POLICIES TO IMPROVE LABOUR MARKET PROSPECTS FOR OLDER WORKERS

SPAIN (*situation beginning of 2012)*

In 2011, the employment rate for the population aged 50-64 in Spain was 1.1 percentage point ***higher than in 2005*** *and 8.7 percentage points* ***below the OECD average.*** *Further statistical information about the labour market situation for older workers in Spain 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;
- removing barriers to continued employment and recruitment over the age of 50;
- 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 countries[1] 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 Spain since 2003 are described in this Note. A summary assessment of the extent to which Spain has followed the OECD's recommendations in the report *Ageing and Employment Policies: Spain* 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 Spain in 2003: action taken

Ensure that the recently-introduced system of "flexible retirement" effectively halts the trend towards early retirement

One of the salient features of flexible retirement is that pensions are adjusted on an actuarial basis in the event of retirement before the age of 65. The law of 2011 still allows for flexible retirement, introduced in 2002 for workers between 61 and 65, but only for those who have reached the new legal retirement age. Under collective agreements, flexible retirement normally calls for the establishment of a "replacement contract" [2]. This contract is offered to an unemployed person or a worker on a fixed-term contract with the company and may provide for full-time or part-time work. In any event, the time worked by the replacement employee should be at least equal to that no longer worked by his predecessor. The post filled may be the same as or similar to that of employee who is replaced.

Review the calculation of pension benefits

Spain's retirement legislation underwent a series of positive adjustments in 2011 following the "Social and Economic Agreement for Growth, Employment and Pension Guarantees" (ASE) signed on 2 February 2011 by the government and the social partners. The terms of this agreement were enshrined in the law of 1 August 2011 on the updating, adaptation and modernisation of the social security system. The main adjustments affecting older workers are outlined below.

The law of 2011 raised the legal retirement age by two years – from 65 to 67. However, it is to remain at 65 for those who have paid national insurance for 38 years and six months. The law will take effect gradually, as the retirement age rises and depending on the number of years' contributions[3].

Workers who become eligible for a pension over the age of 65 after contributing for more than 15 years will be entitled to a premium for every year they have contributed between the date of their 65th birthday and the date of retirement. The amount of the premium will depend on the number of years they have contributed before the first of the two dates given: 2% for 25 years or fewer; 2.75% for 25 to 37 years; and 4% from 37 years and up.

Workers may receive a retirement pension while continuing to work in a self-employed capacity, provided their total income does not exceed the guaranteed annual minimum wage. They will not be required to pay social security contributions and will not gain further social security entitlements.

Review with the social partners the extent to which collective agreements might impair the new legislation on "flexible retirement"

The Order of 6 July 2010, under which exceptional measures to reduce the public deficit were adopted, provided, as a transitional measure valid until 31 December 2012, that workers affected by compromises

[2] This is the "*Contrat de Relevo*", which seeks to replace a company worker who is opting for flexible or partial retirement by one who is a registered job-seeker.

[3] In 2013, persons wishing to retire must either be 65 with at least 35 years and three months of contributions or 65 years and one month with fewer than 35 years and three months of contributions. In 2021 they must be 65 with at least 37 years and three months of contributions or 66 with fewer than 37 years and three months of contributions. By 2027, they must be 65 with 38 years and six months of contributions or 67 with fewer than 38 years and six months of contributions.

adopted under economic redundancy agreements or by collective conventions and agreements entered into before the entry into force of this order should be entitled to flexible retirement at the following ages:

- 60 if the employee in flexible retirement is employed full time with an open-ended contract;
- 60 years and six months if the worker in flexible retirement is employed under other conditions.

The "Overall Strategy for the Employment of Older Workers 2012-2014" required social partners to consider whether it was appropriate and fair to keep these clauses in collective agreements, given the strategy's goal and the existence of the new legislation to raise the legal retirement age.

Ensure that private pensions do not act as an implicit subsidy to early retirement

In 2006 a law was passed reforming the way private pension schemes were taxed. These schemes are designed to enable individuals to supplement their state pension with an amount that brings their income more closely into line with the final salary they earned during their careers. To that end, the new law geared tax incentives towards schemes involving periodic payments and scrapped the 40% reduction granted if accumulated amounts were withdrawn in lump sums. It also granted tax benefits to company provident schemes and established a new long-term savings protection product in the form of a "Systematic Individual Savings Plan" for those wishing to provide for annuity income using accumulated capital. The latter differed from others in that it offered no benefits at the outset.

Similarly, to ensure that the private system matched or supplemented the state pension system, a limit on contributions was imposed. Bearing in mind that these contributions are deferred wages and that interest on savings is limited and must be paid fairly, it is reasonable to expect that all welfare arrangements with the required characteristics, without distinction, should offer the advantage of a reduction in the taxable base.

Reform certain provisions of sickness and disability benefits

Since the law of 2011, the pension for those permanently and partially disabled from exercising their normal profession has been paid as a fixed amount. The pension for those permanently and totally disabled is the final pension but may in exceptional cases be replaced by a fixed amount if they are under 60. Those classified as permanently and totally disabled from exercising their normal profession shall receive the pension together with an additional percentage fixed by the regulations if it is clear from their age, lack of general or specific training, social and professional circumstances or place of residence that they will have difficulty finding a job other than their usual one. Where total invalidity is the result of a common disease, the amount of the pension may not be less than 55% of the minimum wage for persons over 18.

Under the law of 2011, an "Active Placement Income" benefit will be introduced for unemployed persons over 52. This measure offers longer-term support to unemployed persons with particular economic needs who are actively looking for a job but are having difficulty finding one. Previously, benefit had been paid for a period of eleven months and for no more than three periods of unemployment.

B. REMOVING BARRIERS TO CONTINUED EMPLOYMENT AND RECRUITMENT OVER THE AGE OF 50

B.1. OECD recommendations to Spain in 2003 – action taken

Better target retention and recruitment subsidies

Grants for employing older workers were first introduced in 2003. At that time they were intended to ensure that persons over 60 who had worked more than five years in a company remained in work. In 2006 measures were brought in to encourage the employment of workers aged 45 or over, involving *inter alia* the offer of open-ended "replacement" contracts. Since 2011 measures have targeted workers over 59 with four or more years' service in the same company, providing for a 40% reduction in the employer's social security contribution for a maximum of one year. A study of employment grants has shown that their impact on the labour market has been positive but limited and that they have often produced deadweight effects.

A more detailed account of current measures to encourage older workers to accept a job and return to the labour market is given below:

a) To encourage retired workers to get back to work, the regulations allow them to work part-time. Earning money in this way is compatible with receiving a pension, which is reduced in proportion to the length of the working day. Under this arrangement the contribution bases applicable to the periods of part-time work are the same as for full-time work.

b) Open-ended employment for all those over 45 is promoted in two ways:
i) Employers may negotiate an employment contract with these workers offering an incentive to accept open-ended employment with a reduced severance payment in the event of redundancy; and *ii)* Companies that hire long-term unemployed persons over 45 may be exempt from paying social security contributions for the first three months of the contractual period where the total annual amount does not exceed EUR 1 200 (EUR 1 400 in the case of a woman).

c) Companies that recruit unemployed disabled workers over 45, for an open-ended or fixed term, are eligible for special grants for the duration of that term.

d) Workers over 65 who carry on working or resume working under an open-ended contract and have effectively paid social security contributions for at least 35 years are exempt from paying further contributions.

e) Workers over 52 may receive both unemployment benefit and a salary. Under this arrangement, the office that manages unemployment benefit payment pays 50% of the latter and the company pays the rest as part of worker's salary, together with the social security contribution. Companies that employ these workers are entitled to grants.

Review the current employment regulations regarding temporary work

Workers over 45 may qualify for an open-ended "replacement" contract in the event another worker takes flexible retirement. The goal is to increase the number of open-ended contracts and thus reduce redundancy payments from the usual 45 days' salary per year of service in the company to 33 days with a maximum of 24 monthly payments.

B.2. OECD recommendations to Spain in 2003 – no action taken

Ensure that the age-profile of earnings is not excessively steep

C. IMPROVING THE EMPLOYABILITY OF OLDER WORKERS

C.1. OECD recommendations to Spain in 2003 – action taken

Strengthen "activation" elements available in unemployment benefits for older workers and review the role of public employment services

Since 2011, as part of the new Overall Strategy for the Employment of Older Workers 2012-2014, public employment services have had to offer fixed-term public service jobs to unemployed persons who have been receiving benefit for more than a year and are over 55. These jobs, whose duration is limited to one year, serve to maintain the workers' employability and facilitate their return to the ordinary labour market.

Older unemployed persons are also encouraged to take up self-employed work using any unemployment benefit to which they may be entitled as capital.

Reform the current firm-training system so that it provides better training opportunities for all, notably older workers

As provided by Royal Decree 3/2011, workers over 45 are the target group for active labour-market policies devised by the Public Employment Service. They are given priority in training schemes designed to increase employability, such as the mixed employment/training programme and employment workshops for job-seekers over 25.

Under the Overall Strategy for the Employment of Older Workers 2012-2014, older unemployed persons must validate their professional experience and thus gain recognition of their existing qualifications. These qualifications will provide a basis for further training in the same sector or in similar sectors, which should improve their prospects for return to the labour market. They might, for example, take advantage of the *Acreditate* system, where the emphasis is on reviewing the vocational training module for unemployed women over 55 with a low or moderate level of education, and helping them gain the skills required for work in the catering, personnel, security or sales sectors.

OECD recommendations to Spain in 2003 – no action taken

Identify best practices of firms which facilitate gradual retirement transitions, and reduce obstacles to part-time work

Introduce in-work benefits for non-employed older workers who accept a job

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

	Spain			OECD[h]		
	2001	2005	2011	2001	2005	2011
Employment						
-- Employment rate, 50-64 (% of the age group)	47.0	51.4	52.5	55.6	58.4	61.2
of which 50-54	60.0	65.9	65.7	71.8	73.7	76.1
55-59	47.8	52.6	55.3	55.9	59.9	64.8
60-64	29.2	32.1	32.7	32.5	35.6	40.0
-- Employment rate, 55-64 (% of the age group)	39.2	43.1	44.5	44.9	49.0	52.9
-- Employment rate, 65-69 (% of the age group)	3.9	4.5	5.0	15.2	16.5	18.5
Job quality						
-- Incidence of part-time work, 55-64 (% of total employment)	6.3	9.7	10.8	17.2	17.2	18.7
-- Incidence of temporary work, 55-64 (% employees)	12.7	14.0	10.4	9.0	9.1	9.1
-- Full-time[a] earnings, 55-59 relative to 25-29 (ratio)	-	-	-	1.32	1.33	1.34
Dynamics						
-- Retention rate[b], after 60 (% of employees *t-5*)	50.1	51.3	45.0	37.8	40.4	42.2
-- Hiring rate[c], 55-64 (% of employees *t-1*)	9.4	9.1	6.2	7.8	9.2	8.5
-- Effective labour force exit age[d] (years) Men	61.8	61.2	62.3	63.1	63.3	63.9
Women	61.9	63.6	63.4	61.1	62.0	62.8
Unemployment						
-- Unemployment rate, 55-64 (% of the labour force)	6.3	6.1	15.0	4.6	4.8	5.8
-- Incidence of long-term[e] unemployment, 55+ (% of total unemployment)	54.3	49.5	59.7	46.8	47.7	45.9
Employability						
-- Share of 55-64 with tertiary education[f] (% of the age group)	9.7	14.5	17.8	15.9	19.9	22.9
-- Participation in training[g], 55-64						
Absolute (% of all employed in the age group)	0.5	4.5	5.7	6.6	8.2	9.4
Relative to employed persons aged 25-54 (ratio)	0.13	0.39	0.45	0.44	0.52	0.57

-- unavailable.

a) Mean gross hourly earnings.

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) Unweigted 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: Spain** *(situation beginning of 2012)*

OECD's recommendations to Spain in 2003	**Action taken**
A. Strengthening financial incentives to carry on working	
Ensure that the recently-introduced system of "flexible retirement" effectively halts the trend towards early retirement.	+
Review the calculation of pension benefits.	+
Review with the social partners the extent to which collective agreements might impair the new legislation on "flexible retirement".	+
Ensure that private pensions do not act as an implicit subsidy to early retirement.	+
Reform certain provisions of sickness and disability benefits.	+
B. **Removing barriers to continued employment and recruitment over the age of 50**	
Better target retention and recruitment subsidies.	+
Review the current employment regulations regarding temporary work.	+
Ensure that the age-profile of earnings is not excessively steep.	/
C. Improving the employability of older workers	
Identify best practices of firms which facilitate gradual retirement transitions, and reduce obstacles to part-time work.	/
Strengthen "activation" elements available in unemployment benefits for older workers and review the role of public employment services.	+
Reform the current firm-training system so that it provides better training opportunities for all, notably older workers.	+
Introduce in-work benefits for non-employed older workers who accept a job.	/

/ : 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.

Source: OECD (2003), *Ageing and Employment Policies: Spain* and answers to the follow-up questionnaire from Spain.