

OECD THEMATIC FOLLOW-UP REVIEW OF POLICIES TO IMPROVE LABOUR MARKET PROSPECTS FOR OLDER WORKERS

GERMANY (situation mid-2012)

In 2011, the employment rate for the population aged 50-64 in Germany was 11.9 percentage points higher than in 2005 and 6.9 percentage points above the OECD average. Further statistical information about the labour market situation for older workers in Germany is presented in the scoreboard in Table 1.

A major multi-country OECD review of employment policies to address ageing took place during 2003-05 and was summarised in the OECD synthesis report *Live Longer, Work Longer*, published in 2006. That report put forward an agenda for reform, consisting of three broad areas where policy action was seen as necessary to encourage work at an older age:

- strengthening financial incentives to carry on working
- tackling employment barriers on the side of employers
- improving the employability of older workers

One of the main purposes of this follow-up review is to take stock of the progress OECD countries have made in implementing this reform agenda. In the third quarter of 2011, a questionnaire was sent to all member countries, seeking information on the measures and reforms carried out since 2006. For each of the 21 countries¹ that had participated in the original review, the questionnaire was adapted to refer to the OECD's specific policy recommendations in each corresponding country report.

The main actions taken in Germany since 2005 are described in this Note. A summary assessment of the extent to which Germany has followed the OECD's recommendations in the report *Ageing and Employment Policies: Germany* is given in Table 2.

¹ Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States. For further information, see www.oecd.org/els/employment/olderworkers.

A. STRENGTHENING FINANCIAL INCENTIVES TO CARRY ON WORKING

A.1. OECD recommendations to Germany in 2005 – action taken

Be prepared if necessary to raise the retirement age in line with rising life expectancy

The 2007 Statutory Pension Age Adjustment Act increased the minimum age for retirement pensions from the public system. For people born in 1947 or later, the standard retirement age will gradually be raised from 65 to 67 over the period 2012-29. For people born in 1964 or later, the standard retirement age is 67. People with an insurance record of at least 45 years of mandatory contributions – from employment or child care and child-raising periods up to the child's tenth year will still be eligible to claim a pension at the age of 65 without any cut in payment. Early retirement with reduced pension is possible from the age of 63, conditional on an insurance record of 35 years.

Harmonise entitlement ages in the first, second and third pillars

The minimum pension age for state-subsidised supplementary retirement schemes was also raised in 2007. Previously, state subsidies for *Riester* pension schemes (additional voluntary and private pensions) were granted if the benefits were not paid out before the beneficiary reached the age of 60. The minimum pension age that private retirement schemes now must have in order to qualify for tax incentives was raised to 62. However, the higher age requirements will only apply to insurance contracts concluded in 2012 or later; rights from contracts concluded before that date are protected. Similarly, the age requirement for tax incentives for occupational pension commitments made by the employer as of 2012 will also be 62 years.

Review retirement rules for civil servants

The 2009 Act to Restructure Civil Service Law includes provisions to raise the retirement age for civil servants in the federal public service in line with those governing the retirement age of private sector employees. The rise will come in stages as of 2012.

Take further action to prevent widespread use of pre-retirement practices

The possibility of receiving unemployment benefit that is subject to less stringent preconditions for persons aged 58 and over expired in 2008. Employers frequently used the previous arrangement to persuade older workers to terminate the employment relationship and draw unemployment benefit, in order to bridge the time until retirement. From 2008 onwards, the arrangement only applies if the right to the benefit arose prior to that.

Remove subsidies for the old-age part-time work scheme

The 1996 Old-Age Part-Time Act expired before the end of 2009. That work scheme is now provided only if it began before the end of 2009, and the job covered by the old-age part-time work is reoccupied. Nonetheless, it is still possible to reach an agreement on non-supported old-age part-time work, since only the provision of support is limited in time.

Strengthen activation of and job placement for partially disabled people

In line with the UN Convention on the Rights of Persons with Disabilities, a bundle of measures has been adopted to promote the employment of persons with serious disabilities. Through what is called the "Inclusion Initiative – Improving the Participation of Persons with Serious Disabilities in Work on the General Labour Market", employers who create a new job for persons with serious disabilities who are

unemployed or looking for work, including those who have reached the age of 50 can receive assistance of up to EUR 10 000 per job. The initiative also includes a job centre to help find work for these people.

A.2. OECD recommendations to Germany in 2005 – no action taken

Monitor early retirement incentives

If the labour supply of those aged 60-64 is to be raised, early retirement incentives have to be fully eliminated. Setting appropriate reduction rates to ensure actuarial neutrality is a complex issue, and it is vital to keep monitoring them closely.

B. TACKLING EMPLOYMENT BARRIERS ON THE SIDE OF EMPLOYERS

B.1. OECD recommendations to Germany in 2005 – action taken

Promote a close link between the age profiles of earnings and productivity

The Federal Civil Servants Remuneration Act was overhauled in 2009. The previous system, where the basic salary was increased automatically every two years, has been replaced by a new system in which salaries are raised in relation to job experience. The reform seeks to make the basic salary level less dependent on the age of the civil servant in question.

In the new basic salary table, each grade has eight steps; employees whose performance is satisfactory should normally advance through all eight steps in 23 years. Excellent achievers may progress more quickly, whereas underachievers' advancement is suspended until they resume satisfactory performance. Job experience gained outside the public service may also be taken into account. The civil service thus becomes more attractive for those who have already worked in the private sector.

Since 2005, the remuneration of federal employees who are not civil servants has been governed by the collective bargaining agreement for the public services. In the new system, pay is related to the work assigned, job experience and individual performance. The new pay table has as many as six steps; employees advance solely on the basis of their work experience and performance.

Performance-related pay is intended to improve the quality of the public services by strengthening the motivation and individual initiative of public employees as well as the management culture. The collective agreement is not exhaustive, but represents a framework that may be supplemented by service agreements in the individual agencies.

Monitor the impact of age-discrimination legislation once implemented, and provide guidance for compliance and good practice

In order to effectively counter disadvantages in employment and at work, the General Anti-Discrimination Act was implemented in 2006. The independent Anti-Discrimination Agency set up at the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth has in addition launched a project on anonymised application procedures. This is a one-year trial in which certain information is left out of applications, including the date of birth. Anonymised résumés focus exclusively on applicants' skills and abilities. This is intended to improve the frequently less favourable chances of older applicants.

Take a balanced approach to employment protection

A balanced approach to employment protection has been taken in Germany. Fears that an older worker cannot be laid off with legal effect once recruited – even where there are urgent operational needs – or that termination of the employment relationship would entail considerable costs are unfounded.

B.2. OECD recommendations to Germany in 2005 – no action taken

Encourage the social partners to promote best practice

Trade unions and employers in Germany undertake activities to share and promote best practices. Public authorities in Germany consider that they do not need advice from the state.

C. IMPROVING THE EMPLOYABILITY OF OLDER WORKERS

C.1. OECD recommendations to Germany in 2005 – action taken

Consider broadening eligibility for wage guarantees

In 2007, eligibility for wage guarantees was extended. Necessary remaining unemployment benefit payment was reduced from 180 to 120 days, broadening access for the long-term unemployed. A rule was introduced stating that if there is no tariff agreement between the parties involved, a wage must be in accordance with local wage conditions. Moreover, the eligibility was extended to two years: 50% wage compensation the first year and 30% wage compensation the second year.

Statistics had shown relatively few claims by unemployed persons despite entitlement to financial support. Evaluation additionally suggested that the temporary wage guarantee in many cases was not a factor in taking up the new job and therefore confirmed only low employment impact. Hence, the fixed-term wage guarantee instrument expired at the end of 2011.

Set risk-group specific placement targets for the Public Employment Service (PES) and intensify profiling for the older unemployed

The initiative “Perspective 50plus – Employment Pacts for Older Workers in the Regions” has involved the launch of a series of so-called employment pacts since 2005. The target group is predominantly low- and semi-skilled long-term older unemployed people. One main aim is to give regions the freedom to respond to the specific local situation. The 438 joint agencies and the local authorities that have been in charge of long-term unemployed persons in Germany since 2005 (following the so-called “Hartz IV” legislation) regard the activation and integration of long-term unemployed persons over the age of 50 as a particular challenge. Measures need to reactivate and reintegrate these people into the labour market, to raise public awareness of the issue, to change attitudes of employers and enterprises (*e.g.* through public campaigns) and to identify and mainstream best practices and innovative tools.

The regional employment pacts aim at involving all appropriate regional and local actors, to ensure more and better employment for older workers. New strategies and instruments are developed for sustainable integration of that group into the labour market. This new form of regional co-operation takes a cross-sector approach by including labour market, employment, social and health policies. The regional pacts use a wide range of different tools and instruments, including profiling, assessments, special training measures, internships in companies, placement activities, wage subsidies for enterprises, time management and publicity campaigns to raise awareness of the challenges of demographic change. They also seek to develop better governance of the issue.

The first phase of the “Perspective 50plus” programme was implemented from 2005 to 2007; the second phase covered the years 2008 to 2010. The model of employment pacts is fully accepted by more than 400 basic provision bodies (representing around 96% of all such bodies) participating in the federal programme. In the third phase, from 2011 to 2015, the most successful approaches and concepts should be identified and made regular labour market policy. The free-to-use budget and consistent, rigorous simplification of administrative rules are success factors, the latter permitting the regional pacts to adapt the programme to their regional and local needs.

In Germany, wage earners who lose their jobs in regular employment are covered by federal unemployment insurance and a placement system for a limited period of time. The tax-financed welfare system is responsible for the placement of “needy” jobseekers (often long-term unemployed not covered by unemployment insurance); job centres are responsible for operating public employment services for them.

In 2006, a “management by objectives system” was introduced in the German welfare system, encouraging policy makers to pursue defined political goals, take appropriate measures and motivate the actors involved to make greater efforts. Since 2009, a major focus has been on jobseekers who have been unemployed on a long-term basis or who have drawn benefits over a long period. Indicators have been introduced with the aim of avoiding this long-term drawing on benefits and long-term unemployment. Use of labour market impact indicators in the PES has helped to reduce creaming of jobseekers with more favourable chances in the regular labour market.

Evaluate and optimise the existing training tools

A special programme (*WeGebAU*) was established in 2006 to support low-skilled unemployed and employed persons – as well as employees aged 45 and over – in small and medium-sized enterprises wishing to acquire a vocational training degree or to participate in certified continuous training. The aim of the programme is to improve the general employability of participants and to strengthen the competitiveness of enterprises. It also serves as an instrument to ensure a sufficient supply of skilled labour in Germany.

The participant receives an education voucher with which the PES certifies that certain expenses are absorbed. In addition, unemployment benefits can be paid for the time of the subsidised further training. The PES also pays wage subsidies and social security contributions for low-qualified employees during their training.

Evaluations show that nearly 50% of the companies have at least heard about the *WeGebAU* programme. Eighty-five per cent of participating employees perceive the programme as positive. However, take-up rates in the medium-sized firms, where the instrument seems well-tailored to needs, are considerably higher than in small companies, where increased efforts appear necessary to improve participation. It seems important that programmes like *WeGebAU* exist continuously over a longer period, to ensure that companies come to know them and consider them in their human resource management as re- and up-skilling of the labour force continues to gain importance. Funding of vocational training will therefore remain a core element of German labour market policy.

Improve co-ordination between health and pension insurance

Health insurance funds are obliged to provide necessary rehabilitation benefits as early as possible, as part of medical treatment. There has been contention for roughly ten years between the statutory pension insurance and statutory health insurance; the disagreement revolves round the purchase of substitute

benefits by insured parties who are unable to work but are gradually being reintegrated into working life following a period of receiving medical rehabilitation benefit.

In order to avoid further legal disputes, the institutions of the *Deutsche Rentenversicherung* (German Statutory Pension Insurance scheme) and the association of health insurance funds at the federal level, as well as the National Association of Statutory Health Insurance Funds, have found a solution. In effect from 2011, the agreement stipulates *inter alia* that pension insurance is responsible for providing the transitional allowance if gradual reintegration begins at the latest within four weeks after the end of the medical rehabilitation benefit. The agreement initially provides for a twelve-month pilot phase, during which the implementation is closely observed and the practitioners' remarks are regularly evaluated to ascertain whether changes in the procedure are necessary.

Promote lifelong workability at all ages

The pension insurance institutions provide medical benefits in order to safeguard the ability to work of insured parties who carry out an activity that is particularly hazardous to their health and that exerts an unfavourable impact on their ability to work. Conservation of workers' health and employability is a major health policy and economically significant goal, given the demographic developments and social and economic changes taking place.

No prevention act has yet been adopted. However, in conformity with the Act to Strengthen Competition in Statutory Health Insurance, which entered into force in 2007, health insurance funds are required by statute to invest in workplace health promotion. At present, the federal government is planning a prevention strategy that is likely to include further legal measures. The strategy aims *inter alia* to enhance workplace health promotion as a modern corporate strategy to improve health in the workplace. In order to produce a comprehensive prevention culture in companies, the health insurance funds are to develop health projects together with the enterprises more intensively than previously and with small and medium-sized enterprises in particular.

Table 1. Older workers scoreboard, 2001, 2005 and 2011

	Germany			OECD ^h		
	2001	2005	2011	2001	2005	2011
Employment						
-- Employment rate, 50-64 (% of the age group)	50.0	56.3	68.2	55.6	58.4	61.2
<i>of which</i> 50-54	74.6	75.3	81.9	71.8	73.7	76.1
55-59	58.2	63.4	73.8	55.9	59.9	64.8
60-64	21.4	28.2	44.2	32.5	35.6	40.0
-- Employment rate, 55-64 (% of the age group)	37.9	45.5	59.9	44.9	49.0	52.9
-- Employment rate, 65-69 (% of the age group)	5.4	6.5	10.1	15.2	16.5	18.5
Job quality						
-- Incidence of part-time work, 55-64 (% of total employment)	22.0	24.0	24.1	17.2	17.2	18.7
-- Incidence of temporary work, 55-64 (% employees)	4.4	4.5	4.4	9.0	9.1	9.1
-- Full-time ^a earnings, 55-59 relative to 25-29 (ratio)	1.41	1.24	1.38	1.32	1.33	1.34
Dynamics						
-- Retention rate ^b , after 60 (% of employees <i>t</i> -5)	33.7	34.8	51.3	37.8	40.4	42.2
-- Hiring rate ^c , 55-64 (% of employees <i>t</i> -1)	5.1	4.0	5.1	7.8	9.2	8.5
-- Effective labour force exit age ^d (years) Men	61.2	61.8	61.9	63.1	63.3	63.9
Women	60.2	60.7	61.4	61.1	62.0	62.8
Unemployment						
-- Unemployment rate, 55-64 (% of the labour force)	11.7	12.7	6.5	4.6	4.8	5.8
-- Incidence of long-term ^e unemployment, 55+ (% of total unemployment)	68.2	69.9	63.7	46.8	47.7	45.9
Employability						
-- Share of 55-64 with tertiary education ^f (% of the age group)	20.2	22.9	25.4	15.9	19.9	22.9
-- Participation in training ^g , 55-64						
Absolute (% of all employed in the age group)	1.7	4.4	3.9	6.6	8.2	9.4
Relative to employed persons aged 25-54 (ratio)	0.33	0.51	0.49	0.44	0.52	0.57

-- unavailable.

a) Mean gross hourly earnings, 1998, 2003 and 2008.

b) All employees currently aged 60-64 with tenure of five years or more as a percentage of all employees aged 55-59 5-years previously, 2000, 2005 and 2010.

c) Percentage of employees aged 55-64 with a job tenure of less than one year, 2000, 2005 and 2010.

d) 2001, 2005 and 2011. Effective exit age over the five-year periods 1996-2001, 2000-2005 and 2006-2011. The effective exit age (also called the effective age of retirement) is calculated as a weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights.

e) Unemployed for more than one year.

f) 2000, 2005, 2010.

g) Job-related training during the last month.

h) Unweighted averages for 34 OECD countries.

Source: OECD estimations from national labour force surveys and OECD Education database.

www.oecd.org/els/employment/olderworkers

Table 2. Ageing and employment policies: Germany (situation mid-2012)

OECD's recommendations to Germany in 2005	Action taken
A. Strengthening financial incentives to carry on working	
<i>Monitor early retirement incentives</i>	/
<i>Be prepared if necessary to raise the retirement age in line with rising life expectancy</i>	++
<i>Harmonise entitlement ages in the first, second and third pillars</i>	+
<i>Review retirement rules for civil servants</i>	+
<i>Take further action to prevent widespread use of pre-retirement practices</i>	+
<i>Remove subsidies for the old-age part-time work scheme</i>	+
<i>Strengthen activation of, and job placement for, partially disabled people</i>	+
B. Tackling employment barriers on the side of employers	
<i>Encourage the social partners to promote best practice</i>	/
<i>Promote a close link between the age profiles of earnings and productivity</i>	+
<i>Monitor the impact of age discrimination legislation once implemented, and provide guidance for compliance and good practice</i>	+
<i>Take a balanced approach to employment protection</i>	+
C. Improving the employability of older workers	
<i>Consider broadening eligibility for wage guarantees</i>	+
<i>Set risk group-specific placement targets for the PES and intensify profiling for the older unemployed</i>	++
<i>Evaluate and optimise the existing training tools</i>	+
<i>Promote lifelong workability at all ages</i>	+
<i>Improve co-ordination between health and pension insurance</i>	+
<p><i>Notes</i></p> <p>/ = no (relevant) action taken; + = some action taken, but more could be done; ? = some action taken, but could have negative impact and requires further assessment; ++ = substantial action has been taken.</p> <p>Source: OECD (2005), <i>Ageing and Employment Policies: Germany</i> and answers to the follow-up questionnaire from Germany.</p>	