PAC/COM/PUB(2005)25

Paris, 23 November 2005

Danes should be encouraged to carry on working, says OECD

Denmark should act quickly to make it easier for older workers to remain in the workforce longer, according to a new OECD report. Unless action is taken, Denmark will face a shrinking workforce, a slowdown in economic growth and worsening public finances.

Part of the OECD series on Ageing and Employment Policies, the OECD report on Denmark outlines the main barriers to employment facing older workers, an assessment of the adequacy and effectiveness of existing measures to overcome these barriers and policy recommendations for further action by the Danish government, social partners and older workers themselves.

Recommendations for reform

The OECD's report acknowledges that in some respects Denmark is better placed to meet the challenges of population ageing than many other OECD countries. First, population ageing is occurring less rapidly than in many other OECD countries. Second, labour market participation rates of older women and men are already among the highest in the OECD area. Third, a number of disincentives to continue working as well as the employability of older workers have already been addressed.

Nevertheless, the OECD notes that many older Danes continue to withdraw from the labour market well before reaching the official retirement age of 65. To remove the barriers that many older workers face to carry on working, the OECD calls on the Danish authorities to adopt a co-ordinated and comprehensive package of measures. These include:

Abolish the voluntary early retirement pension (VERP). Despite past reforms, the VERP remains a major disincentive to working at an older age and should be abolished.

Avoid unemployment benefits being used as a pathway to early retirement. The older unemployed should be granted benefits for the same maximum period of four years as the younger unemployed. This would mean reducing the maximum period from nine years currently for the age group 51-59 but extending the limit from two-and-a-half years currently for the age group 60 and over.

Re-enforce mutual obligations for the 58- to 60-year-olds. Unemployed people aged 58 to 60 may be excluded from various obligations to actively seek work or participate in training if they satisfy the conditions for entering the VERP at the age of 60. As a result, unemployment rates are two to three times higher in this age group compared with the national average. This group should be subject to the same mutual obligations as other age groups in exchange for more help to find them jobs.

JT00194806
Allow for well-designed flexible work-retirement pathways through the public pension system. It is currently not possible to obtain a reduced public pension before the official retirement age of 65. If the VERP is phased out, there may be pressures for allowing more flexible retirement options through the public pension system. This can be done by making it possible to apply for actuarially reduced benefits before age 65 and to combine pension benefits with work income so that there is a financial gain from gradual retirement.

Promote an age-friendly environment in firms. In particular, mandatory retirement clauses available in collective agreements need to be abolished and awareness among employers of age-discrimination legislation raised. Also, there is a need for expanding training opportunities for older and low-skilled workers, through a life course perspective.

To obtain a copy of the publication, journalists should contact the Media Division (tel. 33 1 45 24 97 00). For further comment or information, please contact the report’s author Patrik Andersson ([33] 1 45 24 88 51) or the Head of the OECD’s Thematic Review of Ageing and Employment Policies, Mark Keese ([33] 1 45 24 87 94).
Figure 1. **If nothing is done, the Danish Labour force will fall sharply**

Projection of the Danish labour force under different scenarios (millions)\(^a\)

\[\begin{array}{c}
\text{Historical} & \text{Constant} & \text{Maximum 50+} & \text{Maximum all} \\
\end{array}\]

\(1950\) \(1960\) \(1970\) \(1980\) \(1990\) \(2000\) \(2010\) \(2020\) \(2030\) \(2040\) \(2050\)

\(2.0\) \(2.2\) \(2.4\) \(2.6\) \(2.8\) \(3.0\) \(3.2\)

\(a\) The constant scenario assumes that current participation rates by five-year age group and gender remain constant over the period 2000 to 2050. The maximum scenario applies the maximum participation rates (for workers aged 50 and over for "Maximum 50+" and for all workers for "Maximum") in the OECD area (except Iceland and Mexico) by five-year age group and gender from 2030 through to 2050, with a gradual adjustment over the period 2000-30 to reach these maximum rates.


Figure 2. **Danes leave employment well before pension age**

Employment rates by single year of age in Denmark, 2004 (%)

\[\begin{array}{c}
49 & 50 & 51 & 52 & 53 & 54 & 55 & 56 & 57 & 58 & 59 & 60 & 61 & 62 & 63 & 64 & 65 & 66 & 67 \\
90 & 80 & 70 & 60 & 50 & 40 & 30 & 20 & 10 & 0 \\
\end{array}\]