Chapter **5**

LABOUR MARKET PARTICIPATION AND RETIREMENT OF OLDER WORKERS

A. INTRODUCTION

The work and retirement patterns of older individuals (defined in this chapter as persons aged 55 and over) have undergone major changes during the past two decades. The ratio of employment to population has fallen for older men in every OECD Member country, often quite substantially. The record for older women is more mixed; some countries have experienced a decrease in the relative employment of older women, while others have seen their employment/population ratios remain constant or rise over time. However, it is the decrease in older male employment that has dominated all other movements and led to the marked decline in labour force participation among older workers – a major withdrawal of resources from the labour market. This chapter details some of these developments and assesses the role that public policy has played in the areas of early retirement, long-term unemployment, disability and partial retirement.

A full analysis of the labour market for older workers would entail consideration of both labour demand and supply factors specific to this age group, as well as an evaluation of general trends in the labour market. Demand-side analysis would address the relative productivity of older workers, their associated market wage, hiring and training costs and potential sickness record – in short, a profile of their total cost to the firm. The labour supply of older workers will be influenced by factors such as wealth and household income, the range and nature of benefits and pensions available, and people's preferences for leisure over work. Here, the analysis concentrates on labour supply factors.

To understand how policies might influence retirement and labour force participation decisions, it is necessary to review the choices facing an individual approaching retirement age. For example, if an early retirement pension is available on condition that one leaves the labour force, then the individual has two alternatives: continue to work, receiving the regular wage until the "standard" age of retirement and then a "normal" pension; or accept the early pension, taking extra years of leisure with an income stream determined by pension entitlements. Most older workers have a choice which is generally not available to prime-age workers: whether to remain in the labour market or to retire with income support. This choice will be "neutral" – i.e. not influenced one way or the other with regard to the timing of retirement – if the early retirement pension is reduced in an "actuarially" fair manner, so that the present value of the income stream is the same, regardless of the age at which the pension is taken up. In such a case, the pension wealth of the individual would be determined by the features of the pension benefit system, but not by the age of retirement. In practice, most schemes designed for early retirement are not neutral, but offer positive incentives towards retirement.

Even when pensions are actuarially neutral, some people still wish to retire "early". However, income constraints may well limit the ability of these people to obtain early retirement. Others who enjoy their work may defer their retirement beyond the conventional age.

In many countries, people take early retirement either directly through public pension schemes or indirectly through other public mechanisms, such as relaxed eligibility requirements for invalidity pensions, income support for the older long-term unemployed without specifying an active search for work, and tax incentives for private pension provision. Some of these schemes were designed to have an impact on high unemployment rather than on retirement or labour market flexibility. **A** number of schemes were designed to reduce the burden of unemployment on younger workers. However, whether or not these policies, often stipulating specific labour market conditions, remain in place, the expectation of earlier retirement that they produced is a lasting legacy. Such policies can be difficult to reverse.

The chapter is organised as follows. The main changes over time in labour force participation and employment of older workers are outlined in Section B, which also shows the range of exit routes from the labour force. Section C details the increased duration of unemployment among the older population, and assesses the range of schemes introduced in certain countries to cope with rising joblessness in the 1980s. Policy emphasis has shifted from encouraging continued contact with the labour market to liberalising unemployment benefit programmes so as to allow older workers to be phased into retirement.

When in work, older individuals usually have a higher-than-average level of earnings and job security, but when they lose their job they find it harder than the average worker to return to employment. If they do obtain work, this is usually at a reduced wage or with poorer conditions.

Sometimes, older workers are singled out for job losses when firms wish to reduce their workforce. Other times, they are given an incentive to leave the labour force, often a mixture of severance pay and long-term income support available through public transfer payments. Hence, some of the older jobless leave the labour force immediately or shortly after losing their jobs. While their decision to retire is, to a degree, voluntary, in a number of instances they are given little choice.

Section D discusses early retirement and the general decrease in the age of first receipt of a public pension. There has been a downward trend in the standard age of public pension programmes up to recent years, as well as an increase in the number of people on public early retirement schemes. The incentives associated with these schemes, e.g. early and long-service pensions, are often non-neutral, discouraging continued participation in the labour force. In cases where such negative incentives are not present in the public scheme, they may well arise in conjunction with private policy arrangements such as employer pension plans or severance pay.

The interaction of private and public incentives can have a significant impact on retirement decisions. Public schemes designed to act as an income guarantee for older individuals may be used by firms to cushion the blow of joblessness, and thus make older workers more prone to job losses. Private retirement arrangements often follow the example of public transfer schemes. They can also hamper attempts to raise the standard age of retirement by substituting new schemes for the public benefits that are being amended or replaced.

Invalidity benefits are an important route out of the labour force in certain countries. There is a complex interaction between illness, unemployment and receipt of these benefits; the precise role that each element plays is not easy to discern. However, the number of people who retire can depend on the particular nature of invalidity programmes. In some countries, awards of benefit have been subject to labour market conditions. Invalidity schemes in general are poorly integrated with employment and training programmes; they provide passive income support instead of encouraging reintegration into the world of work. Section E details these arrangements.

So far, retirement has been discussed in terms of a complete move out of the labour force. However, one issue is the extent to which flexible retirement options are available to workers, and the degree to which people can gradually reduce their working hours as they get older. Section F details differences in the availability and use of these options across countries; topics include part-time work, partial pension schemes, and the barriers associated with income tests for pensions. Often, individual flexibility is curtailed by private work and public benefit arrangements; workers are forced to terminate "career" jobs and move out of the labour force abruptly, with no option offered.

Detailed policy conclusions are presented in Section *G;* meanwhile, three general themes emerge from Sections C to F. First, conflicts can arise when governments attempt to ensure a minimum acceptable level of income for individuals leaving the workforce. If such schemes **are** instituted in response to a short-term problem, such as a rise in unemployment, it becomes difficult to limit them to a once-and-for-all set of incentives, applicable to one particular group of older workers. Expectations of early retirement can then become institutionalised. Second, non-neutral policy encourages individuals, who would otherwise remain in the labour force, to retire. Third, some older workers are singled out for job losses and others are given strong incentives to leave employment via public and private policy. Some retirement is therefore a form of disguised unemployment. What, then, is the appropriate balance between passive income support and measures that would help to reintegrate older job-losers into the labour force?

B. LABOUR FORCE AND EMPLOYMENT DEVELOPMENTS

1. Introduction

The labour market position of the older workforce has altered significantly over the last twenty years within OECD Member countries. Male employment has declined markedly, the average age at which individuals leave the labour force has fallen, the range and usage of non-standard exit routes from the labour force has increased, and unemployment rates have risen. This section details these and other developments in the older worker labour market.

2. Labour force developments

The labour force participation rate of older workers has fallen in every OECD country since the late 1960s. However, there still remains a wide variation across countries, as Table 5.1 shows. By 1990, the Japanese participation rate of 44 per cent was the highest among OECD countries, even though this represents a decline of **8** percentage points since 1965. Italy, at 10 per cent, still has the lowest rate. Between these extremes there was an average decline of 12.5 percentage points in the participation rate of older workers, 1965 to 1990.

Table 5.1. Labour force participation rates for workers aged 55 and over

Percentages

	Australia	Canada	Finland	France	Germany	Ireland	Italy	Japan	Netherlands	Norway[a]	New Zealand	Portugal	Spain	Sweden	United Kingdom	United States
1966	33.2	36.4	44.5	36.4	40.5	41.8	10.3	52.2						47.4	53.8	31.7
1967	33.9	36.0	44.0	33.3	39.7		16.6	52.0						47.2	53.6	37.7
1968	33.9	36.0	42.3	34.6	38.6		16.1	50.2						47.0	53.3	37.7
1969	33.3	35.9	39.9	34.3	35.4		14.7	49.8						46.4	53.0	37.7
1970	33.4	35.2	44.4	32.2	34.5		14.2	48.9						45.3	52.7	37.4
1971	33.4	34.6	43.8	30.5	31.4	40.4	13.9	48.4	24.9					44.5	51.4	36.8
1972	33.3	33.5	41.0	29.1	29.0		12.1	47.0	24.1	48.1			32.3	43.8	50.5	36.1
1973	32.4	33.3	40.3	27.3	27.2		11.9	47.3	23.3	46.9			31.9	43.0	49.5	34.7
1974	31.2	32.5	39.3	26.1	24.9		12.1	46.1	22.3	45.2		38.8	27.6	42.2	48.3	34.0
1975	30.2	32.9	37.1	25.3	23.4	33.0	11.8	45.4	21.3	46.2		36.7	28.5	42.0	48.0	33.5
1976	28.8	31.7	34.5	24.8	22.8		11.0	44.8	20.9	47.6		36.0	28.9	41.5	47.2	32.8
1977	28.4	31.6	32.2	24.9	22.5	31.1	13.5	44.3	20.3	48.4		35.4	28.2	40.0	46.3	32.5
1978	26.3	31.6	30.8	24.3	22.2		12.3	44.3	19.7	48.4		35.6	27.5	40.1	44.3	32.5
1979	24.8	31.7	30.8	24.3	22.1	29.5	11.4	44.2	18.9	47.9		34.8	26.6	40.2	42.4	32.3
1980	25.0	31.3	31.8	24.3	22.1		11.5	44.2	18.1	46.1		32.9	25.6	40.1	42.0	31.7
1981	24.4	30.8	32.4	23.7	22.0	28.8	11.4	44.2	16.2	46.9		30.6	24.9	40.3	41.6	31.2
1982	22.5	30.4	32.9	22.7	22.0		10.8	44.2	15.8	45.6		29.9	24.0	40.5	39.6	31.9
1983	22.1	29.8	31.8	21.0	21.8	27.5	10.7	44.4	16.0	45.3		32.3	23.5	40.2	37.8	30.3
1984	22.0	29.2	31.7	20.4	21.1	26.1	10.8	43.9	14.9	44.9		31.0	22.7	39.7	37.9	29.7
1985	21.4	28.9	31.3	20.0	20.7	24.8	10.7	43.6	13.8	43.8		29.2	21.8	39.0	36.5	29.3
1986	21.5	27.9	29.6	19.5	20.8	24.8	10.7	43.3	12.8	43.4	28.0	27.9	21.2	39.0	35.4	29.1
1987	21.4	27.5	27.3	19.0	22.8	24.6	10.2	43.3		43.8	26.7	27.6	20.5	39.3	35.2	29.0
1988	21.5	27.4	26.8	18.7		24.2	9.8	43.4		41.6	25.2	28.2	20.0	40.1	35.3	29.0
1989	21.5	26.7	26.4	18.4		23.0	9.6	43.7		39.9	23.3	28.5	20.0	40.1	36.4	29.2
1990	21.9	26.5	25.9	17.6			9.7	44.2		39.8	23.1	29.2	19.5	39.7	36.5	29.1

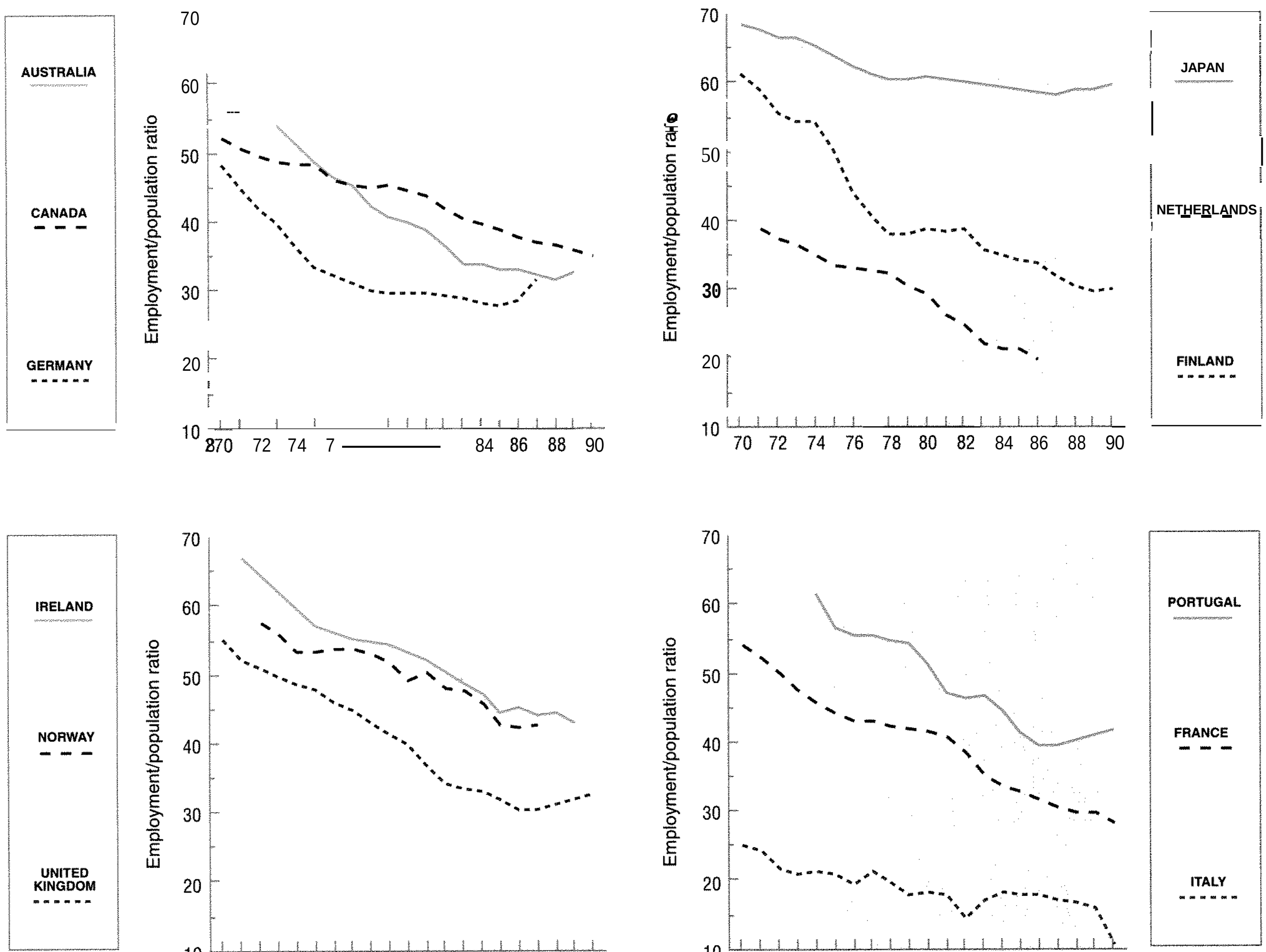
a) Data for Norway are for men aged 60 and over.
Source: OECD, Labour *Force Statistics 1970-1990.*

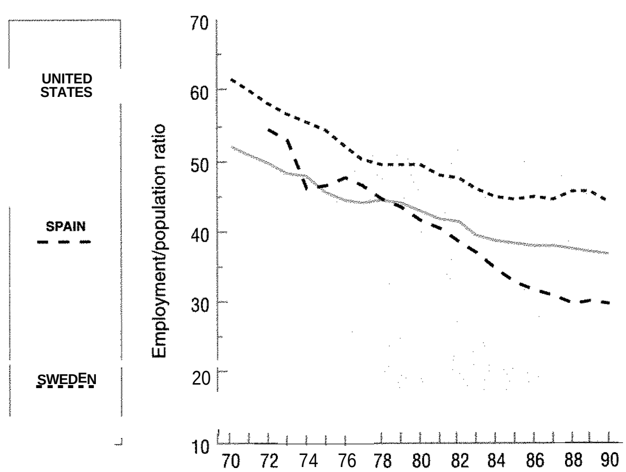
Chart 5.1

Employment/population ratios of older workers[a,b]

Percentage

Males





a) Data for Ireland have been interpolated for graphical purposes

b) Age group for Norway is 60 and over For all other countries it is 55 and over

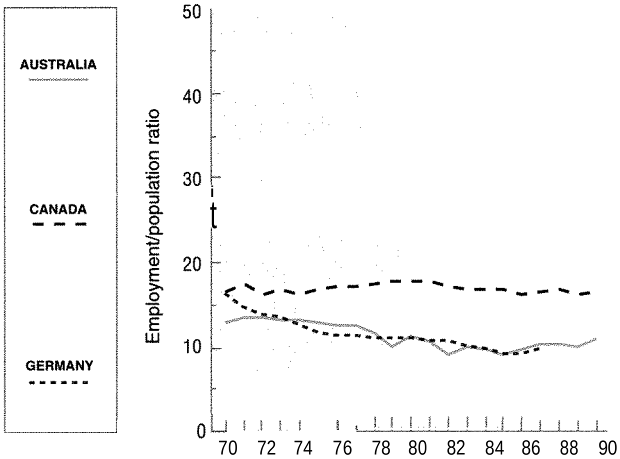
Source OECD Labour Force Statistics, ***1970-1990*** Paris, 1992

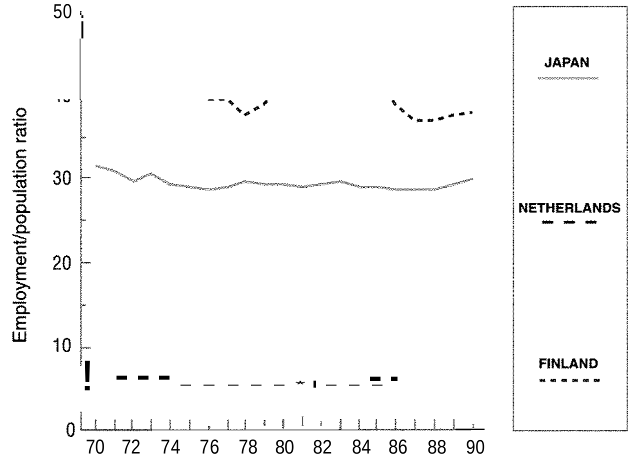
Chart 5.1 (Cont.)

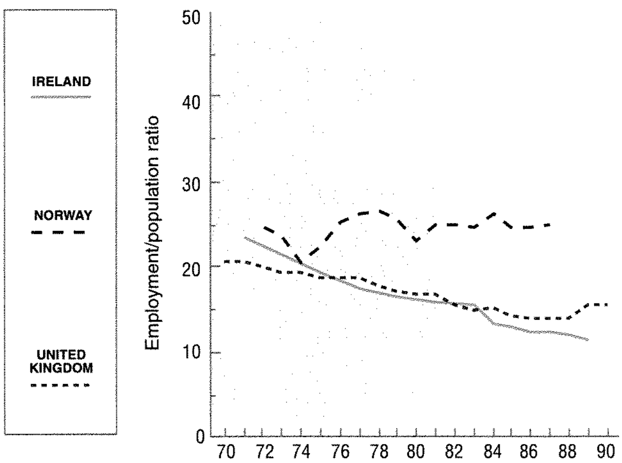
Employment/population ratios of older workers[a,b]

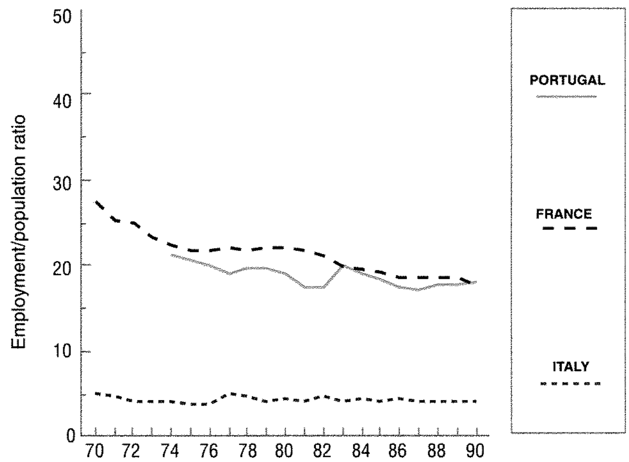
Percentage

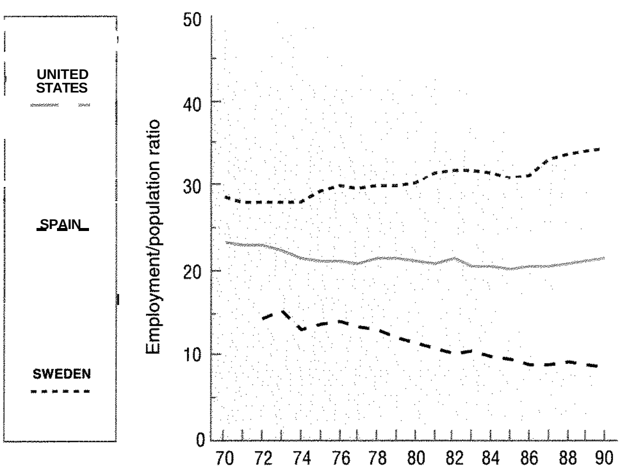
Females











a) Data for Ireland have been interpolated for graphical purposes.

b) Age group for Norway is 60 and over. For all other countries it is 55 and over.

Source: OECD, Labour Force *Statistics, 1970-1990,* Paris, 1992.

The labour force is defined as those individuals active within the labour market, either in work or actively seeking work, i.e. the sum of the employed and the unemployed. The apparent uniformity outlined above may be somewhat misleading, for underlying the overall picture there is a series of quite distinct developments in employment and unemployment by sex. The decline in total labour force participation among older workers was due almost entirely to the decline in male employment for this age group. Female employment actually increased in some countries while declining in others, and unemployment for both sexes rose to record levels in the early 1980s before falling back to the average levels of the 1970s by 1990.

Considering male employment, it is clear from Chart 5.1 and Table 5.2 that all countries experienced a substantial decrease in the proportion of the population in employment over the last two decades. On average the male employment/population ratio (the male employment component of the labour force participation rate) fell by between 20 to 30 percentage points from 1970 to 1990. The exceptions to this were Japan, Italy and Sweden (with declines of 9, 13 and 16 percentage points respectively). Japan and Italy are consistently the outliers among these nations, the former persistently with a high participation rate, and Italy always the lowest.

In contrast, female employment for the 55 and over age group displays a less uniform pattern, see Chart 5.1. This is due to the interaction of two conflicting trends: first, the increasing participation rate of each new cohort of women entering the labour force acts to raise the female employment/population ratio, and second, the general trend to earlier retirement which decreases the ratio. Table 5.3 shows that these movements are generally smaller than for male employment. Between 1970 and 1990 the largest change in either direction is a decrease of 9 percentage points for France, while most movements are around 4 percentage points. These are generally declines, i.e. the forces leading to exit prevailing over those which imply increased participation. In Finland, Japan and the United States, the two forces appear to have counteracted each other as rates are virtually constant, while in Sweden the employment/population ratio has actually increased by *6* percentage points over the last two decades. It should be noted that despite the relatively small downward movements in the female employment/population ratio, compared with that of males, men remain almost twice as likely to be in employment, the notable exceptions being Sweden and Finland where parity between the sexes (in terms of employment/population ratios) for older workers has almost been obtained.

The trends in older workers' unemployment/population ratios have been more uniform (see Tables 5.4 and 5.5). There is a wide degree of variation in rates between countries, but over time, trends have been similar. The unemployment/population ratios for individuals aged 55 and over rose for both men and women from 1970 until peaking around 1984 and then gradually fell back, in many cases to their 1970s average. Male ratios are generally higher than for women. However, all rates are very low, reaching a maximum of 6.4 per cent for males in the United Kingdom in 1982, but in general they are between 1 and 2 per cent for men and around 1 per cent for women. The low ratios reflect in part the fact that well over half of the older population are not even in the labour force. There was a marked increase over time in the average duration of unemployment experienced by older workers. This is detailed and assessed separately in Section C.

Older worker labour force movements have been dominated by the decrease in male employment. This is the single largest change that has occurred in the separate components of the labour force, and overrides all other changes. Older males have exited from employment in very large numbers, and rather than moving into unemployment, and still maintaining active participation in the labour force, they have withdrawn from the labour market.

3. Full-time and part-time employment

Among the employed, men are far less likely than women to be in part-time work. Over time there has been a growth in female part-time employment as a proportion of total employment, but this is not the case for men. These trends are reflected in the experiences of older workers, as shown in Tables 5.6 and 5.7. For the EC countries reported, part-time work is on average less than 10 per cent of older male employment, the upper bounds being the Netherlands (24 per cent) and the United Kingdom (15 per cent). There has been only a marginal increase in part-time work's share of male employment over time. By contrast, for older women part-rime work accounts for over half of all employment in Denmark, the Netherlands, and the United Kingdom, and is between 20 and 40 per cent of employment in Belgium, France and Germany. Also, part-time employment has been growing as a percentage of total employment for older women during the 1980s. These issues are discussed in greater depth in Section F.

4. Exit routes from the labour force

Movement into retirement generally occurs directly from employment via receipt of some form of pension, either publicly or privately funded. However, this is not the only route taken. During periods of high unemployment individuals have been encouraged to retire, through a variety of public schemes including long-term sickness benefits, invalidity schemes, and the conversion of unemployment insurance payments into an early pension.

Table 5.2. The employment to population ratio for men aged 55 and over

Percentages

	Australia	Canada	Finland	France	Germany	Ireland	Italy	Japan	Norway[a]	Netherlands	New Zealand	Portugal	Spain	Sweden	United Kingdom	United States
1966		42.6	60.3			69.7	17.7				..	..	..	66.6		53.1
1967	57.0	42.8	59.6		53.4		28.5				..	..	..	66.0		53.2
1968	56.8	42.5	54.7	58.4	52.5		27.6	70.4			..	..	..	65.2		53.5
1969	56.1	42.8	52.9	57.5	47.3		0.0	70.1			..	..	..	62.9		53.3
1970	56.3	52.2	61.3	54.2	48.6		25.3	68.5			..	..	..	61.7	55.4	52.3
1971	55.5	50.6	59.3	52.3	45.1	67.3	24.7	68.0		39.0	..		..	60.0	52.5	51.1
1972	55.1	49.6	55.8	50.2	41.9		21.8	66.7	57.7	37.5	..		54.6	58.4	51.2	50.0
1973	54.0	49.0	54.5	47.7	39.9		21.2	66.7	56.2	36.5	..		52.9	56.9	50.2	48.4
1974	51.4	48.5	54.5	46.0	36.5		21.7	65.5	53.5	35.0	..	61.8	46.0	55.5	49.1	47.8
1975	48.7	48.4	50.2	44.5	33.7	57.5	21.2	63.9	53.6	33.5	..	56.8	46.5	54.4	48.2	45.7
1976	46.4	46.2	44.3	43.4	32.3		19.8	62.6	53.9	33.4	..	56.0	47.6	52.0	46.4	44.4
1977	45.2	45.3	40.8	43.4	31.4	55.6	21.6	61.3	53.9	33.0	..	55.8	46.5	50.2	45.2	44.3
1978	42.2	45.0	38.3	42.5	30.3		20.1	60.8	53.3	32.6	..	55.2	44.6	49.6	43.4	44.5
1979	40.8	45.2	38.3	42.3	29.8	54.6	18.2	60.6	52.0	30.5	..	54.6	43.3	49.6	41.8	44.0
1980	40.0	44.7	39.0	41.7	29.9		18.7	61.0	49.5	29.3	..	51.6	41.6	49.4	40.3	43.0
1981	38.9	43.7	38.7	40.8	29.7	52.5	18.2	60.8	50.4	26.4	..	47.4	40.2	48.1	37.3	41.9
1982	36.8	41.9	38.8	38.5	29.5		14.8	60.4	48.1	24.9	..	46.5	38.4	47.4	34.4	41.6
1983	33.9	40.5	36.0	35.2	29.1	49.1	17.5	59.9	47.7	22.3	..	47.2	36.8	46.0	33.8	39.6
1984	34.1	39.7	35.1	33.9	28.2	47.6	18.5	59.4	45.9	21.3	..	44.9	34.7	45.1	33.5	38.9
1985	33.1	38.9	34.3	33.1	28.0	44.7	18.3	58.9	42.7	21.5	..	41.8	32.9	44.6	32.4	38.4
1986	33.2	37.9	33.9	32.0	28.5	45.7	18.1	58.8	42.4	20.0	40.6	39.8	31.7	44.8	30.8	37.9
1987	32.3	36.9	31.9	30.6	31.6	44.5	17.2	58.4			38.8	39.7	30.9	44.6	30.6	38.0
1988	31.8	36.7	30.5	30.1		44.7	16.8	58.9			34.7	40.5	29.8	45.5	31.4	37.6
1989	32.7	35.9	29.8	29.8		43.4	16.2	59.2			31.7	41.4	30.1	45.8	32.3	37.4
1990		35.3	30.2	28.4			10.9	60.0			..	42.0	29.8	44.3	33.0	37.0

a) **Data** for Norway are for **men** aged 60 **and** over.

Source: **OECD,** ***Labour Force Statistics 1970-1990.***

Table 5.3. The employment to population ratio for women aged 55 and over

Percentages

	Australia	Canada	Finland	France	Germany	Ireland	Italy	Japan	Norway[a]	Netherlands	New Zealand	Portugal	Spain	Sweden	United Kingdom	United states
1966	12.0		50.0			25.4	4.1							28.6		23.1
1967	13.2	13.7	48.7		18.4		6.6							28.1		23.3
1968	13.4	13.9	49.1	28.7	18.4		6.2	32.2						28.3		23.4
1969	13.0	14.5	45.4	28.6	18.2		0.0	32.0						29.3		23.8
1970	13.0	16.6	44.4	27.3	16.5		5.1	31.6						28.7	20.7	23.5
1971	13.7	17.3	45.6	25.3	15.0	23.6	5.0	31.1		6.6				28.1	20.7	23.2
1972	13.6	16.3	42.9	24.8	14.2		4.2	29.8	24.4	6.6			14.2	28.3	20.2	23.0
1973	13.4	16.9	43.4	23.3	13.7		4.2	30.7	23.5	6.4			15.3	28.2	19.6	22.4
1974	13.4	16.2	43.0	22.2	12.8		4.2	29.4	20.3	6.2		21.3	13.0	28.3	19.4	21.5
1975	13.1	16.8	41.9	21.8	11.9	19.6	4.0	29.1	22.3	5.9		20.6	13.4	29.3	18.9	21.2
1976	12.7	17.0	39.8	21.7	11.7		3.9	29.0	25.1	5.9		20.2	13.8	30.2	18.9	21.1
1977	12.8	17.1	39.5	22.1	11.5	17.4	5.3	29.2	26.0	5.7		19.2	13.2	29.7	18.8	21.0
1978	11.6	17.3	37.8	21.6	11.4		4.8	29.8	26.4	5.7		19.8	12.9	30.0	18.0	21.5
1979	10.3	17.7	39.0	21.9	11.3	16.5	4.4	29.6	25.5	5.9		19.7	12.1	30.2	17.2	21.6
1980	11.3	17.6	41.1	22.1	11.3		4.6	29.5	22.9	5.9		19.0	11.3	30.5	17.0	21.2
1981	10.9	17.7	42.2	21.7	11.0	16.0	4.4	29.2	24.8	5.2		17.7	10.6	31.7	16.8	21.0
1982	9.3	17.2	43.3	21.0	10.9		4.8	29.4	24.9	5.3		17.4	10.2	32.0	15.8	21.6
1983	10.0	16.8	44.1	19.7	10.5	15.6	4.2	29.9	24.5	5.5		20.2	10.3	32.1	15.0	20.5
1984	9.9	16.7	43.5	19.4	9.9	13.4	4.5	29.3	26.1	5.1		19.2	9.7	31.5	15.4	20.4
1985	9.3	16.7	42.7	19.0	9.3	13.1	4.4	29.2	24.5	4.8		18.4	9.4	31.0	14.5	20.2
1986	9.7	16.1	39.1	18.6	9.4	12.6	4.6	28.7	24.5	4.4	16.4	17.7	8.9	31.4	14.0	20.4
1987	10.4	16.4	37.1	18.5	10.1	12.4	4.4	28.8	24.9		15.5	17.3	8.9	33.2	14.1	20.4
1988	10.6	16.8	37.2	18.4		12.3	4.1	28.9			15.9	17.9	9.1	34.0	14.2	20.8
1989	10.3	16.2	37.8	18.4		11.4	4.2	29.4			14.5	17.8	8.9	34.2	15.6	21.3
1990	11.0	16.5	38.2	17.6			4.2	30.0			14.3	18.3	8.6	34.5	15.7	21.4

a) Data for Norway are for women aged 60 and over.

Source: OECD. ***Labour Force Statistics 1970-1990.***

Table 5.4. The unemployment to population ratio for men aged 55 and over

Percentages

	Australia	Canada	Finland	France	Germany	Ireland	Italy	Japan	Norway[a]	Netherlands	New Zealand	Portugal	Spain	Sweden	United Kingdom	United states
1966	0.6	1.9	1.0			4.1	0.3							1.1		1.5
1967	0.5	1.9	1.9		1.9		0.3							1.5		1.4
1968	0.5	2.2	2.8	1.0	1.1		0.2	0.7						1.8		1.2
1969	0.5	2.2	1.8	1.3	0.5			0.7						1.7		1.0
1970	0.5	3.0	0.9	1.1	0.4		0.1	1.0						1.1	2.5	1.6
1971	0.5	2.9	0.9	1.1	0.5	5.7	0.1	1.0		0.6				1.6	2.8	1.8
1972	0.8	2.7	1.2	1.3	0.7		0.1	1.0	0.6	0.9			0.4	1.5	3.0	1.7
1973	0.5	2.4	0.6	1.0	0.5		0.1	0.8	0.3	0.9			0.3	1.4	2.6	1.3
1974	0.4	2.2	0.3	0.9	0.7		0.0	0.9	0.3	0.9			0.3	1.2	2.3	1.3
1975	1.2	2.1	0.6	1.1	1.1	4.1	0.1	1.4	0.3	1.1		0.8	0.8	1.1	2.8	2.2
1976	0.9	1.8	1.5	1.2	1.1		0.0	1.6	0.3	1.3		0.4	0.7	0.8	3.3	2.0
1977	1.2	2.2	1.2	1.5	1.0	3.7	0.9	1.6	0.3	1.2		0.5	0.9	0.5	3.3	1.8
1978	1.5	2.3	1.5	1.6	1.1		0.6	1.8	0.3	1.1		0.5	1.1	0.8	3.4	1.4
1979	1.1	1.9	1.2	1.6	1.1	2.7	0.8	1.9	0.3	1.0		0.1	1.3	0.8	3.3	1.3
1980	1.2	1.8	1.1	1.8	1.2		0.6	1.6	0.3	1.1		0.1	1.6	0.7	3.7	1.5
1981	1.4	1.8	1.7	1.9	1.5	3.5	0.9	1.8	0.3	1.2		0.4	1.9	0.9	5.8	1.5
1982	1.3	2.8	1.7	2.0	2.0		0.7	2.0	0.5	1.6		0.4	2.0	1.3	6.4	2.2
1983	2.3	3.2	1.6	2.1	2.4	4.4	0.6	2.2	0.5	3.9		0.8	2.1	1.7	4.8	2.4
1984	2.1	3.2	2.2	2.0	2.8	4.8	0.2	2.2	0.5	3.2		0.7	2.7	1.8	4.5	1.9
1985	2.4	3.2	1.9	2.2	2.8	5.3	0.2	2.2	0.5	1.4		0.8	2.7	1.5	4.4	1.6
1986	1.9	2.7	1.9	2.4	2.4	5.2	0.2	2.3	0.5	1.4	0.6	0.7	2.9	1.3	4.6	1.6
1987	1.9	2.4	1.3	2.3	2.6	5.8	0.3	2.4	0.5		0.7	0.8	2.5	0.8	4.3	1.4
1988	2.1	2.2	1.3	2.2		5.3	0.2	2.0	0.5		0.9	0.7	2.1	0.7	3.5	1.3
1989	1.7	2.2	1.0	2.1		5.0	0.2	1.8	0.5		1.4	0.5	2.1	0.5	2.6	1.3
1990	2.0	2.1	0.8	1.7			0.3	1.5	0.8		1.4	0.7	1.8	0.5	2.1	1.4

a) Data for Norway are for men aged 60 and over.

Source: OECD, *Labour Force Statistics 1970-1990.*

Table 5.5. The unemployment to population ratio for women aged 55 and over

Percentages

	Australia	Canada	Finland	France	Germany	Ireland	Italy	Japan	Norway[a]	Netherlands	New Zealand	Portugal	Spain	Sweden	United Kingdom	United States
1966	0.2		0.4			0.3								0.2		0.6
1967	0.1	0.3	0.4		0.3									0.5		0.6
1968	0.1	0.2	0.4	0.5	0.1			0.1						0.4		0.6
1969	0.1	0.2	0.7	0.7	0.1			0.1						0.3		0.5
1970	0.2	0.5	0.7	0.7	0.1			0.0						0.4	0.1	0.7
1971	0.2	0.4	0.7	0.8	0.1	0.5		0.1		0.1				0.7	0.1	0.8
1972	0.3	0.5	0.7	0.7	0.1			0.1	0.2	0.1			0.0	0.6	0.2	0.8
1913	0.2	0.5	1.1	0.5	0.1			0.2	0.2	0.1			0.0	0.7	0.1	0.7
1974	0.1	0.4	0.8	0.7	0.3			0.2	0.2	0.1			0.0	0.6	0.1	0.7
1975	0.2	0.8	1.2	0.6	0.4	0.4		0.3	0.2	0.2		0.2	0.0	0.4	0.2	1.1
1976	0.3	0.8	1.1	0.8	0.5			0.3		0.2		0.1	0.0	0.5	0.2	1.1
1977	0.2	0.9	1.5	1.0	0.5	0.4	0.8	0.3		0.2		0.1	0.0	0.4	0.3	1.0
1978	0.3	0.9	2.7	0.8	0.6		0.6	0.3		0.2		0.1	0.1	0.6	0.3	0.7
1979	0.2	0.9	2.3	0.9	0.6	0.4	0.8	0.3		0.2		0.1	0.1	0.6	0.3	0.7
1980	0.3	0.8	2.6	1.3	0.6		0.6	0.3		0.2		0.2	0.1	0.5	0.4	0.7
1981	0.2	0.7	2.6	1.3	0.7	0.5	0.9	0.3		0.2		0.3	0.1	0.5	0.5	0.8
1982	0.3	1.1	3.3	1.3	0.8		0.9	0.3	0.2	0.2		0.1	0.2	0.9	0.6	1.1
1983	0.3	1.3	3.3	1.4	0.9	0.6	0.6	0.5	0.2	0.5		0.3	0.2	1.2	0.7	1.0
1984	0.3	1.2	3.6	1.5	1.0	0.7	0.1	0.4	0.2	0.4		0.3	0.3	1.6	0.7	0.9
1985	0.3	1.2	3.6	1.4	1.0	0.7	0.1	0.4	0.2	0.2		0.2	0.4	1.5	0.8	0.9
1986	0.3	1.1	2.9	1.4	1.1	0.6	0.1	0.4	0.2	0.2	0.3	0.3	0.3	1.2	0.9	0.8
1987	0.2	1.3	1.8	1.7	1.2	0.7	0.1	0.5			0.3	0.2	0.4	0.6	0.9	0.6
1988	0.3	1.0	1.8	1.7		0.6	0.1	0.4			0.4	0.2	0.4	0.5	0.8	0.6
1989	0.2	0.9	2.2	1.4		0.6	0.1	0.4	0.2		0.5	0.2	0.4	0.4	0.6	0.6
1990	0.3	0.9	1.5	1.4			0.1	0.3	0.2		0.5	0.3	0.5	0.6	0.4	0.6

a) Data for Norway are for women aged 60 and over.

Source: OECD, ***Labour*** Force ***Statistics 1970-1990***.

Table **5.6. The part-time to total employment ratio for men aged 55 and over**

Percentages

	1983	1984	1985	1986	1987	1988	1989
Belgium	3.9	3.5	4.0	4.0	3.9	4.1	3.3
Denmark	9.3	11.3	11.2	11.0	10.9	38.5	12.7
France	7.6	8.4	8.4	8.6	8.8	9.4	9.4
Germany	6.4	5.2	5.7	5.7	5.7	5.4	5.9
Luxembourg	4.3	2.9	3.8	1.3	34.1	2.4	4.7
Netherlands[a]	12.1		12.4		21.3	21.4	24.1
Portugal				9.3	9.7	10.4	9.6
Spain					3.7	3.2	3.1
United Kingdom	9.9	12.2	11.8	12.1	13.6	14.1	15.2

a) There is a structural break in the data for the Netherlands from 1986 onwards.
Source: Eurostat.

Table 5.7. **The part-time to total employment ratio for women aged 55 and over**

Percentages

	1983	1984	1985	1986	1987	1988	1989
Belgium	24.1	24.2	21.2	22.3	22.9	22.7	34.0
Denmark	56.3	48.7	61.1	59.5	59.4	75.8	56.1
France	29.0	28.5	29.3	30.9	30.1	31.5	32.0
Germany	37.6	35.9	39.1	40.2	40.3	42.6	42.2
Luxembourg	21.2	18.2	15.2	12.9	14.3	12.5	16.7
Netherlands[a]	66.1	..	68.5		71.3	72.9	76.5
Portugal	..	..	..	18.2	18.7	18.4	21.1
Spain		..			18.0	16.7	16.1
United Kingdom	56.8	58.8	61.3	62.8	61.7	58.6	62.0

a) There is a structural break in the data for the Netherlands from 1986 onwards.
Source: Eurostat.

Others have entered retirement after having become discouraged as job-seekers. Retirement paths other than the "standard" public pension have been offered more frequently over the last two decades, reflecting attempts by public policy to cope with rising unemployment during periods of recession. Evidence for the EC countries, reported in Table 5.8, demonstrates the importance of redundancy and retirement on grounds of illness as retirement routes. The former accounts for over 7 per cent of the older population who have become inactive within three years of leaving employment, while the latter accounts for 23 per cent. Sections D and E explore further the development and use of the various routes into retirement.

C. LONG-TERM UNEMPLOYMENT

1. Introduction

This section is concerned with the long-term unemployment of older workers, focusing on those aged 55-64. At the outset, the changes over time in aggregate unemployment rates are outlined. There follows an examination of the trend in long-term unemployment, i.e., for twelve months or more. The extent to which people move from unemployment out of the labour force is considered.

It is argued that the picture of measured unemployment may not present as accurate a profile of the unemployment problems of older workers as it does for other age groups, for a number of reasons. First, as regards the supply side of the labour market, retirement (examined below) is one way in which older job-losers can leave the labour force. Second, older workers could drop out of the labour force following job loss or after a period of search for work, due to their perception that they will have more difficulty finding a job than other workers (discouraged worker effect). Third, the measurement of unemployment among older workers is affected in some countries by changes in their unemployment benefit rules such as changes in the relative rate of payment; explicit or implicit conversion of unemployment benefit into an early pension; and changes in the conditions for signing on at employment offices. These elements serve as a qualification to the findings on open unemployment. Hence, specific features of benefit systems and of public employment services which influence employment of older workers are outlined.

Table 5.8. Inactive individuals, but with work experience in the last three years by reason of leaving last job, by age and sex, 1990

Percentages of the inactive older population

			Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Greece	Portugal	Spain	EC 12
Made redundant	55-64	Male	1.4	8.9	2.8	..	4.6	..	17.1	..		..	..	6.7	6.1
	years	Female	2.5	11.2	3.1	..	5.9	..	9.7	..		..	..	3.8	5.4
		Total	1.8	9.8	2.9	..	4.7	..	13.3	..	5.4	..	..	6.0	7.2
End of contract	55-64	Male		0.8	2.5	..	..	..	2.3	..	..	..	..	4.9	1.4
	years	Female		0.8	5.0	..	..	..	3.8	..	..	..	..	23.3	3.1
		Total		0.8	3.3	..	..	..	1.1	..	..	..	..	9.3	2.7
Resignation	55-64	Male	1.7		2.9	..	..	..	1.1	..	21.4	..	..	0.9	1.5
	years	Female	3.8		2.2	..	..	..	4.0	..	24.7	..	..	3.5	2.9
		Total	2.5		2.6	..	..	..	2.8	..	21.9	..	..	2.3	2.6
Retirement															
[A] Economic	55-64	Male	35.0	18.3	2.3	59.7	36.2		8.3	..	..			18.1	19.6
	years	Female	20.5	12.1	0.9	36.2	22.9		4.0	..	..			2.6	8.3
		Total	29.5	15.9	1.8	54.1	31.6		6.0	..	..			14.2	18.2
[B] Illness	55-64	Male	34.1	9.2	11.7	20.4	13.2	19.7	35.2		27.2	9.1	64.8	22.5	22.0
	years	Female	17.8	13.5	12.8	23.8	8.0	46.4	15.9		34.6	53.2	59.9	16.3	14.6
		Total	28.0	10.9	12.0	21.2	11.4	22.3	25.1		29.5	11.0	62.2	20.7	23.3
[C] Other	55-64	Male	23.6	61.1	72.8	9.7	41.8	80.3	29.7	100.0	40.3	90.1	25.9	38.2	44.5
	years	Female	43.1	52.2	65.6	4.9	55.8	53.6	45.1	100.0	30.4	41.9	24.3	23.7	53.6
		Total	31.0	57.6	70.4	8.6	43.1	77.7	38.9	100.0	33.1	82.9	25.0	34.4	36.2
Personal reasons	55-64	Male	4.1	1.7	5.1	10.2	4.2		6.3		11.1	0.8	9.3	8.8	4.9
	years	Female	12.3	10.2	10.3	35.1	7.4		17.5		10.4	4.9	15.8	26.9	11.9
		Total	7.2	5.0	6.9	16.1	9.3		12.7		10.1	6.1	12.8	13.1	9.8
			In thousands												
Total	55-64	Male	594	576	379	87	62	3	287	4	24	71	52	271	2440
	years	Female	359	369	197	27	19	0	349	1	28	54	61	88	1838
		Total	953	945	576	114	85	3	623	6	54	104	113	361	3459

Source: Eurostat, and Secretariat estimates.

2. Trends in unemployment rates

In **1990,** in all countries except three (Japan, Portugal and Sweden), the unemployment rate of men aged **55-59** was higher than that of men aged **60-64.** For women, again in the majority of countries, the unemployment rate of those aged **55-59** is higher than the rate for those aged **60-64.** For all countries except Spain, Sweden and the United States, the unemployment rate of men aged **55-59** is higher than the rate for prime-age workers. In the case of women, the pattern is less clear: in a majority of countries for which data are available, the unemployment rate of those aged **55-59** is less than that of prime-age workers.

For men aged **55-59,** in all countries except Japan, there was an increase in the unemployment rate in the **1980s** (Table **5.9).** For women, the rate increased in all countries except Finland, Sweden and the United States. For men and for women aged **60-64,** the increase in the unemployment rate in virtually all countries was less marked. In the majority of countries the increase in the unemployment rate of older men was greater than that of prime-age ***(25-54)*** workers. In about half of the countries, the increase in the unemployment rate of older women exceeded that of prime-age women. This is all the more striking since there are reasons (outlined below) why the unemployment data for older workers can understate disproportionately the number of people who would take up work if they felt that it was available.

Table 5.9. Unemployment as a percentage of labour force, older and prime-age groups, 1980, 1990

	Men								
	1980			1990			Percentage point change, 1980-1990		
	55-59	60-64	25-54	55-59	60-64	25-54	55-59	60-64	25-54
Australia	—— 3.2 ——		3.2	—— 6.3 ——		4.9	—— 3.1 ——		1.7
Canada	—— 4.2 ——		4.9	—— 6.2 ——		7.1	—— 2.0 ——		2.1
Finland	3.8	2.7	3.9	3.9		3.4	0.1	–2.7	–0.6
France	4.3	5.6	2.8	7.0	3.0	6.2	2.7	–2.6	3.5
Germany	3.8	5.8	1.8	9.0	6.4	5.5	5.2	0.6	3.7
Ireland	—— 8.8 ——		10.5	—— 15.2 ——		16.8	—— 6.4 ——		6.3
Italy	n.a.	1.4	n.a.	n.a.	1.7	n.a.	n.a.	0.2	n.a.
Japan	3.1	4.6	1.5	2.3	5.1	1.4	–0.8	0.5	**–0.1**
Netherlands	2.6	5.2	3.4	5.6	3.8	4.5	3.0	–1.4	1.1
New Zealand	n.a.	n.a.	n.a.	—— 4.9 ——		6.5	n.a.	n.a.	n.a.
Norway	n.a.	1.3	n.a.	n.a.	4.9	n.a.	n.a.	3.7	**n.a.**
Portugal	0.0	0.7	2.0	2.6	3.2	2.1	2.6	2.4	0.1
Spain	6.5	5.3	7.7	9.0	7.2	9.3	2.5	1.9	1.6
Sweden	1.0	2.3	1.1	1.1	1.4	1.1	0.1	–0.9	0.0
United Kingdom	6.0	14.9	5.0	8.9	3.5	6.7	3.0	–11.4	1.7
united **states**	3.3	3.5	5.0	3.9	3.5	4.4	0.7	0.0	–0.6

	Women								
	1980			1990			Percentage point change, 1980-1990		
	55-59	60-64	25-54	55-59	60-64	25-54	55-59	60-64	25-54
Australia	—— 2.6 ——		4.7	—— 3.0 ——		5.5	—— 0.4 ——		0.8
Canada	—— 5.2 ——		6.8	—— 5.6 ——		7.5	—— 0.4 ——		0.7
Finland	6.1	5.9	3.5	5.1		2.3	–1.0	–5.9	–1.3
France	6.2	5.9	6.3	8.5	5.4	10.7	2.3	-0.5	4.4
Germany	6.2	6.6	3.9	13.0	8.3	8.5	6.8	1.8	4.6
Ireland	—— 4.9 ——		5.8	—— 8.2 ——		7.2	—— 0.4 ——		1.4
Italy	n.a	5.4	n.a.	n.a.	2.2	n.a.	n.a.	–3.2	n.a.
Japan	1.3	1.0	2.0	1.4	1.4	2.1	0.1	0.4	0.1
Netherlands	2.2	3.6	3.0	5.8	6.3	10.3	3.6	2.7	7.3
New Zealand	n.a.	n.a.	n.a.	—— 3.8 ——		5.4	n.a.	n.a.	n.a.
Norway	n.a.	0.0	n.a.	n.a.	2.1	n.a.	n.a.	**2.1**	n.a.
Portugal	1.4	3.3	7.5	3.4	2.5	5.5	1.9	-0.8	–2.0
Spain	2.3	0.8	5.9	9.0	4.3	20.6	6.7	3.5	14.7
Sweden	1.4	2.1	1.6	1.0	2.5	1.1	-0.5	0.4	-0.6
United Kingdom	3.2	0.2	2.6	4.4	0.1	2.8	1.3	-0.1	0.2
United States	3.4	3.0	6.0	2.9	2.5	4.5	-0.5	-0.5	–1.4

In some countries – France, the Netherlands and the United Kingdom – the unemployment rate for males aged 60-64 declined at a time when the unemployment rate of prime-age males increased. In these cases, there were specific factors at work. In France in 1983, the age of entitlement to a public pension (under the employees' general pension scheme) was reduced from 65 to 60 (for those with 37.5 years of contributions); also early retirement "bridging-pension" schemes had begun to spread from the early 1970s, enabling people to leave the labour force before the standard age for receipt of a public pension. In the Netherlands there is a generous disability benefits scheme in operation, and a significant proportion of its older labour force has been on disability benefit (Section E). In addition, there have been voluntary retirement schemes (VUT), arranged by collective bargaining at sectoral or firm level, where the typical age of entitlement is the early sixties – initially in the mid-1970s it was 61-62 but has been tending to decline over time towards 60-61. In the United Kingdom, the percentage

Table 5.10. Long-term unemployment as a percentage of total unemployment, older and prime-age groups, 1983, 1989

	Men					
	1983		1989		Percentage point change, 1983-1989	
	55-64	25-54	55-64	25-54	55-64	25-54
Australia	36.2	32.6	48.7	30.6	12.5	–2.0
Austria	n.a.	n.a.	30.3	15.2	n.a.	n.a.
Belgium	81.7	66.4	74.8	82.5	4.9	16.1
Canada	15.0	12.9	16.7	8.2	1.7	–4.7
Denmark	36.5	32.2	37.5	26.0	1.0	4.2
Finland	33.3	23.9		3.8		–20.0
France	66.5	38.5	67.1	43.2	0.6	4.7
Germany	47.2	45.0	73.4	55.5	26.1	10.5
Greece	25.6	27.2	49.3	46.5	23.7	19.3
Ireland	57.8	49.7	82.7	76.1	24.9	26.4
Italy	45.4	53.5	59.4	66.3	14.0	12.8
Japan	24.0	13.3	33.3	22.5	9.3	9.2
Netherlands	64.7	55.5	80.9	69.3	16.3	13.8
Norway		5.6	25.0	12.9		7.3
Portugal	n.a.	n.a.	55.7	46.3	n.a.	n.a.
Spain	41.5	49.7	58.8	53.1	17.3	3.4
Sweden	30.3	8.4	25.7	6.9	-4.6	–1.4
United Kingdom	58.7	56.7	69.7	55.1	11.0	–1.6
United States	22.4	19.5	12.0	9.9	–10.4	–9.6

	Women					
	1983		1989		Percentage point change, 1983-1989	
	55-64	25-54	55-64	25-54	55-64	25-54
Australia	42.1	26.1	29.6	16.4	–12.5	–9.7
Austria	n.a.	n.a.	24.0	15.9	n.a.	n.a.
Belgium	n.a.	81.4		82.5		1.2
Canada	12.9	8.1	10.4	5.5	–2.6	–2.6
Denmark	54.1	44.0	53.7	34.3	-0.4	–9.7
Finland	28.4	25.1		–		–
France	65.9	46.0	65.3	48.5	-0.7	2.4
Germany	50.7	40.8	65.7	47.2	15.0	6.4
Greece	32.0	48.4	35.7	36.2	3.7	–12.2
Ireland	36.8	27.1	64.0	63.7	27.2	36.6
Italy	30.4	62.4	51.6	71.8	21.2	9.4
Japan	–	8.3	33.3	12.8	–	4.5
Netherlands	66.0	57.1	76.7	51.2	10.7	–5.9
Norway		14.3	–	11.1	–	–3.2
Portugal	n.a.	n.a.	33.3	57.1	n.a.	n.a.
Spain	46.6	61.2	62.1	67.9	15.5	6.8
Sweden	30.1	8.6	20.6	4.4	–9.5	–4.2
United Kingdom	55.3	38.0	55.0	28.7	-0.3	–9.3
United States	17.2	11.9	7.0	4.6	–10.2	–7.3

point decline in the unemployment rate of 11.4 for men aged 60-64 over 1980-1990 undoubtedly reflects the policy changes that resulted in many older men being no longer counted in the unemployment register (see below). Other countries where the unemployment rate of men aged 60-64 declined over time, and in relation to that of prime-age males, are Finland and Sweden. In Finland, an actuarially-reduced early pension became available in 1986 for those aged 60. In the case of Sweden, up to 1991 there had been a route out of the labour force for those aged 58 who could remain on unemployment benefit until the age of 60 and then qualify automatically for a disability pension, payable up to the age of 65.

Many older workers enter unemployment via job losses. Survey data for the United States on displaced workers (those with three or more years of tenure with their employer who permanently lost a stable job) show that 14 per cent were aged 55-64[1]. In 1988, 40 per cent of displaced men aged 55-64 (who had lost a job between January 1983 and January 1988) had lost jobs which they had held for 20 or more years [Herz (1990), Table 2].

Table 5.11. Average duration of unemployment in weeks, older age groups and all ages, 1985-1990

		MEN			WOMEN		
		Age 55-59	Age 60-64	All Age	Age 55-59	Age 60-64	All Ages
Australia	1985	93.8	101.6	56.4	69.6	46.3	38.1
	1986	88.9	125.7	58.0	65.2	40.5	36.3
	1987	91.9	122.8	56.6	55.4		37.0
	1988	110.3	95.8	58.6	142.2	58.0	41.8
	1989	74.4	116.0	54.7	124.9	22.3	31.8
	1990	112.3	128.0	49.4	63.2	66.9	36.0
Austria	1989	20.0	24.6	14.4	21.6	20.4	16.0
	1990	27.0	32.7	13.7	23.6	31.0	16.1
		Age 45 and over			Age 45 and over		
Canada	1985	32.2		23.5	25.6		19.7
	1986	30.8		21.5	26.0		18.8
	1987	31.6		22.2	24.6		18.6
	1988	29.1		19.6	22.3		16.8
	1989	28.3		19.0	21.4		16.6
	1990	24.7		17.5	20.4		16.1
Finland	1989	34.0	34.0	18.0	35.0	33.0	17.0
		Age 50 and over			Age 50 and over		
France	1985	22.3		14.5	27.1		17.3
	1986	24.1		16.2	26.9		17.8
	1987	24.6		15.9	24.4		17.2
	1988	24.5		16.0	25.3		17.0
	1989	24.8		16.0	24.4		16.5
Sweden	1985	43.9	21.1	44.7	22.8		
	1986	32.1	18.2	42.0	19.2		
	1987	33.3	34.4	18.3	27.2	49.6	19.1
	1988	31.5	39.3	18.7	32.4	47.5	17.7
	1989	30.3	38.5	17.9	22.2	38.9	15.3
	1990		33.6	15.3		29.0	14.2
United States	1985	27.6	23.5	18.0	18.5	17.8	12.8
	1986	26.7	26.7	17.2	18.6	19.3	12.4
	1987	26.4	21.9	16.7	17.3	18.1	11.8
	1988	25.3	23.4	15.6	17.9	16.0	11.0
	1989	20.9	19.0	13.7	13.6	14.2	9.7
	1990		20.9	13.7		14.1	10.0

a) Sample is too small.

Note: Data are based on labour force surveys except for Austria and Finland where they refer to registered unemployment. The average duration refers to uncompleted duration spells at the time of the observation except for Austria: there, they refer to completed unemployment spells (calculated on the basis of exits from the unemployment register); the data for Austria are therefore not comparable with those of the other countries.

Sources: ***Australia: The Labour Force,*** Australian Bureau of Statistics.
Austria: Arbeitsmarktdaten (annual average), Bundesministerium für Arbeit und Soziales.
Canada: Statistics Canada (annual average).
Finland: Ministry of Labour (annual average).
Norway: Central Statistical Office (annual average).
Sweden: Statistics Sweden (annual average), AKU.
United States: Bureau of Labor Statistics (annual average), Employment ***and*** Earnings.

In the case of older men, in all but three countries – Belgium, Sweden, the United States – the proportion of long-term unemployment increased between 1983 and 1989 (Table 5.10). The increase for older men was either greater in percentage point terms than in the case of prime-age workers, or it increased while the proportion fell for prime-age workers. Exceptions to this are Belgium, France, Ireland, Sweden and the United States. The position was more favourable for older women: although the incidence of long-term unemployment rose sharply in several countries (Germany, Ireland, Italy, the Netherlands, Spain), in about half of the countries in the table, the incidence fell among older women. The decline in the incidence was usually greater than for prime-age workers. These findings about the rise in the incidence of long-term unemployment among older men are striking; while there are reasons why older workers could spend a long time unemployed relative to younger ones, especially if they have skills and work experience in a relatively narrow area of work, some older unemployed leave the labour force (for reasons given above) rather than continue searching for work and this reduces the average duration of unemployment for them.

A study for the United States shows that, for older workers, the spell of joblessness is longer than average [Podgursky and Swaim (1987)]. The average duration of unemployment for older age groups in all countries is higher than the average for all workers (Table 5.11). The relative disparity is highest in the cases of Australia and Sweden. In virtually all countries, the average duration of unemployment is longer for older men than for older women.

ii) Flow out of unemployment

It would be expected that older workers would have a lower than average rate of outflow from unemployment. This is what Table 5.12 shows for 1987188. In most countries, for both men and women, the relative flow out of unemployment is lower for older workers than for the workforce as a whole. It is also to be expected that older workers would have a lower outflow rate from unemployment to employment, compared with other workers. Data presented in previous issues of the Employment Outlook confirm this [OECD (1988) Table 2.141 for France, Italy, Great Britain and the United States (the only countries considered) in the mid-1980s. At any given duration of unemployment, the likelihood of going from unemployment to employment decreases with age, the only exception being the case of Italy for those unemployed over one year. It is evident that older workers, once they become unemployed, have more difficulty than other groups in finding employment in almost all countries.

	Men		Women	
	Age 55 and over	All ages	Age 55 and over	All ages
Australia	5.0	15.3	13.0	22.1
Belgium		2.2		3.1
Canada	21.4	29.9	25.8	31.8
Denmark	3.4	8.4		8.2
France	2.7	6.4	3.1	5.2
Germany	1.0	6.9	2.5	5.6
Greece	10.1	8.5	4.9	3.0
Ireland	2.1	2.4		4.8
Italy	8.8	3.0	0.9	1.7
Japan	8.1	16.4	2.9	18.6
Norway		26.5		33.0
Portugal		4.5	3.1	2.3
Spain	2.4	2.4		0.1
Sweden	10.9	28.9	12.1	31.9
United Kingdom	3.1	7.6	5.4	12.6
United States	30.7	41.2	41.3	51.1

Note: The flow out of unemployment is estimated as the difference between the average level of inflows and the average change in the unemployment stock over one year:
$O = [\{I(88) + I(87)\}/2]*12 - [C(88) - C(87)]/12$
where.
O = outflows
I = monthly inflows (unemployment for less than one month)
C = level of unemployment

Source: OECD data base on unemployment by duration and age group.

iii) Withdrawalfrom the labourforce

The proportion of older (55-64) job-losers who drop out of the labour force in the United States was 31 per cent in the most recent period, January 1985-January 1990. This is significantly higher than that which holds for all workers: 14 per cent in the same period. Among Canadian workers who were permanently laid off in 1981-84 [Akyeampong (1987)], about 41 per cent of the older (55-64) workers had left the labour force by January 1986, compared with 14 per cent of those aged 25-54.

This picture is also consistent with that shown for a limited number of countries – France, Italy, Great Britain, the United States – in the mid-1980s [OECD (1988) Table 2.141. The long-term unemployed aged 45 and over are more likely to leave the labour force than the younger age groups. It is also notable that the proportion of older job-losers not in the labour force is especially high in Belgium, France, Germany, Italy, the Netherlands and the United Kingdom [OECD (1990) Table 2.11. In all of these countries, with the possible exception of the United Kingdom, the incentives for older workers to leave the labour force at the point of job loss have been among the highest in Member countries.

4. Discouraged workers

The standard definition of unemployment excludes from the count those not actively seeking employment. This removes a number of people who want a job and are available for work but who have stopped actively seeking work. Table 5.13 gives estimates of discouraged older workers for selected countries. While the definition of discouragement differs across countries, essentially the discouraged are those who are not seeking employment because of a stated belief that work is not available or because they do not know where to get work. Expressing discouraged workers as a ratio of the unemployed, the general picture is that discouragement is much higher among older people than across all age groups.

Exclusion from the labour force takes on a more "permanent" character for the older age groups. Longitudinal follow-up data on discouraged workers for Australia show that in September 1986 among those aged 45 and over, only 16 per cent of the discouraged had entered the labour force by December: this compares with a corresponding proportion of 28 per cent for those aged 25-44 and one of 48 per cent for those aged 15-24 [OECD (1987) Chapter 6]. Data for the United States for 1984-1985 give similar results – there is a much higher probability that older discouraged workers would remain out of the labour force than other discouraged workers: 86 per cent of the older workers compared with 62 per cent of those aged 25-54 and 45 per cent of those aged 16-24.

Some older workers who become discouraged may feel justified in not seeking work and can regard themselves as "retired". If older workers drop out of the labour force due to discouragement, there is less likelihood that they will re-enter if the labour market improves. This is in contrast to the case of young people, some of whom may have begun a further period of study or training, and who stand ready to enter the labour force and bid for jobs if the job market improves.

Table 5.13. Discouraged workers as a ratio of total unemployed, **1989-1990**

	Men			Women		
	55-59	60-64	All	55-59	60-64	All
Australia[a]	32		8			
Belgium	261	[b]	39	261	[b]	24
Italy	31	92	13	131	184	26
Sweden	55		17	119		23
United Kingdom	11	48	6	32	66	4
United States	26		10	40		14

a) Data for all workers.
b) Sample is too small.
Sources: Eurostat; Statistics Sweden; U.S. Bureau of Labor Statistics; Australian Bureau of Statistics, ***Persons not in the Labour Force Australia***, September 1990

5. Policy changes to benefit systems

i) Early pensions

Increased availability of early pensions can affect the estimates of the numbers unemployed, since surveys are not likely to estimate many beneficiaries of such pensions to be in the labour force. In Austria, Finland and Sweden an explicit early pension programme has been introduced for the long-term unemployed, usually defined to be those out of work for twelve months or more. These pensions have been paid at rates equivalent to the standard retirement pension, with no reduction due to early retirement.

In Austria, unemployed women above 54 years of age and unemployed men above 59 are eligible for pensions at 25 per cent above unemployment benefit. In addition, women aged 55 and men aged 60, unemployed for over a year, are eligible for a pension, paid at the same rate as other pensions.

In Finland an unemployment pension was introduced for the older unemployed (aged 60-64) in 1971, at a time of adverse labour market conditions and job losses in industry. In 1978, when unemployment was very high, the age of eligibility was reduced to 58 and in 1980 to 55. The unemployment pension, equal to the amount of the invalidity pension, is paid to persons in receipt of unemployment benefit for at least 200 days in the previous 60 weeks. There was a rapid increase in the number of persons taking the pension during 1980-1986, from 10 000 awards to nearly 20 000 a year. Between 1986 and 1990, the age of eligibility for award was gradually raised back to 60 years.

In Sweden, between January 1974 and October 1991 (when the scheme was abolished), early retirement benefits could be paid to all unemployed persons aged over 60 who collected benefits from either insurance funds or from KAS (cash benefits for those not entitled to unemployment insurance). This kind of early retirement has usually been called "early retirement based on purely labour market conditions". Formally, the requirement for this benefit was that the person had received unemployment insurance benefits, and hence been registered at the employment office as a job-searcher, for 90 weeks. However, informal agreements about early retirement have often been reached between the firm, the person who is laid off and the officers at the employment offices at the time of the lay-off. Working back 90 weeks from age 60, the age of 58¼ was the point at which, effectively, decisions about early retirement could be taken. Also from mid-1972 up to 1991 it had been possible for those aged 62 and over who had exhausted their entitlements to unemployment benefit (that is after 450 days on benefit) to be classified as fully disabled and to transfer directly to the receipt of a disability benefit.

In addition to these cases where changes occurred since the 1970s, there has been a long-standing programme in Germany, under the public pension scheme: a provision allows the long-term unemployed (under certain conditions) to receive their old age pensions from the age of 60. Under the 1989 German pension reform, early retirement at 60 for the long-term unemployed was abolished, but this change would start only in 2001 and be implemented only gradually, until 2012.

ii) Continuous payment of unemployment benefit

In some countries, changes have meant that unemployment benefit is paid up to the age of entitlement for a "regular" public pension. In these cases, recipients of benefit may be classified as not-in-the-labour force (labour force surveys) and not counted as unemployed, since they are no longer actively seeking work. These unemployment benefit provisions mean that the older unemployed can, in effect, get an early pension.

In the mid-1980s in Germany, the government gradually increased the duration of unemployment compensation payable to the older unemployed – from one year to as much as 32 months for those aged 54 and above. In the Netherlands, unemployment insurance is paid for a period, following which an unemployment allowance is payable for a period of one year. After this, a "needs-based" payment can be made. In 1976, all those reaching the age of 60 and receiving the unemployment allowance were guaranteed a continuing payment of the unemployment allowance until they reach the age of 65. Those aged 57½ or older at the time they become unemployed retain the right to a follow-up benefit until they reach the age of 65. This measure gives some incentive to firms to dismiss workers who have reached the age of 57½, on the basis that the claimant is then on a relatively generous benefit until the age of 65. This measure means that, although the recipients aged 57½ and older are counted from benefit records in the labour force (as unemployed), they are effectively "early retired" and no longer in the labour force.

In the United Kingdom, with effect from November 1981, the long-term Supplementary Benefit rate was extended to unemployed men aged 60 or over who were unemployed for over a year, as long as they ceased to register for work. From May 1983, all unemployed men aged 60 or over were no longer required to be available for employment and became entitled to the long-term rate of Supplementary Benefit. In 1988, Supplementary Benefit was replaced by Income Support, and instead of the former system of short-term and long-term rates, there are personal allowances with benefits depending on age and marital status.

iii) Requirements to register as unemployed

Some countries have relaxed their conditions about the older unemployed registering at unemployment offices. This measure also tends to lead to underestimation of the unemployed as some of the older recipients of unemployment benefits will not be counted as unemployed.

In Australia in 1987 the government introduced the option for older long-term unemployment beneficiaries to report to the Department of Social Security every 12 weeks rather than every two weeks, where this was assessed as appropriate. A further policy change occurred with effect from January 1990: unemployment benefit recipients aged 55 or over have been exempted from the requirement to seek full-time work if they are engaged in or seeking substantial part-time employment. Since 1985, the older unemployed in Belgium no longer need to search actively for work.

Tacitly accepting that the older of the older unemployed are effectively retired, the German government in 1986 lifted the obligation for those aged 58 or over to register themselves as active job-seekers while still retaining their entitlement to unemployment benefits. In the United Kingdom, the requirement to register as unemployed was gradually abolished. At first, from November 1981, those men aged 60 and over who were unemployed for over a year no longer had to register as unemployed. This meant that 37 000 men aged 60 and over were no longer required to sign on in order to receive Supplementary Benefit. From April-August 1983, 162 000 men aged 60 and over were no longer required to attend an Unemployment Benefit Office to receive Income Support or National Insurance credits.

6. Public training and employment services

One of the factors that can affect the extent to which older unemployed workers remain in the labour force, and succeed in obtaining a job, is the efficacy of public training and employment services. In recent years, countries have put greater emphasis on programmes directed at the long-term unemployed, emphasizing counselling and job-finding skills. Older workers have not been well represented in those who receive these services. They also make up a small proportion of those who receive public training services. For instance, in the Restart programme in the United Kingdom, 14 per cent of those given a Restart interview in February 1989 were aged 50 and over (Department of Employment). This is markedly less than the proportion of long-term unemployed who are aged 50 and over: 33 per cent in July 1989[2]. In Sweden, placement rates for unemployed job-seekers (that is, in work or training one month earlier) were 5 per cent for those aged 55 and over in the first quarter of 1990 compared with rates of 42.5 per cent for those aged 18-19 and 29 per cent for those aged 20-24 (Labour Market Administration, Sweden).

7. Conclusions

The unemployment rate of older workers increased in the 1980s. Those aged 55 and over who lost their jobs had more difficulty finding another than their younger counterparts. Furthermore. in the 1980s, there was an increase in the proportion of the older unemployed who were out of work for a year or more.

Older job-losers leave the labour force relatively more than do younger job-losers. One reason is that the older unemployed are more likely to become discouraged in their job-search. Other factors that contribute to their withdrawal are the results of collective bargaining and public policy measures. Moreover, the chances of older workers obtaining a job may depend on a willingness to move, and rates of mobility are relatively low among these workers. These factors suggest that, while the demand for workers falls short of potential supply in other age groups as well, measured unemployment generally understates the degree to which this holds for older workers to a far greater extent.

In some countries, there have been instances where employers take advantage of unemployment pension schemes by declaring job losses among older workers. One such country is Finland, where workers sometimes took advantage of the scheme, as well, by making an agreement with the employer.

Many older job-losers are in an ambiguous position, not easily fitted into the conventional labour market categories. Often they are regarded as not unemployed, for instance from the point of view of benefit administration and employment services. Yet they may not regard themselves as being retired. The policy response, observed in many countries, to encourage older job-losers to leave the labour force, is at odds with the stance of active labour market policy and would suggest a lack of coherence. Social security benefits and early retirement programmes have facilitated exit from the labour force while active labour market policy aims at encouraging labour force participation. Moreover, older job-losers have benefited relatively little from public employment services.

D. EARLY RETIREMENT

1. Introduction

Over the last 20 years people have been retiring at ever earlier ages. The "standard" age of retirement, i.e. that age at which "full" entitlement to public pensions occurs, has been lowered in many OECD Member countries. Also, there has been a decline in the average age at which individuals receive their first pension payment or retirement benefit. This reflects an increased take-up of schemes facilitating retirement prior to the "standard" age. This section examines these developments and assesses the roles played by both public and private sector policies in the move towards earlier retirement.

2. Public policy towards retirement

Public retirement policy has been pursued along three avenues: *i)* provision of a state pension, *ii)* "early" retirement schemes, and *iii)* special schemes. Public pension provision has been the main source of income for the retired, but over the last decade public pre-standard age schemes have been expanded in both type and number of beneficiaries. The special schemes have usually been of two types: *a)* extensions of existing arrangements designed to support older workers prior to their obtaining a state pension, and *b)* policies explicitly linked to labour market conditions.

Changes have occurred in each avenue of public retirement policy over the last 20 years. There have been three discernible lines of development. First, the standard age of entitlement to a state pension has declined in some OECD countries. Second, there has been an increase in the number of schemes available under which older workers can move into retirement. Third, there have been amendments to and relaxation of schemes already in place. These developments are now examined in greater detail.

The standard age of retirement is an important part of public retirement policy, affecting the ages at which "early" and "late" retirement options become available as well as influencing private pension arrangements and firms' mandatory retirement practices. Any alteration in the standard age can be expected to have a significant impact upon the retirement behaviour of an economy. In the last 30 years, at least eight OECD countries have lowered their standard age of retirement.

The United States reduced the age of entitlement from 65 to 62 for women in 1956 and for men in 1961. In 1965, Canada began a gradual reduction process, which brought the age eventually down to 65 for both sexes. Between 1976 and 1983 a series of measures enabled all French wage and salary workers, and most of the self-employed, to retire at age 60 on full pension subject to contribution conditions. The other countries to introduce reductions were Ireland, Germany, New Zealand, Norway, and Sweden. Reductions were introduced to spread the benefits of welfare gains more evenly among the population, as occurred in Canada and Germany, or were motivated by labour market conditions as was the case for the Swedish reduction from 67 to 65 in 1976.

Legislation that will increase the standard age has been recently enacted in the United States. The 1983 Social Security amendments which will take effect in 2000 will raise the age of full entitlement from 62 at present, by two months per year until it reaches 66. This is to be followed by several years of no increase, and then a further period of increases gradually taking the age of entitlement to 67. In Japan amendments aimed at raising gradually the female age of entitlement are under way, while Spain has increased the number of years of insurance required to qualify for a pension.

Table 5.14. **Number** of **beneficiaries of selected early retirement pensions, 1970-1990**

Thousands

	Programme	Number of persons	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Austria	Long-service pension				68	78	90	99	105	105	103	101	103	102	
		As % of population 55-64			9.3	10.2	11.3	12.0	12.4	12.3	12.2	12.1	12.6	12.1	
	Unemployment pension				7	9	10	12	13	12	12	12	13	14	
Belgium[a]	Early retirement				74.8			126.3			149.5			172.9	
		As % of population 55-64			7.4			11.3			12.9			14.9	
Canada	Actuarially-reduced pension											123.3	183.6	209.5	232.2
		As % of population 60-64										10.9	16.1	18.3	20.3
Denmark	Voluntary early retirement							76.3	77.8	77.7	78.4	77.7	78.6	80.0	80.5
		As % of population 55-64						8.5	8.7	8.7	8.8	8.8	8.9	9.1	9.1
	Partial pension											3.8	3.8	6.0	6.1
		As % of population 60-66										1.0	1.1	1.7	1.8
	Early retirement pay				56.7	63.5	78.1	81.6	90.8	96.9	100.6	98.5	99.3	97.6	98.5
		As % of population 60-66			15.9	17.5	21.5	22.4	24.8	26.4	27.5	27.0	27.9	27.9	28.5
Finland	Unemployment			1.3	14.8	18.7	24.4	34.3	45.5	54.0	66.3	69.3	67.8	62.8	55.5
		As % of population at the corresponding age		0.6	3.1	3.9	5.0	6.9	8.9	10.5	12.8	14.8	16.3	17.3	17.9
	Arduous occupations early pension										8.8	17.6	23.7	31.9	43.3
		As % of population 60-64									1.7	2.4	4.6	6.2	8.5
	Actuarially-reduced early pension										6.8	8.8	9.7	11.6	11.2
		As % of population 60-64									2.7	3.5	3.8	4.1	4.3
France	Early retirement[b]					11.6	53.4	222.3	265.6	263.8	250.2	223.3	203.8	199.6	
		As % of population 55-59				0.4	1.8	7.3	8.7	8.6	8.2	7.3	6.6	6.5	
Germany	Flexible retirement at 63			8	18	18		18	18	19	19	20	20	20	21
		As % of population 60-64		0.2	0.8	0.7		0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
	Unemployment pension at 60		3	4	6	6		7	7	8	8	9	10	11	
Ireland	Pre-retirement scheme														5
Netherlands	Early retirement (VUT)				20					61		87			
		As % of population 60-64			3.4					9.0		12.9			
Spain	Actuarially-reduced pension														250.0
		As % of population 60-64													12.5
Sweden	Early retirement under labour market condition				6	6	6	8	12	16	17	16	15	13	12
		As % of population 60-64			1.3	1.2	1.2	1.6	2.4	3.3	3.6	3.5	3.4	3.0	
	Actuarially-reduced early pension		5	4	13	15	16	18	18	17	16	15	13	12	
		As % of population 60-64	1.1	0.8	2.7	3.1	3.2	3.6	3.6	3.5	3.4	3.3	2.9	2.7	

	Part-time pension			15[c]	68	65	62	**55**	47	38	32	36	38	39	38
		As % of population 60-64		3.2	14.1	13.4	12.7	11.2	9.4	7.8	6.8	7.9	8.6	9.0	8.7
United Kingdom	Job Release Scheme				62	54	77	88	87	60	30	20	10		
		As % of population 60-64			2.2	1.8	2.5	2.8	2.7	1.9	1.0	0.7	0.3		
United States	Early retirement[d]		1228	1728	2013	2 112	2226	2321	2 397	2456	2494	2 533	2590	2 519	2471
		As % ofpopulation 60-64	14.2	18.4	19.8	20.4	21.0	21.7	22.0	22.3	22.8	23.2	23.7	23.0	22.6

Notes: Data relate to the end of the year except the following cases: Belgium where, except for **1989,** the data refer to June; France where **1985** data refer to July; Germany where for **1970,1980,1981,** the data refer to January of the following year, and where for other years the data refer to July; United Kingdom where data for **1975, 1980-1982** refer **to** April, data for **1983** to September, data for **1984** and **1985** to March. In most cases, rates **as** a percentage of population **are** worked out from population data in OECD data base. For the **1990** calculations, **1989** population data are used For Spain and the United States, **1988** population data are **used** for **1989** and **1990.** For Germany, **1987** population data **are** used for subsequent years.

a) Pre-retirement pensions ***(prépensions)*** plus unemployment pensions.

b) Schemes which cover those aged **55-59:** special allowances ***(allocations spéciales FNE*)**, solidarity contracts ***(contrats de solidarité*)** and early retirement ***(préretraite progressive).***

c) **1916.**

d) Retired workers aged **62-64** receiving Social Security benefits in December of each year.

Sources: Information from Departments in respective countries; Economic Commission for Europe **(1986);** U.S. Department of Health and Human Services, Social ***Security Bulletin: Annual Statistical Supplement, 1991,*** Table 5.B8; National Social Insurance Board, ***Social Insurance Statistics Facts 1985,*** p. **59,** and ***ditto 1991,*** p. **63,** Stockholm; Ministry of Social Affairs and Employment, ***Vervroegde Uittreding*** in ***CAO's,*** The Hague, **1990;** ***Employment Gazette,*** London, HMSO.

Currently, the age of eligibility in most countries is **65** for men, although it is **60** in France, Italy, Japan, and New Zealand; **66** in Ireland, and **67** in Denmark, Iceland, and Norway. In nine countries the age of eligibility is set earlier, usually by five years, for women than for men (Australia, Austria, Belgium, Greece, Italy, Japan, Portugal, Switzerland, and the United Kingdom).

While the standard age has declined, the take-up **of** programmes enabling pre-standard age retirement, i.e. the number of beneficiaries enrolled in these schemes, has increased. This led to a further increase in the number of "early" retirees. As Table **5.14** shows, public programmes for pre-standard age retirement have absorbed larger numbers of the older workforce during the **1980s.** In Finland, coverage was over 50 per cent of their target **55** to **64** age group by the late **1980s.** Countries such **as** Canada, Denmark, Germany, and the United States experienced a **10** percentage point increase in take-up.

Where the take-up of schemes designed to facilitate retirement prior to the standard age has been high, the average age of individuals when they receive their first pension payment has been lower than the standard age. In Austria the average age of first receipt for men was **62** in **1989,** in Canada was **63** in **1990,** in Germany was **63** in **1990,** in the United States was **63%** in **1990.** Tracy and Adams **(1989)** have found large increases over time in the receipt of pensions prior to the standard age.

Turning to the second area of policy development, OECD countries have introduced new policies leading **to** retirement for two main reasons. The first is to spread the benefits of economic growth to a wider community, and to enhance individual freedom and labour market flexibility. These objectives lie behind the introduction of reduced early pensions, early pensions with no reduction, and pensions for long service. The second reason is to tackle specific labour market problems as they arise. For example, governments have frequently resorted to encouraging older workers to exit from the labour force in times of high unemployment.

In some countries, normal pensions can be obtained on a reduced basis often up to five-years before the standard age. The degree of reduction varies between countries, but can be **as** high **as** 50 per cent across the five-year period. The Finnish scheme, introduced in **1986,** has a pension reduction rate of 0.5 per cent per month of early take-up, i.e. **6** per cent per annum. This is the same rate **as** in the Swedish system. In Canada, flexible retirement was introduced under the Canada Pension Plan with effect from January **1987.** The provision allowed for retirement to commence any time between the ages of **60** and 70 on an actuarially-adjusted basis. The rate of reduction is the same **as** that in Finland. In Spain the reduction rate is **8** per cent a year, and for the United States scheme it is currently **6.67** per cent per annum.

The most recent introduction of an actuarially-reduced early pension scheme is that **of** Germany. Previously it had been impossible to take an early pension, but from **2001** the German people will be able to draw a pension three years early, with a **3.6** per cent annual reduction rate, following legislation in **1989.**

Some policy changes mean that it is now possible for at least some workers to retire earlier without suffering any reduction in pension. The most straightforward of these schemes are those associated with long service. In Austria, Belgium, Germany, Greece, Italy, and Luxembourg pension is available at the full rate once a given number of years of full-time service (generally above **30)** have accrued to an individual. In Germany, since **1973,** after **35** years of service one can take full pension at **63** rather than **65.**

Two schemes exist in Denmark, an early pension (anticipatory pension) for persons over 50 who are in bad health or for whom social factors such as permanent need of support apply. Also in **1979** a voluntary early retirement scheme was introduced. This is available only to those covered by unemployment insurance and transition to the scheme can occur both from employment and unemployment. Benefit is equal to the amount of unemployment benefit the recipient would have been entitled to in the event of unemployment. This is payable for a maximum of **2.5** years and then benefit falls to **80** per cent of this sum. In **1972** France introduced a ***garantie de ressources*** to all those aged **60-64** who left the labour force voluntarily, a provision which allowed firms to avoid some of the legal restrictions governing redundancies. This was followed by a similar scheme which lasted until the pension age was lowered in **1983.**

Retirement policies with specific labour market conditions are not intended to smooth older workers' withdrawal from the labour market but rather to reduce the size of the labour force and ***to*** encourage the replacement of older workers by the younger unemployed. The first schemes **of** this nature were introduced in Belgium and the United Kingdom, in **1976** and **1977** respectively. The Belgian scheme applied to workers five years before the standard retirement age. Employers had to replace the individual moving to an early pension with a worker aged under **30,** who had to stay with that firm for at least one year. In **1983,** the scheme was replaced with one where the retiree could be replaced by any other worker. The Job Release Scheme in the United Kingdom was very similar in nature, but was originally only available to those workers within one year of pensionable age, later extended to within three years for men.

France introduced ***contrats de solidarité*** in **1982,** targeting the **55** to 59 age group. Those retiring under these schemes obtained financial support until a full pension was obtainable. Their jobs were to be filled with someone from the unemployment register. Most of these schemes remained in place until **1988.** In **1984** Germany introduced a special early retirement programme which was in place until **1988.** It permitted early retirement from age **58,** with employees retaining their Contributor status in the social security system and entitled to a pre-

Table 5.15. **Main early retirement programmes in selected countries (excluding part-time pensions) from late 1970s**

	Normal	Early	Programme	Main features
Austria	65 M 60 F	60 M 55 F	Long service (1961)	For 35 years of service; unreduced pension.
			Unemployment (1974)	For older long-term unemployed (at least 52 weeks over previous 15 months), old-age pension before pensionable age.
Belgium	65 M 60 F	60 M 60 F	Actuarially-reduced pension (1957)	Benefits reduced by 5 per cent for each year of early award.
		60 M 55 F	Early retirement with replacement condition (1976-1982)	Pension (value of unemployment benefit supplemented) to men and women who voluntarily retired; obligation on employer to replace the retired worker with someone aged under 30, who had to work for at least a year.
			Early retirement with replacement condition (1983)	Pension (equal to the normal pension) to men who voluntarily retired if employer replaced the worker with unemployed younger person.
		60 M 55 F	Unemployment (1978-1982)	Unreduced pension for those unemployed for over a year.
		64 M	Long service	In salaried employment for 45 years or in hard and dirty work.
Canada	65	60	Actuarially-reduced pension (1987)	Benefit reduction of 0.5 per cent per month.
		60	Voluntary early retirement (1979)	Benefit equal to unemployment benefit.
Denmark	67 M 67 F	60 M 60 F	"Anticipatory" pension (1984)	Early pension if earnings capacity is reduced by at least 50 per cent because of ill health and social factors, or social factors alone.
			Voluntary early retirement (1984)	For persons in arduous occupations.
		60	Voluntary early retirement (1979)	Benefit equal to unemployment benefit.
Finland	65 M 65 F 63[a]	60 M 60 F	Unemployment (1971-1978) (1990-...)	Pension for long-term unemployed.
		55 M 55 F	Unemployment (1978-1985)	Pension for long-term unemployed, equal to amount of invalidity pension.
		56-59 M 56-59 F	Unemployment (1986-1989)	
		60 M 60 F 58[a]	Actuarially-reduced early pension (1986)	Benefit reduced by 0.5 per cent per month.
		55 M 55 F	Arduous occupations (1986)	For those not able to continue working in their current job due to disability, including people not disabled enough to qualify for invalidity benefits.
France	60[b]	60	Actuarially-reduced early pension (up to 1983)	Pension reduced by 5 per cent a year.
		60	Early pension (1983-...)	Actuarial reduction only for workers with less than 37.5 years of coverage.
		60	Garantie de ressowces (1972-1977)	Level of benefit higher than regular unemployment benefit for those becoming involuntarily unemployed.
		60	Garantie de ressources (1977-1983)	Payment to those who voluntarily retire.
		55	Contracts de solidarité (1982-1983)	Workers redundant for economic reasons, with replacement of those retiring by new recruitment.
		55	Contracts de solidaritb (1983-1988)	Pension of 65 per cent of gross earnings; replacement with youth or unemployed hired for 2 years.
		55	Allocations spéciales FNE (1979-...)	Applies to employees made redundant; replacement rate of 65 per cent of the previous gross wage below the social security ceiling and 50 per cent above the ceiling.

Table 5.15. Main early retirement programmes in selected countries (excluding part-time pensions) from late 1970s *(continued)*

	Normal	Early	Programme	Main features
Germany	65	63	Long service (1973)	35 years of insurance contributions.
		60	Unemployment	15 years contributions and unemployed 52 weeks.
		58	"Pre-retirement" (1984-1988)	Early pension if the firm replaced the worker with an unemployed or younger person; based on collective agreements.
Netherlands	65	57½	Unemployment	Unemployment benefit paid until aged 65.
Spain	65	60	Actuarially-reduced pension	Benefits reduced by 8 per cent for each year of early award.
Sweden	65	60	Actuarially-reduced pension	Pension reduced by 6 per cent per annum for award prior to age 65.
		60	Early retirement (1972)	Maximum unemployment benefit paid.
		60	Unemployment (1974)	
United Kingdom	65 M	62-64 M[c]	Job Release (1977-1988)	Replacement with someone from unemployment register.
	60 F	59 F		
United States	65[d]	62	Actuarially-reduced pension	Benefits reduced 5/9 of 1 per cent each month prior to normal age.

M = Male; F = Female
a) In the public sector.
b) 65 up to 1982.
c) 60 M if disabled.
d) In 1983 eligibility for full benefits was raised from 65 to 67 to be phased in gradually between 2002 and 2027.

retirement allowance of at least 65 per cent of previous earnings. Employers recruiting an unemployed person to fill the created vacancy received a subsidy of 35 per cent of the costs of paying the allowance.

Denmark, Finland and Sweden also introduced schemes of this nature, during the mid-1980s, but detailed replacement conditions were not specified. The intention of the Danish scheme was to reduce some of the labour market pressure by taking some older workers out of employment, leaving market forces to redistribute jobs. In Sweden and Finland, originally social considerations motivated the policy, attempting to grant the elderly unemployed a decent living. However in the 1980s the intention changed in Finland to something nearer that of Denmark. Further details on the introduction of new policies are presented in Table 5.15.

The final line of policy development has been the adaptation and amendment of existing benefit arrangements to encourage retirement. In almost all OECD countries, eligibility conditions for invalidity benefit have been adjusted to allow for movement into retirement. This is especially true in schemes where labour market conditions are allowed to influence the award decision. Similar alterations to the unemployment system have occurred in many countries. These changes allowed unemployment to become a retirement route. Details of these schemes are discussed at greater length in Sections C and E.

Policy differences clearly can explain some of the rise in retirement, and account for the diversity in international experiences. However, even where policy changes in two countries have been identical in form, differences in content and in implementation practices will influence the schemes' impact. A particular example of this is the degree to which retiring older workers were replaced by younger employees, in schemes with a labour market condition. While the solidarity contracts in France achieved a 95 per cent success rate in filling those jobs vacated by older workers on the scheme, the United Kingdom Job Release Scheme, almost identical in form, reached 70 to 75 per cent rates, similar to those achieved in Denmark. Schemes in other countries achieved lower rates: Belgium, 67 per cent; Finland, 45 per cent; and Sweden, 50 per cent. The lower the employee replacement element of a programme, the more the scheme was acting as an ordinary retirement package.

Variations in the income replacement rates of schemes, i.e. the benefit or pension income as a percentage of previous net income, can help explain differences in take-up. The incentive for individuals to use a particular scheme to retire will depend greatly on the level of benefit associated with it. As Table 5.16 demonstrates, replacement rates for early retirement schemes vary dramatically between countries. The average for continental-European schemes is approximately 75 per cent while the United Kingdom at 27-42 per cent has the lowest rate,

Table 5.16. Replacement rates of early retirement schemes in selected countries, 1989

Country and scheme	Percentage of net income (after direct taxes) of retiree that is replaced[a]
Austria	
Long service	69
Unemployment	69
Belgium	
Early pension at age 60 (actuarially-reduced)	57
Canada	
Early pension at age 60:	
* Without earnings-related pension	42
* With earnings-related pension	62
* Unemployment pension	51
Denmark	
Single man	73
Single woman	89
Married man with 2 children (6 and 9 years), wife working	76
Finland	
Single man	68
Single women	73
Married man with 2 children (6 and 9 years), wife working	81
Germany	
Long service	70
Unemployment	70
Iceland	
Single man	69
Single woman	89
Married man with 2 children (6 and 9 years), wife working	89
Netherlands	
Unemployment pension	100
Norway	
Single man	72
Single woman	73
Married man with 2 children (6 and 9 years), wife working	78
Sweden	
Single man	73
Single woman	75
Married man with 2 children (6 and 9 years), wife working	77
United Kingdom	
Income Support – single person	21
– couple	42
united states	
Retired worker claiming Social Security at age 62	43

a) No accounmt is taken of direct taxes on benefits.

Austria: Maximum benefit is 79.5% of E where E are average gross earnings in previous 10 years. The assumption is made of an average annual increase of 7.5% a year in nominal income over this period. This implies a gross replacement rate of: 0.795 x 69.6%. The ratio of net to gross income is taken from the tax/benefit position of a one-earner couple with average earnings of production workers in manufacturing in 1989: the ratio is 80.1%.

Belgium: The "ordinary" full pension for a married man with a spouse is: 0.75 x 1/45 x gross earnings in each year with indexation according to consumer price index and taking account of developments in real wages above the index. Assumption is made of 30 years of earnings. Ratio of net earnings to gross earnings comes from average production worker (APW) calculations for a one-earner couple and is 65.3% in 1990. Early pension equals 75% of full pension. Hence, the early pension is:

$$0.75 \times \left| 0.75 \times \frac{30}{45} \right| \text{x average annual earnings over reference period.}$$

For ease of calculation, the average annual earnings is taken to be the gross earnings of the APW in 1989.

Canada: Actuarially-reduced pension at age 60 is 70% of full pension. Full pension amounts to: universal pension (of up to $323.28 a month) plus income-tested supplement, the sum total of which reaches, at maximum, $1 147.20 per month for a couple, or $13 766.40 per annum.

In addition, an earnings-related pension (Canada Pension Plan) can be obtained, with a maximum pension of $556.25 a month (or $6 675.00 a year). Thus the total pension in this instance is $20 441.40 per annum. The net income of the APW in 1989 (one-earner couple with two children) is $23 214. Unemployment benefit pension is 60% of previous average insured earnings. The gross earnings of an APW in 1989 are taken, together with the ratio of net to gross earnings (85.4%).

Denmark: Source: Nordic Statistical Secretariat, ***Social Security in the Nordic Countries,*** Copenhagen, 1990.

Finland: Source: as for Denmark.

Germany; Pension equals: 0.15 x 30 (assumed number of years insured) x DM 30 709 basic income (for 1988) x ratio of individual earnings to that basic income. Those individual earnings are taken to be those of APW in 1989 DM 43 306: this means the ratio is 1.41. Thus, pension is DM 19 485. Net income of APW is DM 27 699.

Iceland: Source: as for Denmark

The Netherlands: Benefit is 70% of earnings up to Gld 263 a day. Ratio of net to gross earnings for APW is 65%.

Norway: Source: as for Denmark.

Sweden: Source: as for Denmark.

United Kingdom: The Income Support rate paid to unemployed people who withdraw from the count is used. Source for tbe rates of Income Support at April 1989 Deparment of Social Security, ***Social Security Statistics 1990,*** HMSO, 1991, Tables A2.01, A2.02. Net income of APW is €8 812 a year.

United States: Worker is assumed to claim Social Security at earliest possible age of 62. No other earnings assumed, so earnings-test does not arise. Illustrative benefits for worker with yearly earnings equal to average wage, where retired worker claims benefits at age 62, are $576.00 per month ***(Social Security Bulletin: Annual Statistical Supplement,*** 1989, Table **2.A15).** The average annual wage for this calculation is $19 334.04 in 1988 (same volume, Table 2.A6). The average gross earnings for the APW in the same year are $21 463. The Social Security received is increased by the factor (21 643/ 19 334) that is by 1.12. This yields ***$645*** a month or $7 740 p.a. The net after-tax earnings of the APW for 1989 are $17 986 this yields the replacement rate.

Source: OECD, ***The Tax/Benefit Position*** of ***Production Workers 1986-1989,*** OECD, 1990.

followed by Canada and the United States with over **40** per cent. The Netherlands has the highest replacement rate.

Given that many of these programmes were developed during a period of rising unemployment, it is hard to distinguish between cause and effect. To what degree did policies respond to circumstances in legitimising a rise in early exit from the labour force, reflecting high unemployment, and to what extent did they help to foster the increase? This question is very difficult to answer. Policies with specific labour market conditions led to an increase in the number of early retirees. However, in the absence of such schemes, a number of individuals might have moved into unemployment, disability or other programmes without their withdrawal from the labour market being labelled as retirement.

Many of the developments outlined above run counter to the pursuit of active labour market policy. Rather than enabling older workers to stay in contact with the labour market, policy has encouraged separation and permanent exit. Some countries have responded to this by developing partial pensions, i.e., pensions designed specifically for those moving into part-time employment at the end of their working life. This is an attempt to keep older workers active and retain flexibility in the labour market.

The first such programme was established in Sweden in **1976.** The earliest age at which workers could enrol was ***60,*** five years before the standard age of retirement. The programme allowed for a reduction **of** at least five working hours a week, with an established minimum of **17** hours of work per week. Individuals were compensated at the rate of **65** per cent of lost earnings. Due to the popularity of this scheme (see Table **5.14)** the replacement rate was cut to **50** per cent in **1981** reducing the level of take-up, but was restored in **1987** to its former rate. The scheme is currently under review. Similar schemes were instituted in both Denmark and Finland, but not until **1987.** Details of these schemes are shown in Table **5.17.** In some countries there are part-time programmes on condition that workers are hired as replacements (Table **5.18).** Replacement rates for the partial pension schemes have been deliberately set slightly higher than those for the early retirement programmes; both are available in these countries. Hence, there is an incentive at the margin for older workers to take partial retirement, thereby enhancing the flexibility of the labour market.

3. Private policy towards retirement

Two areas of employer policy impact upon early retirement: the provison **of** occupational pensions and severance pay, and the desired age profile of the workforce. Policies in these areas have evolved with reference to public policy; sometimes they are designed explicitly to complement public programmes, e.g. lasting until eligibility allows older people to transfer on to a public scheme. Private schemes may compensate for areas of weakness in public policy such as low replacement rates or narrow scope **of** coverage, withdrawing when public provision improves. Labour market conditions have an important influence on firms' attitudes to retirement. In periods of workforce reduction, firms often use enhanced retirement benefits to induce voluntary quitting.

The importance of occupational pension provision for labour market incentives *vis-d-vis* state schemes is associated with the degree of post-retirement income that individual workers are liable to obtain from this source. For countries with low replacement rates under state schemes, such as the United Kingdom and the United States (see Table **5.16),** occupational plans can become an important source of retirement income for many people. Therefore, the incentives associated with such schemes may have as profound an impact on an individual's retirement decision as public schemes would

Table 5.17. **Part-time early retirement programmes**

	"Standard" age of retirement	"Early" age and date of introduction	Hours worked	Benefits
Denmark	**67**	**60-67 January 1987**	**15-30**	**A fraction of the highest rate of allowance paid for unemployment, sickness and maternity, and proportional to the reduction in working hours.**
Finland	**65**	**60-65 January 1987**	**16-28**	**Replaces 44-64 % of** gross **earnings lost, depending** on **age; higher level of compensation when close to retirement age.**
Sweden	**65**	**60-65 January 1976**	**Minimum 17; Maximum 5 hrs less than** normal **full-time work week.**	**65 % of** last ***gross*** **earnings.**

Sources: **Submission by national authorities.**

Table 5.18. Part-time early retirement programmes with a replacement condition

	"Standard" *age* of retirement	"Early" age and date of introduction	Hours worked	Benefits	Subsidy to employer
France	60	55 January 1982	Reduction of 50 % of normal hours.	30 % of previous gross salary.	None.
Germany	65	58-65 January 1989	50 % reduction of working time, minimum of 18 hours.	70 % of previous net wage.	25 % of the new net wage, refund of social security contribution plus supplementary pension contribution following replacement by registered unemployed (*note:* replacement is not obligatory).
Spain	65	62-64 August 1984	50 %	Half State pension.	50 % reduction in social security contributions if the person recruited as replacement is retained after full retirement of the partial pensioner.
United Kingdom	65 Men 60 Women	62-65 Men 60-65 Men (disabled) 59-60 Women Oct. 1983/May 1986	16-29	Flat-rate benefit, equivalent to up to100 %wage replacement for the low paid. Four rates of payment, according to spouse's income and disability.	From April 1985, grant of £840.

Sources: Submission by national authorities.

in other countries. Due to the longer period of provision and the availability of micro-data sets, much of the evidence on employer pension schemes comes from the United States.

In a series of studies of individual employer benefit plans, Fields and Mitchell **(1984*a*, 1984*b*, 1984*c*)**, Mitchell and Fields **(1984, 1985)**, Kotlikoff and Wise (1989), and Quinn ***et al.*** **(1990)** were able to identify precisely the incentives associated with each pension plan, and the optimal moment for individuals to take retirement. Their studies showed that pattern plans where the annual benefit is a function of years of service were generally structured to encourage retirement before the standard age of the public programme. By contrast, conventional plans which use both years of service and final wage in determining initial benefits encouraged work until age 65, i.e. three years after the standard age.

A further finding of these studies is that over time. incentives associated with private plans changed dramatically, responding to developments in public provision. Moreover, Mitchell and Luzadis **(1988)** and Kotlikoff and Wise **(1989)** found that workers responded to changes in the pension incentives and adjusted their departure dates accordingly, even though the benefits were very difficult to calculate. The true incentives of private schemes can be determined only when their interaction with public schemes is taken into account. Therefore, public policy has a significant impact on retirement behaviour even when the replacement rates associated with such schemes may be relatively low.

Even without cyclical downturns in employment, firms may perceive an advantage in encouraging older workers to retire at a particular point in their career. This is related to age-earnings profiles: earnings generally increase up until a fixed retirement age. One explanation for this is that a rising profile is necessary to maintain worker effort throughout the life-cycle of attachment to the firm; without mandatory retirement such a policy would become overly expensive with regard to older workers and provide little incentive for them to work at full capacity.

When faced with worsening economic conditions and a need to reduce the workforce, firms have shown a tendency to target older workers disproportionately. Where tax-favoured pension funds are available, compensation payments in the form of supplementary pensions will be less costly to the firm than compensation to younger workers. Moreover, whenever there are a number of sources of income support for older workers who leave the labour force (typically lasting up to the age of standard retirement, such as pensions directed at unemployed older workers in some countries), firms and trade unions can agree that the bulk of job losses will be borne by older workers. This way of managing job losses can be seen as the least contentious, and most socially acceptable. Long-term income support for older workers is far more assured than that available to younger workers, in terms of generosity and the length of time over which benefits can be received.

4. Conclusions

The trend towards earlier retirement has reflected responses by individuals and firms to a mixture of public and private incentives. The former have become available through adjustments to the standard age of public pension schemes, as well as through relaxations in other public transfer payments. The latter have taken the form of incentives through occupational pension schemes and severance pay. There has been an interaction between the public and the private incentives. Firms have followed changes in the public schemes, and have structured their schemes to complement the public ones.

Special early retirement schemes and the other transfer payments have had unintended consequences; they have contributed to a widespread move towards earlier retirement, and have influenced the standard age of retirement. Moreover, the schemes have been difficult to reverse. In some instances they were introduced as a reaction to a short-term crisis, especially increased unemployment, but it has been difficult to contain the schemes to a one-off set of incentives, applicable to a particular cohort of older workers. Expectations about the appropriate age of retirement have been influenced and early retirement has, in many countries, become institutionalised.

Certain public and private schemes have provided workers with an incentive to leave the labour force in an abrupt manner. Publicly funded early retirement programmes often stipulate complete withdrawal from the labour force. Earnings tests under public pensions act as a disincentive to work, and severance payments and private pensions require the recipient to quit the firm. The preference of some older workers to disengage gradually from the labour force cannot be met, consequently labour market flexibility is reduced.

An extreme example of the wastage of labour resources fostered by public policy has been the development of benefits with replacement conditions. Such schemes encourage older workers to leave employment and move into retirement at an earlier age than they may otherwise choose, their jobs being made available to younger members of the labour force.

At times of cyclical downturns, firms have tended to target older workers for job losses and have used the mixture of public and private incentives in order to achieve their objectives. To a degree, the costs of adjustment to changes in demand has shifted from firms to the State.

These are far-reaching developments. Extending extra pension wealth to individuals affects the arrangements that they and firms make, leading to a spectrum of reasons for early withdrawal that extends from purely voluntary retirement to forced retirement. General entitlements to early retirement, initially designed to tackle unemployment or to provide income support for those who would have lost their job involuntarily, become impossible to confine. The element that made pension entitlements an attractive policy in the first place – their unconditionality – undermines their viability due to poor targeting. Yet so often it is precisely the objective of ensuring adequate income to involuntarily unemployed older workers that brought such measures into being.

E. INVALIDITY BENEFITS

1. Introduction

This section is concerned with the structure of invalidity benefits and the extent to which they have provided a path out of the labour force for older workers. These benefits have an impact on workers of all ages. However, for a number of reasons, they can be expected to have a particular impact on older workers. First, a higher proportion of older workers than those of prime-age can be expected to be physically disabled. Second, in some cases, invalidity benefits have been payable subject to labour market conditions about the chances of finding a job, which apply especially to older workers. Moreover, in some instances, special invalidity benefits have applied solely to older workers. Third, depending on the relationship between wage rates and productivity, firms could take advantage of the existence of invalidity benefits in order to encourage their less productive older workers to leave – and in the process, shift the costs of adjustment from the firms to the State.

2. Structure of invalidity benefits

The invalidity benefits discussed here are provisions that relate to non-occupational disability, or invalidity, the term that is commonly used in Europe. The main requirements which must be met for the receipt of invalidity benefits are the loss of productive capacity and a minimum period of work or of contributions. The benefits are usually linked with the old-age and survivors programmes.

Usually, a full invalidity benefit is given where there is a two-thirds loss of working capacity in the customary occupation of the worker. Sometimes, this requirement can be one-third, one-half, or 100 per cent. Definitions of partial disability differ greatly across countries. The stiffest provisions are in Denmark, France and Japan, and in the United States where loss of two-thirds or more of earning capacity is required. If partial disability benefits are payable, they are usually reduced, as a percentage of average earnings, according to a fixed scale.

The qualifying period which is required under social insurance for an invalidity benefit is usually shorter than for an old-age pension. Often periods of 3-5 years of contributions or insured employment are required. In most countries, the benefits are very similar to the pensions for the elderly. Usually the formula for payment is the same: a cash amount which is often a percentage of average earnings. The structure of invalidity benefit is most complex, more than that of any other social security programme. This complexity reflects the variations in the possible percentages of full disability and the different levels of benefit that are paid for the varying degrees of disability, together with other benefit rules (for example, on supplementary payments to cover dependants and means-tested or special assistance provision).

In some countries there is a link between sickness benefits and invalidity benefits. In these countries, sickness benefits (effectively temporary invalidity benefits) can be paid either until full recovery or until a permanent disability rating has been determined, or else for quite a lengthy maximum period. Examples of such a lengthy period are Germany and the Netherlands. Currently in the United Kingdom, invalidity benefit is payable only after the claimant has spent seven months on sick pay or benefit. In Australia the potential overlap between sickness beneficiaries and other beneficiaries has been evident because over time there has been a trend towards longer duration on sickness benefit, raising the possibility that a proportion of the long-term recipients might more appropriately receive invalidity benefit [Cass, Gibson and Tito (1988)].

3. Rates of benefit

In the 1970s in many Member countries, the disability pension programmes expanded in terms of increased benefits and a broadening in the definition of eligibility. Table 5.19 shows the current replacement rates (benefits as a proportion of gross earnings) available under invalidity pensions in selected Member countries. The highest replacement rates are in the Netherlands, at 70 per cent, and in the United States, at *68* per cent. However, unlike in the Netherlands, the replacement rate in the United States differs according to income level; there is a degree of redistribution achieved with the replacement rate increasing as the income falls (as shown in Table 5.19).

Below, the incentives to switch between unemployment compensation and disability benefits are considered. It should also be noted that in some instances there may be an incentive for workers to stay on invalidity benefit rather than to claim the state pension. In the specific case of the United Kingdom, invalidity benefit continues to be payable for five years after the state pension age (65 for men, 60 for women). Invalidity benefit is not taxable while the public pension is, hence there may be an incentive to stay on invalidity benefit for the maximum possible period.

4. Benefits linked to labour market conditions

In a number of countries, mainly in the late 1960s and 1970s, labour market conditions – the likelihood that the applicant would be successful in obtaining a job – were introduced to the award of invalidity benefits. **As** a result, many awards were given for total disability in instances of partial incapacity, if no work was available.

As for invalidity pensions in Australia, in 1979/80, there was official concern about increasing numbers on invalidity benefit and a belief that the increase owed at

Table 5.19. Replacement rates under invalidity benefits in selected countries, 1990

	Percentage of gross earnings		Percentage of gross eamings
Australia	40	Netherlands	70
Belgium	**60**	United Kingdom:	
Denmark	57	with no additional pension	**31**
Finland	**60**	with additional pension	39
France	**31**	United States:	
Germany	**31**	average earnings	**68**
Ireland	**43**	**75 % of** average earnings	75
Invalidity pension	40	150% of average earnings	58
Disability benefit	**36**		

Notes: In all cases except the United States, the earnings used are the gross earnings of production workers in manufacturing, source: OECD, The ***Tax/Benefit Position of Production Workers 1987-1990,*** OECD, 1991. For the United States, the data cover the **national** average wage.

Denmark: The assumption is the maximum invalidity pension and 67-99 % incapacity.

Finland: The assumption is full invalidity pension.

France: Group 2: considered not capable of being gainfully employed. The earnings series used to compute the benefit is the nominal compensation per employee, **total** economy over 1981-1990 inclusive; source: Commission of the European Communities, ***European Economy*** No. 50, December 1991, Table 28.

Germany: 1988 **data.**

Netherlands: For an incapacity level of 80 % and over.

United Kingdom: The benefits **are** computed for the case where there is an adult dependant. In the case where an Additional Pension is paid, it is assumed that the additional amount is E20 per week. Source for rates, at April 1990: Department of Social Security, ***Social Security Statistics 1990,*** HMSO, 1991, Table D2.01.

United States: The assumption is that the worker began to work at age 22, and became disabled at age 50; the benefits relate to a worker with a spouse and one child Sources **are** Tables 2. A5 and 2. A15 in Social Security Administration, ***Social Security Bulletin: Annual Statistical Supplement, 1990.*** The earnings data **cover** 1989.

least something to a liberalised interpretation of eligibility. Among the steps then taken was a greater emphasis than before on medical factors in the award of benefit. Revised guidelines for invalidity pension in both 1981 and 1987 moved away from the strict medical interpretation of permanent incapacity for work. Under the revised guidelines of May 1981, it was made clear that in addition to the medical criteria, factors such as long-term changes in the employment market should be taken into account when assessing incapacity for work. Under the changes of July 1987, an even greater emphasis was placed on a range of factors related to general labour market conditions. Factors such as accessibility to employment and the availability of work were considered. Accessibility was defined as work reasonably accessible to the claimant which existed as a full-time position and for which the claimant was qualified in a broad sense.

In response to concern about the increasing number of long-term sickness beneficiaries, from October 1991, a statutory limitation of 12 months payment of sickness benefit has been introduced, though not for exceptional cases. Where applicable, rehabilitation will be given to recipients to assist their re-entry into the workforce. From October 1991, invalidity pension has been abolished and replaced by a new Disability Support Pension. Only a limited range of non-medical factors are now taken into account – for example, the client's age and reduced accessibility to employment due to his or her medical condition.

In Finland in 1973, the labour market conditions were introduced as one set of elements in deciding on the award of an invalidity pension, and a partial invalidity pension for those with a degree of impairment of their work capacity was introduced. In 1986 (1989 in the public sector) a new type of benefit was introduced?which was easier for older workers than for others to obtain. This early disability pension may be granted on the basis of a smaller reduction in work capacity than for the ordinary invalidity pension. This early pension is payable to those aged 55 and over whose working capacity has deteriorated so that they cannot reasonably be expected to continue to work: the question to be asked is whether the claimant's last work can still be held to be suitable for him or her, rather than whether any other work would be suitable.

In Germany in 1969, a criterion was introduced for the award of disability benefit: whether there was any work available that the disabled person could do. As a consequence, people who were partially disabled, that is not capable of working more than on a part-time basis, were entitled to a full disability pension if no part-time job for them could be found on the local labour market. The change of 1969 resulted in a rapid rise in the importance of disability as a means of entry into the pension system. This increased enrolment occurred despite the fact that the aim is to reintegrate people into the labour force and to rehabilitate them, instead of paying invalidity benefit.

Features of disability benefits in the Netherlands have been the low degree of disability which entitles a worker to benefit, and the relative generosity of benefits with regard to the level and duration of benefit. After one year on sickness benefit, people are entitled to disability benefit which can last until the age of 65; and those with 15 per cent loss of earning capacity can be entitled to benefit. Up to 1987, the granting of disability insurance in the Netherlands used a definition of incapacity for work which took account of labour market conditions. This meant that a person who was partially disabled could be classified as being totally disabled if it was considered that he or she would be unable to find suitable work in the local labour market.

In response to concern about the numbers on disability benefit, from January 1987, the criterion of incapacity for work was changed. The provision whereby eligibility for benefits was judged taking labour market prospects into consideration was abolished. The basic full -invalidity pension was reduced from 80 to 70 per cent of prior income. Moreover, partial disability and partial unemployment would no longer be treated as complete disability.

In Sweden, changes to disability benefit in 1970 and 1972 occurred as a response to increasing unemployment of older workers. Under the reforms of 1970, for those aged 62 and over, the "labour market chances" were now taken into account together with medical factors when deciding on the award of disability benefit. A further widening in the scope of disability occurred in mid-1972. From then on, for older workers, the labour market conditions could be the sole reason for awarding disability benefit. Those aged 62 and over (60 and over dating from 1 July 1976) could claim a disability pension if they had been unemployed so long that they had exhausted their entitlements to unemployment benefit. Up to October 1991, it was possible for older unemployed workers to leave the labour force via unemployment compensation for a period, followed by disability benefit granted for labour market reasons. The critical age was 58 years and three months. A worker who became unemployed at this age was entitled to unemployment compensation for one year and nine months. At the end of this period, that is on reaching the age of 60, the disability benefits became payable up to the pension age of 65. Informal evidence is that disability requirements are enforced less strictly than usual for workers threatened by unemployment [Björklund and Holmlund (1991)].

Reforms have been introduced to the system of sickness benefits. From March 1991, the level of benefit was reduced from 90 per cent of gross earnings to 65 per cent for the first three days of a sick leave period and to 80 per cent during days 4-90. From January 1992, two reform measures came into force. First, for the first 14 days of sick leave, wages would be paid by the employer instead of a cash benefit from sickness insurance. Second, a rehabilitation cash benefit, with a compensation level of

100 per cent, was introduced. Insurance offices are given a new role in ensuring that adequate measures are taken by employers in the early stages of sick leave. In addition, the insurance offices may now use their funds more flexibly in order to help the rehabilitation of those who have been on sickness absence for long periods.

5. Number of beneficiaries

Table 5.20 shows the number of older beneficiaries of disability benefits in selected countries in 1980, 1985 and 1990. The broad picture from this table is that in almost every country, the number of male beneficiaries increased in the 1980s, markedly in many instances. The only exception to this generalisation is the case of Italy. In a number of countries, the number of female beneficiaries was rather static in the 1980s, but the number increased notably in Norway, Sweden and the United Kingdom. However, in the 1980s in Australia, the rate of **growth** in the number of older disability beneficiaries was much lower than in the 1970s[3]. This seems to have reflected in part the policy changes outlined above. While there was an increase in the number of older recipients in

Table 5.20. Older recipients (aged 55-64) of disability/invalidity benefits, selected countries, 1980, 1985, 1990

Thousands

			1980	1985	1990
Australia					
	M	55-59		43.4	44.9[a]
		60-64		49.8	75.5“
	F	55-59		14.9	15.8[a]
		60-64		0.5	0.7[a]
Belgium					
	M	55-59	27	28	27
		60-64	22	32	31
	F	55-59	11	13	13
		60-64	1	1	2
Canada					
	M	55-59	15.2	22.5	31.0
		60-64	27.1	41.3	52.3
	F	55-59	6.2	9.5	4.4
		60-64	10.9	18.0	22.4
Denmark					
	M	55-59		14	14
		60-64		24	23
	F	55-59		14	16
		60-66		22	24
Finland					
	M	55-59	36.3	33.2	42.3
		60-64	40.7	43.8	50.9
	F	55-59	32.8	28.7	39.2
		60-64	46.1	45.2	51.0
Ireland					
	M	55-59			4.5
		60-64			7.3
	F	55-59			2.4
		60-64			3.1
Italy”					
	M	55-59	305	218	145
		60-64	251	312	228
	F	55-59	274	199	120
		60-64	223	287	201
Netherlands					
	M	55-59	82.7“	87.5	88.8
		60-64	87.9[c]	100.5	97.6
Norway					
	M	55-59	24	24	26[d]
		60-66	37	44	48[d]
	F	50-59	28	31	37[d]
		60-66	36	44	496
Spain[e]					
	M	55-59	118	162	158
		60-64	146	217	216
	F	55-59	54	64	51
		60-64	81	101	90
Sweden					
	M	55-59	35	31	3Y
		60-64	62	66	63f
	F	55-59	36	35	4rY
		60-64	52	57	6Y
United Kingdom[g]					
	M	55-59	104	134	171
		60-64	176	246	266
	F	55-59	32	43	67
		60+	5	14	29
United States					
	M	55-59	463	382	375
		60-64	638	587	540
	F	55-59	236	194	208
		60-64	326	302	292

M = Males, F = Females.
a) 1987.
b) Employees.
c) 1979.
d) 1986.
e) 1st col. 1981, 3rd col. 1989.
f) 1989.
g) 1st col. 1979180, 2nd col. 1985186, 3rd col. 1989190.

Sources: Information from Departments in respective countries; Social and Cultural Planning Office, the Netherlands, ***Social and Cultural Report 1988;*** Department of Social Security, ***Social Security Statistics 1991,*** Table D2.06, London, HMSO.; United States Social Security Administration, ***Social Security Bulletin: Annual Statistical Supplement, 1991,*** Table 5.D4; M.C. Calamita and A. Ferrante, "La prévoyance sociale italienne. Informations" ***Note de la Direction Générale de la Prévoyance Sociale,*** Rome, December 1991.

the Netherlands in the 1980s, much of the increase in number of recipients had occurred in the 1970s[4].

Table 5.21 expresses the number of older recipients of invalidity benefit in relation to the labour force aged 55-64. Two countries stand out with high rates: Finland and the Netherlands (increasing between 1980 and 1985 and falling slightly between 1985 and 1990). The proportion in Sweden has also been relatively high.

Table 5.21. Older beneficiaries of disability benefits as proportion of labour forse aged 55-64, selected countries, 198~1990

Percentages

	1980	1985	1990
Australia			
Males		21.4	26.0
Females		10.9	9.1
Canada			
Males	5.6	8.3	11.1
Females	4.1	6.9	6.5
Denmark			
Males	20.1	19.8	
Females	32.1	28.4	
Finland			
Males	61.0	64.2	67.3
Females	68.0	51.3	64.6
Ireland			
M 55-59			8.2
60-64			19.5
F 55-59			16.0
60-64			30.4
Italy			
M 60-64	60.5	51.1	39.7
F 60-64	171.5	158.6	111.7
Netherlands			
Males	34.1	46.8	43.4
Spain			
M 55-59	13.0	18.6	17.8
60-64	30.3	40.9	43.4
F 55-59	19.2	23.5	11.4
60-64	50.9	58.7	49.1
Sweden			
Males	25.6	28.2	30.8
Females	23.3	26.7	33.1
United Kingdom			
M 55-59	7.1	10.8	14.5
60+	18.6	29.1	35.5
F 55-59	3.4	5.2	8.1
60+	1.5	4.5	8.6
United States			
M 55-59	10.4	9.0	9.3
60-64	22.1	20.9	19.5
F 55-59	8.0	6.5	6.8
60-64	18.2	15.6	14.5

Notes: In the case of U.K. rates for women aged 60 and over, the labour force aged 60-64 is used. In the case of Denmark, rates are as a proportion of labour force aged *55-66.*

Sources: Table *5.20;* OECD databank for labour force, except for Denmark, Finland and Sweden, and for Ireland where the source is : Central Statistics Office, *Labour Force Survey 1990.*

Differences in the take-up of disability benefits across countries and within countries over time reflect differences in programme structure and in economic and social conditions rather than in physical and mental disability. This is seen in part from the fact that the take-up has increased in some sub-periods – it is unlikely that the underlying rates of morbidity increased in these periods. Moreover, the differences in numbers on benefit do not seem to reflect the knowledge about physical and mental disability. While the information on the latter is scant and variable in quality, there is no relationship between rates of disability (such as of functional limitation or restriction on activity) and the relative number of people on disability benefit. For instance, Australia and Canada have around the same disability rate in the population [United Nations (1990)], yet the rate of male beneficiaries aged 55-64 (in percentage terms, using 1987 population data) is about twice as high in Australia: some 15 per cent compared with 7 per cent in Canada; the disability rate in the United States is around twice that in Australia but the number of beneficiaries per head is only about 1 per cent in the United States.

6. Explanatory factors

The change over time in the number of people in receipt of disability benefit is determined by the interaction between two elements: *a)* the inflow levels, *b)* the rates of ''survival'' or rate at which people remain on benefit. In some countries the survival rates increased for a number of age groups including for older workers during the 1980s, even in periods of falling unemployment. This has been the case in the United Kingdom[5]. There seems to be a connection between the increased survival rate of older claimants and an increased rate **of** early retirement. Moreover, a continued trend towards early retirement could explain why survival rates continued to increase even when unemployment fell. One of the ways in which an increased demand for early retirement could have led to increases in the survival rate is that an increase in the number of claimants asking for an extension to their invalidity benefit could have led to a change in the certification behaviour of doctors. Alternatively, doctors' certification may have become more lenient in those sub-periods when job prospects deteriorated.

There seems to be some relationship between job losses and entry into disability benefit, where these benefits serve to disguise unemployment. The empirical evidence for the Netherlands is that the rate of entry into disability pension has been the highest in those branches of industry where the employment contraction has been greatest [Casey and Bruche (1983) p. 132]. This has been confirmed by analysis of the explanatory factors in the growth in the incidence of disability over 1968-1979 [van den Bosch and Petersen (1983)]. Many of the beneficiaries of disability benefits have come from the older industrial sectors which have been hard hit since the

1970s by a combination of structural decline and downturns in demand during recessions. These have included textiles and clothing, and construction.

In the Netherlands and in Sweden (up to October 1991), the disability system seems to have been used by employers, with the acceptance of trade unions, as an alternative to open unemployment, especially for unskilled workers. It is evident that in many cases, firms which wished to reduce the size of their workforce let older workers go, with the agreement of trade unions which were prepared to see the "last in first out" rules be overruled. From the point of view of employers, this can be seen as the least contentious way of managing redundancy. Moreover, a good proportion of the adjustment costs fall on government or on taxpayers in general rather than on the specific firms. Estimates made of the "hidden unemployed" component in the number of disabled persons in the Netherlands have varied markedly: the Social Security Council estimates a proportion of 12 per cent and the Ministry of Social Affairs and Employment (1987) has indicated a proportion as high as 50 per cent. In Sweden, severance pay has been concentrated on those aged 58 and over, despite the fact that employment protection rules are designed to safeguard the position of older workers when redundancies are declared. Moreover, it has been quite common for employers, when reducing their workforce, to supplement disability pensions for the period up to the normal pension age.

Benefit levels and the administration of benefits can also play a role. However, benefit levels can explain only a part of changes in the number of beneficiaries. In Australia, the tightening of eligibility had a marked impact on the number of invalid pensioners: the grant of invalidity pensions fell from 43 *800* in 1978/79 to 23 200 in 1981/82. Holmes ***et** al.* (1991) find that the magnitude of the incentive effects of higher benefits for Great Britain are generally small – higher benefits led to an increased duration on invalidity benefit but other elements, such as age and health conditions, were more important.

In the United States, plausible connections can be drawn between the degree of tightness in the eligibility for disability benefits and the trend over time in disability awards. Thus, in the early 1980s, real benefits were lowered and administrative controls were tightened, e.g., periodic reviews of recipients' disability status; the total number of disability insurance beneficiaries declined in each year from 1980 to 1983. Since 1984 there has been some easing in the conditions for award and the total number of recipients of benefit has increased in each year since then. Many studies have been made on the link between disability programmes and labour supply in the United States – reviewed, for instance, in Leonard (1986). There is general agreement that the disability programmes reduce labour supply but little agreement on the magnitude of these incentives. In particular, it is difficult to isolate the impacts of disability benefits. This is because they offer highest replacement rates to those with lowest earnings, and those with lowest potential for earnings are the most likely to be out of the labour force in any event [Bound (1989)].

7. Comparison between invalidity benefits and unemployment compensation

There are a number of reasons why invalidity benefit can be more attractive to the recipient than unemployment compensation. First, there is likely to be less stigma attached to their receipt by comparison with unemployment transfers. Second, invalidity benefits tend to be payable at a higher rate than unemployment benefit, and for a longer duration. The typical structure of unemployment compensation in Member countries is where benefits decline after a certain duration of unemployment [QECD (1991) Chapter 7]. After a period – in a number of countries, between 12 and **30** months – unemployment benefits are exhausted in many countries and recipients have to move down to lower rates of unemployment assistance or general social assistance, with assessment being on a means-tested basis. Third, the recipients of invalidity benefits are under less obligation to seek actively for work and to undergo training by comparison with the recipients of unemployment compensation. It should be noted, however, that the degree to which there is pressure on recipients of unemployment benefit to undergo job training will depend on the extent to which "job search" type programmes call up older workers.

The interplay and complex interactions between disability, unemployment and disengagement from the labour force should be noted. Some workers with a degree of disability, who would not be entitled to disability insurance, could register as unemployed. Moreover, it can be difficult to disentangle the respective influence on labour force status of "objective" health status and unemployment. There is an association between unemployment and health status [for example, for the United Kingdom: Moylan ***et** al.* (1984)]. However, the direction of causation is not clear, whether unemployment and especially long-duration unemployment leads to a deterioration in health, or whether ill health leads to difficulties in finding a job. In addition, respondents to a survey may well cite health status as a reason for retirement because it is more socially acceptable as a reason than either unemployment or a simple wish to stop working.

At the point where benefits are exhausted, there can be an incentive for recipients to move on to disability benefit with its more generous compensation, often with the assurance that benefit can continue up to the age of eligibility for a public pension, usually 65. In most cases the payments made under invalidity are relatively more generous[6].

Some evidence on possible moves from unemployment compensation to sickness/invalidity benefits is available in Australia. A stratified sample of clients of the Department of Social Security showed that there was a large proportion of sickness beneficiaries who had transferred from unemployment benefits and to that extent were part of the same group [Carson *et al.*(1989)].

8. Conclusions

There seems to be a link between the relative generosity of disability benefits and the proportion of older workers who are on benefit and out of the labour force. Specifically, some countries with high replacement rates have a high proportion of their older labour force on disability benefit; when countries have increased the replacement rate over time, there has tended to be an increased uptake of benefit. It is more difficult to draw conclusions about the strength of this association. This is in part because some of those in receipt of disability benefits would in any event have been out of the labour force.

In a number of countries, labour market conditions were introduced for the award of invalidity benefits, as a reaction to the growth in long-term unemployment. In some cases, however, those measures then became part of the system of social protection, i.e., income support for those who move out of the labour force, irrespective of labour market conditions. In these countries, disability programmes have, in effect, served as long-term unemployment compensation for older workers who have difficulties finding a job.

To a degree, the demand for invalidity benefits depends on the number of paths out of the labour force. Thus, in Canada and France, invalidity benefits are relatively unimportant as a means to early retirement – this seems to reflect the availability of other transfer payments which finance early retirement. By contrast, in the United Kingdom, where there are no public early retirement pensions available, even on an actuarially-reduced basis, the take-up of invalidity benefits among older workers is higher.

To some extent, invalidity benefits have been used as a route out of the labour force because firms have been keen to see less productive workers leave, especially at times when they want to cut down on their workforce. In countries such as the Netherlands, some of the older workers on invalidity benefit have been made redundant and could be regarded more accurately as hidden long-term unemployed.

F. RETIREMENT AS PARTIAL WITHDRAWAL FROM CAREER EMPLOYMENT

1. Introduction

A number of workers would like to withdraw gradually from the labour force, rather than leave abruptly. This section examines the extent to which workers phase in their retirement. Some methods for doing so have been discussed above, in particular part-time work, which is mentioned only briefly here. It is possible for workers to move from a full-time position in the career job, through what are called "bridge" jobs: the relative importance of these jobs is discussed. Bridge jobs can be full-time or part-time; typically they are subsidiary in nature and lower-paid compared with career employment. In principle, after leaving the labour force, someone could re-enter. What little evidence there is suggests that this happens in only a minority of instances. United States data show that, while usually people who leave the labour force towards the end of their working life do not re-enter at a subsequent date, a minority does: about 10 per cent of those who retired (defined as those who left the labour force for at least two years) later re-entered [Quinn *et al.* (1990)].

A variety of factors often impede people who wish to reduce hours of work on the career job: mandatory retirement, occupational pensions, public pensions. Those workers who wish to reduce their hours worked must often quit their career job and take up a different post on part-time terms. By mandatory retirement is meant a contract between employer and employee concerning the age at which employees must give up their jobs. An argument that could explain the existence of mandatory retirement [Lazear (1979)] is that it reflects a system of deferred compensation: whereby workers are paid less than they produce (their marginal product) when they are young, and more than they produce when they are old. In the absence of mandatory retirement, workers would continue to work for a long period while their wages were higher than their marginal product. Another argument, which essentially brings in a social reason for mandatory retirement, is that it helps to avoid an excessively aged workforce and gives younger workers job opportunities by creating vacancies that arise as older workers retire [see Hannah (1986); Stern (1987)]. In the absence of mandatory retirement, promotional blockages within firms could become worse over time. The factors that can impede or facilitate gradual retirement are discussed: earnings rules under public pensions, occupational pension schemes, and part-time pensions.

2. Part-time work

i) *Extent of part-time work*

Section B has already discussed the medium-term trend over time in part-time work among older workers. The proportion of males in employment aged 55-59 working part-time remains low in most countries, under 10 per cent, with the exception of the Netherlands. There is a clear tendency for the rate of part-time working to be higher among those aged 60-64 than among those aged 55-59[7]. For women workers, whose rates of part-time working are much higher, the same tendency is evident in most countries.

In a number of countries there is a much higher incidence of part-time working among men aged 65-69, by comparison with age 60-64. The countries with the highest incidence of part-time working among men aged 65-69 are the United Kingdom (64 per cent), Denmark (36 per cent), France (26 per cent) and Luxembourg (25 per cent)[8].

Instead **of** relying on self-description of part-time working (which underlies the data on part-time working for many of the countries), Table 5.22 shows the distribution **of** hours worked by older workers. For those aged 55-59 and 60-64, the great majority of males work **30** or more usual hours per week. In a number of countries, some 10-15 per cent of women aged 55-64 work under 20 hours a week.

ii) Involuntary part-time work

Three categories of involuntary part-time employment can be identified from labour force surveys [OECD (1990) Chapter 7]: *a)* people who usually work full-time, but during the reference week worked fewer hours than usual for economic reasons or worked Part-time for economic reasons; *b)* people who usually work part-time because they cannot find a full-time job; and *c)* people who usually work part-time for reasons other than an inability to find full-time work and who worked fewer hours than usual at their job during the reference week for economic reasons.

The rates of involuntary part-time working are, in virtually every country, lower for older men and women than the corresponding rates among prime-age men and women. In most countries, the percentage of older workers who are involuntarily part-time lies between 10 and the low 20s. The incidence of involuntary part-time work is almost always lower among older women than among older men.

This would suggest that the majority of older workers who work part-time choose to do so. This accords with the expectations that some workers will wish to move gradually into "full" retirement via a spell of part-time work. The ability of older workers to work part-time could also be explained in part by the fact that the availability **of** private or public pension income enables older workers to move to part-time work.

3. Self-employment

Most older employees cannot work part-time in their career job. By contrast, self-employed workers have more discretion over their work patterns, and can phase down from full-time to part-time work as they get older.

Table 5.22. Distribution of weekly hours worked by older workers, selected countries, 1990

Percentages

	Men											
	Age 55-59				Age 60-64				Age 65-69			
	under 10 hours	10-19	20-29	30+	under 10 hours	10-19	20-29	30+	under 10 hours	10-19	20-29	30+
Belgium	1.6	0.7	3.4	95.7	0.7	1.2	5.4	97.5	0.0	2.9	1.5	95.6
Denmark	0.0	6.3	1.6	97.8	7.7	3.5	5.7	83.1	14.9	9.0	11.1	65.1
France	0.1	1.3	3.9	94.8	1.7	3.9	6.1	88.3	3.2	11.1	8.9	76.8
Greece	0.0	0.9	2.1	96.9	0.1	0.8	2.8	96.2	0.2	3.1	5.2	91.5
Italy	0.2	2.1	1.9	95.8	0.4	3.0	3.7	92.8	1.1	6.2	8.7	83.9
Portugal	0.3	0.8	1.5	97.4	0.4	2.2	2.8	94.5	0.2	1.0	1.8	96.9
Spain	0.1	0.5	0.7	98.8	0.0	0.5	0.9	98.5	0.5	4.4	4.7	90.5
United Kingdom	0.8	1.5	2.5	95.2	1.9	4.7	4.6	88.8	14.9	22.0	21.2	41.9

	Age 55-59				Age 60-64				Age 65-69			
	under 10 hours	10-19	20-29	30+	under 10 hours	10-19	20-29	30+	under 10 hours	10-19	20-29	30+
Belgium	1.9	10.2	16.7	71.1	2.8	11.1	17.6	68.5	0.0	10.0	10.0	80.0
Denmark	2.5	10.3	22.7	64.5	10.1	17.9	24.2	47.8	26.0	28.8	21.2	24.0
France	4.1	10.6	14.2	71.1	5.7	10.6	14.0	69.8	7.5	9.4	13.1	70.0
Greece	0.3	2.4	7.0	90.2	0.6	3.5	8.1	87.7	0.4	8.8	12.4	78.3
Italy	1.4	8.4	14.4	75.9	0.6	11.1	18.6	69.7	2.1	11.8	17.7	68.3
Portugal	2.7	5.7	8.1	83.5	4.1	6.2	7.7	82.0	6.4	2.8	9.3	81.4
Spain	1.7	4.7	7.5	86.1	1.5	6.4	9.1	83.1	1.7	6.1	9.9	82.3
United Kingdom	7.8	19.9	22.3	50.0	14.8	26.5	25.2	33.6	23.5	34.1	21.6	20.7

Source: Eurostat.

For this reason, among others, it would be expected that a higher proportion of older workers are self-employed than among others. There may be other reasons contributing to older workers being disproportionately in evidence among the self-employed – experience, availability of capital, presence of income to cushion against fluctuating fortunes. Moreover, in many countries, the self-employed are less favourably covered for pensions under social security than are employees, hence, there can be an incentive for the self-employed to continue working beyond the standard age for first receipt of a public pension.

These expectations are borne out. A significantly higher proportion of older workers are self-employed than for workers as a whole[9]. Self-employment accounts for a larger share of employment as the age of the worker increases. One underlying reason for this is that the self-employed are more likely to stay on in the labour force as they get older: longitudinal studies for the United States indicate that the self-employed, especially those in full-time jobs, are more likely to continue to work than employees after age 62 [Parnes *et al.* (1985)]. From other longitudinal data (discussed in the next sub-section), it **is** found that among the self-employed men, only half left the labour force after their career job terminated, compared with about 75 per cent of employees [Quinn, Burkhauser and Myers (1990)]. A quarter remained part-time on the same job and the other quarter found a new part-time or full-time job.

Table **5.23** shows the incidence of part-time work among self-employed men aged 60-64 and 65-69. In all countries, this incidence is much higher among those aged 65-69, in a number of cases a fifth or more. Evidence (not in the table) also comes from Australia, for those aged 45 and over who have retired from full-time work from age 54 to 69, the higher the proportion who had been self-employed, the later the ages when people retired''.

Table 5.23. Proportion of self-employed men aged 60-69 who work part-time by age, 1989, selected countries

	Age	
	60-64	65-69
Belgium	5.1	13.1
Denmark	15.3	24.6
France	8.6	20.8
Germany	9.2	22.5
Greece	3.3	6.8
Ireland	2.2	3.3
Italy	7.7	20.2
Luxembourg	12.5	0.0
Netherlands	22.1	59.1
Portugal	13.5	18.4
Spain	5.1	13.1
United Kingdom	17.7	54.3

Source: Eurostat.

4. Life-cycle evidence on bridge jobs

Evidence on the prevalence of bridge jobs ideally requires some life-cycle data, available in some detail for the United States and Japan. Evidence is clearest for the United States: a significant minority of wage and salary earners do not leave the labour force when they leave their career jobs. About 25 per cent of wage and salary men, when they left their career jobs, worked elsewhere; about 20 per cent found new employment, evenly distributed between full-time and part-time, and **5** per cent dropped to part-time status on their career jobs: where a career job is defined as full-time employment held for at least ten years [Quinn, Burkhauser and Myers (1990)]. According to another study, which defines a career job as the longest one held, whatever its length, a significant proportion of workers leave career jobs before the normal retirement age: it is estimated that over a fifth of individuals leave career employment before age 50, a third before age **55**, and a half earlier than 60 [Ruhm (1990)]. **Thus,** in the United States, the process of retirement, including reductions in work effort, may extend over many years, and may begin for some well before age 60. Depending on the definition of a 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.

With regard to the duration of bridge jobs, **Ruhm** [(1990) pp. 98-99] finds that just under a half last less than five years. On the other hand, almost a quarter of final post-career jobs last more than ten years and could be regarded as being close to a second career. Quinn *et* ***al.*** (1990) find that, of those who switched employers, nearly three-quarters were still working a year later, and nearly 60 per cent remained employed after two years. Most people moved down rather than up the socio-economic scale. With the exception **of** those few who stayed in their career job in a part-time capacity, many more experienced pay cuts than higher pay, especially when the new job was part-time [see also Blank (1990)].

A number of workers who move into bridge jobs lose their career jobs involuntarily. Some of the workers who find a bridge job lose the pension rights from their career job or have significantly lower pension benefits.

In Japan, lifetime employment and a seniority wage structure exist under an agreement that employees will retire at a certain fixed age. However, three features of lifetime employment in Japan, which cover between a third and a half of the workforce, mean that there is a degree of flexibility in the way in which older workers are employed.

First, under the re-employment system, the firm retires workers who have reached the mandatory retirement age, giving them a lump-sum retirement payment. The firm then re-hires these workers, usually in a lower position in the hierarchy of the firm and at lower wages and salaries. Some older displaced workers join one of a group of firms that are linked with the company of previous employment. It is estimated that, of all those who leave at a mandatory retirement age of 50 and over, about 6 per cent join other firms [Japanese Ministry of Labour (1989)]. This happens in particular in the larger companies, which often displace older workers with early retirement schemes and let them join affiliated or other companies.

Second, under the extension of employment system, workers who have reached retirement age can continue to work within the firm without retiring. This system shares a feature with re-employment: most of the companies which use it allow only those workers who are approved by the management to continue to work. The position of the employees in the hierarchy is often reduced, although not as markedly as under the re-employment system. It is estimated that a majority of firms in Japan, 70 per cent of those with a mandatory retirement age in 1990, use either re-employment or extension of employment [Japanese Ministry of Labour (1990)]. However, the systems are not always applied to all workers and often only to those with special skills. Of all companies with a mandatory retirement age, 19 per cent use both the re-employment system and the extension of employment system.

Third, there are permanent transfers to affiliated firms. A permanent transfer to an affiliated firm may take place either before or at the mandatory retirement age. The transfer before the mandatory retirement age is often promoted by favourable treatment in terms of lump-sum retirement payments or else occupational pension benefits. Reflecting the seniority wage structure, when workers move to subsidiary and associated firms, there is often a decline in their wages [OECD (1989)]. In some instances, the employee may be transferred at a lower wage level but receive enhanced "early retirement" benefits from the parent firm as a form of compensation.

5. Earnings rules under public pensions

In a number of countries, the rules under which public pensions are made available mean that earnings from work are penalised. In a number of countries – Belgium, Canada, France, Japan, the United Kingdom, the United States – an earnings rule has been applied. Under this rule, there is a reduction in pension benefits once earnings exceed a certain level. This amounts to an implicit marginal tax on work income, for public pension recipients, which can be as high as 100 per cent. Table 5.24 summarises the main features of the earnings rules across countries.

In recent years in some countries, the earnings rule has been liberalised or eliminated. An earnings rule was in operation in the United Kingdom until October 1989 when it was abolished. Over time, in the United States, the earnings rule has been liberalised, permitting beneficiaries to earn more without losing benefits. In 1983 in France, an earnings rule which operated for the main public pension scheme (*régime général*) was abolished, while leaving a "solidarity contribution" that had to be paid on earnings for the period 1983-1988. It is not possible, however, for the retirees to continue to work in their old firm. In specific pension schemes that apply to particular occupations, there remain earnings rules, which differ across these schemes. Moreover, those who take up early retirement under one of the French public schemes are not permitted to work at all. This contrasts with Belgium, where those who take up an early retirement option can work.

To what extent is the earnings rule likely to have been a disincentive to work for older persons? The earnings test has a twofold impact on work decisions: it leads to some decline in labour force participation and some substitution of part-time for full-time work [Vroman (1984)]. One study for the United States found that workers kept their hours of work after retirement to the level at which total earnings were equal to the exempt amount, that level of earnings below which the earnings test does not operate [Burtless and Moffitt (1985)].

Most studies on such earnings rules, for the United States, conclude that the effect on aggregate labour supply has been relatively small in magnitude [Honig and Reimers (1989); Packard (1990); Gustman and

Table 5.24. **Main features of earnings rules, selected countries, 1990-1991**

	Age at which applies	Exempt amount	Memo. item: average earnings of prodution workers in manufacturing, 1990	Effective marginal tax rate or loss in benefit for each unit increase in gross earnings %
Belgium	60	BF 239 079[a]	BF 746 600	
	60	BF 191 263[b]		33
Canada	up to 64	C$ 6 925	C$ 28 600	100
Japan	60-64	–	Yen 3 685 200	Ranges from 20 up to 100
United States	62-64	$ 6 840	$ 22 900	50
	65-69	$ 9 360		

a) Employees.
b) Self-employed.
Source: OECD, *The Tax/Benefit Position of Production Workers 1987-1990,* Paris, 1991.

Steinmeier (1991)]. Analysis for the United Kingdom reaches similar conclusions about the limited impacts on labour supply from relaxing earnings and hours of work rules [Whitehouse (1990)].

These relatively limited impacts on labour supply of a relaxation of the earnings rule have been observed for two reasons. First, many recipients of public pensions have left the labour force entirely a year or more before the first receipt of a pension. Second, a relaxation of the earnings rule can be expected to have markedly different incentive effects for different groups of workers. Typically, there is an exempt amount – that is, an amount of annual earnings above which pension benefits are reduced by some proportion of additional work earnings. There will be **some** workers whose incomes are so low that, even if they work full-time, a liberalisation of the rule would have no impact on the magnitude of the incentives that face them. At the other extreme there will be those whose earnings are relatively high: for them, the liberalisation will have little impact. On balance, a relaxation of the earnings rule can be expected to increase labour supply, but too much should not be expected. While the earnings rule can be a disincentive to work, depending on the amount of income from work which is allowed before the rule applies, there could remain an incentive for people to seek work in subsidiary jobs or on a part-time basis.

6. Occupational pension schemes

Sub-section D.3 has already discussed incentives given by occupational pension schemes. The rules of occupational pension schemes affect the work decision in two ways. First, as already indicated, beyond a certain point, pension wealth can decline as a result of an extra year of work. Second, pension benefits on the basis of final earnings discourage workers from staying on the career job on a part-time basis. Thus, if workers wish to work on a part-time basis after career employment, they must quit their career job and find another. That often involves a marked fall in hourly pay [see Gustman and Steinmeier (1985)]. This reflects the fact that part-time jobs pay low hourly wages to everyone, not just to older workers.

Recent years have seen changes in policy to improve work flexibility. In the United States, it is no longer possible to exclude from plan participation newly hired workers who are within five years of retirement age. Moreover, there is a trend towards defined contribution plans (where the pension benefit received will depend on the return achieved from the stream of contributions) in Canada and the United States, and these plans have little effect on the decision to retire.

7. Part-time pension

One of the public policies that has widened the choices faced by older workers has been the introduction of a part-time pension (already mentioned in Section D), mainly associated with Nordic countries: Sweden, Finland and Denmark. This has enabled workers to reduce their work week some years before full retirement, without suffering a sharp fall in income. The existence of this scheme is undoubtedly one of the reasons why the proportion of employment that is part-time among males aged 60-64 is higher in Sweden than in other Member countries. However, this scheme places a tax burden on other employees, and the right to a part-time pension is currently under discussion in Sweden.

8. Conclusions

Retirement can involve the leaving of a career job, the termination of a particular career path and the taking up of **a** ''subsidiary'' job. The evidence is fragmentary across Member countries and is most most clear for the United States – that this typically involves the quitting of the "career" job and the taking up of another. The latter employment often tends to be on terms that are less advantageous than those associated with the career job, with less security of tenure, lower occupational status, lower earnings per hour, and less access to fringe benefits. One policy concern arises from the observation that many of the workers who find a bridge job lose their pension rights from their career job, or have significantly lower pension benefits. This poses the question ***of*** whether firms single out older workers for jobless as a way of avoiding the payment of full or any retirement benefits to workers.

Self-employed workers have more discretion than employees with regard to the timing of their exit from the workforce. They have also got a greater degree of freedom to phase down their work effort as they get older, for instance by working part-time. Related to this, there is a higher proportion of self-employed among the older workers than among employees.

There are a number of features of internal labour markets, social security and private pensions that put constraints on the ability of workers to move to more flexible work arrangements as they get older. The earnings tests under social security mean that workers are not confronted with a smooth pattern of earnings loss as they vary their work, instead over particular intervals they can face a marked drop in income. The same holds for the wealth losses that can occur as a result of additional work, beyond a certain point, through occupational pensions.

G. CONCLUSIONS

Across OECD Member countries, employment rates and labour force participation rates of older workers have fallen over the past two decades. The long-term trend of earlier withdrawal from the labour force has proved stronger than cyclical changes. While slower at times of strong employment growth, the decline has persisted throughout very different rates of economic growth.

These developments occurred in countries with quite different social security arrangements. Three patterns are discernible within the OECD area. First, in countries such as Austria, Belgium, Denmark, France, Germany and Italy, social security arrangements have encouraged early withdrawal from the labour market through pensions for long service, other early pensions, disability pensions given on labour market grounds, and pensions for older workers who are long-term unemployed. In many countries, the strength of these incentives increased over the past two decades.

Second, some countries' social security framework does not contain explicit incentives for early withdrawal from the labour force, but collective bargaining arrangements – at the level of the firm or of the industrial sector – have aided early exit, often encouraged by government. Workers who could suffer job losses have been encouraged to leave the labour force through incentive payments offered by the firms. These arrangements have been observed, in particular, in the Netherlands and Sweden.

Third, there are countries with few explicit arrangements under social security whereby older workers can withdraw, but occupational pensions – though covering only some 50 per cent of the workforce in some countries – have encouraged workers to take up their entitlements "early" under defined benefit schemes. Benefits have typically been a percentage of final wage or salary. The tendency has been for workers to be given an incentive to leave earlier, over the past two decades. Taking up the entitlements means quitting the firm, and this has often led to leaving the labour force. These incentives have been particularly important, in the absence of explicit social security incentives, in Australia, Canada, the United Kingdom and the United States.

An economic framework for analysing retirement would identify factors operating on the demand and supply sides of the labour market for older workers as influencing the increase in early retirement. During periods of recession, when the demand for labour declines, firms respond by targeting older workers when reducing their workforce. Older workers are seen as cheaper to "buy" out of the employment pool, using lump-sum and temporary payments to retirees, or else occupational pension enhancements. Once out of work, older workers tend to quit the labour force proportionately more, and more often permanently, than other workers.

With regard to labour supply, public and occupational pensions greatly influence an individual's decision about retirement, as do other government transfer payments. Hence, altering these arrangements has an impact upon retirement decisions. These decisions will involve a comparison between the impact on the worker's satisfaction from giving up an additional year of work, and the net change in pension wealth as a result of working for one more year. The incentive mix varies between countries, but generally encourages departure from the labour force before the standard age for receipt of a public pension.

The transfer payment incentives have increased in part through lowering the age at which public pensions can be drawn without an actuarial reduction. In some instances, special schemes have been introduced that allow early pension receipt on conditions such as long service or arduous occupations.

Some invalidity benefit schemes have provided a means of early withdrawal for older workers. A number have contained labour market criteria that allow workers experiencing difficulty finding a job to be granted benefits with little question. Thus, older workers in receipt of invalidity benefits are sometimes close to being long-term unemployed. In some countries, the use of invalidity benefits has limited or negated the impact of job protection measures aimed at older workers. It has also had the effect of providing passive income support while taking some of the pressure to apply active measures to the older workers off the employment services. In a number of countries there is an imbalance between the degree of passive income support through sickness and invalidity benefits, and the relatively little expenditure on rehabilitation and on measures to help re-entry into the labour force for older workers. There is little incentive given to firms to reintegrate older workers, especially when the State pays the bulk of the transfer costs that go to disabled workers.

Policies towards the older long-term unemployed have ranged from a relaxation in requirements to register as unemployed to the payment of an early pension. In general, the policy response to unemployment growth has been to encourage the older unemployed to leave the labour force. As for disability benefits, the alternative approach of using active labour market measures has not been much in evidence.

Firms have focused on objectives different from those of policies on older workers implemented by governments. This stems from the need to manage the age structure of the workforce and implement redundancies, while minimising conflict with employees and their representatives. However, enterprise policies have been influenced by governments: firms have adapted their retirement packages in line with movements in the standard age of entitlement to state pension and other appropriate benefits. In those countries where social arrangements have failed to keep pace with worker demands for pension provision, employers have filled the gap via occupational schemes, notably in the United Kingdom and the United States. However, such schemes are often structured to encourage early retirement, and working past a given age can amount to accepting a wage cut, in the form of a diminution in pension entitlement.

Some older workers freely choose to leave the labour force, having weighed up retirement leisure and the income support involved against a further period of work and the income that it provides. However, incentives are often not "neutral", with workers being given a financial incentive to leave. In other instances, the worker has little or no choice, being singled out for job losses. It might be argued that one reason why firms single out older workers is because their wages are too high in relation to productivity, and that wage cuts are not feasible; however, little or no evidence is available on the wage-productivity relation.

There is another way in which individual choice is hampered. Flexibility with regard to phasing one's withdrawal from the labour market is often lessened by earnings rules associated with public pensions and other benefits. An older worker wishing to reduce his or her hours of work gradually may be forced to quit the career job and take a job of some lower standing, suffering a marked loss in wages. Under such circumstances, earnings restrictions of state pension schemes may create a disincentive for continued employment, as the loss of pension benefits can imply a marginal tax rate of 100 per cent for income earned above a given minimum. In addition, occupational pension rules mean that in most instances, recipients of private pension benefits must quit their career job if they are to receive benefit.

Early retirement schemes have two important impacts on the efficiency of labour markets. First, they imply a loss of labour resources. Second, they discourage phased withdrawal from the labour force, channelling individuals into exits at specific periods in their life cycle.

If resource and welfare losses are to be avoided, two sets of policy responses are required, in addition to a lowering of the barriers towards more flexible retirement outlined above. First, there are the incentives given through public transfer payments and occupational pensions. If public pensions were made available over a range of years, with actuarial adjustment of the terms, this would eliminate the distortions present in many of the current schemes. With an actuarially neutral incentive, retirement decisions would depend more on individuals' subjective comparison of the costs and benefits of an extra year of work. Those for whom the extra year would be quite burdensome or who put a high value on leisure would tend to leave early. In addition, the financial costs of funding early retirement would be lowered if the benefits were actuarially adjusted.

For invalidity benefits, the appropriate policy direction is to take active measures rather than to put the emphasis on reducing benefit levels and tightening eligibility. The danger of relying on the latter measures is that some workers who are genuinely disabled or unable to find work would be denied income support. This would hit hardest those with lowest incomes.

Second, there is a need to refashion labour market and employment policy with its current inadequate focus on the needs of older workers. This is partly because the incentives from social security often lead to labour force withdrawal or (among the older unemployed) leave the individual in an ambiguous position – not employed and not retired but close to being early-retired. Older workers seem to have benefited little from the training programmes of firms, from government programmes for its own employees, or from public training and employment services.

Of course, the labour market chances of older workers cannot be isolated from the overall state of that market. With a lowering of the aggregate rate of unemployment, there will be greater incentives for firms to keep and train older workers, for older workers to opt for training, and for older job-losers to continue seeking work.

NOTES

1. Tabulations made available by the Bureau of Labor Statistics, from the displaced workers survey. Corresponding proportions for older job-losers between January 1981 and January 1986 are 35 per cent [Horvath (1987)] and between January 1979 and January 1984 are 27 per cent [Flaim and Sehgal (1985)].
2. ***Source: Employment Gazette,*** October 1991, Table 2.5.
3. Compared with an increase of 128 per cent in the number of male beneficiaries aged 50-64 that occurred between 1970 and 1979, the increase between 1979 and 1987 was one of 43 per cent; while the number of female beneficiaries had increased by 19 per cent in the 1970s, the increase was one of 3 per cent between 1979 and 1987 (Department of Social Security).
4. For instance, between 1969 and 1975 the number of male recipients aged 55-59 increased from 34 200 to 57 700 and those aged 60-64 increased from 42 900 to 64 600; in the same period the number of female recipients aged 55-59 increased from 10 000 to 14 900 and those aged 60-64 increased from 12 500 to 16 100.
5. ***Source:*** unpublished data from Department of Social Security.
6. ***An*** exception is Australia, where there is equality between the invalidity and unemployment payments. In Finland, the payments are the same in invalidity pensions, early disability pensions and unemployment pensions. These pensions are usually payable at a higher rate than unemployment benefit; moreover, the pensions continue for an unlimited period, unlike the case of unemployment benefits.
7. ***Sources:*** Eurostat and Member country Statistical Offices, for 1990.
8. ***Source:*** Eurostat for 1990.
9. For instance, in 1989/90, in Finland, 44.7 per cent of the older employed are self-employed, compared with 17.5 per cent for all the employed; corresponding proportions in France are 48.3 and 7.8 per cent, in Germany 76.5 per cent and 21.6 per cent; in Norway 18.6 and 12.6 per cent ***(sources:*** Central Statistical Office of Finland; Eurostat; Central Bureau of Statistics, Norway).
10. Excluding the case where the people had been employers. ***Source:*** Australian Bureau of Statistics, tabulation for 1989.

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