

AGEING WORKING PAPERS

Maintaining Prosperity In An Ageing Society: the OECD study on the policy implications of ageing

INCENTIVES AND DISINCENTIVES TO EARLY AND LATE RETIREMENT

WORKING PAPER AWP3.3

This is one of a series of analytic papers that supported the OECD's ageing study, a "horizontal" project in the sense that it involved a number of OECD directorates. The results of the entire project are summarised in *Maintaining Prosperity in an Ageing Society*, OECD 1998. Chapters III, IV and, especially, VI of *Maintaining Prosperity*—on the retirement decision, pensions and employability—all drew on this review of the current state of knowledge in this area of central importance to policy-making. It complements the work on work-force ageing found in AWP 4.1 and carries forward earlier OECD work on *The Transition from Work to Retirement* (OECD, 1995).

The paper synthesises a comprehensive body of research from many disciplines and exposing many myths that hinder rationale policy-making in this area. It examines the productivity, adaptability and trainability of older workers; retirement and role of pension provision; and gradual retirement. An appendix deals with employment and older workers in Japan. While data are weak, the paper finds that it is possible to conclude that older workers should not face overwhelming disadvantages in the future labour market, but that policy action is nevertheless required on a number of fronts which are identified.

The author is Bernard Casey, currently with the LSE. The paper was originally commissioned for a joint ILO-OECD workshop on the development and reform of pension schemes, held in Paris, 15 -17 December 1997. This an updated version used as a background for at a meeting of OECD secretariat officials and trade union experts held in Paris on 2 March 1998. For any queries, please contact Isabelle Vallard (OECD) at: tel: (33) 1 45 24 19 61, fax (33) 1 24 24 90 98, e-mail: isabelle.vallard@oecd.org.

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Introduction

1. This study forms an element in a larger programme of work being carried out by the OECD under its “Horizontal Programme on Ageing”, a programme concerned with the policy implications of ageing populations (see OECD, 1997a; OECD, 1997b).
2. It is motivated by an interest in the opportunities for prolonging working life and with maximising the potential and minimising the problems associated with workforce ageing. Accordingly, it is directed to those whose interest is pensions policy and to those whose interest is employment policy. However, its findings and conclusions also have implications for adjacent areas, particularly education and training policy and health care policy, but also equal opportunities and gender equality policy.
3. In discussing policy it does not limit itself to the activities of the nation state or supra-national bodies. Policies can be private as well as public, in the sense that they can be pursued by bodies such as employers, and their associations, and workers and their associations. Policies can also be informal as well as formal. By “formal” are understood laws and collective agreements, by “informal” are meant “custom and practice” and norms of behaviour. Thus, in looking at incentives and disincentives, those contained in public and private policy, and in formal and informal policy, have to be considered.
4. Policy of any form is well known for having unintended as well as intended consequences. The latter, as much as the former, need exploration. This is particularly important when policy recommendations are made. It is necessary not only to identify the appropriate locus of action and mode of implementation -- public or private, formal or informal -- but also to take account of the full consequences of action and the extent to which it can be frustrated -- actively or by default.

Approach

5. This study contains no new research, rather it draws together the findings of research carried out elsewhere, both in the OECD and outside. In this respect, it seeks to carry forward earlier work at the OECD, and particularly the study *The Transition from Work to Retirement* (OECD, 1995). It is eclectic in its method, being bound not only to the approach of labour and insurance economics, but also drawing from the findings of industrial sociology, industrial gerontology and occupational psychology. This, it is hoped, gives it its *differentia specifica*.

Structure

6. The body of the study is ordered into five sections, as follows:

1. **The productivity, adaptability and trainability of older workers**, which considers perceptions and evidence with respect to the relative costs and contribution of older workers;
2. **Retirement and the role of pension provision**, which is specifically concerned with the role played by various provisions providing benefits to people beyond a certain age or who have given up work;
3. **Gradual retirement**, which looks at the attractions and difficulties of increasing retirement flexibility by permitting older people to “glide out”; and
4. **Summary, recommendations and projections**, which concludes and draws the lessons from the previous analysis.

7. An appendix -- **The employment and retirement of older people in Japan** -- considers what is often considered an outlier in terms of social security and employment policy and practice. The purpose of this appendix, as will be seen, is to demonstrate that this characterisation is scarcely valid. Better understanding of the Japanese situation, it is argued, throws further light on the problems other Member countries have to overcome and opens the door to learning from one another.

1. The productivity, adaptability and trainability of older workers

8. An ageing workforce is commonly felt to be problematic because older workers are seen to be:

- more costly than younger workers, due to the operation of age/seniority based payments systems;
- less productive than younger workers, because of poorer health or fewer, or less up-to-date, qualifications;
- less willing/able to learn new skills; and/or
- having shorter expected stays with the company, since retirement is close, thus making it not worth investing in their skills.

9. As a consequence, older workers are considered both more vulnerable for dismissal, or to be targeted by companies wishing to make workforce reductions, and less able to find new jobs should they lose their current work.

10. This note addresses in turn each of the points and presents the best available sustaining and contradictory evidence.

Costs

11. Cross-sectional data sets from almost all Member countries show an inverted “U” shaped relationship between age and wage. Younger workers earn considerably less than prime-age workers, older workers rather less. However, cross-sectional data is, of itself, inadequate, since it does not capture the progression of individual workers as they grow older. Each cohort enters the labour market differently equipped, so that apparent differences merely describe differences in endowment between cohorts. Cohorts are also unlikely to have been of equal size, and there is an argument that relatively large cohorts experience relatively lower wages on entry to the labour market, and *vice versa*, and that some, if not all, of the consequences of cohort size persist (for a review, see Disney, 1996). If this is so, then costs of older workers should fall as the workforce becomes older. On the other hand, a major US study, which seeks to simulate the position in 2020, when the ‘baby boom’ cohort will be the oldest segment of the labour force, suggests that that, once cross age and cross gender complementarities and substitutabilities are taken into account, an ageing workforce will have little effect on the wage distribution by age (Levine and Mitchell, 1988), implying older workers will neither be more, nor less, advantageous, in terms of cost, than they are currently.

12. Cross-sectional data on the age-wage relationship can easily fail to take account of the fact that different ages are often associated with different seniority within the employing organisation, and there is a frequent presumption that seniority itself earns a premium. However, a much cited American study (Abraham and Farber, 1987) sought to refute this by pointing to the “unobserved characteristics” of long-service workers, suggesting that it is these, rather than seniority *per se* which is being rewarded. The unobserved characteristics refer to initial endowments and and/or a superior ability to profit from training. Workers who possess these attributes are “sorted” into better paying jobs and persist in these. “Sorting” itself takes time, and the consequence is also that a younger workforce, for which less sorting has had time to occur, might be less productive than an older workforce -- the workforce of the future. At least one subsequent study (Topel, 1991) contested the unimportance of experience relative to seniority, and for some time most labour economists remained rather agnostic with respect to this issue. However, a recent review, which seeks to replicate and rework all the major studies of the past decade comes to the conclusion that “the returns to seniority are modest” (Altonji and Williams, 1997:2). Specifically, it is suggested that, all other things being equal, an employee with 10 years seniority might expect to earn between six per cent (lowest estimate) and 13 per cent (highest estimate) more than an employee with no seniority, and that a return of some eight per cent might be a reasonable description of the US labour market.

13. Explicit age related enhancements to pay are relatively unusual. “Junior” pay rates are common, both in collective agreements and in state minimum wage regulations, but “senior” pay rates are not. Where they do exist, they tend to operate at a relatively low age -- for example, UK university academic staff aged over 27 have to be paid at least a certain amount. A study of UK collective agreements, however, found nothing beyond this (Casey and Wood, 1994). Seniority premiums, in the form of “increments” are much more common, largely for salaried/white collar workers. However, increments themselves are normally subject to a bar, so that the extent of progressions limited. Moreover, as

companies increasingly move to “performance related pay”, the salience of incremental scales, and thus automatic progression, is diminishing. ¹

14. Thus if older workers are more expensive, this greater cost might well be in relative rather than absolute terms. “Implicit contract theory” (as expressed by Lazear, 1979) relates older workers’ wages to their productivity and suggests that, at some point, they exceed it, thus encouraging employers to impose/strongly encourage retirement. In so far as older workers reach a stage where their contribution is less than their wage, it is argued that only a willingness to accept downward pay flexibility can ensure continued employment. There are however, seen to be institutional barriers to this, particularly that trade unions are not prepared to accept the individualisation of wages that it implies and prefer the certainty of a universal rate. Of course, the validity of the “relatively more expensive” argument depends crucially on whether productivity or value to the employer does decline with age, and this has still to be discussed.

15. Older workers might be more expensive not so much in terms of their wage costs but in terms of their non-wage costs. A potential case in point is pension costs, which, in some cases might to discourage the hiring of older people. Under a funded defined benefit scheme, the employer is, or should be, paying into the scheme sufficient that it is capable of meeting all liabilities incurred to date. In calculating liabilities, account is taken of expected movements in earnings, but these movements are the movements experienced by the workforce as a whole rather than those which are experienced by an individual employee. In other words, no account is taken of the consequences of promotion, or of any seniority or age-related increases that might be granted, since such upward progressions can be assumed to be balance out by inflows of younger, more junior employees. Although liabilities are not calculated on the basis of a summation of individual liabilities but on the basis of an average, it can be shown that, all other things being equal, the pension costs of an older workforce will be greater than those of a younger workforce. This is because more has to be invested to assure the requisite pension if the investment is to be called upon relatively soon rather than after a long time. The box below illustrates this.

Comparison of pension costs according to age		
age	contribution as % of salary	
	males	females
20	8.8	8.4
30	10.7	11.0
40	13.3	14.5
50	15.9	17.1
60	19.8	--

source: Wilson and Davies, 1987

1. Japan, with its “lifelong employment systems” is always pointed to as a special case whereby promotion is as much on the basis of seniority as performance and thus pay does move up with age. However, it is to be remembered that the “lifelong employment system” is applicable only to a minority of the workforce and that it may represent highly efficient “sorting”. Moreover, as one commentator has pointed out:

lifetime employment is not a system which guarantees a long-term employment for everybody. It is an implicit contract between labor and management under which workers expect to work long-term and management, on their part, try to fulfill this expectation. It is a system which boldly eliminates those workers who fail to hone their ability and work efficiently (Takanashi, 1995).

16. The result described above means that an employer might have good reason for preferring a younger to an older person in seeking to fill a particular position. Because the investment required to meet the pension obligation has to be financed by contributions income, and in most contributory schemes the member pays no contribution (as in the US) or a fixed proportion of his/her earnings (as in the UK) and the employer pays the "balance of cost", the entire burden of the extra costs falls upon the employer.

17. This provides a rationale for the setting of maximum entry ages in pension schemes, and for the government taking steps to limit this -- to a maximum of six years below the scheme's normal retirement age -- in the case of schemes enjoying contracted-out status. In the UK, the NAPF survey provides some evidence of the extent of maxima amongst its members. Just over half of respondents to the 1994 operated a maximum. Half of these reported it as five years below the normal retirement age and the remainder as higher.

proportion of schemes with max. age limit	52%
of which, more than five years below retirement age	6%
five years below retirement age	55
two to four years below retirement age	13%
one year below retirement age	27%

18. The extent to which higher pension costs present a disincentive to the hiring of an older person was gauged in a survey of larger UK companies. Of its sample, some 46 per cent reported these costs as being an important or very important reason for their being reluctant to hire older people. However, as Table 1.1 illustrates, there were other, equally important disincentives or barriers to recruiting such people.

Table 1.1: Employers' rating of the importance of various factors in discouraging the recruitment and employment of older workers (row percentages)

	very important	important	not important
rules governing pensions schemes	16	30	48
payback period on training	6	43	45
lack of appropriate quals	14	23	55
trade union rules	1	11	79
shortage of older applicants	9	36	48

source: Casey, 1995

19. The higher costs associated with financing the pensions of older recruits can translate itself into the imposition of maximum recruitment ages. In this respect, the same survey shows a clear difference in the practices of those companies where higher pension costs are seen as a very important or an important

consideration in hiring older people. The proportion of each type of company which operated a maximum recruitment age was:

- finding pension costs very important 55%
- finding pension costs not important 25%

20. Another important cost component is that associated with absence. If older workers are in poorer health, they are likely to experience greater absence from work, and this entails not only a payment for time not worked but also a disruption to the activities of the employing organisation. There is evidence that the incidence of sickness absence is, indeed, higher amongst older workers than amongst prime age workers, but that sickness absence also varies dramatically by gender and marital status (see Table 1.2).

**Table 1.2: Relative sickness absence rates by age, sex and marital status
(all aged 25-54 = 100)**

	aged 15-24				aged 25-54				aged 55+			
	all	men	married w	all women	all	men	married w	all women	all	men	married w	all women
Australia	114	124	159	107	100	100	97	100	131	141	90	103
Belgium	10	15	0	2	100	50	113	110	21	21	17	19
Canada	77	74	121	82	100	90	103	110	115	118	103	113
Denmark	127	123	165	138	100	81	135	131	119	123	92	112
Finland	58	63	n.a	58	100	92	n.a	96	196	188	n.a	188
France	90	81	90	100	100	90	105	114	133	138	105	133
Germany	53	47	88	59	100	100	94	82	200	200	165	176
Ireland	87	80	280	87	100	100	127	120	147	133	313	213
Italy	80	93	113	67	100	100	113	113	147	140	100	147
Netherlands	108	104	154	110	100	96	115	117	146	142	206	185
Spain	59	76	65	35	100	106	94	94	247	259	176	200
Sweden	93	83	n.a	104	100	83	n.a	120	166	154	n.a	177
UK	118	100	144	132	100	85	129	132	159	159	159	156
USA	89	68	n.a	111	100	79	n.a	132	139	139	n.a	139
Median	88	80	121	93	100	91	113	114	146	141	105	151

source: own calculations from OECD, 1991: Table 6.1

21. In interpreting the gender dimension of sickness absence, it should be recognised that some of that experienced by women, and particularly married women, might well reflect not their own sickness but rather the sickness of those for whom they have to care -- children or older relatives (see Hoskins, 1996). This is a point which will be taken up later -- in section 3 on part-time working.

22. It should also be remembered that sickness absence is not the sole form of absence; “casual” absence is an issue, too. Casual absence is generally felt to be much more prevalent amongst young people, and the overall absence levels between young and old may well be not dissimilar except that the former are away frequently, but for short periods, and the latter are away seldom but for long periods. It is open to question whether the disruption of the former type of absence is not higher than of the latter, since once the latter occurs, some form of replacement can often be arranged.

Productivity

23. Naive neo-classical theory would suggest that the lower marginal productivity of older workers is reflected in their lower wages, as embodied in the age-wage curve described above. However, and as has already been suggested, such simple representations have to be interpreted with care. Moreover, if increased age reflects increased experience, an ageing workforce might be understandable as one embodying a higher level of human capital, and thus a development to be welcomed. “Sorting theory”, as described earlier, has similar implications.

24. Alongside the evidence adduced by labour economists is a vast body of results generated by industrial gerontologists and occupational psychologists who have been concerned with measuring the physical and mental capabilities of different groups of people, including different age groups. Nevertheless, the two disciplines appear to have almost no contact whatsoever with each other.

25. A summary of the gerontological/psychological findings can be given as follows:

The overall finding from more than 100 research investigations is that there is no significant difference between the job performance of older and younger workers. in almost every case variations within an age group far exceed the average difference between age groups (Warr, 1994:309)

26. Whilst many studies have sought simple linear relationships between age and performance, others have accepted a potential curvilinear one. Many of these suggest a plateauing of performance after middle age. However, in so far as almost all studies are cross-sectional, even the latter result requires to be treated with care.

27. An attempt has been made to capture the relative advantages and disadvantages of age and employment in tabular form. This yields:

Table 1.3: Categories of job activity and expected relationship with age

task category	basic capacities and more exceeded with increasing age	performance can be enhanced by experience	expected relationship with age	illustrative job content
1) age-impaired activities	yes	no	negative	continuous paced data-processing; rapid learning; heavy lifting
2) age-counteracted activities	yes	yes	zero	skilled manual work
3) age-neutral activities	no	no	zero	relatively undemanding activities
4) age-enhanced activities	no	yes	positive	knowledge-based judgements with no time pressure

source: Warr, 1994:314

28. It is to be noted that the table describes an all other things being equal situation. With respect to “task category 1”, a negative relationship between age and performance is greatest if job content is changing rapidly. In the absence of training, older people not only lag behind, but they are given poor

appraisals, demoted, become demotivated, are less likely to seek or be offered training and so a spiral sets in.

29. The implication of Table 1.3 is not only that training possibly matters, a point which will be dealt with later, but also that there are certain jobs for which older workers are better and others for which they are less well suited. This becomes even more clear when consideration is also given to the social rather than the cognitive or physical attributes that an older person brings to a job. Jobs for which they are important include those requiring a certain kind of customer contact (but not, of course that where the customer is mainly young and buying a fashion product) where experience, understanding or gravitas is required. Examples include:

- retailing (an increasing number of major store groups (in the UK, see Casey and Wood, 1994) are targeting older people as recruits, not only to cope with a perceived declines in the number of young people available but because they see them as contributing a superior input);
- careing (which with a rise in the proportion of the very elderly is likely to be a growing sector of the economy and where the client might have a preference for receiving assistance from an older rather than a younger person);
- financial advice (certain financial services organisations (in the UK, see Casey, Metcalf and Lakey, 1993) are hiring older people to advise and sell complex products either to older people who are considered more trusting of them or to a wider range of clients who respect their experience;
- consultancy, especially on a temporary and self-employed basis (where a desired quality is experience which only age can bring (in the UK, see *Financial Times*, XX-X-97)).

30. Employers will also refer to the “corporate memory” possessed by older workers by virtue of their long service. Particularly in France, where early retirement schemes have been pursued intensively, and employers are unable to exercise any veto upon who leaves, the loss of firm-specific skills, both technical and social, has sometimes been a cause for regret (Schmidt, 1995).

31. Positions for which older workers are less suited are described in Table 1.3 in some detail. What is important to remember is that some of these positions are positions the importance of which is declining. Certainly, technological change, and changes in world trade patterns, are reducing the incidence of heavy manual labour in the advanced industrial countries, so that any physical shortcomings associated with age are becoming less relevant. On the other hand, the same technological changes might be making more demands for the mental capabilities in which older people are thought to be more deficient.

32. That older people are less highly qualified than younger people is, effectively, self-evident. The OECD (1996a) has produced breakdowns of the population in Member countries by age showing the proportions with higher qualifications and with zero or only low qualifications, all of which show the same result. It is easy to draw from this the assumption that:

- the older workforce of the future will be better qualified, and thus more productive, than the older workforce of today; and
- it is in employers interests to substitute younger workers for older workers.

33. However, the first assumption breaks down if one considers the fact that qualification and competence are not synonymous, and the fact that, in the last decades, “certification” has meant that many who would not have acquired a formal qualification now do so (examples are the major expansion of university education in many countries and the “recognition of attainment” through structures such as the UK NVQ scheme. The second assumption is vulnerable to the same criticism, and also to the recognition that age, in many cases, brings experience, and that this, as much as formal qualifications is a component of human capital.

34. Not referred to in Table 1.3, because it refers to the way in which older workers interact with other members of an organisation’s workforce, rather than cognitive or physical skills of older workers themselves, is the weight given to them within a “balanced” organisation. There have been numerous suggestions that employers like to see a “smooth” distribution of ages across their workforces (Kohli, Rosenow and Wolf, 1983; Arrowsmith and McGoldrick, 1996) and, thus, seek to ensure that there is not a preponderance of any one group. There are also indications that many make an association between hierarchical position and age and, thus, find difficulty in either recruiting “too young” people to “too senior” positions or older people to serve under younger superiors, whatever these people’s capabilities (*ibid.*; Schmidt, 1995). Lastly, and relating these two concerns, the existence of a large body of workers in more senior positions, older but not close to retirement, is seen as a source of frustration for younger workers who feel their promotion opportunities are blocked (Minez, 1995).² By no means as many employers who are aware of the importance that could be attached to maintaining an “appropriate” age or hierarchical structure would see any of the above considerations as forming an insurmountable barrier to their disposition to recruit or promote, and many would support the notion that merit rather than seniority should be the basis of the latter. Nevertheless, it is also to be recognised that some industrial relations systems place heavy emphasis upon seniority, and that the trade unions which negotiated these seniority systems saw them as providing protection from arbitrary behavior, or the pursuit of favouritism, on the part of the employer (for the USA, see Clague, 197X) and tend to be resistant to their reform.

Adaptability/trainability

35. Older workers are commonly characterised as less flexible than younger workers, and as more difficult and less willing to train. The findings of industrial gerontological and occupational psychological research tend to decry this, although they do suggest that training approaches might be different for different types of worker. The common suggestion is that whilst “fluid” cognitive abilities (relating to speed of decision making, short term memory and attention and other attributes which are relevant to the acquisition and transformation of information) are negatively related to age (although possibly on a non-linear basis), whilst “crystallised” cognitive abilities (relating to verbal, acquired or specialised skills) are positively related to age (Horn, 1982). This would suggest that whilst training for younger people should build upon their fluid abilities and their innate qualities, training for older people should concentrate upon their crystallised abilities and their experience. Since, for the latter, working skills are increasingly based upon experience, the processing of information becomes less demanding and its integration becomes faster, appropriate training programmes will be those which refer to existing knowledge and aim to build upon this, and those which recognise that training aimed at unfamiliar activities will take more time and effort than that aimed at young people. In short, training programmes for older people should:

2. This is suggested as a reason for rather low mandatory retirement ages in Japan. To quote one analyst (Seike, 1994) “Related to the seniority wage scheme is the seniority promotion scheme, in which most older workers take managerial positions. This creates another obstacle, because employers need to ask older employees to retire in order to be able to give promotions to younger employees ”.

- involve learning by doing;
- build upon existing concepts and structures;
- appear directly applicable; and
- be suitably paced (based upon Thissen, 1991; for elaboration of principles see Warr and Pennington, 1993: Annex 1).

36. As well as ensuring that appropriate pedagogical conditions are met, it is also important to recognise the social context. Older people are unused to “school room” environments and may feel uneasy when placed with younger trainees. They might also see training as potentially threatening, having seen technological change in the past lead to job loss. Equally critically, they may have low expectations of the value of training, if for no other reason than they feel that, as older people, they are, in any case, unlikely to be promoted, are often amongst the first to be made redundant -- in other words, that they are unlikely to be rewarded for having taken training. This is particularly true amongst the older unemployed, and it is reinforced by the formal, or informal setting of maximum age limits for some special programmes aimed at the unemployed. (for example, the UK “Training for Work” programme had, until 1989 an age limit of 50, see Drury, 1994), but an equally important barrier might be the operation of age limits for entry into “apprenticeship-type” schemes. (Note that some UK companies have sought to broaden the age range for entry into such training, in part as a response to demographically induced declining school-leaver numbers -- for UK examples see Walker and Taylor, 1997.)

37. With respect to training, it might be argued that, singling out older workers could be detrimental and the focus would better be on training for all, at all stages of life. It is unfortunately true that, in so far as much training is at the start of working life, older people have less experience of training and, for this reason alone, might be less “trainable”. Those who learn best are those who are most used to learning. “Life-long learning”, such as is so widely advocated (see, 1996b), might, if realised, help eliminate this element of the “older worker problem”. Certainly, case study experience suggests that companies which make the greatest success of training older people are those which do not train them as “older employees” but as “employees” (Casey, Metcalf and Lakey, 1993).

38. As well as being criticised for being unable to adapt to technological change, older people are pointed to as being less willing to move geographically should job needs require it (see, on mobility costs, Groot and Verberne, 1997). This could both inhibit older people without jobs from moving to where jobs are and older people with jobs being willing to accept promotions within the organisation for which they currently work. A concern of the last two decades, when a substantial share of married women were in jobs and had sought to develop careers of their own, was that prime-aged men had become less mobile as their partners insisted upon them respecting their rights. In the coming decades, with increased participation in higher education yet limited state support for students, an increasing number of older workers are likely to have young adults living at home, and to move could either be costly to them or disruptive to their children’s studies. Moreover, an increasing number of older people are assuming at least informal responsibility for the care of their yet older parents, and public policy is encouraging this. “Elder care” tasks are a further real barrier to geographical mobility.

Amortisation

39. The last argument against training older workers is that it is not worthwhile because, even if they can be trained as easily and effectively as younger workers, there is relatively less time for the employer to

earn a return to the costs of providing that training. Equally, if there is a cost in training for workers, given the shorter amortisation period, older workers, too, will be less willing to invest in it.

40. Prima facie, this argument is odd. It is only necessary to look at survival rates by age to see that older workers have the longest tenures, except in so far as these are truncated by retirement. Even before taking this into account, the picture is clear, as Table 1.4 underlines. Only amongst the very oldest age group, those close to retirement age, does the proportion staying on for at least five years tail off, and even amongst this group, the proportion staying fewer than five years is lower in most countries than amongst people in their twenties.

Table 1.4: Proportion (%) of each age group staying with same employer at least five years

	USA	Finland	France	Germany	Netherlands	Spain	Japan
20-24	23	28	43	46	47	31	69
25-29	29	35	54	39	23	48	72
30-34	31	38	49	39	29	54	65
35-39	32	40	56	62	33	56	69
40-44	32	42	51	43	37	51	70
45-49	43	42	60	51	35	45	66
50-54		37	42	65		49	65
55-59		28	25	33		36	36
effective retirement age	62.8	60.9	59.9	60.8	60.8	62.5	64.8
full state pension age	65	65	60	65	65	65	60

note: for USA, eight years

source: own calculations from OECD, 1993, Tables 4.3 and 4.4; effective retirement age from Bovenburg and van der Linden, 1997, Table 6.6.

41. It is younger people who are more likely to receive training, yet it is younger people who are more likely to leave. People recruited at the age of 25 might well still be “sorting”, and being “sorted”, to find the optimal match. There is a high probability of their leaving in the next few years. People recruited at the age of 50 might well be on the final stage of the sorting process and might reasonably be expected to stay, if possible, in the job until retirement. Thus, for the latter, an expected duration of ten or more years is not unreasonable (on this, see Delassio, Silverman and Schuck (1986)). However, the five year tenure referred to in Table 1.4 is not merely chosen because it is available from a number of national data sources, it has a deeper significance. In a period of continuous and, some would argue, increasingly fast technical change, all workers are likely to have to be acquiring some new skills and abandoning others. Skills obsolescence is a recognised problem for all workers. Studies carried out for the US Department of Labor (1989 and Kearsley, 1989) indicate that the “occupational half life” (defined as the time it takes to lose about half the worker’s competence due to changes in technology and knowledge) has declined from between seven and 14 years to between three and five years. Quite apart from the fact that there is a growing body of work which suggest that firms engaging in training have a lower turnover than those which do not (see OECD, 1993 and, re apprentice training in particular, Booth and Satchell, 1996), and some evidence that firms which train older workers and younger workers see the former stay longer (Downs, 1967), the rather short, and possibly shortening time in which skills are useful might well mean that the amortisation period actually relevant to an employer investing in training is shorter than expected stay of that worker, especially if that worker is an older worker.

42. In so far as, in a steady state, tenure to date is a good proxy for expected tenure (Main, 1981), long service workers, and thus, in many cases, older workers, might in any case be worthwhile investing

in. The OECD has assembled data showing that the incidence of formal, enterprise training is not highly sensitive to tenure, even if it is to age. Table 1.5 shows this.

Table 1.5: Incidence of formal on-the-job training by length of service with current employer

	USA	Australia	Finland	Netherlands	Norway	Japan
1 or fewer	8	27	24	19	21	79
5 or fewer	13	33	NA	22	32	76
6 to 9	22	40	50	29	38	74
10 to 14	23	NA	49	30	34	75
15 to 19	25	39	53	30	37	NA
20 or more	26	36	51	23	29	NA

source: OECD, 1993, Table 4.8

43. The outcomes reported in Table 1.5 are entirely consistent with “sorting” theories. Long service workers have, in general, proved their value and, as a consequence, are both worth keeping and worth investing in. Nevertheless, it is worth exploring the nature of enterprise training further and how it is likely to affect older workers. The assumption behind argument about amortisation times is that there is an explicit investment made at a certain time in a worker, and that this investment is recouped, over some period of time, through the employment of the worker concerned. Such an argument might be valid with respect to the “formal enterprise training” captured in Table 1.5, where the costs, ex ante, are the costs of course fees and trainer time and the lost production of the workers involved. Yet much enterprise training is less formal and might well be costless. Such training is that which comes about through experience, as the worker becomes used to the job and develops with it. Experienced workers have, as a consequence, skills in their portfolio which are of value to the particular employer but which are of little value outside. Given that the wage on the open market of these workers is the wage with the alternative employer, a “rent” is earned. Whilst the employer might appropriate the totality of the rent, it is more reasonable to assume that the rent is shared. As long as both parties see the present value of the stream of rents flowing from the employment relationship as positive and higher than the stream which could be earned, from the point of view of the employer, by replacing the worker with another, and, from the point of view of the worker, from taking up employment elsewhere, the employment relationship will be entered into and/or maintained.

44. Theories of rent (Handa, 1994) explain why employers might be less willing to hire older people, since the total length of their employment might be shorter than that of other groups -- it is “left truncated”, compared to that of, say, prime-aged men. They also explain why employers might, at a certain point, wish to terminate older workers, even when they are generating a positive rent, if a replacement worker can generate a higher rent, either through generating higher “per period” returns or through generating the same returns but for a longer expected time period. Lastly, they explain why older workers are vulnerable to technological change. An unexpected change devalues the present value of rents for the existing workforce and might make replacements by workers with more relevant skills more attractive.

45. Lastly, it might be noted that some employers see the relatively shorter expected employment durations of older recruits as an advantage, not a disadvantage. A French study reports how employers

might see the fact that an older person will stay only a few years as giving them a degree of labour force “flexibility” when they are faced with an uncertain future (Schmidt, 1995).

Conclusions

46. Practices and policies for older worker are often based upon assumptions about their relative costs, productivity, flexibility and commitment. This section has sought to explore the extent to which older workers might legitimately be rejected by employers and, on this basis, considered as an object of public concern. It has suggested that the evidence on almost all counts is limited, and that, in some cases, the very reverse of what is claimed might hold. There are many good reasons for valuing older workers, and, in at least some cases, it appears as if employers do value them. If they do not, this could be because employers are acting on the basis of wrong information or wrong understanding (which raises questions of how more accurate information be disseminated in such a way that it is acted upon), on the basis prejudice (which raises the question of the role of anti-discriminatory legislation), or because there are yet other rational reasons which have yet to be adduced. Each of these issues will be addressed in subsequent sections.

2. Retirement and the role of pension provision

47. The incidence of early exit, and the way in which, in almost all Member countries it has been on the increase and has been occurring at an ever earlier age has been well documented. So, too, have the variety of “pathways” (Kohli and Rein, 1991) and “stepping stones” (Casey and Laczko, 1989) through which it is affected (see, for a summary, OECD, 1995). This section is concerned with explaining the forces which induce early exit. Its central thesis is that deferred retirement is but another form of less early retirement and that any efforts to encourage deferred retirement have to be based upon an understanding of early retirement.

48. Six factors can be identified as having a determining force upon retirement decisions. These are:

- health;
- mandatory retirement rules;
- earnings rules;
- non-pension alternatives to labour income;
- actuarial fairness of pension schemes; and
- social norms.

49. It is to be noted that “the external labour market/the conjuncture” is not mentioned in its own right. The state of these is likely to exercise an influence on the actual operation of each of the six named factors.

Health

50. Poor health is a frequently cited reason for retirement, although many statistical sources fail to distinguish possible endogeneity problems -- people give health as a reason "after the event" and because it is more socially acceptable than some of the alternatives. Longitudinal studies, nevertheless, show its importance (for example, Anderson, Burkhauser and Slotsve, 1992). However, in explaining retirement and disability pensioning trends in the last two decades, the question of real interest is whether the health status of older people has worsened. Morbidity tables suggest the opposite, at least for the industrialised western economies, whilst the presumption is that working conditions have also improved (Markides, 1993). The conclusion must be that the explanation for any increase in early exit for ostensible "health" grounds lies elsewhere -- either in the loosening of entry conditions, or the relative improvement of benefits, or in the increased expulsion of less fit (older) people as employers seek to maintain competitive advantage (OECD, 1995).

Mandatory retirement rules

51. Mandatory retirement rules can be contained in public pension systems but are more common in companies, either as part of their pension schemes or as part of their human resource management policies. State old-age pension systems usually pay benefits conditional upon meeting a contributions requirement. They rarely, if ever, mandate inactivity, although some operate an earnings rule (whereby the pension is reduced by some or all of labour income, and sometimes by all, or some, of other incomes). The exception to this have been certain special "early retirement" schemes, introduced explicitly to reduce open unemployment, either by freeing older (long-term) unemployed people from the requirement to seek work, or by offering retirement as an alternative to unemployment in cases of redundancies, or by permitting early retirement where the employing organisation commits itself to replacement. Most of these schemes pay a special bridging payment rather than a pension, and their forbidding all but the most limited further employment is consistent with their labour market policy objectives. Disability pension schemes also effectively preclude further employment, but again, this is *prima facie* consistent with their purpose which is to provide support to people deemed unable to work further.

52. Companies operate mandatory retirement for a variety of reasons. Theories of "implicit contracts" suggest that, at least for certain groups of workers, a point is reached where the marginal value product exceeds the wage, giving the employer an incentive to bring the employment relationship to an end. Theories of rent sharing can also explain mandatory requirement, seeing it as a recognition of the point where the expected rent earned by the employer has been maximised. In the interests of uniformity and manageability, rather than setting individual retirement ages for workers, a uniform retirement age is set which, it is assumed, achieves on average the desired end -- that total cost of employment over the duration of the employment relationship do not exceed total returns from it. The payment of a pension is not a necessary element of the operation of a mandatory retirement age, although it might go hand in hand with it and it might facilitate its smooth operation. Where there is a pension system, it is entirely logical that, on liquidating the pension, employment ceases. However, most company pension schemes do not preclude further employment elsewhere, and some companies permit pensioners to continue working with them on an alternative form of contract -- for instance as a casual worker or as a consultant. However, in such cases, the total work input expected or required is very much lower than when the worker concerned was a regular employee. Both "implicit contract" theory and "rent sharing" theory, of course, limit mandatory retirement to "career-type" jobs which involve the acquisition of a degree of "specific" skill. For unskilled jobs, or jobs involving purely "general" skills, mandatory retirement is less relevant. This is not to say that it does not serve as a convenient, if not always efficient, way of ensuring that less

productive workers are no longer employed, but it is to be noted that the kind of work undertaken by post-retirement age workers is often of the unskilled or general skilled sort.

53. Mandatory retirement has been subject to criticism for its inefficiency, and for being discriminatory. There have been many calls for it to be outlawed, but the only significant example of where such calls have had legislative consequences has been the United States. There the Age Discrimination in Employment Act (ADEA) first outlawed it before the age of 65 (in 1967), subsequently raised the limit to 70 (1978) and finally removed the upper limit entirely (1986). However, there are good reasons for supposing that the act had perverse consequences. Employers unable to dismiss workers on the basis of their age, were still permitted to do so on the basis of their ability or productivity. Subsequent to the Act was the growth of consultancy firms which were brought in by employers to test their workers' competencies and to ensure that, should a claim for discrimination in dismissal be brought, they would have adequate grounds to justify their actions (see Casey and Bruche, 1983). It is by no means certain that the act substantially strengthened the position of the vast majority of older workers, even if a substantial number of more senior white collar and managerial workers have successfully made use of its provisions. The growth in the incidence of litigation often referred to might reflect no more than a widening knowledge of the law, and "large bureaucratic firms discourage work by older people in a variety of ways, and (mandatory retirement) is comparatively unimportant" (Hutchens, 1994:426).

Earnings rules

54. Earnings rules can be considered a form of mandatory retirement "through the back door". In the past they were relatively widespread in public pension schemes, although, in the name of encouraging older people to work longer, those applying to people retiring at the "normal" age have been lifted in many countries. The most extreme earnings rules are those which are part of means-tested old age pensions, such as are to be found in Australia, whereby the abatement rate is effectively 100 per cent. Yet in countries where the basic state pension is not means-tested but is very low, such as in the UK, those older people who have no supplementary or company pension, and who are entitled to claim means-tested welfare benefits, are also effectively discouraged from using employment to supplement their incomes and, thus, from continued economic activity.

55. The UK abolished its earnings rule in 1989, Japan raised the level of earnings before which it cut in, the USA the abatement was reduce in stages from \$1 per \$1 (above the limit) to \$1 per \$3. Such amendments tend to have an income and a substitution effect, so their actual impact is not always straight forward -- those who had deferred rather than drawn a pension in the past may, in the light of abolition or easing of the rule, now draw that pension. Notable, however, is that the three earnings rules described all apply to people working after "normal" pension age and normally only between 65 and 69. Other, more fierce, earnings rules are directed especially at those retiring early. Thus, the 1992 German pension reform reduced the amount that could be earned by those taking an early pension on the grounds of a long contribution record to the same as that which applied for those taking early retirement because of disability or long-term unemployment (Schmaehl, 1992).

Alternative incomes

56. Labour economists are well-used to evaluating the work incentive/disincentive effect of unemployment compensation payments and doing so in terms of income provided relative to income that could have been obtained from work. In the same way, a high level of pension benefits relative to earnings from work can be expected to provide an incentive to leave work, and *vice versa*. Many of the

explanations of the increase in early retirement in the US in the 1970s suggested that the increases in the real value of the public ("social security") were one of its prime causes (see Diamond and Gruber, 1997 for a review). In Europe, commentators have pointed to the high replacement rates offered by special early retirement schemes and by disability pension schemes which permit labour market considerations, and the chances of finding work, to be taken into account in assessing disability (see OECD, 1995).

57. A discussion of replacement rates can illuminate the adequacy of the income available to those who have retired, and the possible incentive of an alternative source of income in encouraging people to leave their job. However, whilst an approach based upon replacement rates is highly appropriate for the analysis of short-term withdrawals from the labour market, such as are many spells of unemployment, long-term withdrawals from the labour market, such as are retirements, are rather different. Unlike unemployment compensation benefits, pensions are long-term benefits. The stream of income associated with their receipt can be viewed as an asset or as wealth, the value or level of which is determined by the level of benefit available now, by the level of future benefits, and by the length of time over which each of these might be enjoyed. It is on this approach that the current section concentrates.

Actuarial neutrality

58. The importance of the wealth aspect of retirement benefits can be understood most easily by reference to provision for early retirement. Consider the case of the reduction made under many pension systems when benefits are drawn early. The size of the reduction can be judged in terms of its actuarial neutrality or "fairness". A "fair" reduction ensures that the discounted (present) value of benefits accrued at a particular point in time is identical, whether these benefits are drawn early, late, or at the normal time. Where the present value of a pension drawn early exceeds that of one drawn at the normal age, early liquidation of benefits is encouraged. On the same basis, where the present value of a pension drawn late exceeds that of one drawn at the normal age, late liquidation is encouraged. Abstract illustrations of the principle of neutrality and non-neutrality have been given elsewhere (see OECD, 1995).

59. Many state pension schemes contain provisions permitting deferral of the pension in return for an enhancement of its value. A few permit early liquidation in return for a reduction. The rate of appreciation in the UK state system was generally considered to be approximately actuarially neutral, at some 7.5 per cent per annum. Others were less fair. Thus, until 1981 the US system only accorded an appreciation of 1 per cent, thereafter it was moved to 3 per cent and it will only reach (by steps) 8 per cent in the next century. Prior to the 1992 pension reform in Germany, pensions could be enhance by deferral at an approximately "fair" 7.2 per cent, but only for two years, so that work after 67 was clearly penalised. Now there is no maximum age, but the appreciation rate has been cut slightly -- to 6 per cent. The reduction factor in the US, where the public pension could be drawn at 62 was set at 6.67 per cent (making a pension at 62 worth 80 per cent of a pension at 65), which approximates to neutrality, but in some other countries it was lower (France, 5 per cent, Germany (after the 1992 reform, 3.6 per cent) offering a *prima facie* incentive to leave early.

60. The fact that elsewhere than the US much early retirement is not effected via the liquidation of an actuarially reduced old age pension reflects the fact that alternative replacement incomes have been available offering yet more favourable terms. Thus, the extensive early retirement provisions in Germany granted early pensions on an unreduced basis -- the only impact of taking them was to reduce the number of years for which contributions had been paid (and in the case of the disability pension, work until 55 was assumed so that missing years were credited). In countries such as France, public early retirement benefits outside the old age pension system had no, or only minimal, impact upon future old age pensions and in

many cases could be considered as the equivalent, or better, than an early unreduced age pension. Thus, the incentives they offered were large (OECD, 1995).

61. Company pensions, in so far as they operate on a defined benefit basis, can also be non-neutral. They can offer less than “fair” appreciations for those retiring beyond the “normal” retirement age and can encourage early retirement. “Implicit contract” theory, in particular, offers good reason why employers might wish to encourage “early” retirement and discourage “late” retirement (see section 2). Accordingly, it is not surprising that a number of attempts, most of which refer to company pension systems in the United States, have been made to measure incentives to retirement in company pension systems. Using information on a selection of defined benefit schemes, Lazear (1983) showed that these tended to penalise retirement occurring later than the earliest age of benefit entitlement. A more extensive empirical examination -- that by Kotlikoff and Wise (1987), using data based on pension plan provisions but making somewhat different assumptions about wage increases and interest rates -- reached a similar, although more moderate conclusion. It established a tendency for the rate at which pension wealth accrued to decline once the age of entitlement for early reduced benefits had passed. However, pension wealth accrual rates did not, on average, become negative until the normal retirement age had been exceeded, after which the inducement to retire was large. A Canadian study, using a "representative" plan rather than a data set of plan provisions, found that pension wealth peaked prior to normal retirement age, but only two or three years before it (Pesando and Gunderson, 1991).

62. Already in 1980, an American survey of pension provision in medium and large firms showed that 80 percent of collectively agreed/multi-employer schemes, and 70 per cent of single employer schemes, permitted an unreduced pension to be drawn before the age of 65, and that 95 per cent of both types granted less than fully actuarially reduced benefits to members who took early retirement. By contrast, surveys of pension schemes in the UK suggest that most apply a reduction factor in the order of 5-7 per cent -- probably close to the actuarially fair rate -- for each year by which benefits are liquidated early. (NAPF, 1993). A further indication of approximate fairness is the simulation of pension wealth for a representative sample of scheme members in the UK (Dilnot, Disney, Johnson and Whitehouse, 1994). This indicated that, under a variety of assumption, each year of additional service until the age of 65 (men) or 60 (women) increased pension wealth.

63. On the other hand, many UK schemes also make provision for early retirement "at the employer's request" -- in many cases, a synonym for redundancy. As well as receiving a one-off redundancy payment, older workers -- those aged over 50 or, more often, those aged over 55 -- from the "primary" (larger, richer, more socially conscious) sector are frequently awarded an enhancement to their occupational pension entitlement, usually in the form of a full or partial abatement of the normal reduction for early liquidation. According to NAPF surveys, by 1986, about two-thirds of pension schemes permitted an early pension to be paid with no, or only a partial reduction, when retirement was at the employer's request. The 1994 NAPF survey showed that the following arrangements:

under 6 per cent reduction	30%
no reduction at all	17%
accrued pension plus supplementary discretionary payment	13%
other arrangement	27%
reduction of more than 6 per cent	3%
no provision	10%

64. The costs of such enhancements are either met by the company through a special, one-off payment to the pension fund or, as was often the case in the 1980s, by surpluses which pension funds had built up (Casey, 1992, Casey and Wood, 1994).

65. The amount of research which has been done to test the degree of responsiveness of older workers to changes in the level of pension wealth is considerably smaller than that which has been done to establish that such changes do occur. The research on responses is restricted entirely to the United States, and it refers both to state pensions and to company pensions. An early study (Burkhauser and Quinn, 1983) found that the absolute level of company pension wealth and changes in the value of both company pension, and public pension, wealth bore the expected relationship to retirement. Similar results were obtained by others (Fields and Mitchell, 1984, Kotlikoff and Wise, 1987). Conversely, a study of older women found pension wealth factors to be irrelevant in determining their withdrawals from work (Pozzebbon and Mitchell, 1989).

66. As well as offering incentives through the non-neutrality of actuarial factors, company pensions and, to a lesser extent, state pension schemes include a disincentive to late retirement by not permitting additional years of service to add to accrual. The cap might be at the normal retirement age -- only half of UK schemes permit accrual beyond this age (NAPF, 1995) -- or it might operate through reduced tax advantages -- UK law limits pensions to the equivalent of two thirds of final salary so that additional years might not count -- or it might take a maximum to the number of years which can be accrued -- the UK state pension is based upon a notional 44 years and further contributions cannot add to its value, whilst most public sector scheme occupational schemes in that country set a maximum of 40 accrual years (Casey, 1995).

67. Actuarial unfairness is, by definition, not possible with defined contribution schemes, so that early retirement incentives have to be offered as straightforward special payments. Late retirement is not discouraged, although company schemes might cease employer contributions beyond the normal retirement age, and tax concessions might restrict further accrual.

Social norms

68. It is well recognised that it is only in the last century that retirement has become a social institution and a retirement age became generalised (for example, Gaullier, 1992). The age set in public pension schemes was effectively reproduced in company pension schemes, and, as more than one analysis has pointed out, there are peaks in exit at this age which economic analysis alone cannot explain (for example, Zabalza, Pissarides and Barton, 1980).

69. It is equally a point of concern in much sociological analysis of ageing and work that, in the last decades, early retirement has been institutionalised. Early retirement became an acceptable way of managing the workforce, and its pursuit was to be found in company level actions and in government policy. Indeed, the two fed upon and complemented on another (OECD, 1995). Arguments that such practices culled the less efficient seem less convincing, whatever the justifications offered by employers (see Casey and Wood, 1994). Accordingly, a survey of French companies found that the extent to which they practiced early retirement as a means of restructuring had little to do with managerial perceptions of the relative advantages or disadvantages of older workers (Minez, 1995), underlining the argument put forward by one observer that:

decisions concerning early retirement have nothing to do with the productivity of individual workers but with the productivity of the enterprise as a whole, the number of surplus workers being determined by the application of a ratio of labour productivity to foreseen output. (Gaullier, 1996:98)

70. The result of what has been described as a “paradoxical consensus of divergent interests” (Gaullier, 1992:7) has been that, in many cases early retirement has come to be seen as a right or normality. Many ethnographic analyses of ageing at the enterprise level confirm this (see, for example, Schmidt, 1995 for France, country studies for the UK, the Netherlands, Sweden and Germany in Naschold and De Vroom, 1994, and for these plus France in Delsen and Reday-Mulvey, 1996). The consequence is that expected future durations of employment have been truncated, in the eyes of both the employer and the individual, with consequences for training, for recruitment and for effort and motivation. In this respect, early retirement breeds early retirement. If a worker is to retire at 65, it is well possible that certain decisions will be made about and by him/her at the age of 55. If a worker is to retire at 57, these decisions will be made correspondingly earlier.

71. This process is a consequence of the prevalence of “short-term”, but nevertheless real, concerns about managing slow employment growth and, in many cases a prioritising of supposedly politically more sensitive age groups, over “long-term”, but equally real, concerns about managing the future viability and integrity of old age pension systems at a time of a gradual ageing of the population. Whilst it might be presumed that, were there to be a shortage of labour, and employers were to be sufficiently concerned that they sought to mobilise older people to help meet their needs, the early retirement incentives that employers could control would be rolled back and that wages would be adjusted upward, it could be that the price that is paid is higher, at least in the medium term, than might have been the case if policies of exclusion had not been pursued.

Conclusions

72. Pension systems and the institution of retirement are important determinants of labour market behavior. Most of the incentives and disincentives discussed in this section have the effect of encouraging early exit and discouraging late exit. However, it is important to recognise that these incentives and disincentives are not only the unintended consequences of otherwise desirable social policy (for example, providing an acceptable income for people with disabilities) but also reflect deliberate actions -- the introduction of the old age pension in the US in the 1930s was as much motivated by labour market as social policy concerns (Achenbaum,1986), and the special programmes of many European governments and the “social plans” and “window plans” of many employers were pure instruments of employment policy. That individuals responded to them as theory suggests they should not be a source of surprise or concern. The schemes and programmes would have been a failure if they had not.

73. However, it is also to be recognised that this course of action has consequences. There is little doubt that it will constitute an impediment to efforts to encourage longer working. There is also evidence that it frustrates efforts to encourage more flexible or gradual retirement -- the subject of the next section.

3. Gradual retirement

74. Gradual retirement, or partial retirement, has many benefits ascribed to it. It (see Casey and Bruche, 1983; Delsen and Reday-Mulvey, 1996):

- helps overcome the supposed “pension shock” associated with a too rapid transition from working to not working;
- permits the demands of work to be better adjusted to any decline in capabilities or stamina that might be associated with age;
- enables older people to stay longer in work than might otherwise be the case (by avoiding early retirement or by enabling later retirement) and thus relieves pressure on pension and other income replacement systems;
- provides a more “gentle way” of affecting labour force reductions and might open up employment opportunities for others both young and old; and
- retains experience within the employing organisation and, suitably managed, facilitates its transition to successor generations.

75. Gradual retirement is normally taken to involve not so much a reduction in work effort per unit of time, but more a reduction of work time -- be this over the day, week, month or year. It could, however, include some form of “transfer to lighter work” or, where the individual has a high degree of disposition over task and effort, as might be the case for some self-employed people, a decrease in the intensity of effort within a given time period.

76. Despite these attractions, and a substantial body of literature advocating its practice, the incidence of gradual retirement in Member countries is extremely limited. This section examines the practice of early retirement and, by examining its lack of realisation, tries to identify the disincentives to its adoption, thereby enabling some practical recommendations to be made.

77. The disincentives referred to are five in number:

- swamping by early retirement provisions;
- negative consequences under complementary pension schemes;
- difficulties for the employer in organising work;
- older workers’ own attitudes; and
- over-regulation.

78. These are addressed in turn. A penultimate section looks at informal modes of gradual retirement. The “special case” of Japan is treated in a section of its own.

Swamping by early retirement

79. Examples of company level initiatives permitting some form of gradual retirement, often by enabling the older person transferring to part-time work to draw a full, or only partly reduced wage, were already recorded in a number of European countries by the start of the 1970s, especially in France. However, in the organisations operating them, their importance diminished, and new examples did not spring up, as various publicly sponsored early retirement programmes were introduced. These were attractive to the employing organisations because their costs were shouldered externally, and to older

employees because the income guaranteed was sometimes equal to, and often scarcely inferior to that which came from continued, part-time work (Casey, 1987; Laczko, 1988).

80. In the early 1980s, the French government complemented its system of “solidarity contracts” permitting full early retirement with replacement with a scheme permitting part-time retirement, in receipt of a “top-up” benefit, again subject to proportional replacement being made. Take up was minimal, and at least one explanation was that total gross income for a part-time worker was 80 per cent of last pay (50 per cent from earning, 30 per cent from the top-up payment) whereas for the full early retiree it was 70 per cent -- a difference that would have been smaller after tax and other deductions (Laczko, 1988). Not dissimilar schemes in the UK and Germany foundered for much the same reasons -- in Germany in particular, mention is made of competing schemes permitting full early pensions for those older workers otherwise unemployed (Schmaehl and Gatter, 1994).

Consequences under complementary pension schemes

81. In France, the part-time early retirement scheme operated entirely separately from the old age pension scheme and participation had little impact upon pension rights. However, where employees are also dependent upon a company pension, the rules of the latter are often a source of frustration. A person in a final salary scheme switching to part-time work not only experiences a fall in immediate income, for which a special allowance might partly compensate, but also in the pension drawn in retirement. Very simply, such a switch might cut it in half. This is suggested as an important reason for the failure of the “part-time job release scheme” in the UK, a country in which company pension provision is an important component of retirement income. In Germany, the lack of coordination of the partial pension that was introduced in the 1992 pension reform with company pensions in those sectors where they are of import, has been cited as another reason for low take up (re the insurance industry, see Schmaehl and Gatter, 1994; more generally, Naegele, 1996). Nor, in most cases, do company pension schemes permit simultaneous working with the sponsoring company, thus precluding continued work and the liquidation of retirement benefits (see section 2 above).

Difficulties of work organisation

82. Whilst part-time working is an important feature of the workforces of almost all Member countries, it tends to be limited to particular industries and occupations. Thus, many organisations, were they confronted with requests for part-time employment from older employees, would be uncertain how to react. A frequent refrain of a series of case study investigations in France of employer attitudes to, and the utilisation of, older workers was that whilst senior managers and personnel executives praised the idea of partial retirement, their subordinates, who had to organise it, were much less enthusiastic (Schmidt, 1995; see also Reday-Mulvey, 1992). They pointed to the difficulties of coordination and continuity, and to the possible lack of commitment of part-timers whose thoughts would be increasingly upon the other part of their lives.

83. Investigations of the Swedish partial pension scheme, one of the most extensive and long-standing gradual retirement provisions, and covering some one in four of the 60-64 year old population at its peak, suggested that, at a certain point, it reached a “saturation level”, and that employers were finding it increasingly difficult to organise work around the part-timers -- this despite Sweden having one of the highest levels of part-time working in Europe (Swank, 1982; Laczko, 1988). A more recent evaluation, pointing to changes in the Swedish partial pension which meant that, rather than providing for any reduction of at least six hours per week (subject to a minimum of 17 hours worked), only a reduction of no

more than 10 hours is compensated, suggested that this could make the scheme much less popular, since it precluded the widespread approach of splitting full-time jobs into two (Wadensjoe, 1996). Many other reviews of partial retirement have reiterated such problems in an abstract, if not such a concrete sense.

84. Employers might, ideally, see partial retirement as a more “humane” or “softer” means of effecting workforce reductions and restructurings than full early retirement, but again find it less easy to implement. They have had much experience of their “social plans” and thus find them a simpler option. There are indications from Sweden that, in the mid and late 1980s, when there was a downturn in the number of people taking partial retirement, that this was not only attributable to the cut in the replacement income that was offered but also because organisations had to resort to more drastic means to trim their workforces, with this showing up in the increased number of full early retirements (Casey, 1987).

85. Using partial retirees as “mentors”, training up their successors, including those specially recruited under the conditions of public programmes, seems to have sometimes proved less easy than intended. A case study of an organisation which had had this as an explicit objective concluded that:

in practice ... it was skill rather than age which determined the choice of tutor ... in general, the tutors (were) young because they had the technical competencies necessary to perform this role. (Schmidt, 1995:46)

Older worker attitudes

86. There is a wealth of surveys which show that older people react favourably to the idea of being able to retire gradually. However, actual behaviour is not always in accord with these responses. The preference for full-early retirement when it is available as an alternative has already been cited, although the explanation given was in terms of relative replacement rates. In addition, there seems some evidence that older workers do not fear a pension shock and seek full exit where it is available (Baeker and Naegele, 1992). A French study indicates that in some cases where gradual retirement is embraced, it is seen more as an opportunity to leave the labour force than as an opportunity to prolong working life (Schmidt, 1995; see also Reday-Mulvey, 1992). A German study also attributes low take up of the new partial pension too, amongst other things, expectations of early leaving which have built up over time (Schmaehl, George and Oswald, 1996). The French study emphasises that some older workers insist upon their rights to leave at 55 and will even go so far as to court dismissal to achieve this (Schmidt, 1995). The same study points to the priorities of immigrant workers, who wish to finish completely and retire to their country of origin, for whom gradual retirement in the “host” land would be completely unsuitable.

87. Older workers reluctance to adopt part-time work might not only be a consequence of their feeling it cheats them of an alternative. There might be a rejection of part-time working itself. In so far as the latter tends to be associated with particular kinds of work, it might be regarded as inferior, and by men as “merely women’s work”. The jobs they have to take to be accommodated as part-timers might be associated with downgrading, which of itself is unacceptable. Older managers, in particular, who are used to devoting “120 per cent of their time” to the organisation, might not be able to cope with a situation whereby only half of them is wanted (Schmidt, 1995). This lack of a fit might be as important as the lack of fit which employers see with respect to part-time positions (Schmaehl, George and Oswald, 1996).

Over-regulation

88. Many partial retirement schemes have suffered from being made to perform too many tasks simultaneously. Particularly onerous is the “replacement condition”. Not only did part-time work have to

be organised but also recruitments, normally only from a limited population and vetted by the labour market authorities, have to be carried through. Thus the schemes offer little flexibility and were seen as of little help where workforce reduction was the primary objective (for France, see Reday-Mulvey, 1996 and for Germany, Schmaehl and Gatter, 1994).

89. In a situation whereby in the year 1993 new entrants to the partial early pension numbered only 9,000 compared to 58,000 for the full early pension, the French system was made more supple and the replacement condition was dropped (Reday-Mulvey, 1996). This has had a beneficial impact, in so far as it is now reported that, by 1997, the number of new partial early pensioners, at 30,000, equalled the number of new full early pensioners (Gauillier, 1997).

90. The German partial pension scheme introduced in 1992 did not have the replacement condition of its predecessor of 1989-91 but by 1996 take up was only 2,000 -- out of 1.2m who were eligible. One reason for this might have been that eligibility was only open to those aged 63 and above, an age by which many had already left employment. The authorities no doubt hope that, by putting the age down to 55, competition from other retirement options will be reduced (Naegele, 1996).

91. The Swedish scheme, which had no replacement condition and which placed no obligation on the employing organisation to offer part-time work to older workers seeking a partial pension, stands out as the scheme with the highest rate of take-up.

Informal and other modes of gradual retirement

92. Thus far, formal partial retirement provisions have been considered. However, it is important to remember that much goes on informally, or without the need for explicit regulation. Observers in the US have sought to emphasise the importance of "bridge jobs" as a step in the transition between "career jobs" and full retirement. These jobs can be full- or part-time, and with the initial or, more frequently, another employer, and they can involve self-employment. Transitions need not be unidirectional, and periods of work can interspersed with (relatively brief) periods not working.

Thus, in the United State, the process of retirement , including reductions in work effort, may extend over many years, and for some may begin well before the age of 60. Depending upon the definition of career job, between a quarter and a half of all older workers in the United States remain in the labour force after they leave their career jobs. (OECD, 1995)

93. The extent of such transitions is largely uncharted elsewhere, due to the paucity of longitudinal data sets, but the relatively high incidence of part-time and temporary working amongst older people revealed in cross-sectional labour force and micro-census data sets is some indicator of its existence (for part-time working, see OECD, 1995, for other forms of "non-standard" employment, see Standing 1986 and Casey and Creigh, 1989, for some further evidence of transitions in the UK, see Casey and Laczko, 1991). By no means all of these transitions to "non-standard" or more poorly paid or lower skilled jobs will have been voluntary. Thus, a recently conducted study in the UK, found about half of people who had taken early retirement in the past four years (all from large organisations and half from managerial or administrative jobs) had subsequently worked, in most cases in part-time, and usually in lower level jobs (Dench and Norton, 1996) whilst a study by a financial services company undertaken to highlight the serious gaps in people's retirement planning, suggested that, of early retirees who had returned to work, only 25 per cent had done so out of choice rather than out of financial necessity. (*Financial Times*, 19-6-97).

94. Self-employment, as hinted earlier, provides extra freedom to those involved to determine how and when they give up working as well as meaning that they are not subject to externally imposed redundancy. There are indications from cross-sectional, quasi-cohort and longitudinal analysis from a number of member countries that the age of leaving the labour force, or of retiring, is higher amongst those who were, in later life, self-employed than those who were dependent employees (OECD, 1995). It should, however, be remembered that pension provision for self-employed people is, in many countries, more limited than for employees, and that some self-employed people might not have wished to, or might not have been able to, save as heavily for old age as some employees. Accordingly, in an unknown share of cases, longer working by self-employed people might be a product of necessity rather than choice (Casey and Laczko, 1991).

95. Lastly, it should be recognised that many employers, usually on an informal basis, provided opportunities for long-serving older workers to transfer to lighter jobs in their final years. Such so-called “retraite jobs” might well however be declining in number as cost cutting pressures and a growing tendency to “outsource” ancillary jobs (such as maintenance, and cleaning) become more dominant (Casey and Bruche, 1983). Moreover, their costs are borne by the firm, whilst, in many cases, the costs of the early exit alternative is met by the state.

Conclusions

96. Gradual retirement appears to be an ideal which currently faces to many impediments to be realised. Imaginative cases of its practice can be quoted, but as was remarked many years ago, “the literature repeatedly refers to the same few examples of actual programmes” (Casey and Bruche, 1983:46; for a recent instance of this genre see, particularly, Sheppard, 1996).

97. The way in which early retirement provisions swamp partial retirement provisions suggests that until the impetus to operate the former diminishes, the wide-scale take up of the latter is unlikely. However, equally important is the current “ghettoisation” of part-time work. Only when it ceases to be a special case will employers be able to accommodate partial retirement and will workers be willing to embrace it.

98. From a demand side perspective, it has been appositely remarked that:

As employers have become more familiar with part-time work, the advantages have increasingly been seen to outweigh possible disadvantages. Experience seems to have been very convincing; almost all part-time work systems have been expanded and made more flexible over time. (Thurman and Trah, 1990:25)

99. From a supply side perspective, it is recognised that:

men today will not have any status problems with part-time work at the end of their working life if they have had variable working hours during their working period (Schmaehl and Gatter, 1994:465-5)

100. Such a transformation of work and work organisation is not something which is susceptible to legislation. However, the state and employing organisations could play a facilitating role, at least ensuring that their systems of social protection do not discourage part-time working by examining whether they set hours of work as an unnecessary barrier to access to particular jobs and positions in their hierarchies and to training. In this respect, there is plenty of “good practice” from which can be learnt.

101. Lastly, it should be recognised that the same demographic pressures which are taken to imply the need to work longer are the same demographic pressures producing a growing population of the frail elderly. Both budgetary restraints and medical and social gerontological research suggest that a further trend toward ambulatory rather than domiciliary care is inevitable, but this trend places high demand upon families, and especially family members in the years beyond prime age -- the very people whose labour force participation is sought. Moreover, in comparison to "child care", "elder care" is more likely to involve men as well as women as the providers (Hoskins, 1996). The OECD has already suggested that "family support for elderly people is unlikely to be able to be further expanded" (1996a:34-5 in preprint) but has spent little time studying the link between care policy and employment policy, beyond noting the prevalence of national initiatives granting tax relief to the families concerned or granting them access to home help services. What is lacking, as one observer noted, is greater recognition of "elder care" responsibilities in "social security and leave policies" (Saraceno, 1997:90). Greater opportunities for part-time work that do not prejudice career progression or pension entitlement might assist. So, too, might partial pension provisions.

4. Summary, recommendations and projections

102. That populations and workforces are ageing is agreed by all, although the scale and timing of this ageing differs from member country to member country. That this has serious implications for the viability of schemes providing incomes for those not working is the subject of some debate, depending as it does upon both the extent of ageing and the construction of the income support schemes, as well as the assumptions made about future economic performance and the level of employment amongst those of "working age" (see Gillion, 1991; Scherer, 1996; and Casey, 1997). This study does not intend to question the premise of ageing populations and the increased burden upon the welfare state. Rather, it takes as given the desirability, at least for some people, of extending working life, and it does this as much from a social perspective -- supporting "active ageing" -- as from an economic one. Its purpose has been to study the impediments to the realisation of this objective, in particular in social security, industrial relations and personnel management systems, and to assess the opportunities for change.

Summary

103. There are a large number of conceptions of what an ageing workforce can mean and what the recruitment or continued employment of older workers can involve. A summary is given in the following Table.

Table 4.1: **Factors affecting the utilisation of older workers**

issue	affects			evidence	counter-acting
	recruit- ment	training and promot- ion	redundancy		
pension costs	✓	✗	✗	real for DB schemes	move to DC schemes
payback on training	✓	✓	consequential	limited/problem of perception	short half-life of skills, likely lower turnover
age-related wage costs	✓	✗	✓	limited	greater wage flexibility
low qualifications	✓	✓	consequential	(on paper) relative to younger workers	more life-time learning
lack of appropriate skills/qualifications	✓	✓	consequential	often different skills	more life-time learning
inability to learn/inflexibility	✓	✓	consequential	limited/require different methods	more life-time learning
lack of applicants	✓	✓	✗	older applicants discouraged?	employers clarifying position
union rules	✓	✓	✓	real re apprenticeships	changing union attitudes
absence rates	✓	✗	✓	longer but less frequent relative to younger workers	improved work conditions/health
need to keep promotion opportunities open	✗	✗	✓	real as large cohorts mature	changed expectations
culture/balanced workforce	✓	✗	✓	real if certain jobs/positions in hierarchies seen as age specific	changed expectations
need to restructure or downsize	consequential	consequential	✓	real (more "socially acceptable")	changes to perception of "acceptability"

✓ direct impact

✗ little/no direct impact

104. The Table reveals a mixture of misconceptions and inappropriate or unrealistic expectations and structural impediments, although it could be argued that misconceptions/expectations are, themselves, structural impediments. With respect to misconceptions/expectations, it is frequently suggested that better information and advice should be given. Such a view motivates the actions of some governments which run exhortatory campaigns in favour of older workers. An example of this is the UK *Getting-on* campaign, launched in 1993 and involving the distribution of a booklet to employers advising on how to avoid discrimination and giving examples of good practice, the distribution to employment offices of advice on how to deal with possible age discrimination and the use of age limits in vacancy notices, and the establishment of an advisory group on older workers in the employment ministry. This was almost simultaneous with an educational campaign launched by the country's principal organisation of personnel managers and professionals, and the commissioning by it of research into "good practice" (Casey, Metcalf and Lakey, 1993). The early 1990s also saw, in the UK, the establishment of an Employers' Forum on Age which itself followed a major inquiry by the Carnegie Trust (UK) into the "Third Age" concentrating heavily on the employment dimension. At the European level, the European Foundation on the Improvement of Living and Working Conditions (EFILWC) has carried out research to illustrate the positive aspects of older workers and to disseminate "good practice" (see Walker, 1997 and Walker and Taylor, 1997).

105. The UK government has, to date, rejected legislation rather than exhortation -- this on the grounds that it would be "neither beneficial nor practical" (DE, 1988). Supporters of such a view take comfort in a declining use of age limits in job advertisements in recent years, although some of this has been matched by an increase in the incidence of "inferred" age preferences (emphasis of energy, dynamism, ambition, "up-to-dateness", ability to fit into a young team, etc.) (McGoldrick and Arrowsmith, 1993). Critics refer to the American case, arguing that "ADEA and the sometimes significant liability it has authorised have greatly reduced the incidence of age discrimination" (O'Meara, 1989) and pointing out that "age discrimination legislation was introduced in the United States following the apparent failure of education campaigns" (Taylor and Walker, 1995). A number of UK studies have also suggested that managers themselves both expect there to be age discrimination legislation in the relatively near future and that they would not be opposed to it (Arrowsmith and McGoldrick, 1996; Taylor and Walker, 1994). On the other hand, the arguments for legislation having positive benefits remain founded more upon aspiration than evidence, and tend to ignore perverse, if unintended, consequences. Advocating the outlawing of age limits in recruitment advertisements is as far as the EFILWC study is prepared to go in its recommendations (Walker, 1997) and as far as any national government in Europe has yet ventured or contemplated venturing (Drury, 1994).

106. This is not to say that better information alone will suffice. Indeed, it might well be argued that employers, at present, have little need of such information, and that, in any case, information is not lacking. In the early 1950s, and in response to foreseen labour shortages, the UK government was advocating increased utilisation of older, especially post-retirement age workers and backed this with a body of research findings supporting their abilities to contribute to production (Harper and Thane, 1989). In the 1960s, and against a similar background which by then seemed likely to affect all Member countries, the OECD itself commissioned a series of studies explaining older workers' competencies and explaining any steps that might be needed to exploit them further (Casey and Bruche, 1983). The perception of a "demographic time bomb" in the late 1980s in the UK -- the consequence of a simultaneous rapid fall in the level of unemployment and the size of the cohorts finishing secondary education -- caused a further round of advocacy on older worker's behalf (NEDO, 1989). Each time it proved unnecessary. In the 1950s, the UK found itself able to meet its labour need by a combination of increasing the labour force participation of married women and recruiting from its (former) colonies. In the 1960s, many Member countries saw an increase in female activity rates and resort to the use of migrant labour. Moreover, by the time the last of the OECD studies was produced, the period of "full

employment” had come to an end with the advent of the “first oil crisis”. The late 1980s “demographic time bomb” was effectively defused by the onset of the early 1990s recession. The standard neo-classical argument would be that employers will learn when they have to, and when they need older workers they will both stop dismissing them and increase hiring them, offering whatever incentives are necessary -- be these financial or in the form of acceptable work schedules (it was, of course, by offering part-time jobs that UK employers pushed up the number of women going out to work in the 1950s and 60s).

Recommendations

107. This study does not take such a neo-liberal approach. It would recommend:

- the active dissemination of information on relative competencies and good practice, on the grounds that there will always be learning at the margin and that exhortation is relatively low cost;
- the removal of disincentives to late retirement contained in state pension schemes, either through earnings rules or less than “fair” appreciations given for deferring benefits;
- the removal of maximum age limits in special employment and training schemes and increased targeting of these to those who experience major labour market difficulties (which may well include older people) rather than those whose joblessness merely has a symbolic negative value (which might include young people);
- the winding down of programmes which encourage early exit, the ensuring that the cost of early pensions (or their equivalents) in such cases were met by the employer rather than the public purse, and the introduction of greater transparency into labour markets that a greater recognition of the full extent of joblessness would give;
- the encouragement of a “learning society” and “life-long learning”, particularly through the adequate funding of further and higher education including recognition of the costs of part-time education, and of the formulation of appropriate and recognised qualifications that take account of modular learning;
- the removal of barriers to part-time and other “non-standard” employment forms in social security, employment protection and taxation legislation, recognising in particular the growing importance of “elder care”, and the opening of opportunities for the partial liquidation of pension benefits;
- the setting, by the state, of an example through its own practices as an employer, with respect to recruitment, training, promotion and redundancy, and to access to retirement and retirement benefits;
- the coordination of current programmes and policies and of short- and long-term objectives to ensure that contradictory signals and incentives do not obtain, coupled with the recognition that the costs and benefits of any one action are experienced by a variety of institutions, both public and private and within both the public and the private domains, and the recognition that incentives and disincentives within the control of the should be directed

to maximising social benefits/minimising social costs rather than maximising/minimising the benefits/costs of particular budgets, be they of a ministry, an enterprise or an individual;

- the fostering, through actions at national and supra-national level, of a dynamic macro-economic environment which, by producing a steady demand for labour encourages participation in paid employment, on the argument that “trying to tackle the problem of early retirement without first trying to tackle the problem(s) which brought (it) about ” (Casey, 1987:359).

108. A relatively limited agenda such as this might be criticised as leaving the individual (older) worker with too little protection and facing too great an uncertainty. In particular, it might be argued that the social construction of a retirement age, whilst limiting post-retirement age work opportunities, stabilised the employment of older people who might otherwise have been dismissed late in life on the grounds of diminished ability. The thesis of this study is that, if rational account is taken of older workers’ potential to contribute, and if employment opportunities are sufficiently plentiful, older workers should fear no special disadvantage. There should be jobs available to them, and it should be the objective of more general education and training policy to ensure that they are equipped to perform these jobs. At the same time, it should be the objective of more general welfare and social insurance policy to make certain that if older people are unable to generate an adequate income from work, their standard of living is not prejudiced. “Older worker policies” *per se* should diminish in their need.

Projections

109. There is little doubt that, for many older people, there would be little burden in their carrying on in employment longer. In this respect, a gradual lifting of the retirement age, in line with an increase in life expectancy is not objectionable. If the argument is that, as societies grow richer, a greater share of the increased wealth be devoted to leisure, it might be more appropriate to move the retirement age upwards but by less than expected increases in longevity. In each case, providing adequate warning, such that individuals and employers can adjust, is important, and this is testified to by the slow phasing in of those changes in the retirement age already announced by the governments of Member countries.

110. Remember, however, that later retirement also means less early retirement, and does not even have to mean an increase in the “normal” pension age. Many projections of future dependency rates have built into them the assumption that existing levels of early retirement have become a permanent feature. Yet no more than three decades ago, and only two decades ago in some Member countries, the activity and employment rates of men in their late 50s and early 60s was little different from those of prime-age men. The difficulty faced today is that early retirement has, in some cases, come to be seen as a right and thus as “normal”. This means that it is something which will have to be broken away from gradually, in much the same way, if not with the same lags, as the expectation that the state pension age will be 67 or 70 rather than 65.

111. Remember, too, not only that early retirement might be a “stepping stone” beyond unemployment, but that the last quarter century has seen, by comparison to the quarter century which preceded it, high and persistent unemployment in many Member countries. Again, many projections of dependency rates build in the assumption that these unemployment levels are here to stay. Yet greater flexibility on labour markets, improved educational and training opportunities, and a more stable macro-economic environment, could well mean a decline in unemployment and an increase in the proportion of those of working age paying contributions rather than drawing benefits.

112. Remember, lastly, that beyond the unemployed there are others in society of working age who do not work but who might well wish to work. In most member countries, the participation rate of women remains below that of men and a “saturation point” such as has, perhaps been reached in some Nordic countries remains to be achieved. Complementary employment and social policies might be necessary to achieve this, but history also shows that demand for labour creates its own supply. Nevertheless, governments of many Member countries, and the governments of the European Union countries in particular, have directed their attention to the pool of “socially excluded”, particularly those of working age who are excluded from the labour market. Bringing these people into the labour force, and then into employment, will also have positive consequences for dependency rates without any change in the “normal” retirement age. Again, complementary policy might be needed, but a favourable economic environment would assist the process.

113. As a consequence it is difficult to predict exactly what the future holds, and it is unrealistic to concentrate solely upon the outcome of an increase in the activity or employment rates of very particular age groups. Such increases are more likely to be observed simultaneously with increases in the participation of a whole number of other groups of people.

114. Seeing the future in this way requires a degree of imagination and optimism, although there is little doubt that, without that, the architects of the current welfare state would not have set out the grand plans they did some 50 and more years ago. If the task is a daunting one, then considering one component of it -- the employment of older people -- and the opportunities that it clearly offers, despite the hurdles that have to be overcome, might provide a source of encouragement. It is hoped that this study might provide a first step down the path that has to be taken.

Appendix. The employment and retirement of older people in Japan

115. Japan is frequently remarked upon for its very high level of labour force participation amongst older workers and particularly older men. As many as 95 per cent of men aged 55-59 are still economically active amongst 60-64 year-olds and this falls only to 85 per cent. Even amongst those men aged 65 and above, 37 per cent are still in the labour force (1996 LFS). Almost all of the economically active are in work: the relevant employment rates are 92 per cent, 81 per cent and 36 per cent.

116. The very high employment rates exist alongside a relatively low mandatory retirement age operated in many sectors of the economy -- 60, having risen from 55 over the past two decades. The practice of *shukko* and *tenseki* -- the move, at some stage in their 50s, of many employees from the primary sector to jobs with subcontracting firms, either on new contracts or on a form of secondment -- or of those reaching the retirement age being rehired into lower paid/status positions by their career employers, is often advanced as a principal reason for the high employment rate.³ Of course, along side

3. *Shukko* is a practice by which, under mutual agreement, the sending company enters into an employment contract with the receiving company while maintaining the employment relationship with the former. *Tenseki* is the practice by which, based on an agreement reached between the old company and a new company, an employee stops working at the first and moves to the second company to continue employment there. There are two types of *tenseki* -- one shifting to *tenseki* through *shukko* and the other shifting directly to *tenseki*. *Tenseki* may be construed as dismissal followed by re-employment (Sato, 1996). Rehiring after mandatory retirement age is a practice of larger rather than smaller firms, but even where it is practised it is not automatic. Permitting selected employees to continue in employment beyond the mandatory retirement age is, by contrast, a practice of smaller rather than larger firms (OECD, 1996c fn 81 and Seike, 1994).

this is the relatively low level of the state pension, especially if taken at 60, so that continued employment might well be a necessity.⁴

117. A less frequently commented upon characteristic of older worker employment is its sectoral specificity and, related to this, the nature of the job and the worker's status. Table A.1 provides some illustration.

	all ages	aged 55-64	aged 65 and over
employment rate	75	81	37
of which working			
in retailing	12	10	12
in agriculture	5	7	28
as self-employed	14	24	48
as a family worker	2	1	4
part-time	12	14	36
in agriculture and self-employed	3	6	23
in agriculture and as a family worker	1	*	3
in agriculture and part-time	1	2	13
unemployment rate	3.4	5.0	2.1

source: Labour Force Survey (own calculations from Tables 2, 4, 14, 20 and 23)

118. Self-employment is clearly important as a means of working beyond 65. Taken together with family working (paid or otherwise), it accounts for over half of all those at work. So, too, is part-time working: over one in three working beyond the age of 65 do so as part-timers. The retailing sector accounts for one in ten of those working beyond 65, and the agriculture sector for well over a quarter: these two sectors together account for four out of ten of the oldest working men.. Over one in four men aged 65 are working in agriculture either on a self-employed basis or as a family worker. Not shown in the Table is that one in twelve of all over 65 year old men in work work fewer than fifteen hours per week.

4. Japan has a two tier pension system consisting of a flat-rate and an earnings-related component. The flat-rate benefit is worth 18 per cent of average earnings after 40 years, but since the scheme, introduced in 1961, is not yet fully mature, average benefits are only 70 per cent of this level. That is the pension payable at 65. Drawing the pension at 60 means a reduction of 42 per cent in its value. The earnings-related pension is worth a maximum of 30 per cent of final wages for those with a full contribution record. The earnings-related pension is abated in case of continued working before 65.

System strains

119. The Japanese economy has been suffering from slow growth and an ageing labour force. Unemployment, whilst low by international standards, has been rising. Personnel practices and policies which served high growth and an expanding labour force are ceasing to be appropriate. The "life-time employment system", which, together with *shukko* and *tenseki*, protected the employment possibilities of older workers, is ceasing to function as effectively as it once did. Large firms are now no longer reducing their hiring, they are also starting to declare redundancies. Already early in 1993 there was survey evidence that firms were feeling an excess of clerical and managerial workers in the older (45+) age groups and that, in the vast majority of cases, this surplus was structural rather than cyclical. Moreover, the larger the firm, the greater the problem (Sato, 1994). More extreme still, major companies started announcing large scale redundancies as part of their plans to restructure (Osawa and Kingston, 1996) and some of these redundancies were even "involuntary" (Araki, 1995). In other cases, early retirement opportunities were introduced, offering enhanced early pensions or lump sum severance payments, sometimes to workers as young as 50 (Sato, 1994).

120. At the same time, manufacturing companies have, not surprisingly, been cutting back on their use of temporary workers. Amongst these, older workers are disproportionately represented (over 50 year-olds make up some one third, according to OECD, 1996c fn 66)

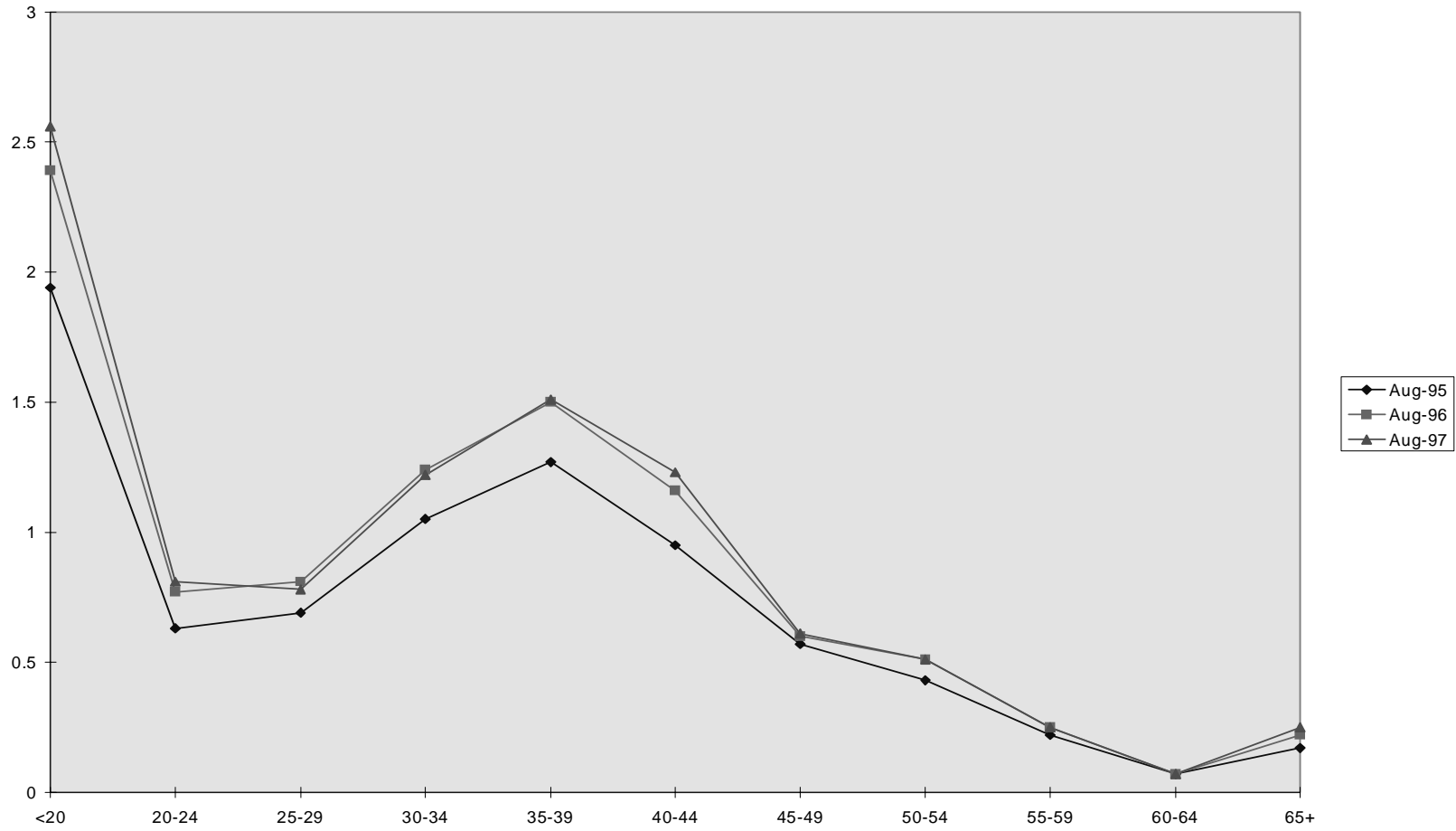
121. The problems experienced by the large firms/primary sector have repercussions for the operation of the *shukko* and *tenseki* systems. If it is to be assumed that the sector comprising the companies receiving transferred workers suffers the same slowdown in demand growth, and the same needs to restructure, as the sector comprising the companies wishing to transfer, they necessarily hit an impasse. This might be one reason why, as a method to reduce surplus labour, transfers to affiliates has not recorded a substantial increase in recent Labour Ministry surveys (see Table A.2).

Table A.2a: Methods used to reduce labour inputs (time series)						
	Apr-Jun 95	Jul-Sep 95	Oct-Dec 95	Jan-Mar 96	Apr-Jun 96	Jul-Sep 96
reduce over-time	18	19	18	16	14	12
increase vacation time	3	4	3	3	3	3
reduce p-t/temp staff	2	2	2	2	2	1
reduce mid-career hirings	11	11	10	8	6	6
transfers	10	9	9	8	7	7
transfers to affiliates	8	8	7	7	6	5
temp suspend operations	2	2	2	1	1	1
lay-offs/early retirements	1	2	1	2	1	1
all doing something	29	30	28	26	22	21
Table A.2b: Methods used to reduce labour inputs (by firm size)						
firm size (no of employees)	1000+	300-999	100-299	30-99		
reduce over-time	18	13	9	6		
increase vacation time	3	5	1	3		
reduce p-t/temp staff	1	2	0	0		
reduce mid-career hirings	8	6	2	2		
transfers	11	7	4	2		
transfers to affiliates	10	4	1	0		
temp suspend operations	2	1	0	1		
lay-offs/early retirements	1	0	1	1		
all doing something	31	22	15	11		

122. Lastly, the ability of those sectors which have in the past absorbed some of the older people not benefiting from the *tenseki* and *shukko* systems, to provide older people with job opportunities is increasingly in doubt. International and domestic pressures have required substantial deregulation of the two sectors most critical to older people's employment -- retailing and agriculture. A succession of "deregulation plans" between 1993 and 1996 included facilitating the opening of large-scale supermarkets and department stores. This will lead to the closure of many small shops and distribution companies currently employing older people, either on a self-employed basis or as family workers (Yahata, 1995). Agriculture is being forced to accept WTO rulings to open up its markets to imported rice and beef. Agricultural employment had already fallen by 21 per cent over the 1990s, although over these years the number of people aged 65+ at work in the sector remained almost constant, so that they made up over 40 per cent of the work force by 1996, up from 26 per cent in 1989. In 1995, the government committed itself to a 6 year programme to promote agricultural adjustment, and, as the OECD observed "given the relatively old age of the farm labour force, most of the adjustment would be between generations" (OECD, 1996c:81). Certainly, the scope for "sheltered employment" provided by the highly regulated sector is bound to diminish rapidly.

123. Job openings for older people (60-64) stood as low as 0.07 per seeker by 1996. This compares with 15 for prime age people and 2.6 for school leavers (see chart 1). The unemployment rate for 60-64 year-old men stood at 8.1 per cent in 1996, two and a half times the rate for all men.

Chart 1: Ratio of Vacancies to Job Seekers



Policy responses

124. That Japan is faced with one of the more dramatic of the “demographic time bombs” faced by OECD Member countries is well known. One important response has been an effort to raise the state pension age from 60 to 65, albeit slowly and with full effect only by 2013. At the same time, mandatory retirement before the age of 60 is being declared illegal, and firms are being exhorted to “endeavour” to continue employing workers until 65 (Seike, 1996b).

125. Pension benefits under the state scheme were cut in the 1994 reform, so that the pension amount is to be linked not to gross but to net wages. At the same time, the reference for indexing pensions will be the movement in net rather than (the normally faster moving) gross wages.

126. To encourage working after 60 before the new age of 65 sets in, a partial pension has been introduced for those aged 60-64, providing about half of the full pension for those who exercise the option to draw it. At the same time, those who draw a full pension will be penalised less by the operation of the “earnings rule” (see footnote 2). The amount that can be earned before abatement of benefits is raised from ¥250,000 to ¥350,000 per month (see, for the previous situation, OECD, 1995).

127. In addition to increasing the incentives to work offered by the pensions system, active labour market policy interventions especially directed at older people have been strengthened. Two longer-standing schemes are of relevance:

- the wage subsidy to private sector firms to promote the hiring of “difficult to employ persons” such as the elderly and the disabled; and
- a subsidy to encourage the employment of people over 60 until age 65, payable at ¥20,000 per month for all older people making their share of employment more than 6 per cent, and ¥30,000 per month for those making it over 8 per cent
- and to these has been added:
- a subsidy to people taking new work after leaving a job at 60 worth 25 per cent of the wage in the new job, ensuring that someone who took a pay cut of 50 per cent would receive a total income of 62.5 per cent of former salary (paid on a sliding scale to cut out if the new wage equals or exceeds 85 per cent of the old).

128. As yet, there appears to be no evaluation of the impact of these subsidies.

129. It is widely agreed that critical to improving the chances of older people's stay in employment is an amendment of the traditional seniority based pay systems. Since, in the primary sector in particular, mobility is low, seniority and age are closely correlated. As has been pointed out “compared to (countries for which equivalent data is available), the age-earnings profile of Japanese .. workers remains steeper over a longer time period before declining after the mandatory retirement age” (OECD, 1996c:105). Precisely because of this, firms impose mandatory retirement, and even offer substantial inducements for early retirement (Seike, 1996a). Subsequent employment opportunities are available, if at all, only at a substantially reduced wage. As one commentator succinctly notes:

to extend the mandatory retirement age to 65, it is vital to sharply alter the (seniority based) wage and employment systems. The present pay system must be flattened to institute a system under which, regardless of age, workers’ professional skills and ability can be appropriately valued. These reforms will

naturally continue since demographic changes mean more pressure on companies to actively utilize the elderly. (Seike, 1996b)

130. Some individual companies have already taken steps in this direction. For example, Nissan Motor Co. implemented a new wage system for those in managerial and supervisory posts, including section and department managers, in July 1994. Under the old system, about 40 percent of pay was determined by age and year of service, whilst under the new system, only about 15 percent is determined by the two elements and 85 percent by ability and performance. A shift to the new scheme will not change the total amount of wages paid to managers, but the disparity of wages between those in managerial posts will become wider (Sato, 1994).

131. The partial pension, and the wage subsidy for older workers taking a cut in pay on moving to new job after mandatory retirement, contribute to wage flexibility. Some companies have generated their own initiatives along similar lines. Thus, IBM Japan launched a "Second Career Program" between November 1992 and June 1993, offering employees 50 years and older a series of retirement options. To find re-employment at a firm outside the corporate group, the company was ready to pay its 50-year-old employees the regular retirement allowance plus a lump sum payment of twice the annual income at the time of retirement. To transfer their permanent domicile to an affiliate, they were offered the lump sum pay which is 1.5 times their annual income at the time of retirement. Another IBM scheme permits those wishing to adjust their salaries at 55 to continue in employment until 65. At 55 their salary is cut to 30 per cent of the previous rate, but they receive, on top of this, a company pension worth some 40 per cent of salary, and until they reach 60 a further "top-up" premium of 30 per cent of last full salary. Thus, until 60 their income is unchanged, and at 60, instead of taking mandatory retirement, they can continue to work another five years with an income reduction of only 30 per cent (ibid, and information from IBM). Compared to conventional early retirement schemes, which have the costs heavily front-loaded, such an initiative both reduces employment levels and outlays on wages, it also spreads the financial burdens of doing so over a number of years.⁵

132. However, it is not only the wage aspect of the seniority system which needs attacking.

Human resource training practices in many firms allot most of the training resources to younger workers, which may also discourage older workers from retraining, and make them unproductive workers. (Seike, 1994).

Companies, still preoccupied with the traditional view of older persons over 60, strongly feel that they cannot hire elderly persons because "they lose their vocational ability and flexibility as they grow older" (Wanatabe, 1992).

133. The need to accommodate the ageing of the workforce, and the need to extend the working lifetime, means that resort to traditional measures for dealing with older workers -- *shukko*, *tenseki* and downgrading -- will no longer be adequate. Retraining middle-aged and older workers will become inevitable. Yet the evidence to date is that no substantial training is provided to older workers, except for helping them cover correspondence course fees. As an increasing number of them try to enhance their professional and technical competencies, some companies encourage middle-aged and older workers to

5. This scheme was picked up and adapted by IBM UK. There, the company offered early pensions, worth 80-90 per cent of the normal pension, to older employees and guaranteed them 90 days minimum of work for the next two years, giving them, from this, approximately 30 per cent of last salary. In this time, the ex-employees had the opportunity to develop a future career path whilst enjoying almost no change in their income.

acquire formal qualifications, but most employers leave the decision to engage in such training to the workers themselves (Kawakita, 1996).

Conclusion

134. Japan appears to be a special case. For some, Japan has a distinct, perhaps unique, culture which means that there is little transferability of its experiences or practices. For others, especially those interested in "bridge jobs", it is a case from which others can learn. This paper suggests that Japan is, indeed, a special case, although not as special as at first might appear, but it also implies that Japan is unlikely to be special much longer. There is little that Japan does that can be emulated, and the conditions which allowed it to be special are disappearing. At the same time, Japan is facing problems faced by many other OECD Member countries. If there are solutions, Japan will be searching for them as vigorously as any of these other Member countries, and if there is something to be learnt, it will be learnt by all countries together.

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