55-64 have been on the rise. For the EU-15 as a whole, the employment rate for this age group rose from 35.7 percent to 42.5 or by 6.8 percentage points between 1994 and 2004 (Figure 7). Between 2003 and 2004 alone, it rose by 0.8 percentage points (European Commission 2005, accessed 8/16/05).

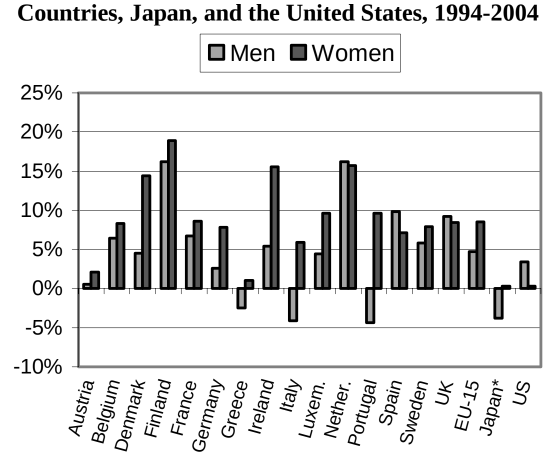
**Figure 7: Percentage Point Change in Employment Rates for Persons Aged 55-64, EU-15 Countries, Japan, and the United States, 1994-2004 and 2003-2004**




*1994-2003.
**No change 2003-2004.
Source: European Commission (2005, accessed 8/16/05); Japan Ministry of Internal Affairs and Communications (2005); U.S. Department of Labor (1995, 2004, and 2005).

Once again, the EU average conceals considerable cross-country variation. The employment rate decreased in Greece and increased by less than 2 percentage points in Austria and Italy between 1994 and 2004. However, it rose by almost 18 percentage points in Finland and by 16 percentage points in the Netherlands. By comparison, the employment rate for persons aged 55-64 in the United States rose by less than 6 percentage points over this same period, although from a higher base (54.4 percent) than in most other countries (U.S. Department of Labor 1995 and 2005). Substantial country-wide variation in the degree of change in employment over the one-year period from 2003-2004 is also evident, with the greatest increases in Belgium and Germany but declines in Austria, Greece, and Portugal. Figures for the total workforce mask marked differences between men and women. Much of the overall increase in employment at upper ages across the European Union and in Japan and the United States has been on the part of women. As can be seen in Figure 8, the increase in employment has been far greater for women than for men in almost every EU-15 country since 1994. In Austria, Greece, Italy, Japan, and Portugal, the employment rate for men hardly increased or actually declined. As a result of these developments, the older workforce is increasingly female.

**Figure 8: Percentage Point Change in Employment Rates for Men and Women Aged 55-64, EU-15 Countries, Japan, and the United States, 1994-2004**




*1994-2003.
Source: European Commission (2005, accessed 4/25/05; 8/16/05); Japan Ministry of Internal Affairs and Communications (2005); U.S. Department of Labor (1995 and 2005).

Given the still early labor force exit ages of workers in much of the developed world, age 65 may not be the most appropriate cut-off for examining the old-age dependency that is of such concern to policymakers in the European Union and Japan. If 60 is taken as the age at which old-age dependency begins, as Eurostat and the United Nations view it, dependency ratios range from a low of 27 in Ireland to just over 44 in Germany, Italy, and Japan (Table 3).

Japan, which saw a very large increase in its dependency ratio between 1960 and 2003, went from having the lowest dependency ratio in 1960 to one of the highest by 2003. Ireland bucked the trend with a decline in its old-age dependency ratio, while the increase for the United States was modest.

**Table 3: Old-Age Dependency Ratios,* EU-15 Countries, Japan, and the United States, 1960 and 2003**

| Country | 1960 | 2003 | Percent Change |
|---|---|---|---|
| Austria | 34.7 | 38.7 | 11.5% |
| Belgium | 33.1 | 39.5 | 19.3% |
| Denmark | 30.1 | 36.1 | 19.9% |
| Finland | 22.2 | 36.9 | 66.2% |
| France | 32.7 | 38.0 | 16.2% |
| Germany | 31.7 | 44.3 | 39.7% |
| Greece | 24.4 | 42.3 | 73.4% |
| Ireland | 34.4 | 27.0 | -21.5% |
| Italy | 25.0 | 44.1 | 76.4% |
| Luxembourg | 29.1 | 32.8 | 12.7% |
| Netherlands | 26.7 | 32.4 | 21.3% |
| Portugal | 22.2 | 38.8 | 74.8% |
| Spain | 23.5 | 37.7 | 60.4% |
| Sweden | 31.7 | 42.0 | 32.5% |
| UK | 31.9 | 37.2 | 16.6% |
| EU-15 | 29.3 | 40.0 | 36.5% |
| Japan | 17.4 | 44.2** | 154.0% |
| United States | 27.3 | 29.4** | 7.7% |

*Population aged 60+ as a percent of the population aged 20-59.
**Data are for 2002.
Source: European Commission, March 2004 (Tables A-2 and C-6).

Dependency ratios will escalate as these populations age. They are projected to more than double in at least 8 countries and to reach highs of 90 percent or more in Italy, Japan, and Spain (U.S. Department of Commerce 2004, accessed 9/24/04).

**A Focus on the Older Worker**

It is dependency ratios like those above and the concomitant strains on social welfare and insurance systems that have European and Japanese policymakers worried, especially in light of rising life expectancy and lengthening retirements. The European Commission sees increasing the participation rates and delaying exits as "crucial to reduce[ing] the mounting pressure on social protection systems" (European Commission September 2003: 159). Moreover, the underutilization of older workers is viewed as a major factor contributing to the lower GDP per capita growth rates of the last decade (European Commission February 2003). Expanding employment and delaying labor force exit are regarded by European policymakers as key to ensuring economic growth in the face of globalization and increasing competition from abroad, and the European Union has taken a number of steps in recent years to accomplish these twin goals.

The Lisbon Agenda

In 1997, the European Union launched the European Employment Strategy to orient and coordinate employment policy priorities across countries at the EU level. As part of this strategy, member states would agree on employment policy objectives and targets, and every year, the European Council would decide on guidelines establishing employment policy priorities for the EU countries. Member states would each prepare an annual National Action Plan describing the implementation and progress on the guidelines in their respective countries. Based on these plans, the European Commission and the Council would then prepare a joint employment report on overall developments and, as decided by the Council, issue country-specific recommendations.

At its 2000 Lisbon meeting, the European Council articulated a new strategic goal "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion." The agenda established by this Council focused on full employment, setting an employment goal of 70 percent for the working-age population by 2010. Achieving this goal, it was clear, would require increasing the number of employed older workers (von Nordheim 2003). Targets aimed specifically at the older population emerged at the 2001 Stockholm and 2002 Barcelona meetings of the European Council.

The Stockholm and Barcelona Targets

The target set at the 2001 Stockholm meeting calls for an increase in the average employment rate for the population aged 55-64 to 50 percent by 2010. The target agreed to at the 2002 Barcelona meeting seeks an increase by 2010 of about 5 years in the age at which workers leave the labor force.

The Stockholm and Barcelona targets are extremely ambitious. The 2004 employment rate for the 55-64 population in the 15 countries combined stood at 42.5 percent, while the 2003 provisional effective retirement age was only 61.4 years.[6]

Progress in meeting these targets is measured by changes in the employment rate of persons aged 55-64 and the new effective retirement age or average age of exit from the labor force.

To achieve the Stockholm target, the EU-15 countries must increase employment for 55-64-year-olds by about 7.5 million more than what it was in 2001, while reaching the Barcelona target will require that most exits be delayed until age 65 by 2010 (European Commission September 2003). For the latter to happen, about two-thirds of persons who were aged 46-55 and in the labor force in 2001 must remain in the labor force in 2010, an increase of about 7-9 million active 55-64-year olds over the 9 years. An indication of the magnitude of the required shift in behavior is evident in the fact that only about half of labor force participants who were aged 45-54 in 1991 were still in the labor force in 2001 (Commission of the European Communities September 2003). Job creation for this age group has been in the neighborhood of 250,000 per year (European Commission September 2003).

Countries with low labor force participation rates for older persons tend to have low effective retirement ages. However, because the effective retirement age is based on persons who are in the labor force, it is possible for a country to have a low labor force participation rate for older persons and a relatively high retirement age. In addition, the average retirement age can increase without any appreciable growth in labor force participation rates, or even to move in the opposite direction.[7] Thus, reaching the Stockholm and Lisbon targets requires actions both to get more older persons into the labor force and to keep them there.

Life-Cycle Approach to Labor Force Activity

In response to a request by the 2001 Stockholm European Council for recommendations on how to increase labor force participation and promote active aging, the Commission of the European Communities (January 2002) called for a life-cycle approach to labor force activity that would increase the chances of prolonging employment by preventing skills erosion. A "comprehensive, dynamic and balanced" strategy for increasing labor force participation would focus on

- Creating more jobs and improving the quality of work, including the promotion of part-time work to facilitate gradual retirement;

- Making work pay through, for example, enhanced work incentives and the removal of early retirement incentives;

[6] As of August 2005, 2004 employment rate data and 2003 effective retirement age data were available from Eurostat (European Commission 2005).

[7] This happened in Finland, for example, where the labor force participation rate for persons aged 55-64 rose but the effective retirement age fell between 2001 and 2003 (European Commission 2005, accessed 8/16/05).

- Ensuring higher and more adaptable skills at work, particularly through life-long learning but also through updating the skills of older workers;

- Making work a real option for all by, for example, retooling public employment services to more adequately meet the needs of women, older persons, and the disabled; increasing access to dependent care; and providing more transportation options; and

- Garnering support from such partners as employers, unions, and training and education providers to implement the strategy.

Action on the Home Front

Even before the Stockholm and Barcelona targets were agreed to, government policymakers in the EU-15 countries had taken a number of steps to strengthen the labor force attachment of older men and women, largely as a means of dealing with the deteriorating pension situation in many of the countries. Curbing early retirement by raising the early pension age has been one of the most common responses.

The Organization for Economic Cooperation and Development (2003c) points out that workers retire some 3 to 5 years earlier, on average, than the statutory retirement age and that there is an urgent need to phase out early retirement subsidies. The EU notes that "most member states have now moved away from inappropriate policies which led to a fall in retirement age (such as supports for early retirement)" (European Union January 2004: 4). In most EU-15 countries, the statutory retirement age is now 65.[8] In Japan, the mandatory retirement age remains 60[9], but the age of eligibility for pension receipt is rising. This will keep workers in—or attempting to remain in—the workforce beyond the mandatory retirement age.[10]

Although a higher statutory retirement age may send an important message to workers, it is not necessarily enough to raise the effective retirement age. As Auer and Fortuny (2000/2) point out, over the past several decades, the effective retirement age in many countries fell even though there was no change in the statutory retirement age. Increasing the demand for older workers is critical if the age at which workers leave the labor force is to increase, yet job growth in many of these countries has been weak.

Raising the retirement age appears to be as unpopular in Europe as it is in the United States. Nevertheless, many Europeans seem resigned to working longer. More than 4 in 10 Europeans believe that in the next 5 to 10 years, workers will generally take their retirement later than they do today. And they will work longer, if politicians have their way. Not everyone, however, is of like mind. Once again, rather extreme variation is apparent across the EU-15 countries, with more than three-fourths of Austrians but only 15 percent of Britons envisioning a later retirement (European Opinion Research Group 2001).

Furthermore, despite extensive public discourse on population aging and media attention to the impact of aging on pension solvency, fully one-third of the residents in the EU-15 countries say people will actually be retiring earlier in another 5 to 10 years; this is the sentiment of more than half the adults questioned in Finland, Ireland, Luxembourg, Portugal, Sweden, and the United Kingdom (European Opinion Research Group 2001).

[8] In 2004, Denmark moved in the opposite direction and lowered the retirement age from 67 to 65.

[9] See the section on Japan below for a discussion of changes in the mandatory retirement age.

[10] Morito (2000) contends that Japan's seniority-based wage and promotion system could not exist without a fixed exit age. The fixed retirement age, he argues, enables employers to project and control the costs associated with their aging workers.

Whether this is largely wishful thinking or based on gloomy assessments of their employment prospects at later ages was not revealed in the survey.

**Getting People to Work Longer**

In a number of countries in Europe, changes to the retirement age have involved equalizing the age of eligibility for pension benefits for men and women, as required by the European Union,[11] while in other countries, the pension age has increased for both men and women.

Retirement-age increases often involve a lengthy period of time before implementation and/or a phase-in over a long period of time. Japan is raising the normal retirement age for the Employees' Old Age Pension over more than three decades. In the United States, legislation increasing the age of eligibility for full Social Security benefits was passed in 1983 but did not begin to go into effect for another 17 years. Moreover, it will not be fully in effect until 2027—a delayed implementation and phase-in period of four decades intended to give workers ample opportunity to prepare for the change.[12]

Some countries, however, have apparently decided that workers can adjust somewhat more rapidly to a higher retirement age. Austria's early retirement age, for example, was increased by 18 months over a 2-year period, while 1998 pension reform in Sweden, which introduced a flexible retirement age, raised the earliest pensionable age from 60 to 61, effective in 2000.

Countries have taken a variety of other steps to make retirement, at least at very early ages, less feasible or less attractive; make working longer more appealing; and, in some instances, make older workers more attractive to employers. These changes include:

- Introducing or increasing benefit reductions for early retirement;
- Tightening the eligibility criteria for early retirement;
- Increasing the years of contributions required to qualify for pension benefits;
- Making pensions more actuarially neutral;
- Indexing pension receipt to life expectancy;
- Reducing pension benefit replacement rates, especially for unemployment and disability pensions;
- Tightening eligibility criteria for disability pensions;
- Increasing pension accrual rates or bonuses for working beyond retirement age;
- Reducing the tax rates on earned income to promote labor force participation;
- Reducing social security contributions for workers over a certain age;
- Eliminating restrictions on post-pension age earnings and pension receipt;
- Promoting part-time work;
- Introducing partial retirement programs;

[11] Prior to a directive from the European Union, gender differences in the statutory retirement age were legal. Most countries had a lower retirement age for women but are now raising it rather than lowering the age for men (Turner 2004).

[12] Although this may have been the intent, the long delay before implementation and lengthy phase-in did not seem to succeed in preparing workers for the later eligibility age. As of 2000, the year the higher age began phasing in, only about 15 percent of Americans were aware of it (Salisbury, Turyn, and Helman 2001).

- Targeting employment and training programs at older workers; and/or

- Introducing wage and other subsidies to make older workers attractive.

Expanding work options and promoting flexibility are evident in many of the reforms. Finland, for example, is introducing a flexible retirement age of 63 to 68. Workers in Spain who continue to work beyond the statutory retirement age of 65 not only get higher benefits but are exempt from Social Security contributions. The notional account schemes of Sweden and Italy reward longer worklives with higher pension benefits.

Alternative paths to early retirement are still more readily available in Europe than they are in the United States and Japan. In some countries, such alternatives are a more important pathway to early exit than the early retirement options under pension schemes (European Commission February 2004). Eligibility criteria for disability benefits are far more stringent in the United States and Japan, so workers are much less likely to leave the labor force early with disability benefits than they are in many European countries. Similarly, more liberal unemployment programs make it possible for older workers in many European countries to exit the workforce with, and live comfortably on, unemployment benefits; such benefits are far less generous in the United States.

Flexibility may, however, have unanticipated consequences, as has been pointed out for Austria. That country has had a costly partial/part-time retirement scheme that seems to have become more a substitute for early retirement than a means of prolonging the worklife (European Commission February 2003).

Partial pension offerings may also have enabled workers in other countries to reduce their work effort earlier than they might otherwise (AARP 1999), although examples of formal phased retirement programs remain rare, so any data are only suggestive. Delsen (2003) reports that the availability of part-time retirement can increase early retirement costs as healthy workers take advantage of the option to withdraw from the workforce at young ages; however, such schemes can also yield disability savings when part-time work enables older people to remain in the labor force longer than they would have if required to work full time.

**Reaching the Stockholm and Barcelona Targets**

Given the low employment rates for persons aged 55-64 in European Union—less than 43 percent for the 15 countries as a whole, as noted above, compared to 60 percent for the United States and 62 percent for Japan[13]—how likely is it that, on average, 50 percent of persons aged 55-64 in the EU-15 countries will be working by the end of the decade, an increase of more than 7 percentage points above 2004? Or how likely is it that the average retirement age will be about 3.6 years higher than it was in 2003?

Several countries have employment rates for the 55-64-age group that are at or exceed the Stockholm target, but these employment rates have not been sufficient to get the overall average to 50 percent. Reaching the 50 percent target is viewed as the most challenging objective by the European Commission. The Commission has also noted that although there have been many reforms aimed at achieving this goal by 2010, the pace has slackened and is clearly insufficient. Not only is the Stockholm target unlikely to be attained, the EU-15 countries are far from meeting the Barcelona goal (European Commission February 2003).

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[13] These are 2004 rates for the EU-15 and the United States and 2003 for Japan (European Commission 2005, accessed 8/16/05; Japan Ministry of Internal Affairs and Communications 2004; U.S. Department of Labor 2005).

Getting to the targets will require a focus on labor supply and encouraging workers who have left the labor force to reenter it. Nearly 6 in 10 residents of the EU-15 countries who are aged 55-64 are "inactive"; that is they are neither working nor looking for work. Not only is there a need to keep older persons in the labor force and to reduce unemployment, but there must be an emphasis on getting inactive men and women back into the labor force. Although only 6 percent of inactive people say they would like to be working (European Commission September 2003), if the inactive and the unemployed (i.e., jobseekers) were to get work, the labor force participation rate for this age group would rise by more than 3 percentage points and half of the 50-percent target would be realized. Increasing the employment rate of older persons in larger countries, such as Germany, would also help the European Union reach the Stockholm target.

Furthermore, there is a pressing need to focus on demand and thus on eliminating barriers to job creation (European Commission February 2003). Whatever labor shortages may be looming once baby boomers begin retiring, employers in many countries are currently dealing with an employment climate that is not conducive to expanding opportunities for older workers.

<u>The Kok Report</u>

Average employment growth stagnated in Europe in 2003 and was negative in Belgium, Denmark, Finland, Germany, the Netherlands, Portugal, and Sweden. GDP growth in the EU-15 countries was also well below that of the United States (European Communities August 2004). Persistently high unemployment continues to serve as a barrier to older worker employment. Projections for Germany, for example, point to continued high unemployment for the next two decades (Frerichs 2002), which would make reaching the Stockholm and Barcelona targets problematic. Indeed, a recent EU report prepared by a high-level commission convened by the European Council and chaired by Wim Kok, former Prime Minister of the Netherlands (and referred to here as the Kok report), concludes that in the years since the European leaders in Lisbon committed the EU to becoming the most dynamic and competitive economy, the European Union has fallen even further behind the United States and Asia (European Communities November 2004).

The Kok report is not unremittingly pessimistic in its conclusions, citing significant employment progress since the mid-1990s. Nonetheless, the picture is less bright with respect to recent net job creation, which has slowed. As a result, the employment targets are at risk of not being met (European Communities November 2004). The report faults countries with late and excessively complex implementing legislation, as well as with implementation that is not in accord with the original directives. It also argues that commitment and implementation problems should not be tolerated. However, there are apparently no sanctions save perhaps peer pressure to meet the targets and shame if a country fails to do that.

Despite the problems identified by the Kok commission, the final report does not call for an extension of the 2010 deadlines, stating that this "would imply that the situation is now less urgent and thus would be wrong" (European Communities November 2004: 12). It, too, sees older workers as key to promoting economic growth and stresses that some countries have successfully implemented policies to raise the employment rate of older persons. Presumably, the other countries could do the same. In most countries, however, older workers face a number of barriers that dampen their employment prospects.

## Problems Confronting the Older Worker in Search of Employment

Age Discrimination and Employer Attitudes

Age discrimination remains a formidable employment barrier for older workers in the European Union and Japan. EU countries are required to have implemented legislation banning discrimination based on age (and a number of other attributes) by 2006. Mandatory retirement ages, however, will still be legal. Mandatory retirement and differential treatment of workers based on age are also legal and common in Japan.

Although clearly important to older workers, laws alone will not eliminate age discrimination in employment, as the United States, with its Age Discrimination in Employment Act (ADEA), demonstrates. Attitudinal change on the part of employers, supervisors, and to some extent workers themselves is also required.

Negative opinions about older worker costs, technological competence, flexibility, and the ability to adapt to new work patterns may undermine official efforts to get employers to hire and retain older workers. Numerous surveys for the United States have found that employers and human resource managers are highly complimentary when it comes to older worker loyalty, dependability, judgment and the like. These same studies, however, disclose less positive assessments of attributes such as technological competence and flexibility, which are viewed as critical in today's workforce (see, e.g., AARP 1995; 2000).

Taylor (2002a; 2002b) reports that a number of countries (Denmark, Finland, Germany, the Netherlands, and the United Kingdom) have undertaken campaigns to raise business awareness of older workers and the aging workforce or have offered advice and guidance on workforce aging (Denmark, Finland, and the United Kingdom). However, the impact of these efforts is unclear; changes in attitudes appear stronger than changes in behavior, at least in the United Kingdom (Taylor 2003; U.K. Department for Work and Pensions 2001).

Remery et al. (2003) found that Dutch employers see an aging workforce as adding to costs but not contributing to productivity increases. Moreover, contrary to what might have been expected, employers' opinions about older workers are less favorable in firms with relatively large older workforces. Since the presumably best informed employers have the least favorable opinions, the investigators speculated that negative attitudes may be due to lower productivity or performance on the part of older workers (Remery et al. 2003).

A summary of research for the United States actually concludes that age is a poor predictor of performance (Sterns and McDaniel 1994), but that is of little value to older workers if superiors hold the opposite view. In addition, if there are few or no age-related differences in performance, but older workers are, on average, paid more than comparably performing younger workers, management may well question the higher costs of older workers. In Japan, mandatory retirement followed by rehiring at lower wages is one way that employers lower the high costs of older workers in the country's seniority-based wage system. The European Commission has raised the possibility of the need for various structural reforms such as wage flexibility to deal with the higher costs of aging workers (Commission of the European Communities January 2002). Although such flexibility can lead to higher labor force participation rates, it has its dangers, and the Kok report warns that it should not be "seen as code for weakening workers rights and protections" (European Communities November 2004: 31).

Unemployment

Older workers in the EU-15 countries, Japan, and the United States typically have lower unemployment rates, in part because of life-long employment commitment (Japan) and collective bargaining agreements (Europe), and in part because older unemployed workers are more likely than their younger counterparts to withdraw from the labor force. In Europe, in particular, a variety of social security schemes (e.g., unemployment and disability) facilitate early exit from the labor force. Less educated workers and those in low-quality jobs are more likely to become unemployed and move to inactivity (Commission of the European Communities January 2002).

Once unemployed, long-term unemployment tends to be a far greater problem for older workers than for younger ones. This is particularly true in Europe, where spells of unemployment lasting a year or more are not uncommon among unemployed 55-64-year-olds. Long-term unemployment is a greater problem for older workers in the United States as well, although unemployed older Americans are far less likely than their European counterparts to be out of the labor force for more than a year.

<u>Training Deficiencies</u>

Better educated workers tend to remain longer in the labor force than the less well educated in Europe, Japan, and the United States (Haider and Loughran 2001; European Commission September 2003; Japan Ministry of Internal Affairs and Communications 2004). In view of rising levels of education across these countries, employment opportunities for older workers should improve. Nonetheless, more years of formal schooling completed decades in the past will not be enough to ensure the employability of older workers in a rapidly changing global economy. Life-long learning is key to meeting the Stockholm and Barcelona targets.

Older workers, at least in Europe and the United States, are less likely to engage in skills training than younger workers because, says the European Commission (September 2003: 174), "retirement limits the time span pay-off period." About half of older workers in the EU-15 countries are employed by firms that provide training but only about 15 percent of them take part in firm or private training. Low-skill workers are especially unlikely to receive training (Commission of the European Communities January 2002).

### Country-Specific Approaches to Lengthening Working Life

Countries differ in their approaches to increasing the employment rates and the effective retirement ages of older workers. The following four sections summarize key responses by four countries to expand older worker employment opportunities and lengthen working lives in response to what many observers in these countries regard as an impending pension crisis.

<u>Finland</u>

Finland is one of the more rapidly aging EU-15 nations. Like many other countries of the European Union, early retirement—often years before the statutory retirement age—has been common. This, coupled with high unemployment rates for workers aged 50 and over, promises soaring social security costs as the population ages and too few younger workers are available to replace retiring older workers. Finland also has low immigration. As is the case elsewhere in Europe, the government is looking to the role that longer worklives might play in reducing the rate of growth in social security expenditures.

Finland is reportedly the first country to draft guidelines to improve the status of older workers (European Industrial Relations Observatory On-line 1997). Recent employment programs in Finland have had a number of objectives, one of which has been to encourage workers to remain in the labor force until age 62 (Organization for Economic Cooperation and Development 2004a)—about two years above the 2003 average age of withdrawal.

Finland also stands apart from the other countries of the European Union in its wide-ranging approach to dealing with older worker issues. In the mid-1990s, the Finnish government decided that the time had come to deal with the so-called "age problem," consisting of early retirement and sentiments favoring early retirement, along with the costs of premature retirement, low employment rates, weak reemployment prospects, and anticipated labor shortages, among other problems, (Arnkil et al. 2002; Ilmarinen 2003). This led to the Finnish National Programme on Ageing Workers, often referred to as FINPAW, one of the more comprehensive and integrated older workers programs in the world. FINPAW was designed and implemented to improve the employment prospects of Finland's older workers, particularly those aged 45-64.

A five-year program, FINPAW was launched in 1998 with the slogan "Experience is a national asset," and was aimed at expanding employment opportunities for older persons, reducing premature retirement, and increasing the effective retirement age. A variety of approaches, including education campaigns emphasizing the value of older workers and worker and management training, were used to achieve these ends (Organization for Economic Cooperation and Development 2004a).

FINPAW sought to involve all actors who had some impact on the employment of older workers, including workers themselves. In the end, it was hoped that aging would be seen by all "as a challenge and source of possibilities" rather than just a worklife problem (Linkola 2003: 49).

FINPAW targeted workers, managers, supervisors, labor market organizations, employment office personnel, teaching staff, and staff of occupational health services and labor protections. Employers were viewed as a critical target group, since it was recognized that even the best efforts would not get far without their commitment. A successful program would have employers viewing more positively the values and contribution of older workers.

The main government agencies involved in FINPAW were the Ministries of Social Affairs and Health; Labor; Education; and Finance. Participating partners included employer federations and unions, as well as the Finnish Institute of Occupational Health.

Some 40 measures or programs were introduced under FINPAW, among them those dealing with research and development,[14] efforts to improve or modernize working life, education, information on older workers, and training.

Over the years of the program (1998-2002), the labor force participation and employment rates for Finland's older population increased dramatically (Table 4), although they remained and still are well below what they were in 1950. Only 42 percent of the target age group—45-64—were in the labor force in 1998; by 2002, that figure had risen by 10 percentage points to 52 percent. As is evident from Table 4, the increase was primarily among persons aged 55-64, with women demonstrating a greater increase than men.

The increase in the *employment* rate over this period was even more marked, at least for the age group 55-64, among whom it rose from just over 36 percent in 1998 to almost 48 percent by 2002 (European Commission 2005, accessed 8/16/05). Once again, increases were somewhat greater among women. By 2004, Finland's employment rate for this age group was 50.9 percent, exceeding the Stockholm target of 50 percent.

[14] Although FINPAW was launched in 1998, its emphasis on older worker research was not new in Finland. For years, Finland's Institute of Occupational Health had been studying age, work ability, and factors that affect the health and work capacity of the older population.

| Table 4: Labor Force Participation Rates of Persons Aged 45+ in Finland by Sex, 1998, 2000, and 2002 (in percentages) | | | |
|---|---|---|---|
| **Men** | **1998** | **2000** | **2002** |
| 45-54 | 87.0 | 87.9 | 87.6 |
| 55-64 | 44.5 | 48.1 | 52.6 |
| 55-59 | 61.6 | 66.0 | 71.1 |
| 60-64 | 24.6 | 28.3 | 30.1 |
| 65+ | 5.9 | 6.3 | 6.2 |
| | | | |
| **Women** | | | |
| 45-54 | 86.6 | 87.9 | 87.3 |
| 55-64 | 39.7 | 45.2 | 51.4 |
| 55-59 | 59.4 | 66.7 | 71.8 |
| 60-64 | 17.8 | 21.6 | 25.0 |
| 65+ | 1.6 | 1.6 | 2.5 |
| | | | |
| **Both sexes,** 55-64 | 42.0 | 46.6 | 52.0 |
| Source: Organization for Economic Cooperation and Development (2003b). | | | |

The effective retirement age—60.3 years in 2003—probably increased as well, although comparably derived figures for the 1990s are unavailable. The 2002 FINPAW evaluation puts Finland's average retirement age at 58.5 years in 1997, the year before FINPAW was launched (Arnkil et al. 2002). However much the retirement age might actually have risen over the years of FINPAW, it remains today far from the Barcelona target.

The European Foundation for the Improvement of Living and Working Conditions (2002) nonetheless singles out FINPAW as a good example of tripartite cooperation, with government, business, and labor coming together to work toward a common goal. Although the program obtained a general buy-in from these stakeholders, their specific approaches to the issues understandably differed. Employers tended to emphasize projected labor shortages and pension costs, while unions focused on education and resources that would promote the ability to succeed at work.

Finland is taken by some European officials to be a model older worker program for the rest of the European Union. Nonetheless, although the program became well known and increased awareness of older workers and their problems and potential (Arnkil et al. 2002), its contribution to the nation's improved labor force participation and employment rates is not clear. Finland experienced rapid economic growth during the program's existence, without which there likely would not have been such sizable employment increases. It is difficult to disentangle the effects of that growth from FINPAW's efforts to educate the public, business, and labor about older workers, thereby changing attitudes and perceptions and opening up more employment to older workers.

Other Finnish initiatives have also been designed to extend working life. In particular, pension reform effective in 2005 is introducing a number of changes calculated to reduce the rate of growth in pension expenditures by making early retirement more costly to workers. Among other changes, this reform:

- Establishes a flexible retirement age from 63 to 68 that rewards workers who remain at work with a sharply rising accrual of pension benefits;
- Increases the early retirement age from 60 to 62;
- Bases pension entitlement on a full-working career or on life-time earnings rather than on the final 10 years; and
- Ties pension benefit calculations to changes in life expectancy.

All else being equal, these changes should make working longer more financially rewarding or, conversely, early retirement less attractive. All else is not equal, however, given the liberal rules in Finland for qualifying for unemployment and disability benefits that may help keep the retirement age low. Finland also has a part-time pension retirement program that may or may not keep people working longer than they might otherwise. The age of eligibility for this program has recently been raised, but only from 56 to 58.

A significant conclusion to draw from the Finnish experience is that reaching the Stockholm target, which aims for a 10-percentage point increase in the employment rate of persons aged 55-64 over a 9-year period,[15] is not necessarily unrealistic. A comparable increase did occur over a considerably shorter time period in Finland, although the economic climate was admittedly rosier than it is in much of the European Union at present.

Reaching the Barcelona target, even in Finland, seems to be more of a stretch. Still, for whatever reason, Finnish citizens now say that they would like to retire at an average age of 62, up from 60 in 1998, according to a recent TNS Gallup poll ("Finns See 62" 2004). Yet, as is the case among American workers, a high percentage of whom expect to work in retirement (AARP 2002; 2003; 2004), citizens of Finland in general do not favor a general increase in the retirement age ("Finns See 62" 2004). Moreover, although Finnish workers might prefer to retire at age 62, the average effective retirement age in Finland in 2003 was lower than this and below what it was in 2002 and 2001.

With the flexible retirement age, Finnish workers now have the right to decide for themselves whether they will work longer and thus move the effective retirement age closer to or above age 62. However, according to Juhani Ilmarinen of the Finnish Institute of Occupational Health, it is being stressed in Finland that "worklife must be adjusted to the possibilities and needs" of the older population. Pension reform alone will not work without this change.[16]

## The Netherlands

The Netherlands has lower labor force participation rates for older persons than do many other developed countries. In 2002, the labor force participation rate was 42.7 percent for persons aged 55-64 and 3.6 percent for those 65-plus; this compares to participation rates of 61.8 percent and 13.3 percent, respectively, for the two age groups in the United States (Organization for Economic Development and Cooperation 2003b; U.S. Department of Labor 2003). In recent years, the Dutch government has undertaken significant pension reform in an effort to discourage early retirement and provide incentives for working longer.

Increasing the labor force participation rate of older persons and limiting early exits are key objectives of the Dutch government and social partners, business and labor organizations (Delsen 2003; Taylor 2001).

The focus in the Netherlands has been on pension reform that places restrictions on early retirement options (van Dalen and Henkens 2002) and rewards longer worklives. This has involved a shift from a pay-as-you-go pension system to a more actuarially neutral funded scheme that, by its nature, offers flexible retirement ages. No longer will voluntary early retirement and pre-pension schemes get favorable tax treatment (Dutch Ministry of Social Affairs and Employment 2003). As of 2006, the tax advantages for these will be discontinued (Dutch Ministry of Social Affairs and Employment 2004).

Also going into effect as of 2006 is a new "life course" regulation that will make it easier for workers to take career breaks and

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[15] As noted elsewhere in this issue brief, the Stockholm target was agreed to in 2001 and is to be reached by 2010.

[16] Personal correspondence with the author, March 22, 2005.

thus better combine work and family responsibilities. Workers will have the legal right to save up to 12 percent of gross annual wages or annual working days to use for caregiving (van Selm 2004). They will also be able to use the leave for early retirement. Time will tell the extent to which Dutch workers use the provisions of the regulation for that purpose.

Workers in the Netherlands can still retire early, but it costs them more do so, as benefits depend on work history and pension contributions. The longer one works, the more savings accrue and the higher the ultimate retirement benefits. According to recent survey data, more than 8 in 10 Dutch workers would prefer to retire at age 60 or younger, but many are unlikely to do so as a result of the pension changes; van Dalen and Henkens (2002) estimate that the average retirement delay due to the pension changes will be about 3.5 years.

Yet, as Delsen (2003) and others have pointed out, greater choice in retirement may make it possible for many workers, especially high earning, more productive workers with good pensions, to continue to retire early. Others, even those perhaps in poor health, may be forced to work longer than they would prefer or even should.

Early retirement in the Netherlands has been possible through a variety of schemes, including unemployment, and disability. Despite recent efforts to discourage labor force exits via early retirement, unemployment and disability exits may increase if the ability to retire on old-age pensions is limited. Some experts believe that this is almost certain to happen.[17]

Given the government's concern over the cost of these exits, greater efforts are also being made to get workers on invalidity benefits back into the labor force. Indeed, the 2003 Dutch National Action Plan required by the EU reports that the Dutch eagerness to halt growth in the number of work-disabled people means that "drastic reform of the invalidity insurance system is inevitable" (Dutch Ministry of Social Affairs and Employment 2003: 3).

In addition to restricting access to early-out schemes, a work search requirement has been reintroduced for unemployed people over the age of 57½ who have recent work experience. They must now apply for jobs (Dutch Ministry of Social Affairs and Employment 2003). Also, as of January 2004, employers who dismiss older workers are required to pay part of their unemployment benefit. In addition, employers may no longer target older workers for dismissal (Taylor 2001). Finally, older workers now receive tax credits for continued employment.

The Netherlands reportedly places less emphasis on labor market policy than on pension policies (Taylor 2001). That may be true, but some measures have been introduced to make older workers more appealing. So, for instance, employers need not pay disability insurance for workers aged 55 and over if older workers are being hired (European Foundation for the Improvement of Living and Working Conditions 2004). Still, employers do not seem eager to retain their older workers perhaps because, as Remery et al. (2003) find, they are far more likely to associate labor cost increases with an aging workforce than productivity increases.

Delsen (2003) contends that "practice in the Netherlands" shows wages increasing with age but productivity peaking around 45. An increase in the number of expensive older workers may, unless offset by performance improvements, increase the probability that older workers will be made redundant. Delsen (2003) argues that company wage, training, recruitment, and personnel policies are also crucial to the employability of older persons and must be if the employment of older

[17] Kène Henkens of the Netherlands Interdisciplinary Demographic Institute, personal correspondence with the author, March 16, 2005. See also van Imhoff and Henkens (1998).

workers is to increase. As is the case in other developed countries, training opportunities in the Netherlands decline with age, with negative consequences that reinforce employers' opinions about the performance and productivity of older workers and limit their employment opportunities.

Even so, recent labor force participation rates for older persons in the Netherlands represent a sharp increase over what they were a decade or so ago. In 1992, for example, the labor force participation rate for persons aged 55-64 was only 29.5 percent. It had risen to 42.7 percent by 2002, with much of the rise occurring after 1997 and among both women and men, but more so among men (Organization for Economic Cooperation and Development 2003b). A slight increase in participation is evident for the 65-plus population.

However, van Dalen and Henkens (2002) note the halt in the downward trend in participation beginning in the mid-1990s, which was before the pension reforms were put into practice. How much of the improvement in participation rates may have been due to the "Dutch employment miracle" of the 1990s, where employment growth was high and the supply of workers insufficient, is a reasonable question.[18] Employers were not as inclined as they had been to encourage older worker withdrawal from the labor force (van Dalen and Henkens 2002).

According to Delsen (2003: 56), "the Netherlands is sometimes called the first part-time economy in the world," and it is the case that much of the Dutch employment miracle involved the growth of part-time work. About 19 percent of workers in the Netherlands were part-time in 1982; this rose to nearly 34 percent by 2002, a rate far higher than any other EU country (Table 5), which may have contributed to the sharply rising employment rate for older Dutch workers.[19] However, not everyone agrees with this.

**Table 5: Part-time Employment as a Percentage of Total Employment, EU-15 Countries, 2002***

| County | Percentage |
|---|---|
| Austria | 13.5 |
| Belgium | 17.2 |
| Denmark | 16.2 |
| Finland | 11.0 |
| France | 13.7 |
| Germany | 18.8 |
| Greece | 5.6 |
| Ireland | 18.1 |
| Italy | 11.9 |
| Luxembourg | 12.6 |
| Netherlands | 33.9 |
| Portugal | 9.6 |
| Spain | 7.6 |
| Sweden | 13.8 |
| United Kingdom | 23.0 |

*Part-time: Persons working less than 30 hours per week in their main job.
Source: Organization for Economic Cooperation and Development (2003b, 36-37).

It has been women who have been responsible for the increase in participation rates for the middle-aged and older population in the Netherlands, and, as Kène Henkens of the Netherlands Interdisciplinary Demographic Institute stresses, women in the Netherlands typically work part-time. Thus, more older women in the labor market results in an

[18] Factors contributing to this "miracle" included slowing wage growth and the expansion of part-time employment (European Employment Observatory 1997).

[19] Part-time work and high labor force participation of older workers do not necessarily go hand in hand. In the mid-1990s, the proportion of older men in part-time work was the highest in the Netherlands while their activity (labor force participation) rate was one of the lowest, according to Delsen (2003). He explains that the low employment rate was the result of an early retirement tradition with generous options, contending that "part-time working is a necessary condition in order to encourage older people to be active, but is not a sufficient condition" (Delsen 2003: 57).

increase in the number of part-time workers. In his opinion, the availability of part-time work has little to do with the rising labor force participation of older persons.[20] Henkens may be right; however, it might also be the case that the availability of part-time work has facilitated older women's entering or remaining longer in the workforce.

Sweden

With 17 percent of its population aged 65 and over, a proportion that is projected to increase to 23 percent by 2025 (U.S. Department of Commerce 2004, accessed 9/24/04), Sweden is one of the oldest of the EU-15 countries. It also has one of the highest labor force participation rates for the older population in Europe, at least among those aged 55-64. Yet, few persons remain in the labor force beyond age 65. The OECD contends that it will be necessary to reverse the early retirement trend and increase participation if adequate social protection is to be maintained without tax increases. With no changes in participation rates by age and gender, Sweden's old-age dependency ratio (defined here as the ratio of the population aged 65-plus to employment) will increase from 46 percent to 71 percent by 2050 (Organization for Economic Cooperation and Development 2003a).

In response to soaring pension costs, Sweden undertook major reform of its pension system in the 1990s. Effective in 1999, the changes were designed to make prolonging worklife more financially rewarding and, hence, attractive to workers on the threshold of retirement.

Prior to this reform, it made relatively little sense for Swedes, many of whom were eligible for full pensions after 30 years of employment, to work much beyond early eligibility for pensions. Despite the fact that the statutory retirement age was 65, reduced pensions could be drawn as early as age 60.[21] Under the new system, pensions may be drawn at 61, but workers have more incentives to delay retirement.

Sweden's former pension system consisted of a universal pension provided to everyone depending on years of residence in the country or time in the labor force and an earnings-related, pay-as-you-go pension. In 1976, Sweden introduced an innovative partial pension scheme that enabled workers whose employers offered reduced schedules to scale back their work hours. Partial pensions initially replaced 65 percent of gross wages, and the ensuing high take-up rate exceeded expectations.[22]

Under the new system, a defined contribution scheme replaced the earnings-related pension. Sixteen percent of the total contribution of 18.5 percent of earnings is now credited to a notional account that the government controls. Workers have control over the investment of the additional 2.5 percent, which goes into individual accounts. A "guarantee pension" will be available to persons with no or low pensions.

As a result of the reform, Sweden's public pension has become more neutral with respect to employment and retirement decisions. The retirement age is now flexible from age 61 on, and there is an actuarially fair return for each additional year of work. It is also possible to combine pensions and earnings beginning at age of 61, thus obviating the need for a separate partial pension scheme. Workers can collect ¼, ½, or ¾ of their pensions while continuing to work. Benefits are indexed to life expectancy, a change that will require

[20] Personal correspondence with the author, March 16, 2005.

[21] Although workers could use this option, the overwhelming majority of those leaving the labor force did so via other exits, according to Eskil Wadensjö of the Swedish Institute for Social Research, Stockholm University (personal communication, May 3, 2005).

[22] The partial pension replacement rate was reduced to 50 percent and the take-up rate fell.

working longer or saving more for the same benefit as life expectancy rises.

Despite substantial benefits to workers for each additional year of work, other early labor force exit vehicles such as disability pensions remain. In 2000, for example, 42 percent of inactive men aged 60-64 said disability was the reason for their inactivity (compared to 7 percent for the European Union as a whole). The OECD also notes a "spectacular rise" in the use of sick leave benefits since the sick leave program was reformed in 1997, which may effectively ease older workers out of the labor force at still young ages (Organization for Economic Cooperation and Development 2003a).

Still, Sweden enjoys a high labor force participation rate for both men and women between the ages of 55 and 64, though it may not be high enough to suit the government. Likely contributing to the high rate of participation is the fact that life-long learning in the country is well established—both educational attainment and the incidence of vocational education are high (Organization for Economic Cooperation and Development 2003a).

Older workers may thus be better prepared, on average, to meet the needs of employers in Sweden than elsewhere. The extensive system of family-friendly benefits also makes it far easier for workers there (in contrast to some countries such as the United States) to combine paid work and family responsibilities. This undoubtedly contributes to the high female labor force participation rates that one finds in Sweden. Among women aged 55-64, for example, 68.6 percent were in the labor force in 2002, compared to 55.1 in the United States and 48.9 percent in Japan (Japan Ministry of Internal Affairs and Communication 2005; Organization for Economic Cooperation and Development 2003b; U.S. Department of Labor 2003).[23]

Japan

Japan is the most rapidly aging developed country in the world, and its old-age dependency ratio is soaring. The implications of this development for Japan's national pension system, the main source of income for retirees in Japan (U.S. General Accounting Office [GAO][24] 2003), have been of concern to Japanese policymakers for more than two decades.

Japan has a two-tier system of public pensions, the flat-rate basic benefits and the earnings-related benefits. The first tier, the Old-Age Basic Pension, covers all residents, including the self-employed and the jobless. Those aged 20 to 59 pay a flat-rate premium and receive benefits depending on their years of contributions. The second tier, the Old-Age Employees' Pension, is for salaried workers and consists of a flat-rate portion and an earnings-related component. The national pension system is financed on a pay-as-you-go basis. [25] One response to concern about rising pension obligations has been to increase the age of eligibility for benefits.

Proposals to raise the eligibility age for full pensions or the "normal retirement age" in Japan first materialized in 1980 (U.S. General Accounting Office 2003). Phased-in increases were agreed to in 1994 for the flat-rate portion of the Employees' Pension and in 1999 for the

[23] Rates for this age group have continued to increase since 2002.

[24] The name of the General Accounting Office has been changed to Government Accountability Office.

[25] Employees pay the first tier (the Old-Age Basic Pension) through their employers, while employers and employees share equally in the premiums for the second tier, the Old-Age Employees' Pension. A succinct description of Japan's national old-age pension system and employer-provided pensions can be found in U.S. General Accounting Office (2003).

earnings-based Employees' Pension. Eligibility for the flat-rate portion will increase to age 65 for men by 2013 and for women by 2018, while the age of eligibility for the earnings-based pension will increase to 65 for men by 2025 and for women by 2030.[26] In addition, pension benefit levels have been lowered for persons born after April 1, 1941.

Older Japanese are apparently highly motivated to work into their late 60s, assuming good health (Iwata 2003), and many do. Though falling, labor force participation rates for the older population are high by international standards. Seven in 10 60-64-year-olds are in the labor force in Japan, compared to less than 6 in 10 in the United States (Organization for Economic Cooperation and Development 2003b). More than half of Japanese men and 30 percent of Japanese women in their late 60s continue to work.[27] The strong work ethic on the part of older Japanese workers means one less barrier that Japan faces in its efforts to reduce mounting pressure on public pension systems.

However, mandatory retirement is legal in Japan; employers can require workers to retire at age 60 and are under no obligation to keep workers on beyond the mandatory retirement ages they have set. More than 90 percent of Japanese firms have a mandatory retirement age. Nonetheless, most companies allow at least some employees to continue working after they reach that age, although fewer than one in three allow all of their employees to do so, according to the 2003 Ministry of Health, Labor and Welfare's Employment Management Survey (Iwata 2003).

The government would like to see the mandatory retirement age increased to 65 and had been encouraging companies to raise it voluntarily as they did when the government began urging companies to increase the mandatory retirement age from 55 to 60. Most enterprises complied, but to ensure that they did, legislation subsequently prohibited retirement ages of younger than 60 after April 1998. A 2000 amendment to the Law Concerning the Stabilization of Older Persons urged employers to "endeavor to devise measures for ensuring employment up to 65" (Iwata 2003: 15), but business and labor were less enthusiastic about, or less willing to implement, an increase to 65.

A 2004 amendment to the stabilization law called on companies to raise the retirement age to 65 or introduce or improve the continued employment system or undertake other measures to ensure employment until age 65. This is a stronger and clearer statement than that of 2000.[28] However, firms need not employ all older workers if there is an agreement between management and labor.

How companies will respond is an open question. Businesses with mandatory retirement provisions have said that if the mandatory retirement age were increased, they would introduce changes, some of which could make continued employment into old age less attractive to workers. For example, 76 percent of employers have reported that they will introduce a new wage system; 49 percent will revise personnel management practices, especially with regard to remuneration and position assignment; and 36 percent will adjust job content and the working environment (Iwata 2003).

Under the present system, employment contracts are terminated when employees

[26] In sharp contrast to the United States, where contribution rate or retirement-age changes to the Social Security system are few and far between, Japan's pension system is reevaluated at least every five years "to balance premiums and benefits with existing socioeconomic conditions" (U.S. General Accounting Office, 2003: 33).

[27] A very high percentage of older Japanese men and women are self-employed—44 percent of male and 53 percent of female labor force participants aged 60 and over in 2000. This compares to 12 percent of those under age 60 (Raymo et al. 2004).

[28] Personal correspondence with Masato Oka, April 29, 2005.

reach the mandatory retirement age of 60. However, employment extension programs are very common in Japan. Under such programs, workers who have reached the mandatory retirement age may be forced to retire, but they may be rehired (even immediately) and put to work at the same job they had previously but earning lower wages or, more commonly, moved into another job also at lower wages. In addition, older workers in Japan may be transferred to subsidiary or affiliated firms and kept on working beyond the mandatory retirement age. Although most companies permit some employees to continue working beyond the mandatory retirement age, this option is generally not available to everyone.

Mandatory retirement may make it difficult for older men and women to keep working. However, the fact that workers may be rehired at reduced wages after being forced to retire may help explain the higher participation rates of older Japanese men and women (Rebick 1993).

The Japan Institute of Labor's Katsuhiko Iwata (2003: 5) says that "statistics for Japan give the impression that gradual retirement is already being practiced, at least among males," where a high percentage of persons aged 60-65 are both working and receiving pensions. On the one hand, an earnings test for working pensioners may reduce work effort on the part of many of those so-called "phased retirees"; on the other hand, a preference for some shift in work schedule may be accommodated by this, and OECD calls for lower working hours and more nontraditional forms of work.

The government offers incentives to employers to retain or hire older workers. For example, companies may receive subsidies for offering reemployment or extended employment. Wage subsidies are also available through the unemployment insurance system to full-time workers aged 60-64 who earn less than 75 percent of their former wages, although the requirements are rather stringent, so the take-up (which is paid through the unemployment system) is low (U.S. General Accounting Office 2003).

A seniority-based wage and promotion system yields higher wages with rising job tenure. According to the General Accounting Office (2003), male wages rise until about ages 50-55 after which they fall sharply. Workers remaining in large firms may have wages that are 30-50 percent lower at age 65 than at 55, which GAO says makes those older workers more attractive as their costs are competitive with those of younger workers. Nonetheless, Iwata (2003) contends that corporations have a low opinion of older workers, which limits their options for continued employment.

Although age discrimination is legal in Japan, a recent law encourages employers not to discriminate against older workers in hiring. Under the 2001 Employment Measures Law, "employers must endeavor to relax age restrictions when recruiting and hiring." By fiscal 2005, the objective is for 30 percent of the help-wanted notices accepted by Public Employment Security Offices to be non-age-specific (Iwata 2003: 17).

As is often the case elsewhere, training in Japan falls off after employees attain a high level of seniority, declining sharply among workers in their 50s. Even so, and despite the fact that job-training programs specifically targeted at older workers either do not exist or are uncommon, participation by older Japanese workers in training programs is high by international standards. The government is also encouraging workers to take more responsibility for keeping their skills up-to-date (Organization for Economic Cooperation and Development 2004b). Government grants may be available to employers to help middle-aged and older workers improve skills that promote employability (U.S. General Accounting Office 2003).

Although the goal of some of these efforts is to expand employment opportunities for older workers, a weak economy coupled with the implicit life-long employment contract likely undermined them. The prolonged recession led many companies, however reluctantly, to question life-time job security and the seniority-based wage system that have protected older male workers until the mandatory retirement age.

The seniority system, especially when coupled with skills erosion, may also undermine efforts to promote the employment of older workers. Some officials in Japan argue that retention until retirement age is not economical as wages exceed productivity (U.S. General Accounting Office 2003). Moreover, although Japanese workers are far more likely to be in the labor force than their European Union or American counterparts, once unemployed, the chances for reemployment are not good and the duration of unemployment is long.

Not all employees who want to work are retained until they are ready to exit the labor force. For them, the Silver Human Resource Centers (employment agencies) are a source of part-time, relatively low-skilled subsidized community service employment somewhat comparable to the Senior Community Service Employment Program.

The Association of Employment Development for Senior Citizens, consisting of employer groups that receive financial support from the government, has been commissioned by the government to encourage employers to develop good strategies for retaining and employing older workers. The efforts involve counseling and advice on working conditions that will promote the employment of older persons, modification of personnel management systems, and the development of concrete policies to ensure personnel management systems that encourage older worker employment and policies to improve working environments.

**Summary and Conclusions**

Concern about the sustainability of pension systems is mounting in many European countries as well as in Japan, as low fertility, rising life expectancy, and, in Europe, often very early retirement, are causing the ratio of workers to retirees to shrink and pension costs to soar. Many policymakers are looking to higher employment rates for older persons and delayed retirement as means of shoring up public pension systems.

Both Europe and Japan have seen a variety of efforts to prolong or sustain working life. In Europe, this has involved removing early retirement incentives, pension reform that rewards working longer, the introduction of more flexible work and retirement options, banning age discrimination, and educating employers about the potential labor shortages and the value of older workers. Japan has raised its pension age and provides subsidies to employers to hire and retain older workers. However, age discrimination and mandatory retirement remain legal in Japan and, ironically, may help explain the higher labor force participation rates for older persons in that country. Through well-entrenched employment extension programs, Japanese employers commonly rehire workers forced to retire, typically offering employment only to some workers and paying them less than they had been earning before mandatory retirement.

The European Union has set ambitious older worker employment targets for its member countries and put pressure on member countries to develop and implement policies to reach the targets. By 2010, the average employment rate for persons aged 55-64 in the member states should be 50 percent, 10 percentage points above what it was when the goal was set in 2001. The target for the average age of exit from the labor force—the effective retirement age—is 5 years higher than it was in 2002.

This issue brief has focused on the 15 countries that were members of the European Union when the Stockholm older worker employment and Barcelona retirement age targets were set. Including the 10 new member countries in this report would have been even more unwieldy than dealing with the first 15 members and would have further aggravated the challenge of meeting the targets. The 10 new member states will help slow the ever increasing number of aging persons in the short and medium runs, due to the lower average ages of the populations in those additional countries. Total economic dependency is also lower due to fewer births and lower life expectancy (European Commission September 2003). However, even fewer 55-64-year-olds are employed in those countries than in the EU-15, and the average exit age also tends to be somewhat lower.

Various assessments indicate that the EU-15 countries will fall short of their 2010 goals, due in part to slow growth with insufficient job creation and in part to some countries' inadequate commitment to achieving the goals, coupled with problems in implementing policies and programs to advance the agenda. Nonetheless, there have been significant improvements in the employment rate of older persons in a number of countries, notably Finland and the Netherlands, in recent years, although the increases began some years before the employment targets were set. The gains have not been universal, however. Some countries (such as Germany) have shown relatively little increase in older worker employment, and several countries (including Finland) have lately experienced further decline in the average effective retirement age.

The European Union may not reach the goals of a 50 percent employment rate for the 55-64-age group or a 5-year increase in the effective retirement age by 2010, but, significantly, it has set goals and is moving toward them. Japan may be able to sustain and perhaps even increase the already high labor force participation rate for the 55-plus population. The European Union and Japan have sent clear messages about the contributions that older workers can make to their respective economies and the importance of developing and implementing policies and practices to hire and retain older workers. Extending working life is a high priority in the European Union and Japan—with the annual reporting required of the member states, European countries are unlikely to forget that fact.

A recent cross-national study of several European countries, Japan, Australia, and the United States concluded that policymaking for the aging workforce and older worker employment appeared least advanced in the United States (Taylor 2001). Older workers there have not received the high-level attention that they have been in other developed nations, and there are no official goals or objectives regarding their employment or retirement age. The United States does not face demographic or pension challenges as serious or imminent as the European Union or Japan, so comparable pressure to do something about the "older worker issue" is lacking.

That may change if raising the normal retirement age gains currency as a potential solution to the long-term solvency problem of the U.S. Social Security system. Debate on a higher retirement age may well raise awareness of the need for other policies to promote older worker employment. In 2001, the General Accounting Office called on the Secretary of Labor to convene an interagency government task force that, with input from stakeholders such as businesses and unions, would develop legislative and regulatory proposals dealing with aging labor force issues (U.S. General Accounting Office 2001). By November 2004, the Department of Labor's Employment and Training Administration had convened an interagency task force "to develop a comprehensive policy and investment strategy designed to address key issues related to the participation of older workers in the labor force" (DeRocco 2005), but it has not yet issued recommendations.

The United States already has in place a number of laws enacted over the past several decades that facilitate the continued employment of older workers. These include the Age Discrimination in Employment Act of 1967 and subsequent amendments, particularly that eliminating mandatory retirement in most occupations in 1986. In addition, as noted above, the age of eligibility for full Social Security retired worker benefits, also known as the normal retirement age, is increasing, the result of legislation passed in 1983. That same legislation also introduced a gradual phase-in of the delayed retirement credit paid to workers who postpone collecting Social Security benefits beyond the normal retirement age and before age 70.

Over the years, Congress liberalized and in 2000 eliminated the earnings penalty for working Social Security beneficiaries who are above the normal retirement age. More recently, the Internal Revenue Service proposed regulations that might make formal phased retirement programs more appealing to both employers and employees. In light of research that indicates a considerable interest in scaling back work hours before full retirement (National Institutes of Health 1993; Watson Wyatt Worldwide 2004), phased retirement options—if properly structured—could succeed in keeping people working longer, but for fewer hours, perhaps, than they otherwise would.

These legislative and regulatory initiatives have not, however, evolved from widespread interest at the highest policy levels to "do something about older workers" that one sees in Europe and Japan. Despite the lack of emphasis on older workers to date, aging workers in the United States are more likely than their counterparts in most developed countries to be in the labor force. Surveys revealing a very high degree of interest in or need for post-retirement employment point to continued increases in older worker participation rates in the United States. Just how high those increases actually are remains to be seen. If widely heralded labor shortages materialize, employers are likely to respond by introducing employment and benefit options designed to attract and retain older workers. Should that happen, the increases in participation could be substantial.

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