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AGEING AND EMPLOYMENT

Analysis of Five Countries and
Two US States

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DES TRAVAILLEUSES ET TRAVAILLEURS
EXPERIMENTES DE 55 ANS ET PLUS**

Québec 

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Executive Summary

Australia

Australia faces a dual problem: ensuring the sustainability of its social welfare system, and guaranteeing an adequate labour supply. Far more early retirees are claimants of disability insurance than are unemployed. Accordingly, governments have tightened eligibility for early retirement and increased incentives to delay the age at which people fully withdraw from the labour force.

The major reforms undertaken to meet these objectives are: an increase in the pension age from 65 to 67 by 2023; two separate schemes to permit older workers to claim part of their pensions while continuing to work; an increase from 9% to 12% in employer contributions to the retirement system; and a raising of the age limit for compulsory employer contributions, to 75 years. In addition, the Australian government and many sub-national governments are implementing small-scale but innovative active labour market policies focused on the elderly.

While there is some early evidence that employers are increasingly turning to older workers as other labour pools dry up, the real impact of the above sets of policies, many of which have yet to be fully implemented, will not become clear for one or two decades.

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Denmark

Denmark is one of the most successful EU countries in terms of employment rate -- for all ages. As a result, prior to the global financial crisis, the political agenda was dominated by concerns about raising the labour supply. Efforts to achieve this using supply side measures were reasonably successful.

However, there has been relatively little increase over the last decade in the employment rate of older workers (albeit from a high level). The retirement age has shown little change over the last decade, and inactivity increases very rapidly at certain ages (especially for people aged 60-64 years). In recent years, and most notably with the Welfare Agreement in 2006, the government has sought to provide incentives for later retirement. These include a tax credit available to a large segment of workers at the age of 64 if they have been in the labour market between the ages of 60 and 64.

The total number of early retirees fell from 186,000 to 146,000 between 2004 and 2009 -- suggesting a significant impact from the reforms.



Germany

Population ageing is much further advanced in Germany than in other European nations. Organisations face the risk of an increase of 15 years in the median age of their staff over the next 20 years. As a result, in recent years there has been a close coordination of labour market and pension policy around the objective of better including older workers in the labour market emerged.

Germany's core problem was that pre-retirement was facilitated by the unemployment benefit scheme. Measures to dissuade workers from retiring early by using unemployment benefit schemes included decreasing the maximum duration of unemployment benefit for older workers, and the introduction in 2007 of stricter job search requirements for workers aged 58 years and older. The public pension system is also being made less generous.

Evidence suggests that the reforms were successful in reducing incentives to use unemployment benefit as a pathway to early retirement: there has been a sharp decline in the proportion of workers in the 55-59 year age group who are unemployed. However, the reforms were much less successful in increasing the retirement age. Germany has also experimented widely with active labour market policies. While it is too early to judge the success of many of these, some have already proven to have had only very limited impact.

Sweden

Sweden performs outstandingly in terms of employment of older workers, partly because reforms targeting them were implemented in Sweden much earlier than in other countries. One key labour market reform in the 1990s stands out: Assistance in hiring, implemented in 1997, which facilitates the employment of the unemployed by offering employers a tax cut on labour costs. For people over the age of 57 who remained unemployed for 24 months, a special provision allows employers to receive a 75% subsidy for a maximum of 24 months.

Public pension reforms were also implemented early, seeking to ensure sufficient levels of future pensions by providing incentives for later retirement. Public pension terms were redefined in 1998, and the reforms took effect in 2001. Sweden's new pension system aims to facilitate the combination of work and pension; strengthen the link between contribution and benefits; and make the system automatically adjust to demographic shifts. The latter is a particularly innovative feature.

United Kingdom

The employment rate of workers aged 55-64 has been on an increasing trend, particularly among women, for whom it rose from 41% to 49% between 2000 and 2009. Policy incentives implemented over the last decade have mostly not specifically targeted the elderly. However, one area in which the UK has advanced significantly over the last decade is in legislation and education on age discrimination issues. For example, the Employment Equality Age Regulation, which came into force in 2006, introduces (among other measures) a new right allowing employees to request retirement after 65 with an obligation for the employer to consider the request.

However, it is the low level of public pensions in the UK that has been stressed in many reports to be the main reason for the good performance in terms of employment of seniors. Since 1997, governments have maintained the goal of minimising public involvement in pension funding, by providing incentives for corporate contributions to individual savings, and by tackling the impact of ageing through reform of the legal retirement age.

United States: Colorado and Utah

The percentage of people in retirement is projected to increase from 12% to 19% in the United States, and the country faces three issues in this regard: Almost all public pension schemes at the state level, and often at the municipal level, have large unfunded liabilities; an emphasis on youth, dynamism, and flexibility in the labour force makes it very difficult for over-55s to enter the labour market; and while Americans are on average younger than Europeans, they are on average less healthy, triggering more age-related health problems.

These problems are faced to varying degrees by Colorado and Utah, the two states examined in this report. Colorado's government has implemented innovative policies on pensions. The state faces a serious pension system shortfall that is structural in nature. A reform passed in early 2010 aims to place the state employees' pension fund, which has almost 500,000 members, on a path towards sustainability. Key features of the reform include capping the annual cost of living adjustment at 2%, and fixing it at zero in years when the fund's investments post a negative annual return.

Utah also has funding issues related to its state pensions system, and in response has undertaken one of the most innovative reforms in the United States. Key elements of the reform include closing the existing defined benefit programme to new employees, and instead offering new employees a choice between two new plans. Under the first plan, benefits provided may not be increased until all state plans are fully



funded. Under the second, a defined contribution ‘cap’ for employers of 10% of base salary (for most participating employees) means that spending on pensions cannot rise, irrespective of what happens to the state’s demographic structure and/or the stock market.

Summary of Innovative Elements of Key Policies

	Pension reforms	Retirement Age and Incentives	Active Labour Market Policies
Australia	The age limit for being eligible for compulsory pension contributions by employers will be raised to 75 years in 2013	' <i>Transition to Retirement</i> ' schemes facilitate gradual retirement through part-time work and early access to pensions. Pension age will be progressively increased from 65 to 67 from 2017 to 2023	<ul style="list-style-type: none"> - Training grants and other assistance under 'Experience Plus' programme - Funding grants for 'Golden Gurus' networking organisations
Denmark		<ul style="list-style-type: none"> - Early retirement and statutory retirement ages will be raised, but only starting in 2019 and 2024 respectively. As of 2025, retirement ages will be synchronised with life expectancy. - System of tax-free bonus and tax credit for working into the 60s 	<ul style="list-style-type: none"> - Original <i>Flexicurity</i> model - Long tradition of awareness campaigns with focus on sick workers inclusion and age management
Germany	<ul style="list-style-type: none"> - Most early retirement schemes being phased out by 2012 - Reducing the generosity of public pensions 	<ul style="list-style-type: none"> - Statutory pension age will rise from 65 to 67 from 2012 to 2029 - Decreasing the maximum duration of unemployment benefit for older workers - Phasing out job search requirement exemptions for older workers in 2007 - Subsidies for hiring older workers 	<ul style="list-style-type: none"> - 'Perspective 50-plus': awareness and promotion campaigns and support network with public-private partnerships at the regional and local levels - Focus on health, workplace adaptation and mixed-age work teams
Sweden	<ul style="list-style-type: none"> - Flexible retirement age and flexible payout options - System automatically adjusts to demographic shifts 	<ul style="list-style-type: none"> - Hiring subsidies by offering employers tax cut on labour costs - Positive discrimination towards long-term employees 	<ul style="list-style-type: none"> - Tax incentives for education and training - Financial incentives for employers to improve working environments and conditions



<p>United Kingdom</p>	<ul style="list-style-type: none"> - Encourage even greater private sector involvement in pension provision through compulsory enrolment in corporate pension funds - New right allowing an employee to request retirement after 65 - Phasing out of mandatory retirement 	<ul style="list-style-type: none"> - 'New Deal 50+', a broad incentive and support scheme for older workers - Credit incentive offered for older workers - Work Capability Assessment for new disability pension claimants 	<ul style="list-style-type: none"> - Institutional partnership for 'Health, Work and Wellbeing' strategy - Age diversity code of practice - Focus on vocational training and anti-discrimination
<p>Colorado</p>	<ul style="list-style-type: none"> - Cost of living adjustment capped at 2%; reduced to zero if state pension fund posts annual loss 	<ul style="list-style-type: none"> - Rapid rise in legal retirement age, from 55 to 58 in 2010 and to 60 in 2017 	<ul style="list-style-type: none"> - 'Colorado Experience Bank' website to help older workers find employment - Comprehensive programme for vocational training
<p>Utah</p>	<ul style="list-style-type: none"> - State defined benefit system closed to new employees - Choice of schemes for new employees - Employer contributions capped at 10% of base salary for most employees 	<ul style="list-style-type: none"> - Reduction in employers' labour costs specifically for older workers - Limiting 'double dipping', whereby former public sector employees return to work while receiving pension 	

Ideas for Québec

1. Overview of the Issues

This section of the report is aimed at suggesting some policy innovation in the Province of Québec and reflects the findings of our country case studies. It is also in line with the OECD's three key areas of policy innovation:

1. Governments need to encourage old age participation in the workforce.
2. Employers must also encourage their older workers to remain, while re-examining the practice of mandatory retirement at certain ages.
3. Older workers need to seek new skills, be open to working longer and should not suffer from discrimination.

For many ageing Québécois, overcoming the recent financial shock will require saving more, consuming less in retirement, and/or working longer. However, saving more for many older workers before retirement is impossible -- there simply is not enough time. For others, reducing already modest retirement consumption is generally unpalatable. Therefore, in the future, staying in the workforce is likely to be the only option for a majority of individuals -- but those who cannot work longer due to poor health will have a hard time achieving their expected standard of living and will ask for increased state support.

For many employers, the shrinking and ageing pool of labour will be a challenge. Access to limited skills, experience and an insufficiently high number of qualified workers may reduce competitiveness, productivity, innovation, investment and the overall good business environment and high standard of living these drivers have brought to Québec. Adaptation will be the key and this raises three fundamental policy issues, which are at the heart of the Commission's work:

- How to accommodate and stimulate longer work participation?
- How to make sure that both the health and the skill sets of the 55+ age group are fit for tomorrow's workplace?
- How to incentivise an active life and raise motivation, social contribution and savings?

Several policy options can be experimented and the suggestions below are neither perfect nor restrictive of other policy innovation and should be considered as early proposals for exploration.

2. Fiscal policies for *'être âgé mais engagé'*

TAX FREE INCOME INCENTIVE

Workers who abstain from early retirement or gradual retirement and elect to work full-time between the ages of 55 years and 65 years could accumulate 'tax-free wage' equivalences, which they could redeem against wages to be earned between the ages of 65 and 75. For example, someone who worked full time between the ages of 55 and 65 could apply up to 52,000 Canadian dollars of tax-free income against future wages to be earned if he/she works full-time or part-time a minimum of two years before his/her 75th birthday. The tax-free wage could simply be an increase in the minimum non-taxable personal income (*'exemption personnelle de base bonifiée pour travailleur aîné'*).

OLD-AGE WORKING BONUS

Part-time and full-time workers aged 65 years to 75 years could accumulate an 'old-age working bonus', which they could redeem 12 to 24 months later. The bonus would be an increase in the basic state pension and could be calculated using a 'time worked' instead of 'wage earned' model. For example, if someone aged 66 works 1,500 hours in 2013, then in 2015 he/she will receive a 12% bonus on his/her basic Québec state pension for that year.

PROGRESSIVE INCREASE IN MAXIMUM RRSP CONTRIBUTIONS

A progressive increase in the maximum RRSP contribution level for people aged between 58 years and 65 years. For example, the contribution limit is made 20% higher than the standard model for people aged 58-60 years; 30% higher for people aged 60-62; and 40% higher for the 63-65 year age group.) The higher contribution limits can only be based on salaries.

REFORM OF DEFINED BENEFIT PLANS

Reform the early retirement and defined benefit plans offered to employees of the public sector: study how to end early retirement options and how to close access to defined benefit plans to new entrants; maybe split the existing defined benefit regimes into two or three systems (by number of years of contribution or funded/unfunded status); and create a defined contribution plan for

new civil servants -- and potentially 'force in' those who joined the civil service in the last five years. No cost-of-living indexation of benefits when the public sector plans have negative returns.

INCREASE THE RRQ CONTRIBUTION LIMITS

Increase the Régie des Rentes du Québec (RRQ) contribution limits in two ways:

- Small, progressive and mandatory hikes for both employers and employees; and
- a new voluntary extra contribution model ('RRQ+') for workers at organisations that do not offer a complementary pension regime.

MORE OPTIONS FOR GRADUAL RETIREMENT

Gradual retirement schemes, notably for people aged 60 years and over, should be broadened in terms of both working condition options and profession types. Individual trade offs in favour of a mix of part-time work and partial pension income are acceptable, but should have real cost for workers aged in their 50s (otherwise it becomes an early retirement incentive). Offering 'time cuts for pay cuts' acceptable to both employees and employers is manageable in some circumstances. Fiscal adjustment at the taxation and contribution levels need to be seriously considered.

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COMBAT 'DOUBLE DIPPING'

Anti-'double dipping' measures should be designed and applied in the public sector. Retirees who elect to return to work in public or para-public organisations, even as contract workers, should be free to do so but should not receive pension benefits if they work full-time. Only the 'retired-back-at-work' who are part-time workers/contractors and who earn less than 30,000 Canadian dollars per year could enter into a mix of 'income and pension benefits' with a public sector employer. Special arrangements could be made for specific professions suffering from labour shortages (eg healthcare workers), according to strict rules, duration and controls.

USING RRSP FOR EDUCATION AND TRAINING

Unemployed workers aged 50 and above who use RRSP withdrawals to finance their studies or training expenses in order to find work should be allowed do so tax-free (up to a maximum of 20,000 Canadian dollars per year for three years) and be allowed to re-invest that amount in their RRSP in later years.

3. Social policies for '*être âgé mais engagé*'

Older workers' employability is the key to both fighting discrimination and prolonging careers. Studies suggest that the productivity potential of older workers often is not impaired by age, but rather by skill obsolescence, which can be corrected through training. When employers understand the value of the skill sets of ageing workers, their mindsets change.

However, improving the employability of older workers is a major challenge in most OECD countries, sometimes because of both a weak offering of specialised training programmes, and low take-up rates among older workers. The development of policies and services targeted at the older unemployed and, to a lesser extent, ageing workers, is a priority area in the countries studied.

SUBSIDISATION OPTIONS

The following subsidisation options could be considered in Québec:

- Follow the German example and subsidise employers for hiring and training individuals aged 50 and over who have been unemployed for six months or more. The subsidy could correspond to a maximum of 20% of paid wages (and take the form of a monthly refund to the employer) for a commitment of one year of employment and training, extendable to a two-year period with a maximum total value of 20,000 Canadian dollars.
- Inspired by the Australian experience, the government could offer employers (including small business owners) a training grant of 3,000 Canadian dollars to turn a worker aged 55 years or over into an in-house trainer able to teach his/her skills to younger employees. The skill or expertise transfer programme would specify the objective, duration and level of participation required for a grant approval.

SOCIAL MEASURES

Specific resources should go towards people aged 50 years or over who are either unemployed or in involuntary part-time work (underemployed). These people want to work more and need support, eg for planning a career change, training, education, or networking. These tools will help extend their working lives. Government agencies and local NGOs should consider enhancing education programmes and programme delivery capacity to better target these individuals.

However, improving training opportunities is not enough. Two more dimensions must be addressed:

1. Positive attitudes towards older workers should be promoted and discrimination sanctioned.
2. Improving healthcare and workplace conditions should also be a priority, tackled via an inter-agency approach.

In this search for improved attitudes, worker health and workplace conditions, it is of strategic importance to involve many stakeholders in government plans and campaigns. These include unions, business groups, municipalities, academic institutions, consultants and NGOs. This process could draw lessons from the German 'Perspective 50+' project, which is based on regional and local ownership of programmes and resources by a diverse group of economic and social agents. The Australian experience with the 'Golden Gurus' programme or the 'Experience Pays Awareness Strategy' -- though of relatively small scale -- may also be relevant in the Québec context. Confidence and connections are essential in supporting ageing workers in transition. Informing them about the benefits of an active life and stimulating longer careers or socio-professional contributions must illustrate "why it's not because you can afford to retire that you should."

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In summary, national programmes and local actions should aim to:

- recognise older workers' skills and enhance them;
- adapt their working environments and working conditions (eg, through preventive medical examinations and systematic adjustments of workstations);
- bridge the age divide (eg, by using mixed-age working teams for knowledge transfer); and
- sustain 'life satisfaction' that includes employment, past the age of 60 or 65 years.

4. Further considerations

ADJUSTMENT FOR CHANGING DEMOGRAPHY

Studying the details of the Swedish model of 'automatic adjustment to demographic shifts' may help to place the public pensions system on a more solid footing. Regularly adjusting public pension contributions and benefits and retirement ages according to the life expectancy of



each age group and balancing the value of contributions with pension liabilities would bring increased sustainability in most regimes, including provincial, public service and municipal pensions.

RECONSIDER THE DISABILITY PENSIONS SYSTEM

As the forthcoming ageing boom will likely increase the number of disability pensioners, a change in approach is also needed. Focusing on the capacities of 'ill' ageing workers and directing attention towards the resources and development potentials of those citizens rather than on their problems and limitations would be beneficial. In the coming decade, disability pensions will have to be re-examined and closely monitored. Stricter rules may be needed and new ones should favour some sort of part-time work. Maybe a 'sickness allowance' à-la-suédoise (or '*prestation compensatoire pour cause de maladie*') with strict controls and a limited duration could precede a formal disability pension. Maybe a public-private supplementary insurance system specific to the 45-65 year age group is possible, with incentives for workers to purchase sickness or partial disability insurance from private insurers or mutuals.



COUNTRY REPORTS

Australia

1. Introduction

LABOUR SUPPLY SHORTAGE

Australia, like other developed nations, has concerns about meeting the future social welfare costs associated with its ageing population. Australian governments have acted accordingly, for instance putting incentives into the retirement income system in order to delay the age at which people fully withdraw from the labour force.

However, the current, more pressing problem is labour supply. The Australian economy is buoyant, and unemployment is low, with a rate of 5.3 per cent as of November 2010. A shortage of skilled workers to fill vacancies may become a frustration for organisations, and in the coming years the ageing of the population will constrain labour supply growth. Some occupations and industries are already feeling pressures from the demographic shift in labour supply, in particular those that have ageing workforces, poor working arrangements or conditions, or unattractive (eg remote) locations. As a result, and in order to contain fiscal costs, the current government is implementing a raft of measures that aim to raise participation by older workers.

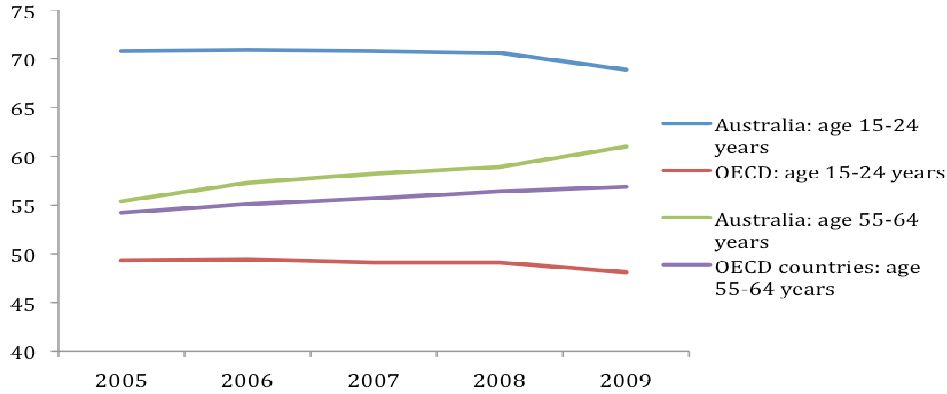
In Australia, older people of working age who are economically inactive are often claimants of disability insurance. In 2008, among the approximately 750,000 disability pensioners, two-thirds were aged over 45 -- the vast majority of these people were not in any kind of employment. Well over half of them had been claiming benefits for more than 10 years. This figure dwarfs that for unemployment among older people. Many of those claiming disability insurance are too ill or distant from the labour market to make returning to it a realistic possibility, while workplaces are often inflexible and discourage a return to work by people with even minor functional incapacities. This means that effective policy aspirations need to focus on those with a relatively stronger attachment to the labour market.

PARTICIPATION RATES OF OLDER WORKERS

As in many other developed nations, labour force participation rates among older Australian workers have shown a strong upward trend recently (see Figure 1) after a sharp decline throughout the 1980s and

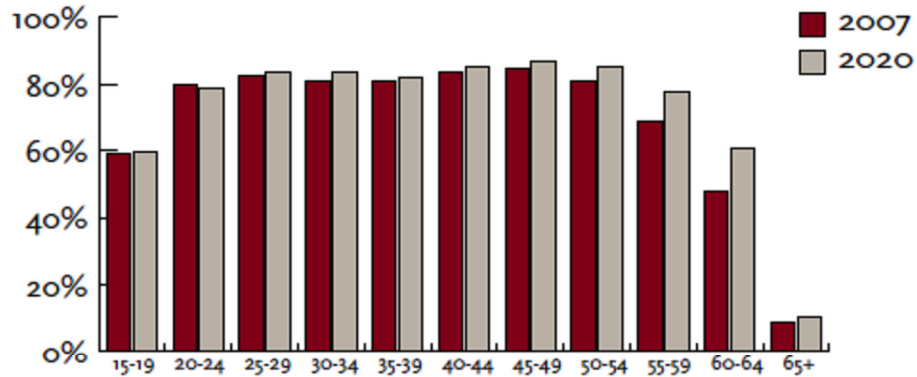
1990s. Participation rates for both younger and older age cohorts exceed the OECD average.

FIGURE 1: LABOUR FORCE PARTICIPATION RATES (%)



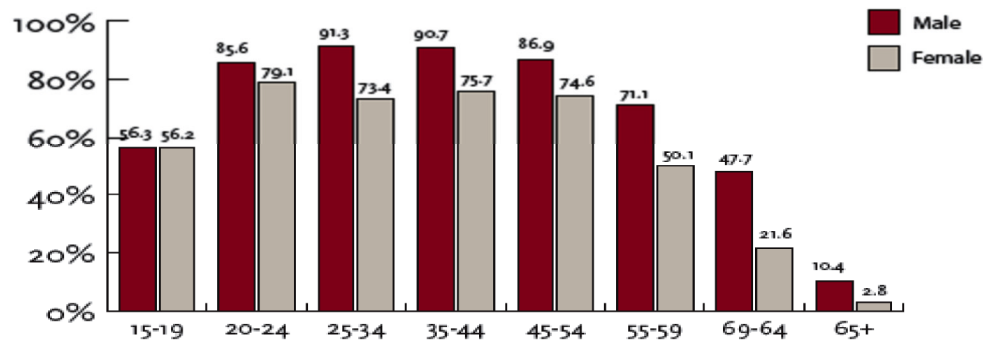
Source: OECD Employment Outlook

FIGURE 2: PROJECTED ECONOMICALLY ACTIVE POPULATION, within age group for 2007 and 2020



Source: ILO, 2009

FIGURE 3: EMPLOYMENT RATES IN AUSTRALIA, within age group



Source: Australian Bureau of Statistics, 2009

Despite the recent improvement in their participation rates, older workers are disadvantaged compared to other groups. In recent decades, older workers have had a greater likelihood of both losing their jobs and experiencing considerable problems re-entering the labour market. In 2009, approximately one-third of the unemployed population (43,800 individuals) aged 45-64 years had been unemployed for one year or more. This compares to less than one-fifth for the workforce as a whole.

2. Age-specific employment policies

Recent public policy in Australia has aimed at prolonging working lives through both pension reforms and labour market policy. The intention has been to tighten the eligibility for early retirement while increasing incentives to carry on working.

PENSION REFORM

Important changes have been made to Australian pensions. From an employment perspective several reforms are of note:

The superannuation guarantee

The 'Superannuation Guarantee' (SG) is Australia's retirement system, whereby employers make compulsory contributions, determined as a proportion of workers' wages, into a fund. Under the superannuation guarantee, employers are required to make tax-deductible superannuation contributions on behalf of their employees. The government announced in 2010 an increase in the SG rate from 9% to 12%. The expectation is that this reform will significantly improve the adequacy of the future retirement incomes of 8.4 million workers.



In addition, the SG age limit is set to be raised from 70 to 75. These reforms will take effect in July 2013. Currently, employers can make voluntary deductible contributions for employees under the age of 75 (and the self-employed can make deductible contributions until they reach age 75). However, individuals aged 70-74 often find it difficult to negotiate voluntary contributions with their employers. The reforms will mean that workers aged up to 75 years will be eligible for compulsory contributions to be made on their behalf for the first time, aligning the age limit for SG contributions with that for voluntary and self-employed contributions. Around 33,000 workers are expected to benefit from this adjustment. The hope is that this will provide an incentive for older workers to remain in the workforce.

'Age Pension' eligibility age

The 'Age Pension' is a non-contributory payment for people meeting certain age, residence and means test qualifications. It is designed to ensure that older Australians have adequate means of support. For both men and women born on or after 1 July 1952, the pension age is progressively increasing from 65 to 67, starting on July 1, 2017, and reaching 67 by 2023.

The Work Bonus

Implemented in September 2009, this measure aims to provide an incentive for older Australians to enter or remain in the workforce by allowing working pensioners to keep more of their pension while they are working. It applies to those over Age Pension age who receive employment income. Under the terms of the scheme, only half of the first 500 Australian dollars of gross employment income per fortnight is counted in assessing the pension rate. This means that the maximum amount that can be disregarded is 250 dollars a fortnight.

Part-time, 'gradual retirement' schemes

The Federal Government's Transition to Retirement (TTR) scheme allows a worker to commence an account-based pension while still working. TTR provides an opportunity to ease into retirement and take advantage of tax concessions. TTR can only be taken up by those who have reached 'Preservation Age' (the age at which the government determines whether or not a person is eligible). Preservation Age is determined by date of birth, ranging from 55 years for those born Before July 1, 1960 to 60 years for those born on or after July 1, 1964.

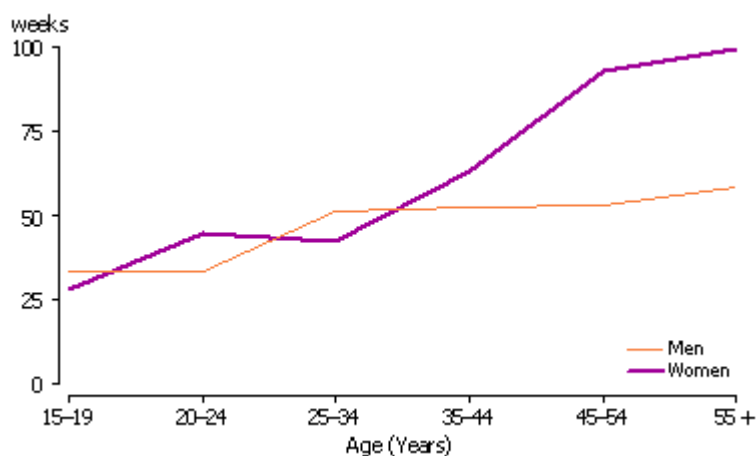
While an individual is still working, employer and member contributions will continue to be paid into their superannuation account. However, under the TTR rules, it is possible to withdraw

some or all of a superannuation fund and turn it into a retirement income stream to compensate for a reduced income resulting from a move from full-time to part-time work. The amount of pension an individual may draw down is dependent on a number of factors, including current superannuation balance and the individual's own personal financial position. Until recently, an individual could only access their superannuation once they reached age 65 or retired.

However, a 2009 study of UniSuper (for university employees) members found that although TTR was introduced to encourage Australians to stay in the workforce longer while reducing working hours, few members identified TTR as a practical pathway to retirement, preferring instead to focus on its tax minimisation benefits, which are substantial.

Moreover, in Australia, as elsewhere, some older workers are in involuntary part-time work (underemployment). The number in this category rose during the economic downturn in 2008-09. Notably, once older workers enter involuntary part-time work they are likely to remain there (see Figure 4).

FIGURE 4: MEAN DURATION OF UNDEREMPLOYMENT (SEPTEMBER 2009)



Source: Australian Bureau of Statistics, 2009

3. Maintaining productivity of older workers

Public policies targeting the employability of older workers have existed at the state and federal level for many years, with recent strong emphasis on issues of age discrimination and its effects on older workers' employment prospects. However, a significant deficiency in current public policy has been a lack of understanding of



how best to knit together its different strands in order to find the most effective way to prolong working lives.

Policies have focused on qualification and training, and on attitudes to older workers, rather than on improving health and workplace conditions. Older workers have been over-represented in the recent expansion of precarious work -- including casual, subcontracted, outsourced and temporary work. Therefore, they are exposed to increased risks of ill health and injury associated with poor work organisation, inadequate training, and poorer knowledge of hazards and how to manage them. The ability to quantify injury concerns for older workers has been hampered by a poor understanding of the contribution of work injuries to premature labour force withdrawal, and the extent to which workers' compensation risks are directly related to age. The high number of disability pensioners highlights the importance of tackling this.

QUALIFICATION AND TRAINING

The current Labor government is implementing a series of measures targeting the employability of older workers. The number of people affected overall is quite small, although the schemes are innovative, targeting issues of knowledge transfer and skill enhancement. Elements include:

- 'Experience Plus', which commenced in July 2010, and aims to keep older Australians engaged in the workforce and sharing their skills and experience with younger generations. It includes free professional career planning sessions and a curriculum vitae appraisal service for older Australians. Each employer (or small business owner) can apply for federal Experience Plus training grants of 4,950 Australian dollars. These permit employers to provide training for workers aged 55 years or over so that they can gain the skills to successfully mentor and supervise apprentices or trainees.
- 50 funding grants for 'Golden Gurus' organisations to connect older people who are retired, semi-retired or not working full-time with employers of trade apprentices.
- The government is committing 23.5 million Australian dollars to help older workers transition to new employment through Job Services Australia, including assistance through the 'Employment Pathway Fund' for training that is relevant to the jobseekers' needs.

Sectoral example: METEOR

One sector facing particular labour supply and demand challenges is aged care. Places for care will need to at least double to meet projected demand by 2030. The 'Matching Employees to Training to Ensure Ongoing Recruitment and Retention' (METEOR) programme, currently being managed by Swinburne University of Technology, aims to support the recruitment and retention of the aged care workforce by applying the 'Workability' approach, which has been implemented in Finland since the mid-1980s. 'Workability' refers to the balance between an individual's capacities and resources, and the demands of his or her work, incorporating healthy lifestyle promotion, motivational factors including self-perceptions of capacity, skills and age awareness.

The target groups of the project are:

- aged care workers of all ages currently employed, with a particular focus on retaining workers aged over 45.
- 'non-employed' older people, including both formal job-seekers and those not currently in the workforce who may wish to connect with paid employment in aged care; and
- work-injured older people.

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ATTITUDES OF EMPLOYERS TOWARDS RETIREMENT

Recently, employers appear to have adopted diverse responses to problems of labour supply, according to a 2010 survey of almost 600 Queensland public and private sector employers with more than 50 staff, analysed in research by Taylor et al in 2010. Asked about their response to labour shortages, recruiting older workers was being considered by almost half of employers in the public sector and more than 40 percent in the private sector. A majority of employers overall and three-quarters of public sector employers in particular believed that a response to the increase in the proportion of their workforce aged 50 was required within a five-year time horizon.

One-third of public sector employers saw an immediate need to act to tackle imminent loss of staff due to retirement and increased sick leave due to workforce ageing. These employers had taken more steps to address the issue, including coaching and mentoring, knowledge transfer, health and wellbeing, and career development schemes. However, retraining for older workers had not been commonly adopted.

'Experience Pays Awareness Strategy'

The 'Experience Pays Awareness Strategy' (EPAS) is a Queensland Government campaign aimed at addressing issues of workforce ageing and labour shortages by:

- raising employer and community awareness of the ageing workforce;
- highlighting the benefits of employing older workers;
- changing attitudes towards older workers;
- encouraging employers to adopt age-friendly workplace practices; and
- raising older workers' awareness of employment and training options.

The programme includes a range of guidance and support for employers.

'ACTIVE AGEING' STRATEGY

Australian governments, like most others, have failed to develop a strategy for 'active ageing', instead focusing on 'productive ageing'. An active ageing strategy would address a much wider range of issues concerning social participation in later life. 'Productive' has as its starting point the notion that too many older people are economically dependent on society, whereas the 'active' approach recognises the important contribution older people potentially can and do make in different spheres. For instance, 23,000 Australians aged 45 and over are caring for adults in ill health and not seeking work for this reason.

4. Conclusion

In recent years, the prospects of older workers appear to have improved markedly. Policy interest in the issue of older workers has been considerable. A number of programmes are being implemented that aim to support the labour market participation of older workers. There is some early evidence that employers are increasingly turning to older workers as other labour pools dry up.

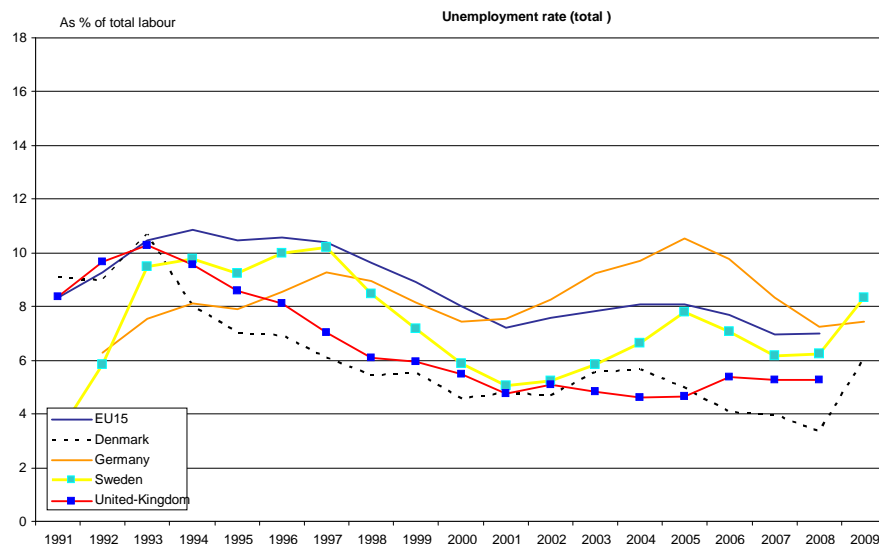


Denmark

1. Labour market performance

Denmark is often cited for its success in having reduced unemployment to an almost full employment level. While in the early 1990s the unemployment rate was at the same level as the EU15 average (see Figure 1), it subsequently fell, reaching 3.8% in 2008, before the beginning of the global financial crisis. This success is often considered to be the result of the specific Danish 'flexicurity' model, which focuses on flexibility, security and active labour market policies. This model combines the following elements:

- Light employment protection legislation (one of the lowest levels of strictness of protection according to OECD aggregate indicators). The percentage of retired males (55-64 years), whose main reason for leaving their last job -- or the labour market entirely -- is dismissal or redundancy is much higher in Denmark than in other European countries.
- Perceived generous unemployment benefits: a maximum duration of four years (since 1999) and a 90% replacement rate, though with a relatively low ceiling -- so the scheme's actual generosity is more questionable.
- An extensive use of active labour market programmes (expenditure on these reached 1% of GDP in 2008, compared to an EU15 average of 0.5%).
- Considerable efforts to promote training: 80% of employees participate in training, compared to an EU average of 40%.

FIGURE 1: OVERALL UNEMPLOYMENT IN DENMARK

Source: OECD

Disaggregating the factors affecting the change in unemployment (see Table 1) highlights the fact that these very positive developments were driven only partly by the flexicurity model. Other key drivers were relatively low demographic pressure and a decline in the average participation rate, especially during the decade following the economic downturn of 1993.

Between 1995 and 2005, regression studies suggest that, all things being equal, unemployment would have increased by 39% on average in the EU15 because of the increase in the working age population, compared to only 22% in Denmark. Similarly, the increase in participation rates contributed to increasing the unemployment rate by 56% in the EU15, while the decline in participation rates helped to reduce the unemployment rate in Denmark by 26%.

TABLE 1: CHANGES IN UNEMPLOYMENT (FIGURES IN BRACKETS ARE ACTUAL NUMBERS IN THOUSANDS)

	1995-2005		2005-2008	
	Denmark	EU15	Denmark	EU15
Change in unemployment	-54% (-166)	-15% (-2531)	-25% (-45)	-11% (-1497)
Contribution of demography	+22% (+67)	+39% (+6681)	+16% (+29)	+22% (+2872)
Contribution of participation rates	-26% (-82)	+56% (+9495)	+12% (+21)	+25% (+3210)
Contribution of employment	-47% (-145)	-112% (-19 091)	-47% (-96)	-58% (-7633)
Interaction of demography with participation rates	-2% (-6)	+2% (+384)	+1% (+1)	0% (+53)

Source: OECD, own calculations.

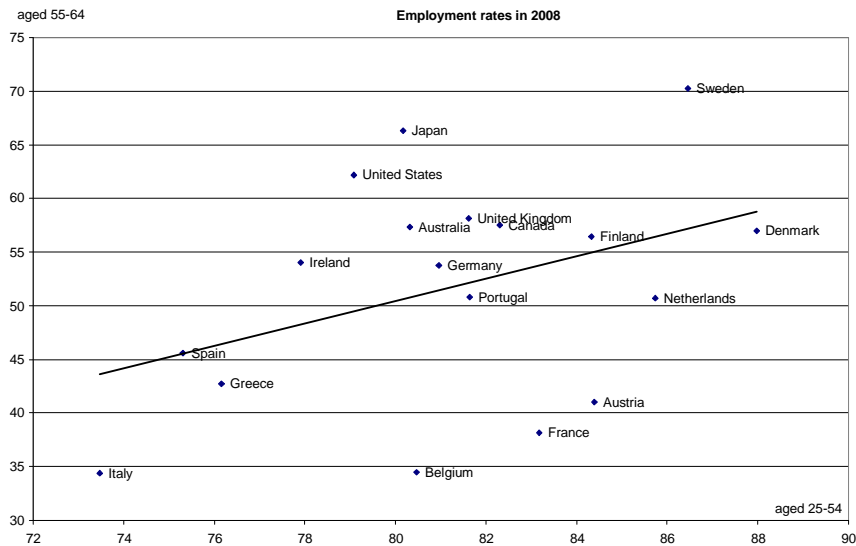
HIGH EMPLOYMENT RATES

Denmark is one of the most successful EU countries in terms of employment rate -- for all ages (See Figure 2). This performance, as well as the increase in the employment rate observed over the last 25 years, is mainly explained by the increasing labour market participation and employment of women (See Figure 3), which itself reflects a sharp difference in the labour market participation of women between Southern and Northern European countries. Women (especially older women) are also well represented in public employment in Denmark (30% of total employment). However, the employment rate of men aged between 55 and 64 is also significantly higher than the EU average (See Figure 4).

Figure 5 shows that there has been relatively little increase over the last decade in the employment rate of older workers. However, this is not the whole picture, as employment was very high to begin with; Figure 5 merely shows that the rest of the EU15 has been closing the gap. Most of the increase that there has been can be explained by the much higher employment rates for older women.

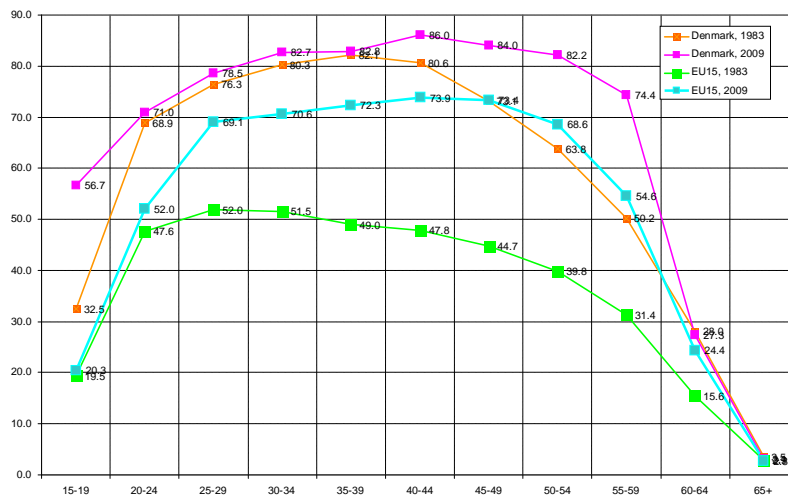
Another striking fact about Danish older workers is that inactivity increases very rapidly at certain ages (especially for people aged 60-64 years). This has hardly changed since the 1980s. Also, the average retirement age is relatively stable and very close to the EU15 average of 61.5 years.

FIGURE 2: EMPLOYMENT RATES OF 55-64 AGE GROUP IN 2008



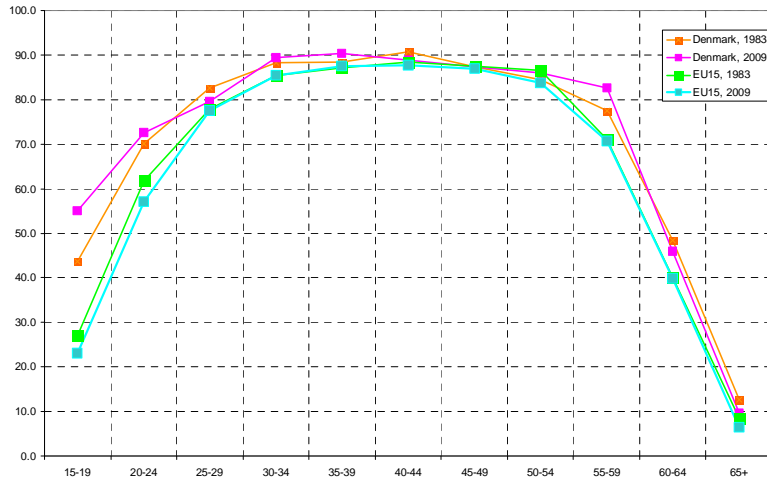
Source: OECD

FIGURE 3: EMPLOYMENT RATE OF WOMEN



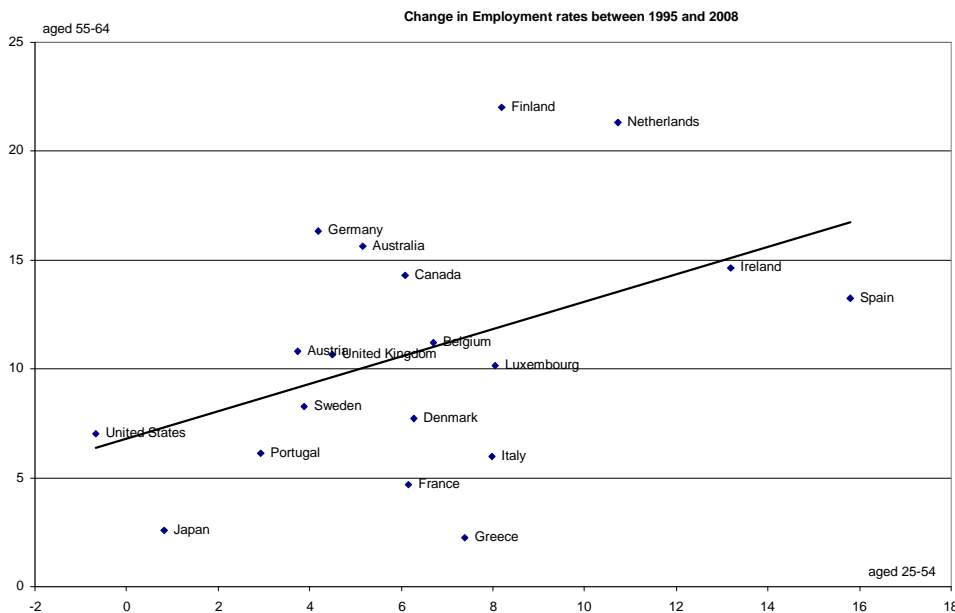
Source: OECD

FIGURE 4: EMPLOYMENT RATE OF MEN



Source: OECD

FIGURE 5: CHANGE IN EMPLOYMENT RATES BETWEEN 1995 AND 2008



Source: OECD

2. Raising labour participation rates of older workers

The stable retirement age over time is mainly explained by the fact that there were, until recently, relatively few old-age specific public employment policies in Denmark and that, until the 2008 financial



crisis, the political agenda was dominated by concerns about raising the labour supply. Efforts to achieve this using supply side measures have been reasonably successful (see Tables 2A and 2B). Also, participation rates generally increased during this period, due to demand-side forces. Despite this, with the current system being based on a broad consensus, there has been reluctance to implement profound pension reforms, including retirement incentives.

TABLE 2A: LABOUR FORCE PARTICIPATION

	55-59 years of age	60-64 years of age
1998	72.1	33.0
2009	80.3	43.3

TABLE 2B: EMPLOYMENT RATES

	55-59 years of age	60-64 years of age
1998	66.0	30.3
2009	78.9	43.0

PENSION REFORM

Until the recent financial crisis, the sustainability of the pension system was not considered to be a major problem. Although expenditure on public old age pensions is expected to rise from 10.5% of GDP in 2000 to 13.3% in 2050 (a rise 0.9 percentage points more than the EU15 average), public finances are much more sustainable when compared to many other European countries.

The Danish pension system is a relatively complex combination of 'Beveridgean' (flat-rate residence-based national pensions) and Bismarckian (private occupational pensions based on collective agreements) elements. There is also some flexibility in the retirement age:

- Citizens are eligible for the flat-rate universal state pension at the age of 65 years. However, if a person decides to postpone retirement, benefits will increase. Directly translated this is called a "postponed pension".
- Occupational pensions have become the predominant pension scheme. People are eligible for an occupational pension between the ages of 60 and 70 years; they can freely choose to retire at the age of 60 years.

In addition, early retirement (VERP) and disability schemes have existed for some time. Moreover, and also in contrast to younger workers, work incentives for the older unemployed were, until recently, relatively limited.

The pension system provides a solid and decent income to all long term residents (70% net replacement rate), which is expected to rise with the expansion of defined benefit occupational pension schemes based on collective agreements (covering 80% of the employed workforce).

As of 2025, retirement will be synchronised with life expectancy using 60-year olds and 1995 as the base year (60y in 1995 = +19½ years in longevity). A revision will take place every five years and the indexation of the retirement age of the VERP will be announced 10 years in advance, and 15 years in advance for the statutory pension. As between 1996-2005 life expectancy for those aged 60 years rose by 1.8 years, it is almost certain that the age of eligibility for early retirement as well as the pensionable age will be raised accordingly (with a 5-year lag for the statutory pension). This linkage to longevity does not maintain constant the average number of years in retirement for future generations.

DELAYING RETIREMENT

The 2006 Welfare Agreement

The Welfare Agreement is a cornerstone of Danish policy with regard to age-related retirement. It was adopted in 2006, in the context of a very tight labour market, and harmonised the duration of unemployment benefit and activation rules for elderly workers.

The Agreement drew on recommendations of a Welfare Commission that had been formed by the government five years earlier. The Commission made a series of recommendations for reforming the welfare state to ensure its sustainability. Some of these were very far-reaching, and the Welfare Agreement ultimately opted for less radical change. Nonetheless, the Commission was highly visible in the media and played an important role in promoting reform.

'Retirement Spikes'

The retirement age has traditionally been characterised by several 'spikes', some of which were the focus of provisions of the Welfare Agreement:

- **'Age 57 spike'**. The unemployment benefit system weakens incentives for unemployed people aged 58 and 59, who, despite being obliged to look actively for a job, can be

considered inactive in the workforce after nine months of unemployment.

- **'Age 60 spike'**. At age 60, people are eligible for the voluntary early retirement system. The scheme is generous (90-100% of the unemployment benefit). However, this does come with a drawback: for those retiring aged 60-61, early retirement benefits are offset against occupational pension benefits. This is not the case for those retiring at ages 62-64.
- **'Age 62 spike'**. The voluntary early retirement system (VERP) has been reformed twice. In 1999, a tax-free bonus -- a significant incentive measure -- was made available for those continuing in employment from the age of 62, with actuarial reduction (around 10%) for those aged 60-61. The Welfare Agreement introduced a gradual increase in the age threshold for early retirement, from 60 to 62 over the period 2019 to 2022. The compulsory contribution period was increased from 25 to 30 years.
- **'Age 65 spike'**. At age 65, people are eligible for the flat-rate universal scheme. Non-Danish citizens are eligible for the pension if they have been living in Denmark for at least 10 years between the ages of 15 and 65. The pension will be a fraction of the full pension, depending on the number of years the person has been resident in Denmark. However, there are tax credits of up to 100,000 kroner available for workers who have earned less than 550,000 Danish kroner (at 2008 prices) while they were 57-59 years of age. The tax credit is available at the age of 64 if they have been in the labour market between the ages of 60 and 64, earning at least 159,000 kroner per year. There is also a public contributory supplementary pension linked to their professional activity available at age 65.
- **'Age 67 spike'**. The Welfare Agreement stipulates a gradual increase in the official retirement age from 65 to 67 years between 2024 and 2027, indexed on life expectancy later¹ (historically, the official retirement age in Denmark was 67 years; it was reduced to 65 years in 2004).

Therefore, in reality the reforms affect individuals who are around 50 years old or younger, so that individuals close to the current retirement age are not affected by the reform. As reported by the

¹ Similarly, as of 2019, the age of eligibility for early retirement benefits will be raised annually by half of one year until 2022. Thus, the age of eligibility for early retirement benefits will be 62 years of age as of 2022.



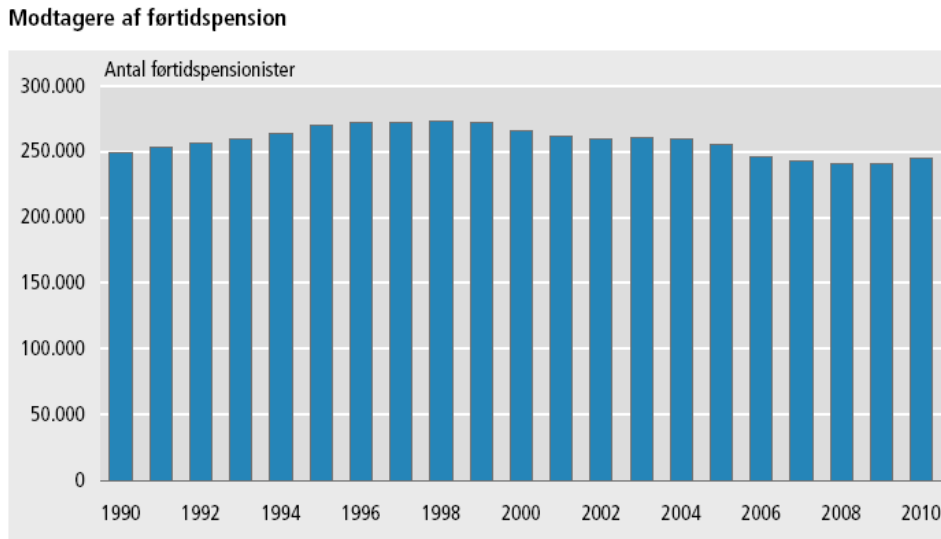
Danish Economic Council: *“the flip side of this is that the reform cannot be expected to affect either the size of the labour force or the number of pensioners in the next decade. This is a major concern as the large post war generations are retiring in this period.”*

Finally, a disability pension scheme is available for workers aged 18-65 years. The pension (Førtidpension) is awarded to those with a working capacity that has been reduced by 50%. There is a large take-up rate for this pension, although the number of recipients has fallen from 266,000 in 2000 to 242,000 in 2008 (See Figure 6).

Proposals to phase out the early retirement schemes have been made regularly since the mid 2000s, but a phasing out has always been postponed. The package planned in spring 2010 to consolidate public finances by 2013 and meet the recommendations of the European Commission initially mentioned phasing out. However, the only measure concerning retirement incentives concerned the unemployment benefit scheme, with consequences for the ‘security’ aspect of the Danish model. The proposal plans to reduce the period of unemployment benefit from four to two years.

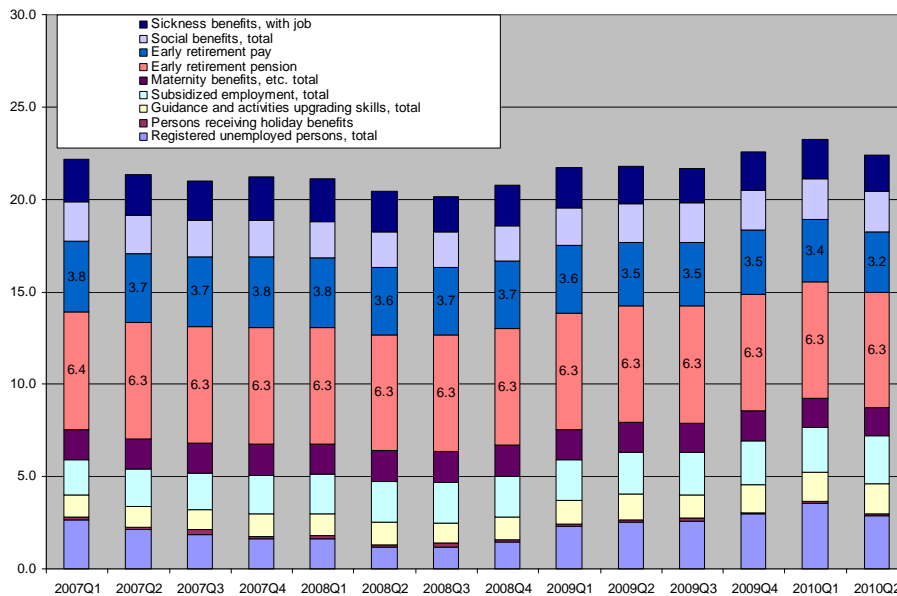
Labour and retirement reforms have had some impact on retirement decisions and on the participation of elderly workers in the labour market, despite the fact that the retirement age has been stable since the beginning of the 2000s. The combination of early retirement schemes and disability schemes still allows a substantial number of workers to leave the labour market before age 65 (see Figure 7). However, the proportion of eligible people who actually make use of the early retirement scheme has fallen from 72.4% in 2000 to 54.1% in 2009. The total number of early retirees fell from 186,000 to 146,000 between 2004 and 2009 – suggesting a significant impact from the labour and retirement reforms.

FIGURE 6: NUMBER OF PERSONS IN EARLY RETIREMENT WITH DISABILITY PENSION SCHEME (FØRTIDPENSION)



Source: Statistics Denmark

FIGURE 7: PROPORTION OF THE WORKING AGE POPULATION NOT IN REGULAR EMPLOYMENT



Source: Statistics Denmark

3. Maintaining productivity of older persons

Policies promoting the employment of older workers are used in 33% of companies, with a higher proportion in public companies (58%)



than in private ones. About 66% of employers cite competence development as the main initiative taken to retain older workers at the workplace, but this is mainly the case in the public sector. Other initiatives taken to retain older staff in employment have been introduced. Flexible working hours are the main measure (50% of enterprises), while adaptation of the workplace is offered by 42% of enterprises. Interestingly, 33% of employers have offered older workers more demanding tasks as incentives to stay at work, which implies that some older workers prefer more advanced tasks rather than a 'phased out' approach to employment.

However, many employers still do not, in practice, use these policies, and discrimination against older workers clearly exists. Recent surveys have shown that very few employers make an active effort to retain older workers.

QUALIFICATION AND VOCATIONAL TRAINING

There is considerable investment in education in Denmark. As in most countries, participation rates are linked with education levels, especially for older workers, but what is noteworthy in the case of Denmark is that one quarter of all older Danes have tertiary education. A very high proportion of the elderly participates in training (72%, against 80% for the whole population, compared to averages of 30% and 42% respectively for the EU25). Investment in vocational training is also considered to be important by Danish elderly people when they are asked to rank their priorities relating to their work -- but it ranks behind flexible working time and workload.

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SCHEMES FOR THOSE LESS ABLE TO WORK

Surveys reveal a high level of worker satisfaction. An important measure relating to working conditions is the 'flex-job' scheme, aimed at subsidising persons with a reduced working capacity. Flex-jobs are designed for those who have not been granted a disability pension, but find their working capacity reduced. They are jobs on special, flexible terms where consideration is given to the person's ability to perform the job. The flex-job scheme (introduced in 1998) was expanded in 2003 as part of the tightened eligibility criteria for obtaining a disability pension. Flex-jobs are subsidised full-time jobs. If a person is in receipt of disability benefits, there are also part-time jobs available, called 'soft jobs', in which a person's wage income is supplemented by disability benefits.

The 2006 Welfare Agreement aims at reducing the number of disability pensioners in the future. To lower physical and mental disabilities, a 'Preventive Fund' with a capital of three billion kroner was established in 2007 to finance changes in certain work routines

and manufacturing process, retraining and rehabilitation of the sick and handicapped, and health risk awareness.

AWARENESS CAMPAIGNS

Denmark also has a long tradition of engaging with campaigns and other activities aimed at raising the awareness of the potential of older workers for both employers and employees. Under the auspices of the Ministry of Employment, several activities and campaigns have been launched in order to promote the employment of persons with various forms of handicaps as far as their employability is concerned. So-called 'social chapters' were included in most collective agreements since 1995, implying that almost 90 percent of wage-earners are covered. These chapters recommend employment under special conditions (eg reduced working time) for persons with disabilities, including older workers.

Under the heading 'seniors policy', a number of special initiatives by the Ministry of Employment have attempted to achieve a better integration of older workers into the labour market. These initiatives include funding the integration of unemployed older workers, which may be in the form of:

- influencing the hiring practices of firms;
- highlighting the qualifications of senior employees; or
- general information campaigns disseminating examples of best practices.

Financial assistance is given for the self-activation of unemployed older workers in their creation of networks and activities to develop new areas of employment. A special website has been established by the Ministry of Employment with information and advice about seniors policies at the firm level. In addition, the Senior Policy Committee took an initiative to establish a consultancy arrangement providing advice to companies interested in developing age management. These companies are offered five hours of consultancy free of charge, to be provided by consultancy companies with a proven track record. Thus far, the age management campaigns have focused on how to retain older employees. In the future, however, a special campaign will focus on the recruitment of unemployed older wage earners. In general, the state has committed itself to become the forerunner in age management.

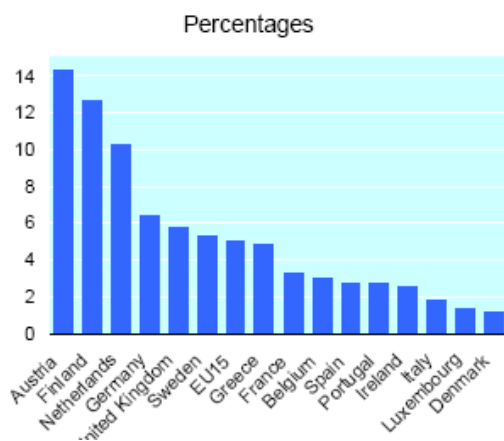
FLEXIBILITY OF OLDER WORKERS

The Danish employment environment is characterised by very high job mobility, and shorter work tenures than many other European countries. Job mobility is common for older Danish workers as well; nearly half of all Danes had multiple jobs between turning 50 and retiring. This statistic is in direct contrast with Sweden's 'first in, last out' employment law, which discourages worker mobility in later life.

LAWS AGAINST DISCRIMINATION OF OLDER WORKERS

Age discrimination is less of a problem in Denmark than in many other EU15 countries (see Figure 8). Several laws were passed, in connection with EU directives, on this matter. Associations of senior citizens remain very vigilant and stand ready to complain under the law. In June 2009, for example, the new Commission for Equality of Treatment, in charge of judging discrimination cases, delivered its first verdict in this area, holding unlawful the dismissal of six pilots over age 60 years, and ordering the employer to pay more than five million kroner (672,000 euros) in damages, or nine months of salary each.

FIGURE 8: WORKERS WHO HAVE EXPERIENCED AGE DISCRIMINATION AT WORK



Source: European Survey on Working Conditions, 2000

4. Conclusion

Denmark's labour market has been one of Europe's leaders for the past ten years, partly due to the 'flexicurity' model. However, an over-reliance on generous unemployment benefits and disability pensions has limited the labour participation rate of the over-50 segment. Despite some reform in these areas, including a tightening of the disability pension, there is still a large drop-off in activity after the age of 60, with several spikes in retirement ages.

However, Denmark has succeeded in creating one of the least discriminatory employment cultures in Europe, and the implementation of 'flex-jobs' and 'soft jobs' for people with a reduced working capacity has significantly eased the transition into retirement, and made older workers more productive. Future policy action is likely to focus on retaining the flexibility within the current system, while introducing a gradual transition to a later retirement age.

Germany

1. Introduction

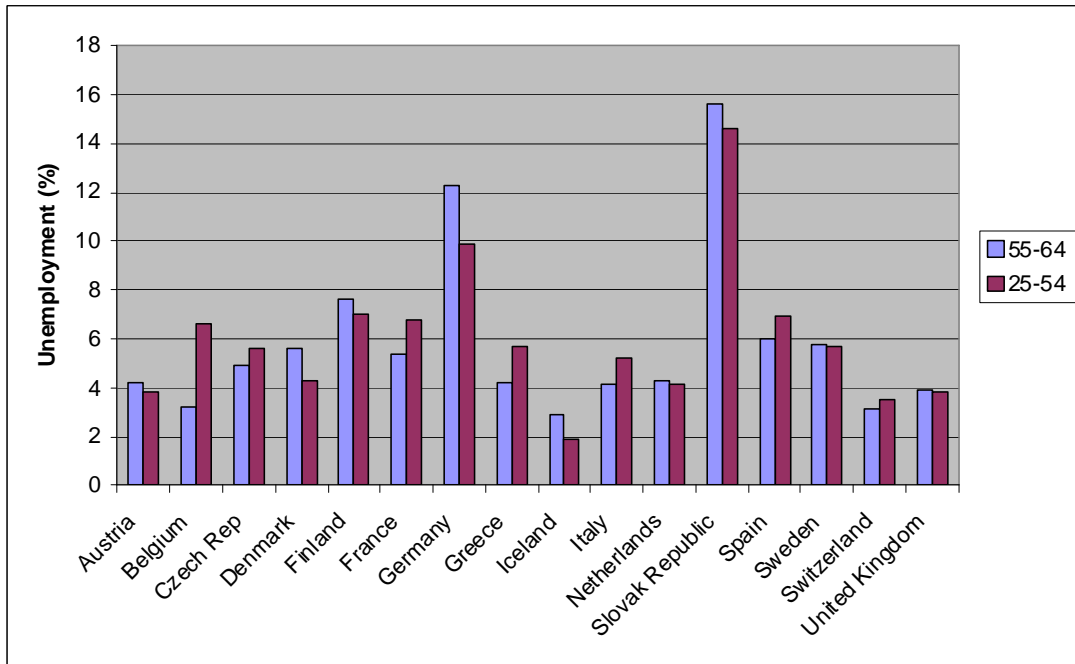
LONG-ESTABLISHED AGEING TREND

Population ageing is much further advanced in Germany than in other European nations. The country's working age population has been in decline since 1999, and organisations face the risk of an increase of 15 years in the median age of their staff over the next 20 years. Increased awareness of this demographic risk has led German policymakers and companies to implement a variety of strategies to foster increased labour market participation and higher labour productivity among the older workforce.

IMPACT ON UNEMPLOYMENT

During the second half of the 1990s, the overall performance of the German labour market lagged far behind most other European countries. In 2005, German unemployment was 2.5 percentage points higher than the EU15 average. This applied particularly to older workers; in fact, in no other country was there such a discrepancy between older unemployment and younger unemployment (see Figure 1).

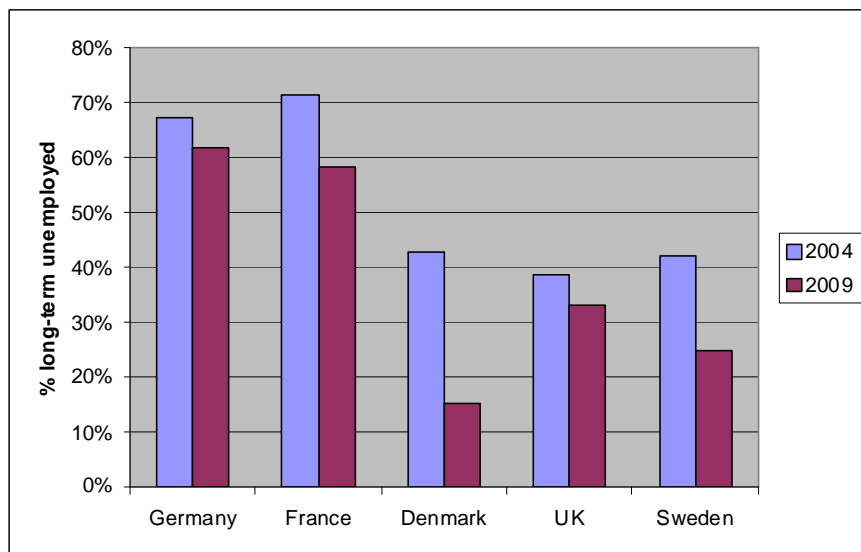
FIGURE 1: UNEMPLOYMENT RATES BY AGE IN 2004



Source: OECD

In addition, a greater proportion of unemployed older German workers are long-term unemployed, compared to other countries (see Figure 2).

FIGURE 2: PROPORTION OF AGE 55+ UNEMPLOYED WORKERS WHO ARE LONG-TERM UNEMPLOYED, 2004 AND 2009



Source: OECD

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However, between 2005 and the onset of the global economic crisis in 2008, the unemployment rate decreased by 44% (1.4 million persons), compared with an EU15 average of only 11% (see Table 1). The differentiating factor in Germany's labour market performance compared to the EU15 in 2005-08 was the much larger number of ageing workers exiting the workforce as a proportion of the total workforce. Disregarding other key drivers (employment creation and participation rate²), Germany's ageing population caused a 20% decline in the unemployment rate between 2005 and 2008.

TABLE 1: CHANGES IN UNEMPLOYMENT

	1995-2005		2005-2008	
	Germany	EU15	Germany	EU15
Change in unemployment rates	+50%	-15%	-44%	-11%
- Contribution of employment creation	-42%	-112%	-44%	-58%
- Contribution of demographic change	-18%	+39%	-20%	+22%
- Contribution of participation rates	+111%	+56%	+20%	+25%
Interaction of demography and participation rates	-1%	+2%	0%	0%

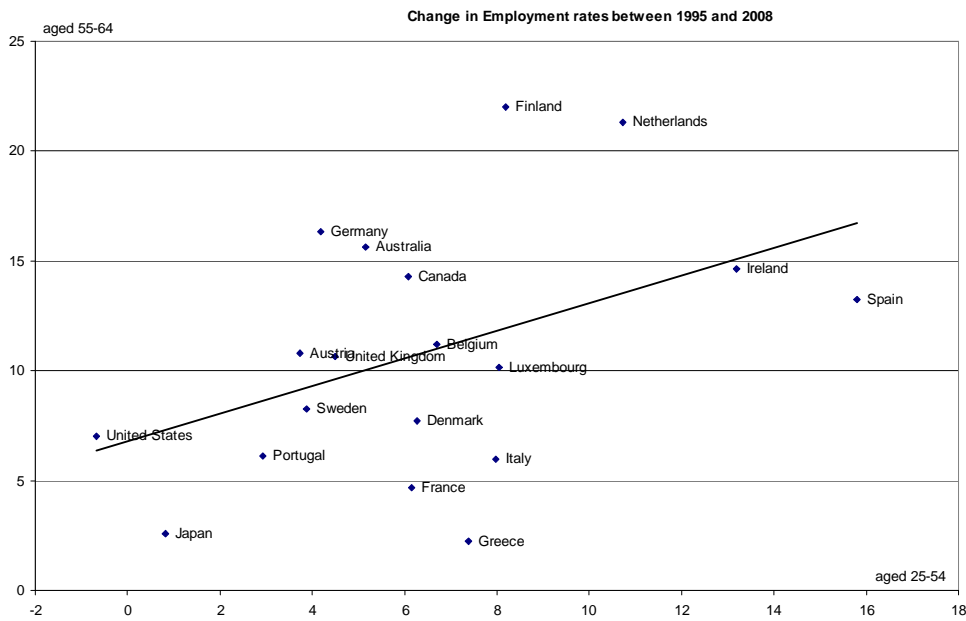
² 'Participation rate' refers to the proportion of the population that reports a minimum amount of employment over the previous year.

Source: OECD, Oxford Analytica calculations.

OLDER WORKERS' EMPLOYMENT

For the period 1995-2008 as a whole, the employment rate improved for all age categories in Germany. This was particularly significant in the case of older workers (see Figure 3). The employment rate of persons aged 55-64 years in Germany has risen steadily, from 37.4% in 2000 to almost 57% in the second quarter of 2009.

FIGURE 3: CHANGE IN EMPLOYMENT RATES, 1995- 2008 (%)



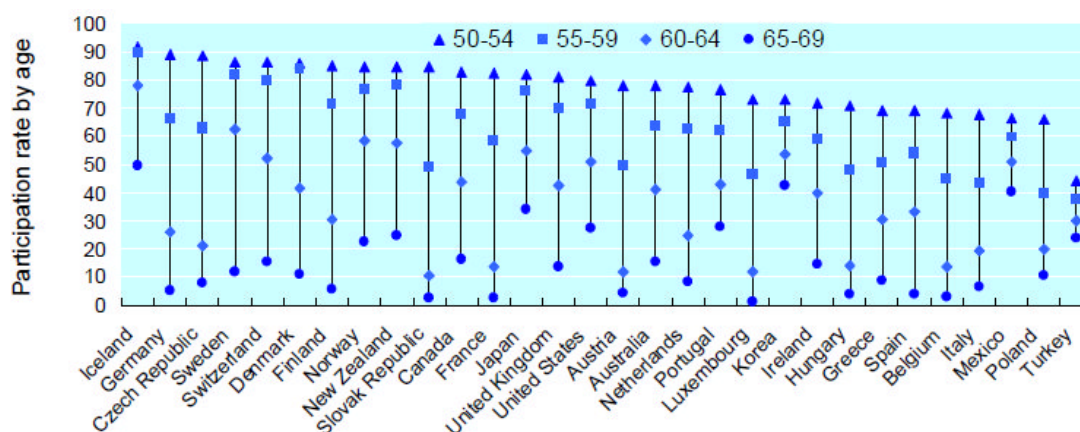
Source: OECD

In addition to the impact of economic growth on job creation, a combination of public policies and private initiatives contributed to this success.

2. Participation rates of older workers

THE PROBLEM OF EARLY WITHDRAWAL FROM THE WORKFORCE

In 2004, labour force participation of those aged 50-54 was relatively high in Germany, but dropped off significantly for older workers (see Figure 4).

FIGURE 4: LABOUR FORCE PARTICIPATION BY AGE, 2004 (%)

Source: OECD

Labour and pension reforms implemented in Germany since the mid-1990s helped to address the longstanding problem of early withdrawal from the workforce of older workers. A close coordination of labour market and pension policy around the objective of better including older workers in the labour market emerged in the second half of the 2000s.

Early retirement

Prior to recent reforms (detailed below), the legal retirement age was 65 years, but a range of alternative early retirement pathways existed, including:

- The unemployed could retire from age 60 (having paid 15 years of insurance, and been unemployed at least one year at age 58 1/2).
- Women could retire from age 60 (having paid 15 years of insurance, of which ten after age 40).
- The long-term insured (35 insurance years) could retire from age 63.
- There is no special pension scheme for hazardous or arduous work. But disability pensions, irrespective of the worker's age, were available for workers, provided their work capacity was reduced by at least 50%. Both medical conditions and general labour market conditions were taken into account for the disability pension.

All early retirement pensions were granted at the full rate.

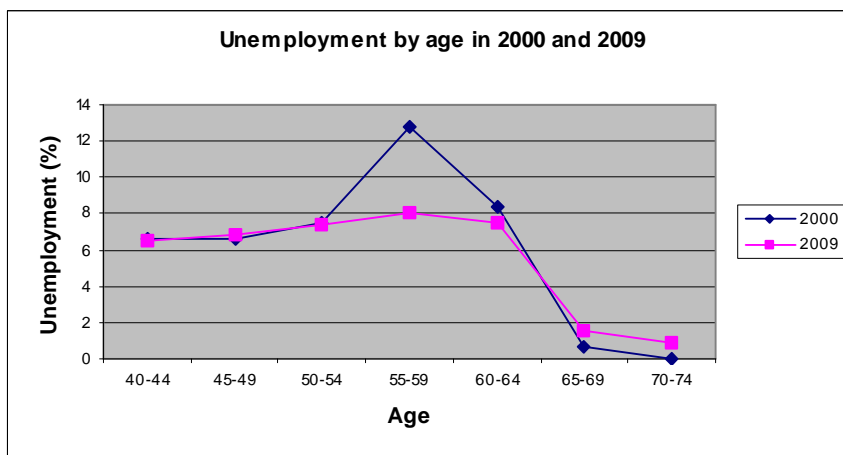
Pre-retirement unemployment benefits

Pre-retirement schemes were facilitated by the unemployment benefit scheme:

- A benefit duration of up to 32 months was available to the unemployed aged 57 and over through unemployment insurance.
- The unemployed aged 58 and over were exempt from job-search requirements.
- The unemployment assistance scheme was very generous: benefits were calculated as a fraction of previous net wages.

As a result of the combination of early retirement options and unemployment benefits for older workers, it became increasingly common to terminate employment by 58 years of age. Therefore, the unemployment rate of older workers was higher than that of younger workers (see Figure 5).

FIGURE 5: UNEMPLOYMENT RATE BY AGE LEVEL IN 2000 AND 2009



Source: OECD Labour Statistics

3. Reforms incentivising later retirement

PENSION REFORMS

Pension reforms since the early 1990s have contributed to addressing the problem of too many early retirement incentives. Measures included:

- better targeting disability benefits;

- increasing the age for the full rate early retirement scheme to the statutory legal retirement age of 65 (beginning in 1997 and ending in 2012);
- phasing out most early retirement schemes from 2012;
- increasing, from 2012 to 2029, the statutory legal retirement age to 67 years; and
- reducing the generosity of public pensions (a decrease of 25% on average over the long term).

Labour market reforms

Labour market reforms -- the most comprehensive of which were the 'Hartz reforms' -- have also curtailed early retirement incentives, by:

- Decreasing the maximum duration of unemployment benefit for older workers (from 32 months to 18 months in 2006; subsequently raised to 24 months in 2008).
- Merging the unemployment assistance scheme with the social assistance scheme in 2005, with the creation of a new flat rate assistance benefit set at a low level.
- Phasing out (in 2007) job search exemption requirements for workers aged 58 and older, and increasing the pressure for recipients of the new social assistance to accept a job offer (any job at any pay level). Analysis by Nivorozhkin et al in 2008 showed that the introduction of stricter job search requirements has had the desired effect: a decrease in reservation wages³ of older workers of some 22 percentage points.

ACTIVE POLICY MEASURES

With the adoption of the 'Perspective 50 Plus' programme in 2005, efforts have been increased to better target active labour market policy measures at the older unemployed. Even so, it must be noted that so far the impact on the average retirement age of active labour market policies has been minimal compared to the reforms discussed above.

³ A reservation wage is the lowest wage at which a worker is willing to accept a particular type of job.

'Perspective 50 Plus'

The target group of the 'Perspective 50 Plus' programme is predominantly the low- or semi-skilled long-term unemployed. The focus of the programme is to:

- re-activate and reintegrate this group into the labour market;
- raise public awareness of this issue;
- change attitudes of employers and enterprises, eg, through public campaigns; and
- identify and bring to the mainstream best practices and innovative tools.

A total of 62 regional employment 'pacts' -- partnership agreements to help implement the initiative -- have been put in place between various groups. Sometimes the pacts set up public-private partnerships (PPP). The lead partners are the local employment agencies and local authorities. The partners often commission an intermediary to act as project manager. Half of the pacts involve collaboration with universities (notably the University of Duisburg-Essen and IAW Tübingen) or scientific institutions for the evaluation of their activities.

The first phase of the programme was implemented from October 2005 until December 2007. The second phase has been taking place from 2008-10. As of 2010, aggregate pact financing amounts to roughly 250 million euros (excluding costs of consulting, monitoring, and programme evaluation).

During the first phase, more than 22,000 older long-term unemployed -- with an average length of unemployment of about four years -- were integrated into regular jobs. Despite the financial crisis, 2009 was also a successful year, as over 31,000 older long-term unemployed were integrated into regular jobs. The target for 2010 is 50,000 job placements.

Subsidy programmes

Employers hiring older workers receive special subsidies. An 'integration subsidy' (*Eingliederungszuschuss*) is available to employers for hiring individuals aged 50 and over who have been unemployed for six months or more. The subsidy corresponds to a maximum of 50% of wages (and a minimum of 30%) for a period of up to three years. Some 34% of the older unemployed participating in active policy measures benefited from the subsidy in 2009. Other schemes, such as the wage protection subsidy (*Entgeltsicherung*), introduced by

the Hartz reforms, which ensures that lower-paid work for older workers is compensated for, have had little success.

4. Impact of the reforms

Evidence suggests that the pension and labour market reforms were successful in reducing incentives to use unemployment benefit as a pathway to early retirement: there has been a sharp decline in the proportion of workers in the 55-59 year age group who are unemployed (see Figure 5).

However, the reforms were much less successful in increasing the retirement age. In 2009, most people still quit the labour market between the ages of 58 and 64 years. Driven by the changes to unemployment benefits, the average retirement age increased slightly for old-age pensions, from 62.3 years in 2000 to 63.2 years in 2008 (and from 60.2 years to 60.7 years for all pensions); this remains below the statutory legal age. Since there was no sharp increase in the retirement age, an increasing proportion of new retirees receive reduced pension benefits: 55.4% in 2008, compared to 9.5% in 2000 and 0.4% in 1997.

Health seems to be a crucial factor in determining the decision to retire, with 27.8% of workers retiring for health reasons. This group of people retired at 55 years of age on average in 2009 and often had occupations commonly referred to as hazardous or arduous, many of them in the building sector. The percentage of workers retiring with a disability pension remains high: 18.6% in 2008, compared to 19.6% in 2000.

5. Maintaining productivity of older workers

QUALIFICATION AND VOCATIONAL TRAINING

A study by Bellmann and Leber published in 2004 showed that of all German companies, only 1% offered some kind of training that is specifically geared towards the needs of older workers. Likewise, in 2002, 60% of all companies confirmed that they employed older workers, yet just 7% had those workers participating in the companies' training activities, according to research in 2006 by Kirpal and Köhl.

Irrespective of age, employment rates are structurally higher for workers with a higher level of education, and differences in employment rates between high level and medium level of qualification increase with age, as in most EU countries. However,



data show that the level of qualification of workers did not play a major role in explaining the increase in the employment rate of older workers. Between 2000 and 2009, employment rates of older workers increased for all levels of qualification, with the best performance observed for older workers with a medium level of qualification (+18%).

PART-TIME SCHEMES

There is no specific effect of reduced working time on labour market performance of older workers. Workers aged 55-64 years work part-time slightly more than younger workers (27.7% in 2009, compared to 25.4% for all persons in employment).

Subsidised part-time schemes used for early retirement

Some 90% of older employees who use working time reductions do this within the framework of a subsidised part-time scheme for older workers (*Altersteilzeit*). The scheme was introduced in 1996 and phased out by end-2009. It enabled persons aged 55 years or older, for a maximum period of six years, to reduce their working time by 50%. Distribution of working time over the period was flexible: either 50% over the whole period, or full-time work during the first half of the scheme duration and no work at all during the second half (the 'block model'). The employer had to pay pension contributions on the basis of 90% of the employee's previous wage, sometimes topped-up by the public employment service (PES). In 2007, 16.5% of workers aged 55-64 years used the subsidised part-time scheme for early retirement, with most choosing the block model that, effectively, led to early retirement.

'Demographic fund'

Since the subsidised part-time scheme was phased out at the end of 2009, several collective agreements have been signed. They introduced part-time schemes concentrating on older workers working in physically demanding jobs. In return for partial wage top-ups, employees partially give up future wage increases in a 'demographic fund'. These new schemes are very innovative; the demographic fund has to be used for health promotion and training of employees. If the company does not offer these measures, the funds are automatically used to facilitate partial or phased retirement. They compensate for the absence of a public pension scheme for hazardous/arduous work, and rely on co-responsibility of the employer and the employee.

The fund may work differently in each sector, depending on the nature of the collective agreement. For example:



- In the chemicals industry, the fund is part of a general agreement that aims to introduce policies towards older workers. These include evaluating demographic risk; implementing specific measures for adapting the workplace; lifelong training; and early retirement schemes. The fund is financed by a contribution of about 0.5% of annual wages, paid by the employer.
- In the metalworking industry agreement, a maximum of 4% of workers with at least 12 years of service in the company can benefit from the fund. It is targeted especially at workers who have experienced arduous working conditions. The fund is financed both by employers and employees. Participating workers can take part time work for four years (six years for those who have experienced arduous working conditions).

IMPROVING WORKING CONDITIONS AND HEALTH

In contrast to vocational training and part-time schemes, empirical research (eg by the European Foundation in 2004, and by Göbel and Zwick in 2010) shows that significant positive effects on the productivity of older employees are obtained when firms use specific measures aimed at adapting their working environment and conditions. These studies have suggested that companies that remould work and adapt it to ageing workers have benefited as a consequence.

Measures may include compensation for constraints in hearing or seeing capabilities, for instance by creating a brighter workplace, or avoiding excessive environmental noise (5.1% of firms did this in 2002). These measures act quickly and directly on health, ability to concentrate and endurance, and can significantly improve the quality of work. Case studies in the automotive industry show that appropriate ergonomic measures can fundamentally improve the performance of older workers.

Positive results are also obtained when firms adapt jobs by shifting constrained older workers to workstations that better fit their capabilities. These measures keep older workers motivated and provide more attractive working conditions. Mixed-age working teams (implemented in 20.5% of firms in 2002) also have positive effects, both for older and younger employees. These results highlight the importance of transfer of knowledge and sharing of tasks according to the specific strengths of different age groups.

EMPLOYER ATTITUDES TOWARDS OLDER WORKERS

There are many signs that firms (especially large companies in the manufacturing sector) are changing their attitudes about retention of human resources, not only as regards older workers. Since the beginning of 2008, the robustness of the German labour market can be explained by an intensified 'hoarding' of the labour force.

More and more companies are committed to innovative human resource policies aimed at retaining staff. These policies 'evaluate and treat the demographic risk' -- the risk of an increase of 15 years in the median age of their staff in the next two decades.

Risk assessment is based on a systematic screening of age pyramids at organisational level. Strategies focus on integrated age management aimed at optimising the age structure, promoting inter-generational 'win-win' relationships and worker satisfaction. They include issues such as preventive medical examinations and systematic adjustments of workstations. The time horizon chosen for these strategies to be implemented is usually long (10-15 years), and specific attention is paid to future skilled resources (new entrants from the educational system, women, and migrants). Policies are implemented as a joint responsibility of the company and the employees. This co-responsibility is made by collective agreement.

6. Conclusion

Since 2004, the proportion of people aged 55 or over who are employed has increased, partly as a result of a set of innovative policies that German governments have implemented. Some of the biggest policy successes have centred on creating incentives to offer work to older people and sanctioning those who do not actively seek work by withdrawing unemployment benefits. Despite the policies' growing impact, further support for companies -- particularly small and medium enterprises -- in adjusting to demographic change is required.

Sweden

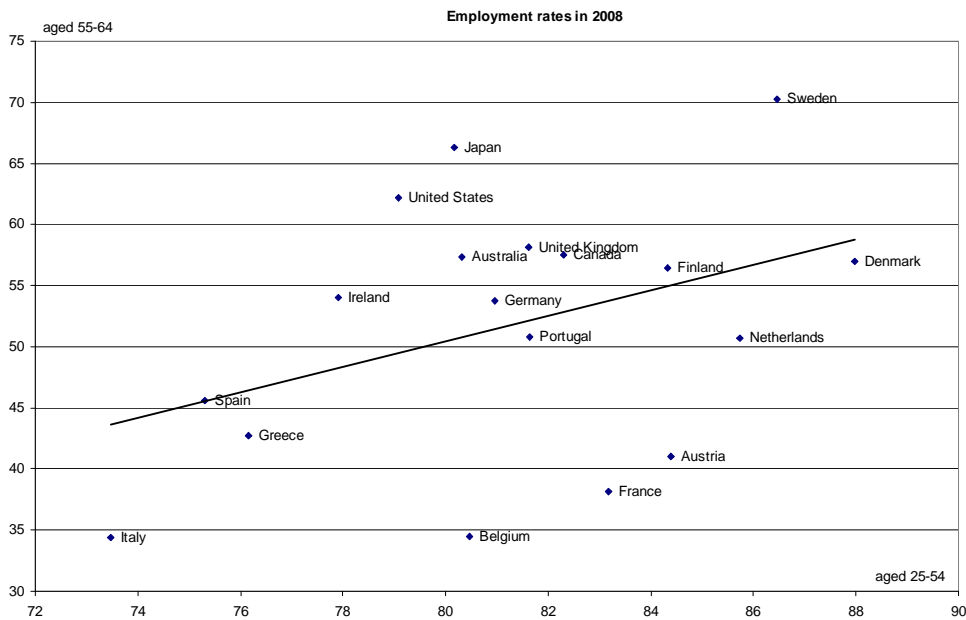
1. Introduction

OUTSTANDING PERFORMANCE IN EMPLOYING OLDER WORKERS

Sweden performs outstandingly in terms of employment of older workers. The country has historically had the highest overall employment rate among this age group in Europe, at around 15-20 percentage points above the European average (see Figure 1).

This 15-20 percentage point gap narrowed slightly after the emergence of mass unemployment in Sweden in the early 1990s. However, employment rates in Sweden recovered from 1997 onwards across all age groups, albeit more slowly and later for those aged 60-64 years. Consequently, Sweden still has the highest overall employment rate of older workers in Europe.

FIGURE 1: EMPLOYMENT RATES OF THE 55+ AGE GROUP (%)



Source: OECD

2. Participation rates of older workers

POLICIES TARGETING OLDER WORKERS

Among the reforms of the 1990s, two measures specifically targeted older workers.

Hiring assistance

Assistance in hiring (*Anställningsstöd*), implemented in 1997, facilitates the employment of the unemployed by offering employers a tax cut on labour costs. The long-term unemployed are the main target group. The subsidy ranges from 25% to 75% of salary costs for periods up to 24 months.

For people over the age of 57 who remained unemployed for 24 months, a special provision -- the 'special hiring associated with measuring activity guarantee' (*Särskilt Anställningsstöd*) -- allows employers to receive a 75% subsidy for a maximum of 24 months. Some 10,300 people over the age of 57 (compared to 30,800 unemployed workers in that age group) benefited from this measure in 2005; 9,400 in 2006; and 6,450 in 2007.

Temporary public sector employment

A scheme for temporary employment in the public sector for the elderly (*Offentligt Tillfälligt Arbete*), implemented in 1996, enables long-term unemployed older people to work. This measure was targeted at people aged over 55 who had been registered for two years as unemployed. However, an OECD report in 2003 judged that this programme was unsuccessful: participants were less well paid than colleagues with similar responsibilities and as a result felt devalued. The programme was discontinued in 2001.

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PUBLIC PENSION REFORM

Public pension reforms have sought to ensure financial solvency and sufficient levels of future pensions by providing incentives for later retirement. Public pension terms were redefined in 1998, and the reforms took effect in 2001. Implementation of the reforms is progressive and only people born after 1938 are affected. Only those born after 1954 will have their pensions covered by the new terms; the intermediate generations will be partly covered by the old rules. As a result, the effect on participation rates is gradual.

The previous system was based on two components:

- A non-contributory universal lump sum for all at the age of 65 (*Folkpension*).
- A contributory defined benefit pension, where benefits were determined according to the level of a worker's earnings and years of work (*Allmän Tilläggspension*, or ATP). The ATP scheme required 30 years of contribution to have a full pension, which had a value of approximately 60% of the average of the 15 years of highest salary (below a ceiling).

- The age of 65 was considered the 'normal' age of retirement. The contributory scheme allowed the insured to receive a reduced pension at the age of 60, while those who delayed pension withdrawal enjoyed increases until the age of 70.

Sweden's new pension system aims to:

- facilitate the combination of work and pension;
- strengthen the link between contribution and benefits; and
- make the system automatically adjust to demographic shifts.

Combining work and pension

The reformed system offers a flexible retirement age and flexible payout options. The system no longer limits the age up to which an individual can earn pension rights; neither does it set a legal retirement age for full benefit accrual. Deferring retirement after the age of 65 will increase the pension by at least 3.4% per additional year worked and up to 4.4% at 70 years. The system also permits flexibility in pension withdrawal, offering options to take out the full pension or 25%, 50% or 75% of pension payments, incentivising older workers to retain salaried employment to supplement pension income.

Strengthening the link between contribution and benefits

Sweden's reformed system strengthens the link between the number of contributed years and pension benefits. It has two defined contribution schemes:

- The first functions as a Pay-As-You-Go (PAYG) system with notional accounts collecting a 16% contribution.
- The second works as a system of individual accounts collecting a 2.5% contribution.

Automatic adjustment to demographic shifts

Benefits depend partly on:

- the life expectancy of the generation; and
- the value of contributions compared to pension liabilities, which automatically balances the system at times of slow wage growth.

Therefore, the proportion of the previous year's earnings paid out for each age of liquidation decreases for successive generations, as life expectancy increases and the demographic dependency ratio rises.



The numerical implications of the self-balancing mechanism are illustrated in Table 1 below.

Table 1: Effect of projected increase in life expectancy on pension levels and retirement age

Birth cohort born	Effect of changed life expectancy on pension	Retirement age needed to neutralise effect on pension of change in life expectancy
1940	0%	65y
1945	-2%	65y/4m
1950	-4%	65y/7m
1955	-6%	65y/10m
1960	-7%	66y/1m
1965	-9%	66y/4m
1970	-10%	66y/6m
1975	-11%	66y/9m
1980	-12%	66y/11m
1985	-13%	67y/1m
1990	-13%	67y/2m

Source: Sweden's National Social Insurance Board

Sweden is pioneering this approach to a 'self-balancing' system that builds in measures against a deficit, and as such avoids threats to its future sustainability. Linking pension benefits to changes in generational life expectancy has the additional advantages of avoiding benefit calculations based on projections that are often imprecise, reducing the cost of potential future pension reform, and making the affordability of the pension system more transparent to citizens.

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ELIMINATION OF 'HIDDEN' EARLY RETIREMENT OPTIONS

In contrast to their counterparts in the majority of OECD countries, Sweden's 50-64 year old workforce in 2004 was much more likely to move into unemployment than early retirement, indicative of the government's success in closing off alternative early retirement pathways to increase labour participation rates.

Disability pension

In previous decades, the disability pension had been an implicit system of early retirement. In the early nineties, it was reformed to structure payouts according to degrees of disability. Since 2003, the disability pension has changed its name and is assigned as a sickness allowance (*Sjukersättning*) or an allowance in lieu of activity (*Aktivitetsersättning*) with stricter controls and limited duration. By 2004, the reform had made a significant impact on people aged 60-64 years: the rate of male and female beneficiaries dropped from 33% to 26% and from 37% to 26% respectively, while the rate of beneficiaries for all age groups increased from 7.5% to 9.5% in 2004.

Part-time retirement

Originally very generous, the 'part-time retirement' scheme was changed because it was considered expensive and had little impact on employment rates among older workers.

The specific feature of part-time retirement was introduced in 1976. It afforded the possibility of obtaining a pension at age 60, which replaced 65% of the previous year's earnings. The total income loss was relatively low (1-65% x 50%): only 17.5% for a 50% time reduction. In 1994, the provision was overhauled. Provisions included:

- the minimum age was increased to 61 years;
- the rate at which the previous year's earnings is replaced was reduced to 55%;
- the maximum working hours reduction was lowered to ten hours (25%); and
- part-time retirement was closed to new applicants.

As a result, after 1995 the percentage of part-time workers among those aged 60-64 declined sharply (by 20 percentage points). In 2001, part-time retirement was finally abolished for the generations who were still eligible.

Older workers can still opt for a part-time retirement in the PAYG reformed system, but are not incentivised to do so. Instead they have to 'pay' for the early pension income, which is taken from their funds for full retirement. The new regime frames this as an individual decision with economic trade-offs instead of encouraging it by subsidies.

3. Maintaining productivity of older workers

QUALIFICATION AND VOCATIONAL TRAINING

Trade unions have defended -- with considerable success -- the policy of continuing education with government support. Although the rate of participation in training declines with age, it remains significantly higher after 55 years in Sweden -- at 61.9% -- than the European average of 29.5%.

Beyond financial support offered by the Swedish government to adult students up to the age of 54, and recruitment grants up to age 50 (targeting employees with little education and at risk of



unemployment), legislation provides the right to educational leave with re-employment guaranteed under terms specified by the employer and applicable collective bargaining agreement.

Using the tax system to incentivise lifelong learning

The government proposal in 2000 to foster lifelong learning by using tax incentives sought to take an innovative approach. However, it failed to achieve the consensus necessary for its implementation and was withdrawn from parliament.

The proposal suggested a system of individual learning accounts whereby employees could accumulate tax-deductible savings to be used for financing individual training schemes. These learning account savings would become subject to income tax once withdrawn, but be subsidised by a 'competence premium' financed through a 10% reduction in payroll taxes for participating employers, and similar tax reductions for the self-employed.

IMPROVING WORKING CONDITIONS AND HEALTH

Working conditions and work schedules

Generous financial incentives are paid to companies to improve the environments and working conditions of their employees. The 'Work Life Fund' is an example. The fund focuses particularly on reducing absenteeism and improving rehabilitation processes, but also covers more general environmental improvements. The desired impact is better health for the individual, increased productivity and profitability for companies, and decreased costs for the social insurance system.

Companies in both the private and public sectors, as well as state authorities and other organisations can apply for financial support. The requirements are normally to:

- plan and implement an integrated workplace programme ;
- formulate the programme together with worker representatives ; and
- carry out the programme by a certain deadline.

The Fund usually pays 30-40% of the costs for investment, training and development work, and the organisation pays the rest. This assistance allows companies to make investments towards adapting the working environment and working conditions. Over half of those over 45 years of age benefit from this assistance.



LEGISLATION

Hiring/firing rules

The 1974 law on security of employment included the redundancy principle 'last in, first out'. This principle promotes positive discrimination towards older workers in cases of dismissals. While the government claims that this has contributed to a high proportion of older people in employment, the measure has also had a perverse effect, as it discourages job mobility among older workers, who lose their fear of dismissal at their current organisation, but become fearful of switching to another employer and consequently avoid doing so.

Evidence from the OECD suggests that in Sweden rates of both hiring and firing among 50+ year-old employees are comparatively low. Among 20 OECD countries, Sweden had the lowest job exit rate and the lowest number of people quitting their job among the 50-64 age group in 2004, although not the lowest rate of involuntary job loss over the previous 12 months.

4. Conclusion

The overall employment rates of Swedish older workers are among the highest in the world, and it is testament to the progressive nature of the country's policies that this remains the case. Many measures now common to other European countries, including hiring assistance and the tightening of programmes such as part-time retirement and disability pensions, were implemented earlier in Sweden.

Having a flexible retirement age is expected to further incentivise the continuation of employment beyond the age of 65. A particularly innovative aspect of the Swedish pension system is its 'self-balancing' nature, linking benefits directly to life expectancy and the balance between contributions and pension liabilities.

United Kingdom

1. Overall Labour Market Performance

The UK's overall labour market performance is better than the EU average with a total employment rate of 69.9% in 2009, compared to 65% for the EU-27 average. The UK also ranks ahead of most EU countries in terms of the employment rate of workers aged 55-64 years. Roughly 30% of men and 10% of women aged 65-69 years remain active in the labour market. These figures fall to 5% and 2.5% respectively for people aged 70 years and over. In 2009, 16.2% of the United Kingdom's population was aged 65 years or older, compared to 16.4% in France and 20.3% in Germany.

Rising employment rates of older workers, beginning in 1997, occurred in a period of sustained growth and a declining overall unemployment rate, which fell to 4.6% in 2005. From 1995 to 2005 the fall in unemployment largely outperformed the European average, despite a rapid increase in the working age population (see Table 1).

A moderate decline in the employment rate has occurred since 2005 accompanied by rising unemployment; this is chiefly as a result of an increase in the size of the labour force, through inflows of immigrant workers. However, the employment rate of workers aged 55-64 has continued to increase, particularly among women (whose employment rate rose from 41% to 49% between 2000 and 2009).

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TABLE 1: UNEMPLOYMENT TRENDS (ABSOLUTE NUMBERS IN BRACKETS, IN THOUSANDS)

	1995-2005		2005-2008	
	UK	EU15	UK	EU15
Change in unemployment	-52% (-1,492)	-15% (-2,531)	+10% (+244)	-11% (-1,497)
Contribution of demography	+54% (+1,553)	+39% (+6,681)	+43% (+1028)	+22% (+2,872)
Contribution of participation rates	+13% (+385)	+56% (+9,495)	0% (-6)	+25% (+3,210)
Contribution of employment	-119% (-3,450)	-112% (-19,091)	-32% (-778)	-58% (-7,633)
Interaction demography and participation rates	+1% (+20)	+2% (+384)	0% (0)	0% (+53)

Source: OECD, Oxford Analytica

MACROECONOMIC POLICY

The unemployment rate in the UK has reflected global macroeconomic developments. It has proved more reactive than the European average, as the British economy is known for experiencing cycles of growth and inflation of considerable amplitude compared to the major continental European countries.

2. Labour Market Institutions

INCENTIVES, DISINCENTIVES

The UK was, until recently, the only EU country that projected a decline in the share of pension expenditure in GDP, despite an ageing population. Since 1997, governments have maintained the goal of minimising public involvement in pension funding: by providing incentives for individual savings and by tackling the impact of ageing through reform of the legal retirement age. The target is an employment rate of the working age population of 80%, compared to 69.9% at present.

The public pay-as-you-earn (PAYE) pension system (the Statutory State Pension) rests on a basic allowance and on a contributory pension linked to wages. The retirement age is 65 for men and 60 for women, but will rise to 66 for both men and women by 2020, as announced in the Comprehensive Spending Review in 2010. Obtaining a full basic pension requires 44 years of full contributions for men and 39 years for women. The benefit cannot be paid before the legal age of retirement, but every year of work after the legal age leads to an increase of 10.4% in the pension amount. Opting out from the Statutory State Pension system to join employers' plans or individual savings schemes is possible as long as the benefit reaches that of the public scheme. 60% of employees have contracted out. The Second State Pension (SSP), established in 2002, allows low income workers to build up pension rights.

The retirement revenues of workers with a private pension have become more vulnerable since the shift from defined benefit to defined contribution plans, transferring more of the risk onto the employee. The increased volatility of returns on pension savings may have an important impact on the labour market participation of elderly workers close to retirement, particularly at times of falling asset prices.

Both the Turner Report (2005) and the OECD (in its report 'Ageing and Employment Policies, UK' in 2004) had called for a simplification of the UK's benefits system in order to increase transparency and encourage labour market participation of the elderly.

The 2008 Pension Act and Pension Bill addressed some of the issues, eg, by compelling employers to enrol employees in a corporate pension fund or in the new National Employment Savings Trust (NEST) for businesses not paying into a fund.

NEST will be phased in from 2012. The scheme is essentially a defined benefit scheme. Individuals will be able to opt out of the NEST but research shows that automatic enrolment leads to higher rates of participation than if people are required to opt in. NEST is targeted at middle and low income earners. Estimates of the number of participants vary from 4-8 million. Those eligible for enrolment will be over 22 and earning at least 7,475 pounds annually -- the threshold for paying income tax from April 2011.

The new coalition government has announced that the state pension age for men should increase from 65 to 66 sooner than initially planned (in 2018).

In spite of some advances in increasing incentives for later retirement, the low level of public pensions in the UK has been stressed in many reports to be the main reason for the good performance in terms of employment of seniors.

3. Old-age specific employment policies

Measures to encourage re-employment have been at the heart of the UK government's labour market strategy since 1997. However, policy incentives implemented by Labour governments since 1997 have not specifically targeted the elderly. The main measure -- tax credits for people returning to work (the Working Family Tax Credit) -- targeted people with dependent children, in practice especially single mothers.

The following key policies have had an impact on employment of seniors:

- **Welfare to Work.** In 1998, the government launched the 'Welfare to Work' strategy, which included measures to tackle age discrimination, raise awareness of age issues with employers and reverse the high level of unemployment among older people.
- **New Deal 50+.** A programme of incentives for individuals older than 50 years, the 'New Deal 50+' ('ND50+') was introduced in 2000. It targets older workers who have been unemployed for six months and who receive benefits such as Income Support, Jobseekers' Allowance, Incapacity Benefit,



Severe Disablement Allowance or Pension Credit⁴. The programme provides training grants, access to individual counselling for job search, and income assistance to job seekers. The Department for Work and Pensions found a significant increase in employment levels for ND50+ participants. A particularly high impact has been observed for those aged 50-55 and for manual workers. However, half of the recipients of financial incentives would have returned to work even without support and most of the jobs taken were low paid and low skilled.

- **Credit schemes.** Until 2003, an 'employment credit' was paid to older workers who retained their jobs for at least a year. Since 2003 it has been replaced by a tax credit under the Working Family Tax Credit, administered by the employer: people working for at least 16 hours per week receive the '50+' component of the Working Family Tax Credit for one year. However, the programme helped only 150,000 workers since its creation, and was generally seen to have had a weak impact.

The government this year announced its intention to introduce a single Universal Credit bringing together out of work benefits. This is not specifically targeted at older workers but will include them. It also intends to introduce the Work Programme, which will replace all existing employment programmes. The Work Programme will consist of an integrated package of support providing personalised help for people out of work. It is anticipated that much of the delivery of the programme will be by private providers.

DISABILITY

About half of recipients of disability benefit are over 50 years old. Therefore, the disability pension, in practice, is a form of early retirement. The percentage of recipients of disability benefits, which includes incapacity benefit (IB) and severe disability allowance (SDA), increases with age:

- 11% for the 50 to 54 age group;
- 13% for the 55-59 age group; and
- 21% among men aged 60 to 64 years old.

⁴ The eligibility age for Pension Credit is being raised from 60 to 65 years by 2020.

In 2005, the 'Pathways to Work' pilot scheme was introduced, with the aim of bringing disability beneficiaries back to work, by providing personal counselling and a premium if a job is found. The Department for Work and Pensions has found higher employment and a reduction in benefits received for IB claimants, but the scale of the impact was significantly weaker for participants aged 50 years and above. For new claimants, a 10% improvement in employability was found for participants under the age of 50 but no employment gains for those aged 50-59.

IB has been reformed and since October 2008 new claimants must undertake a Work Capability Assessment for Employment Support Allowance (ESA). Early indications suggest that ESA is harder to obtain than IB was in the past. Claimants are assessed as either:

- 'Fit for Work';
- put into the 'Work Related Activity Group', members of which must join a Pathways to Work programme involving support to get back into work; or
- the 'Support Group', members of which are judged unable to work.

Several pilot schemes of the ESA programme are running in different parts of the country.

4. Employability

VOCATIONAL TRAINING

The UK shows high levels of educational attainment for younger age groups, but a much lower share of its older workers have attained at least upper secondary education. 'Work Based Learning for Adults' is a voluntary programme designed to help long-term jobless people on a range of benefits move into sustained employment. The programme provides four different types of training:

- Short, Job-Focused Training;
- Longer Occupational Training;
- Basic Employability Training; and
- Self-Employment Provision.



The evidence for long-term outcomes is mixed for the different types of training:

- Short-term training results in significant improvement in participants' employment outcomes in the long run, with an average increase in the employment rate of five percentage points;
- longer-term training shows significantly positive employment effects, but only in the long term; and
- basic training participation shows an improvement in the employment rates for participants of around three percentage points.

WORKING CONDITIONS AND HEALTH

In addition to the concern with the numbers of people on IB or ESA there has been a more general trend towards considering the relationship between paid employment and health. The government is implementing a 'Health, Work and Wellbeing Strategy', which involves a partnership between the Department of Health, the Department for Work and Pensions, the Health and Safety Executive, the Welsh Assembly Government and the Scottish Executive.

A broad based review of health inequalities in the UK recently found that "more than three-quarters of the population do not have disability-free life expectancy as long as 68". With an ageing workforce and rising state pension ages it is likely that more and more people in work will be coping with a significant chronic health condition, notably mental health issues and musculoskeletal disorders. These are the two biggest health concerns compromising individuals' ability to work.

ANTI-DISCRIMINATION/HIRING AND FIRING RULES

The UK has advanced significantly in terms of education and persuasion in the last decade. In 1999, the government launched a code of practice on age diversity and an accompanying media campaign. The code sets out principles of non-age biased employment practices and includes workplace examples. The campaign added to a growing public debate about the impact of population ageing on workplaces and of age discrimination in the labour market, with increasing numbers of employers engaging with the issue.

The Employment Equality Age Regulation, which came into force in 2006, contains several key elements:

- it bans age discrimination in terms of recruitment, promotion and training;
- it prohibits employers enforcing mandatory retirement before the age of 65 years without the agreement of the employee; and
- it introduces a new right allowing employees to request retirement after 65 with an obligation for the employer to consider the request. The objective is to encourage timely discussions between employees and employers, at an individual level, in order to promote increased, happy and healthy work participation for people in their sixties.

However, employer practices have been very slow to change. In the case of organisational restructuring, older worker redundancy remains common. Therefore, the new coalition government is planning the gradual removal of the default retirement age at 65. If an employer uses age as a cause for dismissal, it will have to be justified. The new law will include a provision allowing employers to retire older staff who are incapable of maintaining levels of performance.

Multiple institutional approaches towards promoting age management at national, regional and sectoral levels have been implemented. Chief among them is the 'Age Positive' campaign in 2001. The Age Positive website (www.agepositive.gov.uk) includes a variety of informative and interactive features, including employer case studies, a discussion forum, advice and guidance, updates on the government's Age Positive campaign and progress towards legislation. Companies can obtain an 'age positive' label.

To oversee much of its work in this area, the government has established an Extending Working Lives Division of the Department for Work and Pensions. Moreover, in 2001, the government established an Age Advisory Group and, more recently, an Age Taskforce, the membership of which includes representatives of trade unions, employer groups and bodies lobbying on age and employment issues. The role of this group is to advise government on the relevant legislation and support it in developing accompanying guidance. More generally, the positive contribution of unions should be noted. In many organisations, unions are working closely with human resources managers to facilitate the work transition of ageing workers, helping to shape training and adaptation to new functions and planning a new working environment if required.



In October 2010, a new Equality Act came into force, which provides a single legal framework for tackling disadvantage and discrimination. Age discrimination is now covered by this act.

WORKING CONDITIONS AND WORK SCHEDULES

There has been increased emphasis on both individual voluntary action and company-instigated actions in relation to health. These have included measures such as subsidised or free membership of health and fitness facilities, and the provision of company-based health and fitness support.

5. Types of job and part-time schemes

The state pension can be combined with employment. About 12% of those aged over 60 years combine a state pension and a job. Part-time employment as of 2009 was particularly high among those aged 55-74 (36.4%) and well above the EU-27 average (26.1%). Older workers (mainly those who were dismissed from their previous jobs) tend to have jobs with fixed-term contracts or are 'marginally' employed (ie work contracts with low wages and reduced working hours). Although women predominate in part-time employment across the age range, older men are much more likely to work part-time than younger men. For those still working over age 65, part-time work is the norm.

Although some organisations introduced flexible working policies to assist employees in taking gradual steps to retirement, many workers did not seek to access them. The reason most often cited was financial, in that workers did not wish to reduce income leading up to retirement, or diminish future potential pension benefits.

In the past, tax and occupational pension rules were a barrier to people who decided to continue working while reducing their hours. Changes to tax rules that came into force in April 2006 allow an individual to draw on an occupational pension scheme while continuing to work for the same employer.

6. Attitudes of Workers and Employers

Several surveys suggest that those over 50 have positive views about work and many say that they would consider working for longer or continuing to work in some way after they have 'retired'. However, the same research also indicates that many people would not want to continue working in their current occupation or job. There is a strong



sense in surveys that people feel that mandatory retirement ages are arbitrary and unfair, and that if someone wants to carry on working then they should be allowed to do so. However, there is also a strong feeling that people should not be forced to continue working, and for this reason rises in state pension age are viewed cynically: the view is that governments are just trying to save money. It remains the case that most people retire before the age of 65: in 2008 the average retirement age for men was 64.6 years, the highest level since 1984, while the average retirement age for women had risen to 61.9 years. Those still working after age 65 have the most positive attitudes towards work, as might be expected.

When considering extending their working lives, older workers have a strong preference for 'flexible work'; that is, being able to work part-time or gradually reduce their hours or responsibilities. Although there is much expressed support for phased or gradual retirement, it happens very little.

Research on how prepared organisations are to deal with an ageing workforce suggest that many organisations do not undertake age audits, do not have specific strategies for managing age and are in many respects unprepared for the issues that they are likely to face. There is also evidence that stereotypes about older workers abound: that they are helpful, good with customers and reliable, but also that they are resistant to change, uncomfortable with new technology and slow to learn. Moves towards 'active ageing policies', though heavily advocated, are generally weak in practice.

7. Conclusion

The UK has adopted a strategic policy approach to the employment of older workers, including the adoption of age discrimination legislation, protection against dismissal, prohibition of age barriers in recruitment and advertisement, awareness raising campaigns, employment training programmes, wage subsidies and incentive schemes. Low levels of state pension and a relatively unregulated labour market, in comparison to some other European countries, has meant that many older workers continue to work, if they are able to, because they cannot afford to retire.

United States: Colorado and Utah

1. US demography

The demographic development of the United States over the next 40 years is likely to be much less problematic than that of Europe. Nonetheless, the percentage of people of working age (15-64 years) is likely to decline from 63% to 58% of the population as a whole, and the percentage in retirement (65+years) is likely to increase from 12% to 19%. As a result, the United States will face three issues:

- Almost all public pension schemes at the state level, and often at the municipal level as well, have large unfunded liabilities.
- An accent on youth, dynamism, and flexibility in the labour force makes it very difficult for over-55s to enter the labour market.
- While Americans are on average younger than Europeans, they are on average less healthy; higher obesity rates intersect with age to trigger obesity-related health problems that impose higher fiscal costs.

2. US federal programmes

In the United States, the push for mandatory retirement, combined with the introduction of Social Security after the Second World War, had a significant negative impact on labour force participation by the elderly. From 1940 to 1980, the labour force participation rate of men over 60 in the United States dropped from 65% to 30%. Today, about 95% of US citizens over the age of 65 years receive Social Security benefits -- compared with 20% in 1940.

These trends constitute a success, as they have largely achieved the goal of providing some retirement security for the elderly. However, the costs for governments and businesses are substantial. In 2010 alone, the US government spent 624 billion dollars on Social Security outlays (or more than twice Québec's 2009 GDP).

Data from the Center for Retirement Research suggest that the income replacement rate for the median worker who claims Social Security benefits at 65 will decrease from 39% in 2002 to 28% in 2030. The combination of the fragile 401(k) system and the shrinking role of Social Security benefits has greatly increased economic anxiety during the ongoing weak economic climate and has further exposed individuals to retirement risks.

Programmes to promote work by seniors

Like all US states, Colorado and Utah (see below for detailed case studies on these two states) have federal programmes for encouraging older workers to work. The state governments of both Colorado and Utah implement core programmes for targeting the over-50s that are centred around a federal programme: Reemployment Trade Adjustment Assistance (RTAA), which builds on the Trade Adjustment Assistance (TAA) programme. The programmes were set up primarily to cope with trade-related job losses (those due to increased imports or outsourcing). These programmes are decades old, but President Barack Obama signed new legislation related to them in May 2009. The legislation included public and service sector workers, extended deadlines for application, and increased health coverage.

TAA is for all workers, not just over-50s; under its provisions, three or more workers (or their union, firm or state) must petition the Federal Department of Labor to have them 'TAA certified'. This involves proving that competition from abroad cost the workers their jobs. Once certified, the workers apply individually and can receive:

- up to 156 weeks of income support (plus another 78 if they are in training);
- health support covering 80% of medical expenses; and
- job-seeking and relocation allowances of up to 1500 dollars per worker.

The RTAA programme specifically targets older workers, allowing them to accept employment at a lower wage and receive a wage subsidy. It is aimed at workers aged 50 or older who obtain new, full-time employment at wages of less than 55,000 dollars while receiving TAA benefits. Those who do are moved from TAA to RTAA and receive a wage subsidy of 50% of the difference between the old and new wages, at an overall value of up to 12,000 dollars paid over a period of up to two years. Workers over 50 are automatically considered for the programme under the original TAA application for certification.

Effects and federal take-up rates

RTAA is not dissimilar to German government measures credited with keeping large numbers of workers in their jobs since 2008. However, the participation rate is low: in 2009, a recession year, only 6,827 workers nationally took part in the programme.

WORKFARE & VOCATIONAL TRAINING: SCSEP

The Senior Community Service Employment Program (SCSEP) is a programme of the US Department of Labor and is authorised through the Older Americans Act. It is somewhere between a retraining, welfare, and workfare programme. It provides poorer older Americans with opportunities for community service and retraining, while NGOs and state agencies benefit from their labour.

Residents who are 55 or older; are unemployed and whose income is no more than 125% of the federal poverty rate; have poor employment prospects, and are legal to work in the United States are eligible to participate in this programme. A case worker interviews participants and sets them up with work and, if necessary, training. Participants work an average of 20 hours per week and earn the prevailing wage while doing so. Preference is given to those who are 65 years or older; have a disability; have limited English proficiency or low literacy skills; live in a rural area; or are homeless or at risk of homelessness.

The programme is chiefly for the poor. According to the US Department of Labor, of all SCSEP participants in 2009, 70% were women, 48% were minorities, and 89% had federal incomes below the poverty level.

STATE PENSION PLANS

About 49% of the US workforce is covered by pension plans today -- compared with some 24% in 1950. Many of the largest US pension funds are state-owned public sector employee funds. However, many US states have acknowledged that the costs related to their state pension systems that they face have diverged from what they are willing or able to pay and have started to take the steps to correct this.

According to the Pew Center, in the first 10 months of 2010, 19 states took action to reduce their pension liabilities, either through reducing benefits or increasing employee contributions, and more may do so in the coming months. In 2009, 11 states made similar changes. Eight did so in 2008. Some lowered pension benefits and increased pension contributions: Colorado (see below), Iowa, Mississippi, Missouri, Vermont, Minnesota and Virginia. Others, including New Hampshire, Kentucky, New Jersey and South Carolina have made changes to how they structure and pay for retiree health benefits in an attempt to better manage their related long-term liabilities.

a) Colorado

1. Introduction

Colorado's government is taking the issue of an ageing population very seriously and has implemented innovative policies on pensions and retirement age. However, it is unclear whether these policies will be sufficient to cope with future pension obligations, particularly in the context of an ageing population.

Over the last decade, Colorado has instituted a number of policies that are designed to:

- create a more positive image of ageing; and
- link older Coloradans with work.

2. Overall Labour Market Performance

Colorado is a mid-sized US state (the 22nd-largest at five million inhabitants) with an above-average GDP per capita of approximately 41,000 dollars per year, placing the state within the top 15 in the United States. Colorado's birth rate is very close to the national average.

In demographic terms, the state has two advantages. First, the population is among the fastest growing in the United States, increasing from 4.2 million to 5 million in the last ten years. Second, Colorado has a lower obesity rate than most other states: 19.1% versus 26.6% nationally (though the rate has risen more rapidly than the national rate in the last 15 years). This is significant as per capita medical spending for obese people is 42% higher (1,429 US dollars per capita) than for healthy weight people.

As a result of the 2008-09 recession in the United States, the unemployment rate averaged 9.3% in 2009. However, the unemployment rate in Colorado only reached a high of 8.6% in June 2009, but has since fallen to 8.1%.

AGEING TRENDS

As of 2002, 66% of Colorado workers were in the 14-44 age group. This represents a 10% drop over the previous decade. The trend is predicted to continue and accelerate in coming decades. According to US census data in 2005, Colorado's ageing workforce will affect the following sectors in particular: educational services, local/suburban

transit, insurance, rubber and plastics, real estate, stone, clay and glass, legal services, and fabricated metal products. In many of these industries, over one in five workers were over the age of 55.

3. Old-age specific employment policies

RETIREMENT: CHANGES IN RETIREMENT AGE

In addition to other measures, a pension reform in Colorado in early 2010 raised the minimum retirement age by three years, from 55 to 58. In 2017, it will increase to 60 years. In all cases, employees need to have completed 30 years of service to secure the full pension.

EMPLOYABILITY: THE COLORADO EXPERIENCE BANK

The state-supported Colorado Experience Bank is designed to connect baby boomers/older adults to employment, as well as to volunteering and educational opportunities. The target audience is any Colorado citizen between the ages of 50 and 65 years. The 'bank' is a website where those looking for work can enter their details for companies to see. They can also search available jobs across the state and narrow their search by full/part time, income, and area. The system is passive insofar as it disseminates information about jobs but does not actively attempt to connect jobs with people. There has been no systematic evaluation of the programme, but its presence illustrates that Colorado is taking the issue of population ageing seriously.

Other programmes for older citizens in Colorado include:

- **Silverprint Colorado:** This is an NGO that provides services for the elderly, including information on training and jobs, and tries to promote a more positive view of older people in the workforce. It was launched with support from Governor Bill Ritter, Jr.
- **Employer Toolkit:** Colorado provides 'toolkits' for employers that outline best practices for employers (another looks at making the workplace welcoming for mothers). One is entitled 'EngAging the New Workforce' and is aimed at encouraging employers to hire and keep older workers. The document warns employers of a coming labour shortage and refers them to the state and federal programmes for identifying and subsidising older workers.

Policy impact

Whether these measures had any discernible policy effects is still unclear. However, there are indications that the state is taking the ageing of its workforce seriously -- trying to prepare employers for the change; improving attitudes toward older workers among employers; and creating structures that can be accessed quickly if and when employers decide to address labour shortages with older workers.

WORKFARE & VOCATIONAL TRAINING: SCSEP

In Colorado, there are four agencies that operate the Senior Community Service Employment Program (SCSEP):

- The Association of Ageing and Retired Persons (AARP).
- Service, Employment, Redevelopment (SRE) International.
- Seniors' Resource Center.
- Seniors! Inc.

Services available through the SCSEP include:

- Job training provided prior to or subsequent to placement. This may include the payment of reasonable costs of instructors, classroom rental, training supplies, materials, equipment, and tuition.
- Job placement assistance, including job development and job search assistance.
- Participant supportive services, outreach, recruitment and selection, intake, orientation, and assessments.
- 'On the job' experience, including training and employment opportunities through public or private employers not associated with community service.

4. Pension Reform

THE NEED FOR PUBLIC SPENDING CUTS

Similar to other US states, Colorado has faced severe budget shortfalls over the last two years. In 2010, 60 million dollars in spending cuts were imposed: corrections, public education, and funding for local

government were particularly severely hit. Governor Bill Ritter, who has decided not to seek re-election, promises still more cuts in 2011.

REFORM OF COLORADO PERA

Colorado's Public Employees Retirement Association (PERA) is the state's main pension system for public employees. As the 25th-largest public pension plan in the United States, it covers more than 400 agencies and entities. The pension system has 465,653 members, more than half of whom are employees or retirees of school districts and state colleges. The plan also covers police officers, judges and local government officials.

Before a reform in 2010, PERA offered a defined benefit plan in which contributions and benefits were fixed. Under this plan, most employees paid 8% of their monthly salary and employers paid between 12.95% and 16.46% of salary. Benefits were calculated partly based on years of service.

Now, employees themselves choose whether to join PERA's defined benefit or defined contribution plans. The choice, once made, is irrevocable; they cannot move between plans. If they do not choose, they are enrolled automatically in the defined benefit plan.

Pensions crisis

Colorado faced a serious pension system shortfall even before the stock market crash of 2008. The 2010 reform sought to address a long-term structural shortfall as well as the dramatic drop in revenue following the 2008 stock market crash. The long-term structural shortfall resulted from a failure of contributions to match benefits. In 1998, 96.5% of pension liabilities were covered (the percentage measures the ratio of present values of assets to liabilities). By 2007, following the 2001 crash but before the 2008 one, this ratio had fallen to 78%. In 2007, PERA had unfunded liabilities of 12.3 billion dollars.

The 2008 stock market crash made this bad situation far worse. PERA's assets fell from 41.4 billion dollars in December 2007 to 29.5 billion dollars in July 2009 (losing some 28% of the fund's value). Unfunded liabilities rose to 27.6 billion dollars. The percentage of pension liabilities covered fell to 55%. As stock markets have partially recovered, PERA investments have risen 17.4% in value. Net assets of PERA at the end of 2009 were 32.9 billion dollars, still short of the pre-crisis level, which was itself inadequate. Under early 2010 forecasts, the State Division of PERA would run out of money within 16 years.

Senate Bill 10-001

On February 23, 2010, Governor Ritter signed into law Bill 10-001. Proponents argued that the bill would restore PERA to solvency over



the next 30 years. It was co-sponsored by all 23 Democratic and three Republican Senators. During its passage through the state legislature, critics attacked the bill as either unfair to retirees or as insufficient given the magnitude of the crisis. However, senators from both parties refused to amend the bill substantially and passed it on a voice vote.

The bill is based on a PERA proposal amended by the Senate Finance Committee. The amendments largely reflected concerns raised by a coalition of employee and retiree groups, including the Colorado Education Association. As passed, the bill contained the following changes:

1. PERA employers and employees in all divisions except the School Division increase contributions by 2% (each) of payroll beginning in 2013.
2. School Division employers increase their contributions by 1.5%, and employees by 2.5%.
3. The annual Cost of Living Adjustment (COLA) of 3.5% was scrapped. Instead, living increases for retirees have been capped at 2%. If the cost of living rises at less than 2%, the COLA will match whatever increase there is. There is no increase for 2010.
4. If PERA investments have a negative return, the COLA drops to zero.
5. The minimum retirement age was raised from 55 to 58 years, with 30 years of service for those hired after January 1, 2011; after January 1, 2017, the retirement age increases again to 60.
6. For one year, employees increase their contribution by 2.5% while the state reduces its contribution by the same amount.

The largest grassroots opposition to the bill resulted from the provision cutting retiree annual cost of living increases from 3.5% a year to 2%, regardless of the actual rate of inflation. This is likely to be the most significant element in the reform

Impact of the reform

The plan assumes a yearly return of 8% over the next 30 years. From 1992-2002 -- a reasonable period to measure as it begins with stock market lows following two recessions (a 'trough-trough' measure) -- the fund showed a return of 9.3%. Yet, this period includes one of the greatest market run-ups in US history (1994-2001). The 8% return is only 50 basis points lower than the 8.5% that was believed to be

required to cover pension liabilities before the reform. There is no guarantee that the market will produce a similar return over the next 30 years, and this is a significant risk for funding of PERA.

Public Opinion

A class-action lawsuit seeking to overturn the PERA solvency plan was filed against the state in Denver District Court three days after Bill 10-001 became law in February 2010. The focus of the lawsuit is the provision that cuts retirees' annual COLA increases from 3.5% to 2% starting in 2011. The lawsuit has been launched by a retiree lobby group, 'Save PERA COLA'. Beyond the lawsuit, there has been little public opposition.

5. Conclusion

In the context of the United States as a whole, where social costs per head are considerably lower than in Europe, the picture in Colorado is mixed, though generally positive. In contrast with states that have done nothing (eg California, but there are many others), Colorado has actually taken action. Moreover, the state imposed losses on a powerful lobby group: retirees. That said, the reforms are unlikely to return public pensions to solvency for at least 30 years (a long and risky time horizon).

In the area of labour market policy, the state has taken some steps (albeit modest by many European country standards) to inform both employers and older workers about job opportunities for the over 55s. These moves have shown little effect yet, but they have only been in place for a few years. They may pay off as the workforce ages and more baby boomers retire. Most importantly, because they cost relatively little, these policies should be considered good practice.

b) Utah

1. Introduction

Utah has highly innovative policies on pensions, arguably leading other US states in this regard. These are designed both to contain the costs associated with an ageing population and to help bring older workers into the job market.

2. Overall Labour Market Performance

Utah is a small state of 2.7 million people. Its GDP per capita is among the lowest of all US states (30,875 dollars, compared with 48,000 dollars for the United States overall). The state is conservative and religious, which perhaps helps to explain why it has one of the lowest female participation rates in the United States, at 62%. However, this rate is still higher than in many countries and needs to be set against the fact that, outside the Nordic European countries, the United States has the highest female participation rate, at 71%.

There are factors working to Utah's advantage:

- Its birth rate is the highest in the country: an average of 81 children per 1,000 women per year, compared to the national average of 68. The highest birth rate is among that section of the population -- Mormons -- most likely to remain in Utah.
- Utah's economy has outperformed most other US States, growing at 3.5% per year over the last five years. Unemployment in Utah currently stands at 7.4%, two and a half percentage points lower than the US average.

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3. Old-age specific employment policies

Utah's reform of long-term commitments has been driven by the stock market and property crash of 2008, which severely reduced the revenue streams for pension plans and sharply reduced tax revenues. In response, the state has adopted an innovative pension reform.

2008 PENSION REFORM

In 2008, Utah's Retirement System suffered net investment losses of 22.3%. The state had based its pension forecasting on an expected annual gain of 7.75%. As a result, Utah faced a 700 million dollar budget shortfall for the 2011 fiscal year. Whereas 100% of pensions

were covered by contributions in 2007, just 70% would be by 2013. Employer contributions would have had to rise by 75% to cover the immediate gap.

Utah's state retirement programmes are divided into six different systems: the public employees' non-contributory, public employees' contributory, public safety, firefighters contributory, judges, and governors and legislators. The overwhelming majority of state employees are members of the public employees' non-contributory system.

The pensions system was reformed in 2008. Prior to the reform, public employees in Utah had to work for 30 years before becoming eligible for full retirement benefits, or 20 years if they were a public safety employee. However, employees with 25 years of service had the option to purchase future service credit in exchange for retiring up to five years earlier with only a slight benefit reduction. At age 60, public employees were able to retire with a 20% reduction in annual benefits, or at age 62 with just a 10% annual reduction. Full benefits were given after the standard retirement age of 65.

After the 2008 financial crisis, Utah legislators argued that these commitments would, in the context of an ageing population, bankrupt the state. The logic behind the Utah reform was that it made more sense to define a contribution than a benefit: that is, it defined what the state could afford to contribute and worked upward from there (rather than defining an entitlement and working backward to a contribution). Lawmakers decided that Utah could afford a contribution of 10% of employees' salaries (8% had originally been proposed). They then instituted the following changes:

- most significantly, no new employees can join the existing defined benefit programme from June 30, 2010; and
- employer contributions to the new retirement plans are capped at 10% of base salary.
- Cost of living adjustments will be limited to 2.5% (reduced from 4%).

Also, under the changes, new employees can choose between two plans:

1. A defined benefit 401 (k) contribution plan, which rises or falls with the stock market. 10% of the employee's salary is contributed by the employer and there are no employee contributions. The pension depends on the performance of the



fund. Benefits provided under the defined benefit scheme may not be increased until all state plans are fully funded.

2. A mixed defined benefit/401 (k) plan. Under it, a benefit is defined. The benefit formula for people who retire at 65 or who have 35 years of service will be 1.5% (this was 2% prior to the reform) of final average salary (FAS) multiplied by the number of years of service. FAS will be the average of the highest five years (as opposed to the highest three years prior to the reform). Employers pay up to 10% (12% for public safety workers and firefighters) of the employee's base salary (and no more) to keep the plan 'actuarially sound' (that is, to pay out the defined benefit from contributions). Any contribution rate in excess of 10% (or 12% in the case of public safety workers and firefighters) is then the employee's responsibility. If the programme is sound with less than 10% of the salary, then the employer will pay the extra contribution into the employee's 401 (k) plan. The employee may choose at any time to contribute more to ensure a higher pension.

Impact of the changes

In 2010, Utah state employers already needed to contribute some 16% of base salary to keep pensions solvent; over time, the new scheme will reduce this by over 50%. The 10% (or 12%) defined contribution 'cap' means that spending on pensions cannot rise, irrespective of what happens to the state's demographic structure and/or the stock market.

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4. Increasing work opportunities for older workers

Utah has also adopted measures to bring older workers into the labour market:

Senate Bill 43

The bill, which took effect on July 1, 2010, is designed to make older workers more attractive to employers by:

- Removing the requirement that participating employers who hire a retiree contribute into a defined contribution (DC) plan the same percentage of a retiree's salary that would have been contributed to the defined benefit (DB) plan were the retiree an active member. This reduces the cost of hiring older workers.
- Capping at the 'normal cost' the amount an employer who hired a retiree before July 1, 2010 contributed to a DC plan. The normal cost is the portion of the contribution rate required

to fund a current employee's retirement benefit and does not include the amortisation cost for unfunded liabilities in the DB plan.

- Removing the cap on the maximum retirement benefit a retiree of the Public Safety, Firefighters', or Judges' Retirement Systems may receive.

Limiting double dipping

The legislation also sought to reduce costs by eliminating the practice of retiring, taking a pension, and then returning to work. Some retired public employees who re-entered the labour market took advantage of three sources of income: a retirement pension, a full-time salary, and continuing state contributions to the worker's 401(k) plan, which accounts for an extra 11-39% of the worker's salary. The practice was legal, but expensive for the state. Legislative auditors found over 4,000 public employees who undertook this 'double dipping', some of whom earned well over 150,000 dollars in combined salary and pensions.

The reforms stipulate different rules for retirees hired before and after July 1, 2010. If the retiree was rehired prior to July 1, 2010, then between the passing of the bill and July 1, 2010, the rehired retiree earned a salary, collected his or her retirement benefit, and received a DC equal to the amount that would have been contributed to the DB plan if the retiree were an active member.

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If the retiree was rehired on or after July 1, 2010:

- Retirees who voluntarily leave and collect a pension need to be out of work for one year before taking up a position with any participating employer.
- If a person takes a job with a participating employer within one year of the retirement date, then retirement benefits are cancelled, the employee is returned to active status, and he/she earns additional service credit if eligible.
- If employed by a participating employer after one year from the date of retirement, the employee has two options: To elect to earn a salary and continue to receive the retirement benefit; or to earn a salary and cancel the retirement benefit in order to earn additional service credit. If the employee is re-employed for at least two years, a separate benefit will be calculated based upon the service credit and salary at the time of the second retirement, and the previous retirement benefit and the new retirement benefit will be combined.



Impact of the reforms

According to state audits, double dipping has cost the state 401 million dollars in the last eight years. If changes had not been made, it would have cost the state 897 million dollars in the next decade. The reform will not eliminate the practice, but may discourage it, as it will be far more difficult to return to work after a year's absence. In addition, the option of increasing credit for an eventual pension might be appealing compared to collecting the existing pension.

5. Conclusion

Utah's pension reform was ambitious and worthy of emulation; indeed, such reform is needed in states such as California that are facing a severe pensions crisis. Although more modest, Utah's programmes for reducing the non-labour costs of hiring older workers are also positive steps.



This study is intended for the use and assistance of the *COMMISSION NATIONALE SUR LA PARTICIPATION AU MARCHÉ DU TRAVAIL DES TRAVAILLEUSES ET TRAVAILLEURS EXPÉRIMENTÉS DE 55 ANS ET PLUS - GOUVERNEMENT DU QUÉBEC*. It should not be regarded as a substitute for the exercise by the recipients of their own judgment. *Oxford Analytica Ltd* and/or any person connected with it accepts no liability whatsoever for any direct or consequential loss of any kind arising out of the use of this study or any part of its contents.