

Edited by:

Dirk Hofäcker, Moritz Hess  
and Stefanie König

# DELAYING

# RETIREMENT

Progress and Challenges of  
Active Ageing in Europe,  
the United States and Japan



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Dirk Hofäcker • Moritz Hess • Stefanie König  
Editors

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# Preface

Throughout recent decades, both the scientific as well as the public discussion on older workers and their work-retirement transitions in Western economies has changed substantially. Up until the 1990s, both discourses have mainly evolved around the dominant trend of early retirement—that is, the widespread tendency to leave employment well before reaching mandatory retirement ages. The inevitable prospect of demographic ageing and its expected consequences for public pension systems, however, has prompted many policy makers to significantly revise their labor market and social policies and to promote longer working lives. On a supra-national level, such policy shifts have often been regarded as an integral part of a general strategy of “Active Ageing” meant to promote older people’s participation in various parts of society. The designation of the year 2012 as the “Year of Active Ageing and Solidarity between Generations” by the European Commission is indicative of this general policy reorientation in Western economies.

In line with this trend, research in the social and economic sciences has started to concern itself with the topic of active ageing, providing an overview of recent trends in public pension and labor market policies. This book complements earlier publications by a sociological perspective. It systematically connects the institutional changes at the national level described in earlier studies with its repercussions at the individual level, that is, the employment behavior of older workers and social inequali-

ties. In addition, particular attention in this respect is being given to the intermediate level of enterprises and workplaces which represent the “organizational context” where employment and retirement decisions are being made.

To that end, the book brings together experts from 11 European countries, the United States and Japan to demonstrate the variety of ways in which the general idea of “Active Ageing” has been put into practice both at the policy as well as at the enterprise level. The different nation-specific constellations are then systematically compared to recent trends in older workers’ employment, thus allowing for an evaluation of the relative effectiveness of different “policy mixes” in promoting longer working life. Particular attention is paid not only to the general aggregate trend but also to the development in social inequalities among the older workforce, that is, the question who might be winners and losers of the recent policy shift. As such, the book is of substantial interest not only to scientists in social, economic and political science, but also to policy makers, union and employer representatives and practitioners in promoting older workers’ employment. It is our sincere hope that the book will steer a lively, critical and fruitful debate about the development and consequences of active ageing policies, both negative and positive.

This research was financially supported through a generous grant from the German Science Foundation (DFG) between 2012 and 2016. At the same time, it would not have been possible without the voluntary dedication of the group of international experts that have devoted much of their time and energy to this research. We are deeply grateful for this commitment.

A number of other people have contributed to the success of our research. In particular, we would like to thank David Stich and Tilman Wörz who have served as student assistants to the project and have provided valuable contributions, both organizationally and with regard to contents. Lisa Schmidhuber from Linz also spent various months as a student assistant and guest researcher at the University of Mannheim and remained a valuable contributor to our project in the months thereafter. The Mannheim Centre for European Social Research (MZES) and its unique research infrastructure provided much needed help in bureaucratic and organizational matters as well. Both Dr. Michael Heldmann as

well as the secretary of the Work area A (Sociology), Beate Rossi, deserve special mention. Prof. Dr. Bernhard Ebbinghaus frequently provided helpful advice and guidance to the national and cross-national research. Jonathan Harrow's careful and critical editing work ensured the quality of language in our publications. Finally, the staff at Palgrave Macmillan, particularly Philippa Grand and Judith Allan, provided great support throughout the production of this book.

We are hopeful that the productive collaboration of this unique group of people has helped to eliminate most potential errors in this book; we, as editors, are responsible for those remaining.

Dirk Hofäcker  
Moritz Hess  
Stefanie König

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# 1

## Retirement Transitions in Times of Institutional Change: Theoretical Concept

Dirk Hofäcker and Jonas Radl

### 1 Introduction

Currently, we are witnessing a significant retrenchment of pension systems in most advanced economies that characteristically combines a slow but steady reduction in benefit levels with a stepwise increase in statutory pension ages over multiple decades. If we compare the scale of these cutbacks to those observed in the other main pillars of modern welfare states—unemployment protection, health, and long-term care—pensions are clearly the policy area with the most severe diminution of welfare state generosity. Nevertheless, public resistance to these cost-cutting reforms has remained by and large moderate, and the shift toward the paradigm of active aging is curiously little contested given the considerable

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economic losses for prospective pensioners that these policy changes entail.

How did we get to this point? For more than three decades, many European and other affluent societies have been following a trend of fostering older workers' exit from employment well before reaching formal retirement age. This early exit orientation originated mostly in the 1970s when the oil crises put an end to decades of sustained economic growth and initiated a period of high and persistent unemployment in European economies (Kohli et al. 1991). At the same time, domestic markets became more exposed to international competition, and this created the (perceived) need for increased labor force flexibility in order to adapt to swiftly changing economic challenges (Blossfeld et al. 2006). Allowing older workers to exit from employment prematurely took pressure from strained labor markets and was intended to "make way" for younger labor market entrants and thus reduce unemployment. At the same time, it enabled firms to shed those parts of their workforce with the highest wages and employment protection. For older workers themselves, taking early retirement provided a socially acceptable and financially attractive arrangement, given that early exits were frequently well buffered through generous public pension payments and occasionally further incentivized by employer top-ups. Under the conditions of economic recession and a tight labor market, early exit from employment thus represented a solution that all social actors were ready to support (Ebbinghaus 2006). In fact, this arrangement was such a compelling compromise that, in many economies, it turned from an initially short-term policy into a persistent labor market trend (Hofäcker 2010).

This consensus, however, came under increasing pressure when policymakers and public discourses became more and more aware of the trend toward demographic aging. Driven by falling fertility levels and rising life expectancy, European societies were moving inescapably toward an unfavorable shift in the ratio of younger to older people in general and employees to pensioners in particular. Soon the perception took hold that this trend was seriously endangering the financial sustainability of national pension systems, particularly those based on a pay-as-you-go mechanism. The foreseeable burden produced by demographic aging was exacerbated by existing early retirement policies that significantly wors-

ened the projected imbalance between pension contributors and recipients. As a reaction, many countries have undergone a substantial change in their policies toward older workers, reflected in a shift from the previously dominant policy of early retirement—promoting withdrawal from the labor force well before reaching statutory pension ages—to a policy explicitly fostering longer working careers and employment retention of older workers (Jepsen et al. 2002).

This introductory chapter takes this institutional shift as a starting point for developing a novel theoretical framework that conceptualizes work and retirement transitions within this changing institutional landscape. The need for a novel framework originates from the fact that even though recent research has provided a thorough *description* of the reversal of exit from employment (for example, Zaidi and Fuchs 2006), existing approaches have not been fully able to offer an effective *explanation* of this trend reversal. In explaining the previous early exit trend, much of the earlier literature has referred to two institutional factors that were considered to be its main drivers. On the one hand, there are institutional features that promote older workers' labor market exit. Such "pull factors" provide incentives for early labor force withdrawal embedded in, for example, public or occupational pension schemes that provide financially attractive early retirement pathways. "Push factors," on the other hand, relate to institutional or structural features that impede the continued employment of older workers (such as rigid labor markets or occupational hazards) and thus effectively crowd them out from the labor market.

We identify two additional institutional factors that impact on older workers' employment-to-retirement transitions and that have grown in importance throughout the shift from the early exit era to the active aging paradigm:

First, recent policy changes may have enhanced the preconditions for continuing work careers up to or even beyond formal retirement ages. These consist in explicit "positive" policies to promote older workers' employability (such as active labor market policies or lifelong learning initiatives); that is, integration factors facilitating active aging—which we term "maintain factors." Second, "negative" policies relating to the abolition or "rolling back" of previous early exit incentives (that is, cut-

backs in early retirement incentives, the raising of formal retirement ages, and a shift toward more private old age insurance) have increased the pecuniary need to remain employed until later ages. We shall refer to this latter group of institutional features as “need factors.”

Beyond outlining the inherent logic of pull, push, maintain, and need factors, this chapter links these macrolevel policies to the microlevel of individual retirement behavior. It outlines how the mutual interplay of different institutional factors influences both the timing of retirement as well as the degree of choice older workers experience in making their retirement transitions.

Based on the above conceptualization, the chapter develops a set of hypotheses about institutional developments and their effect on retirement patterns in different types of contemporary welfare states that are subsequently investigated in the country-specific chapters of the book.

## 2 From Early to Late Exit: Empirical Overview

Before turning to the explanation of older workers' employment, however, we shall first empirically reconstruct this trend using the most recently available figures. To illustrate developments in older workers' labor force attachment, we calculate cohort-adjusted employment exit rates of older workers that illustrate how far a cohort's employment rate has decreased within a 5-year time span (see Ebbinghaus 2006, for details). To comprehensively look at both exit trends in the late 50s as well as in the early 60s, we calculate exit rates for the age groups 55–59 and 60–64 compared to their employment levels 5 years earlier (that is, at age 50–54 or 55–59). In order to contrast the early exit era with the expected reversal toward active aging, we present trends since the early 1990s (the tail end of the “heydays” of early exit) until most recently in 5-year intervals. Exit rates are calculated separately for men and women in order to be able to observe gender-specific patterns in employment participation and exit behavior. Because employment rates refer only to the economically active population in employment, they thus consider

the unemployed to have de facto withdrawn from the active labor force. Given that joblessness often reflects an enduring status for older workers and that a number of countries have effectively used unemployment as an artificial “pathway” into early retirement (see Blossfeld et al. 2006; Guillemard and van Gunsteren 1991), this treatment, however, appears justified for the age groups under study. In fact, the well-known difficulty in gaining reemployment among jobless older workers is at the core of the debate on *agism* (Bytheway 2005).

Tables 1.1 and 1.2 present the exit rates for male and female workers in their late 50s (that is, the observed change in percentage points from

**Table 1.1** Cohort-adjusted employment exit rates for men/women aged 55–59 years, 1990–2014

<b>MEN</b>	1990	1995	2000	2005	2010	2014
Switzerland	–	–	7.77	10.12	3.67	3.92
UK	10.60	21.50	11.67	8.23	10.41	5.59
USA	9.25	13.24	9.72	11.39	12.84	7.08
Japan	3.93	3.97	5.75	3.68	4.71	2.13
Denmark	3.46	8.55	5.74	4.30	9.56	5.86
Sweden	6.57	17.58	6.88	4.54	3.05	1.90
Austria	–	–	28.84	30.27	15.83	9.93
Germany	20.49	25.22	22.06	14.28	3.59	2.85
Netherlands	14.72	25.99	16.99	14.27	6.28	11.47
Italy	23.66	32.27	33.13	30.62	23.03	15.66
Spain	10.80	25.72	11.40	13.92	19.38	20.56
Czech Republic	–	–	17.60	7.09	7.50	3.78
Estonia	–	22.71	17.51	1.12	15.11	–1.76
<b>WOMEN</b>	1990	1995	2000	2005	2010	2014
Switzerland	–	–	8.56	6.90	5.72	6.69
UK	15.23	18.26	16.80	11.58	11.93	11.25
USA	7.57	11.41	12.80	12.50	10.42	9.45
Japan	11.37	13.29	13.42	11.64	8.68	5.15
Denmark	12.65	29.40	5.34	2.76	8.06	9.94
Sweden	7.55	16.32	10.33	7.47	4.37	3.85
Austria	–	–	56.50	41.38	24.41	25.32
Germany	23.78	21.90	21.78	14.78	6.69	2.93
Netherlands	12.65	23.74	17.61	19.09	8.83	12.78
Italy	36.80	42.30	33.58	20.64	17.70	10.66
Spain	9.15	16.75	12.34	1.88	13.16	13.81
Czech Republic	–	–	56.50	41.38	24.41	25.32
Estonia	–	53.07	36.99	7.48	16.83	3.93

Source: OECD 2016, own calculations

**Table 1.2** Cohort-adjusted employment exit rates for men/women aged 60–64 years, 1990–2014

<b>MEN</b>	1990	1995	2000	2005	2010	2014
Switzerland	–	–	31.74	30.09	21.00	22.42
UK	33.98	39.75	28.45	24.08	27.83	25.97
USA	29.62	33.17	28.25	25.30	26.49	18.47
Japan	20.29	22.98	28.88	26.72	21.20	15.62
Denmark	37.12	41.83	51.04	41.91	41.66	32.57
Sweden	26.66	40.67	32.18	23.43	19.06	16.27
Austria	–	–	73.62	70.95	51.24	54.26
Germany	54.85	62.38	56.75	45.83	31.17	23.12
Netherlands	62.43	67.67	55.04	53.91	34.84	28.90
Italy	48.28	54.80	48.19	46.36	46.76	38.30
Spain	36.58	47.49	34.61	32.87	43.27	44.29
Czech Republic	–	–	68.49	52.98	53.36	42.05
Estonia	–	57.40	39.57	25.58	34.86	11.35
<b>WOMEN</b>	1990	1995	2000	2005	2010	2014
Switzerland	–	–	46.40	37.92	34.11	29.78
UK	55.21	52.67	52.25	45.77	46.18	38.42
USA	27.84	31.78	31.74	26.03	25.06	25.24
Japan	21.84	27.23	32.49	31.60	24.38	21.34
Denmark	50.43	65.20	54.62	55.91	57.62	46.90
Sweden	28.41	42.55	38.40	27.58	27.36	18.70
Austria	–	–	71.05	68.91	60.33	66.03
Germany	70.89	72.34	68.70	55.96	40.38	26.99
Netherlands	54.95	65.61	58.60	55.15	39.14	35.74
Italy	49.45	62.60	59.36	60.50	61.84	38.62
Spain	31.02	32.16	29.15	22.89	30.43	32.41
Czech Republic	–	–	60.86	60.37	67.34	63.54
Estonia	–	60.17	41.14	20.65	38.87	32.76

Source: OECD 2016, own calculations

50–54 years to 55–59 years of age, 5 years later) and their early 60s (that is, from 55–59 years to 60–64 years, 5 years later) for the countries featured in this book ordered by their typical assignment to standard welfare or labor market typologies (see e.g. Blossfeld et al. 2006). What immediately becomes apparent is that only comparatively few employment exits appear to take place in the 50s (see Table 1.1). This is particularly the case for male workers, with a maximum of around one-quarter of older workers exiting employment within this age span.

Exit rates are clearly lowest in the Anglo-Saxon and Scandinavian countries in which they take values of around 10 % or less throughout

the observed time period. In contrast, in Austria, the Czech Republic, Estonia, Germany, the Netherlands, and Spain, exit rates are around 20 %. In virtually all countries, a general and largely continuous decline in exit rates can be observed since the mid-1990s that probably reflects the political shift throughout this period. The only notable exception is Spain's volatile labor market in which exit rates show large fluctuations and remain around 20 % until the mid-2010s.

Findings for women in their 50s appear to largely mirror those for men of the same age, though occasionally at higher levels. Particularly in Austria, Italy, and Eastern European countries, women's exit rates appear to be substantially higher, with around one-half of all women in their early 50s leaving employment in the following 5 years in the late 1990s up to the millennium. Yet, particularly among these countries, exit rates drop notably between 2000 and 2014, so that by the year 2014 in, for example, Austria and the Czech Republic, only around one-quarter of women in their 50s have withdrawn from employment.

Significantly higher exit rates are being observed for both men and women between their late 50s and early 60s, the prototypical age span for early retirement (see Table 1.2). Again, clear cross-country/cross-regime differences can be observed with the lowest exit rates (around 30–40 %) in Anglo-Saxon and Scandinavian countries as well as in Spain. Exits in the late 50s/early 60s are clearly more pronounced in Continental and Eastern European countries in which they make up between one-half and three-quarters of the working population. Trends over time once again indicate a sharp decline starting during the 1990s in most countries. By the year 2014, only around one-third of employed men and women effectively have left the active labor force within this age interval. Only in Austria, Italy, and the Czech Republic (and—to a lesser extent—Denmark) do exit rates remain comparatively high. As for the younger age group, exit rates among women in their early 60s appear to exceed those of men. These findings capture traditional gender differences in employment as well as conventional patterns of coupled retirement with wives often retiring simultaneously with their usually older husbands (for example, Denaeghel et al. 2011).

Taken together, the presented employment exit figures confirm the general shift from an early exit orientation in the late 1990s toward the

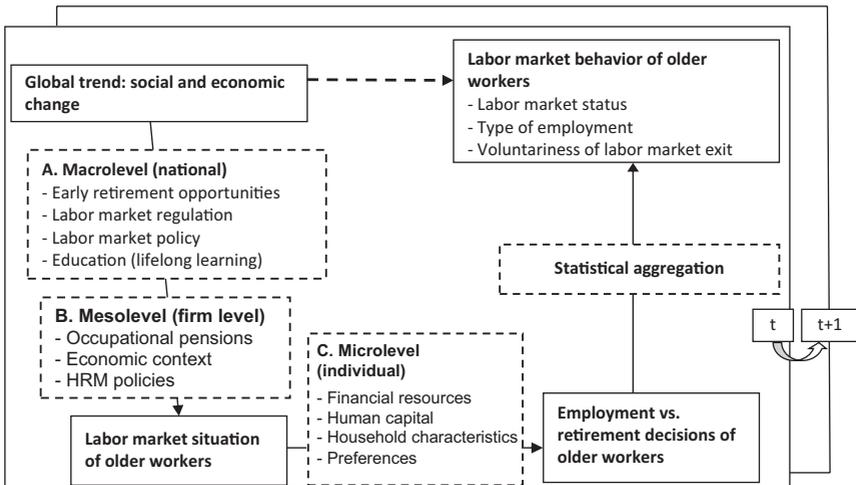
postponed retirement of older workers since the millennium. The most pronounced changes occur for workers in their late 50s and early 60s, whereas employment exits in the early to mid-50s are fairly uncommon by now and observed in substantial numbers in only a few countries. However, even here, a trend reversal can be observed.

### 3 Explaining Retirement Transitions

#### 3.1 A Rational-Choice Approach

How can these observed shifts in individual employment exit behavior be explained? Or in other words: What drives older workers' decisions to either remain in employment and prolong their career or exit via one of the various pathways into early retirement?

We base our explanation on a rational-choice approach to retirement decisions that was first put forward by Hofäcker (2010) and is summarized in Fig. 1.1. This approach rests on the assumption that the employment of older workers can be considered as the outcome of a rational decision



**Fig. 1.1** A rational-choice model of retirement decisions  
 Source: Own illustration

by older workers who, at a given point in time, opt either for a continuation of their working careers or for a (permanent) exit from employment.

Yet, by relating this to findings from international comparative life course research (for example, Leisering 2003; Mayer 2004), we have to assume that this is not an entirely free decision and not without external restrictions. Instead, it is shaped systematically by nation-specific context conditions that create either (positive) opportunities or (negative) constraints for continuation of, or exit from, employment. Such opportunities or restrictions may be provided through public policies such as the characteristics and regulation of national labor markets or the provision of public welfare, but particularly through public pension systems and other programs affecting old age incomes.

The effect of such policies on retirement processes, however, depends on how far these policies are in line (or at odds) with firm-level policies toward older workers. On the one hand, complementarities between the policy and firm levels will lead to a mutual reinforcement of either restrictions or opportunities. If, for example, both public and firm-level policies provide strong incentives for an early withdrawal from employment while simultaneously constraining opportunities for work continuation, rational older workers will probably decide for a premature exit from employment. Vice versa, if both public as well as firm-level policies provide strong disincentives for an early exit while, at the same time, supporting older workers' employment (for example, through providing continued education and training), it would be rational for older workers to prolong their careers.

On the other hand, contradictions between public and firm-level policies may lead to a weakening of public policy effects. For example, public policies to foster the employment of older workers may be counteracted by firm-level policies that are still oriented toward shedding or "crowding out" older workers from employment. One of the explicit aims of this book is to investigate empirically how the context conditions for older workers at the public policy and at the firm level interact, and to what extent they create self-reinforcing or mitigating effects.

However, results of research on aging and social stratification (for example, Blossfeld et al. 2006) suggest that the effects of public and firm-level policies—be they mutually reinforcing or contradictory—may not

impact uniformly on a country's entire workforce. Instead, even under identical context conditions, the available alternatives for labor market behavior may vary between different groups of older workers depending on factors such as their financial situation, their human capital, or their household situation. Older workers with high levels of education and better health, for example, may find it easier to remain in work, given that more (and better) options for employment continuation are available to them, whereas lower-educated workers may be far more constrained in their choice. Similarly, older workers with access to extensive financial resources may find it easier to decide for or against a continuation of employment, whereas older workers with limited material resources will be forced more often to continue employment in order to make ends meet. One of the aims of this book is to reconstruct these patterns of social inequalities and the ways in which they may have changed during the gradual shift from early exit to active aging policies. Have they remained stable, have active aging policies been able to reduce interindividual inequalities, or has their significance even risen throughout the last decades?

Taken together, the explanatory model outlined above allows a reconstruction of retirement decisions of older workers based on a complex model that treats individual decisions at the microlevel as being not only bounded by both contextual conditions at the public policy level but also dependent on individual characteristics of older workers themselves. It thus avoids the reductionist assumption of retirement transitions as being entirely free decisions of the individual under merely financial constraints (as often put forward in economic theory), but treats individuals as rational actors under specific constraints and opportunities. Variations in individual employment behavior *within countries* may then be explained as the outcome of interindividual differences in socioeconomic characteristics that either foster or constrain the opportunities for either early exit or continued work. Variations in individual employment behavior *between countries* may then be explained as the result of cross-national differences in the specific contextual conditions that affect older workers' employment or retirement choices. One of the major aims of this volume is to reconstruct the institutional logics at the policy and firm level—and particularly their change over time—in order to better reconstruct

the (changing) employment behavior of older workers. In the following, we shall thus turn to a more systematic reconstruction of nation-specific context conditions that feature prominently in conventional explanations of retirement processes.

## 3.2 Classical Explanations of Early Exit

Which factors can be held responsible for the cross-national variation in exit behavior for older workers? The clear majority of approaches to answering this question stem from the 1990s and early 2000s when the prime analytical focus was on explaining the—at that time still largely persistent—trend toward early exit. Various theoretical approaches have attempted to explain the observable *international* variation in (early) retirement. In providing a synthetic overview of these explanations, we follow previous research (Ebbinghaus 2006; Ebbinghaus and Hofäcker 2013; Kohli et al. 1991; Radl 2013) that has categorized these explanations under the labels of “pull” and “push” factors.

## 3.3 Pull Factors

The concept of institutional “pull factors” rests on the assumption that economic incentives in public pension or other welfare state transfer systems<sup>1</sup> provide financially attractive opportunities for older workers to withdraw from active employment prematurely such as early exit options without (or with little) actuarial reduction in pension accrual. Figuratively speaking, these incentives thus “pull” older workers out of the labor market through different types of financially attractive “offers that one does not refuse” (Bellmann and Janik 2007). The retirement decisions of older workers are thus regarded as being largely voluntary, because older workers decide for a (favored) early exit from work instead of a continuation of their employment. Indeed, economic research based on macro- as well as microdata (see, for example, Blöndal and Scarpetta

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<sup>1</sup> Examples of such alternative “welfare state subsystems” for early retirement are disability benefits and unemployment pay schemes (Guillemard 1991; Kohli et al. 1991).

1999; Gruber and Wise 1999, 2004) has demonstrated empirically that countries providing strong actuarial incentives for retirement before mandatory ages are frequently among those that also exhibit the lowest employment ratios among older workers. In addition to incentives found in public pensions, additional lump sum payments by the employer or employer-sponsored occupational pension plans may exert strong incentives for a premature employment exit. As empirical studies indicate (for example, Bellmann and Janik 2007; Dorn and Sousa-Poza 2010; Hutchens 1999), these incentives often mutually reinforce each other, because payment of employer-based “top-ups” is found most frequently in those countries in which public retirement incentives are already high.

In recent years, this *pull* approach to explaining early retirement has gained much support among international organizations such as the World Bank, the OECD, or the EU Commission. These have argued that to reverse early retirement successfully, financially attractive early exit options have to be phased out and retirement ages (or contribution years needed to receive a full pension) need to be increased.

### 3.4 Push Factors

Recent sociological studies, however, have pointed out that employment exit decisions of older workers cannot be explained by pension system incentives alone, but that a broader spectrum of institutional framework conditions needs to be taken into account (Blossfeld et al. 2011; Ebbinghaus and Radl 2015; Hofäcker 2010, Solinge and Henkens 2007; Wang 2012). Unlike the economic labor supply approach, which treated retirement transition mainly as the outcome of free individual decisions of older employees to either continue working or exit employment under given financial constraints, these studies have highlighted that retirement decisions may not always be the result of one’s own deliberate choice. Instead, older workers may face labor market difficulties that make it hard for them to effectively continue their careers. Various contextual conditions were considered to act as such “push factors”. Most obviously, economic downturns or labor demand shocks and the frequently associated rise in unemployment worsen older workers’ labor market chances

and increase the likelihood that they will exit employment early. Similar effects can be assumed for processes of technological change that—especially when lifelong learning and continuous retraining are of little significance—may lead to a rapid depreciation of older workers' skills and qualifications, and, therefore, equally promote their early employment exit. Comparative research, however, has shown that even though both cyclical as well as technological changes have frequently played a role in the emergence or intensification of early retirement in European countries, the correlation between these institutional drivers and actual labor market outcomes is far from perfect. In particular, it could be shown that over time, early retirement trends increasingly “decoupled” from cyclical and technological changes and turned into a more independent, permanent phenomenon (Ebbinghaus and Hofäcker 2013).

Hence, recent explanations have turned to more general institutional factors to explain the labor shedding of older workers. A central role in this respect has been the reference to different types of employment regulation as a major determinant of early retirement (for example, Ebbinghaus 2006). Following this line of argument, it is assumed that in rather regulated, coordinated market economies (Hall and Soskice 2001) in which long-term relationships between employers and employees are institutionalized through seniority and reciprocity principles, early retirement will become more likely. Given that older workers' dismissal protection as well as their wages increase with age due to seniority rules, older workers run a high risk of being perceived as costly compared to younger workers whose contracts are usually more flexible and who earn significantly lower “starting wages” (see Blossfeld et al. 2006). In these kinds of labor markets—typified by countries such as Germany or France—productivity disadvantages of older workers have promoted the introduction of early retirement schemes and the subsequent decline in older workers' employment. In contrast, older workers' wage profiles did not put them at a comparable disadvantage in more unregulated “liberal market economies” (Hall and Soskice 2001), and the decentralized and unregulated educational system made it easier for them to acquire and update their qualifications “on the job.” Older workers in these countries display comparatively high levels of (internal and external) job mobility rates and a pronounced tendency to retire late.

Even though push and pull factors are conceptualized theoretically as separate approaches, in practice, push and pull factors often interact in shaping the retirement decision of older workers. Historically, most generous early retirement schemes implemented through the public pension system or alternative *pull* arrangements (for example, disability benefits) were introduced as financially cushioned exit options for specific groups of older employees who faced the most serious employment difficulties (that is, push factors). Vice versa, the mere lack of push factors in weakly regulated liberal labor markets is paralleled by public pension systems that provide virtually no incentive for retiring early.

### 3.5 Explanations of the Early Exit Reversal

Push and pull factors have been the dominant explanation for older workers' employment behavior in the majority of publications. Even when the reversal of early retirement and the shift toward an increasing maintenance of older workers became apparent, this reversal was frequently still explained by the interplay of these factors: Rising employment levels of older workers were traced back to a decrement of early retirement incentives such as the rise of formal retirement ages, a reduction in the generosity of pension benefits, and the closing of previously attractive early retirement pathways—that is, a reduction in pull incentives. At the same time, it was argued that discriminatory practices toward older workers in the labor market were decreasing, thus reducing the “push” out of employment. The reversal of early exit was thus explained through a gradual “scaling back” of both push and pull factors. This perspective, however, overlooks the fact that the institutional measures introduced during the implementation of the active aging principle were not merely a reversal of previous policies, but constitute a separate group of measures per se. In the following, we shall describe these measures and categorize them into “maintain” measures and “need” measures.

### 3.6 Maintain Factors

Various recent policy reforms have undertaken explicit attempts to support older workers' maintenance in employment through genuinely new policy programs that were defined as “maintain factors” by Ebbinghaus

and Hofäcker (2013). These measures encompass, for example, active labor market policies aimed at improving older workers' employability such as wage subsidies for older workers or other incentives for firms to hire or retain older workers (for example, reductions in social security benefits; see European Employment Observatory 2012). However, they also encompass the introduction of antiage discrimination legislation. In addition, many European countries have increased their commitment to measures of lifelong learning that support older workers in updating their qualifications in order to meet swiftly changing labor market demands (see e.g. Williams et al. 2010). The salience of such policies has increased considerably throughout recent years during which policies have undergone a paradigmatic shift from "early exit to "active aging."

Related factors at the firm level are the introduction of age-friendly workplace measures including, for example, subsidies for continuous training at the workplace. A corporate climate favorable to late retirement has been shown to be necessary to effectively extend working lives as workers' retirement intentions are shaped by workplace cultures and supervisory attitudes (Solinge and Henkens 2014). At the same time, the age-related social norms adhered to by managers have been demonstrated to impact on firms' recruitment and retention practices (Mulders et al. 2016). Employers have recently begun to review their recruiting and hiring practices, paid more attention to age-specific demands in the shaping of workplaces, or improved awareness toward aging issues by participating in cross-firm initiatives promoting the employment of older workers. Previous research has shown that the implementation of such measures has been effectively stimulated through public active aging policies (Müller-Camen et al. 2011).

### 3.7 Need Factors

Whereas maintain factors aim to improve the opportunities for older workers to remain in employment, there are also a number of measures that explicitly increase the financial necessity to do so. These measures, referred to in the following as "need factors," encompass recent upwards shifts in retirement ages as well as the punishment of early exits from employment (European Commission and Social Protection Committee

2015; OECD 2015). The latter may take place through actuarial discounts for early pension entrance via the public pension system. Another example is when reforms restrict (or entirely close) access to alternative early exit routes such as disability or unemployment insurance. A number of European countries have tightened eligibility criteria for these schemes, limited the duration of such benefit payments, or linked them to certain qualifying conditions (such as active job search). Another major factor in increasing the need to remain employed has been general cuts in the level of public pensions either by delaying access to them, reducing replacement rates, or introducing demographic factors into their calculation. A final shift is reflected in the politically supported gradual move from dominantly public pension systems to multipillar systems featuring both occupational as well as private pension pillars (Ebbinghaus 2011). In particular, private pension systems adhere explicitly to a strongly contribution-based pattern in which later benefits depend directly on previous contributions. As a matter of fact, in line with actuarial principles, such pension plans set incentives for a later exit from employment also to ensure that the benefits suffice to allow for a decent standard of living in old age. In contrast to public (and partly also occupational) pension plans, private pensions hardly include inbuilt options for an early exit from employment.

Related need factors at the firm level may be occupational pension plans that implicitly provide incentives for continued work in older age. Particularly the move away from defined benefit plans (in which a fixed benefit amount is paid upon eligibility) to defined contribution plans (in which only the individual contribution is fixed whereas the outpayment is bound more strictly to actuarial principles) in occupational pension plans may have led to increased firm-based pressures to remain employed longer.

### 3.7.1 Theoretical Framework

Table 1.3 summarizes the four factors that will be drawn upon to jointly explain the employment behavior of older workers in contemporary societies. The model explicitly includes the “classical” explanations of early

**Table 1.3** Driving forces of retirement timing in the early and late retirement era

	Early	Late
Economic incentives	Pull	Need
Employment opportunities	Push	Maintain

Source: own illustration

Note: Shaded area = involuntary retirement

exit—push and pull factors—that were particularly important in triggering the early retirement trend that was typical for many modern societies from the 1970s up to the mid or late 1990s. Even though these factors have arguably decreased in importance in recent decades as countries began to shift toward an active aging orientation, we expect that these factors still remain—at least partially—important today. This is due not only to institutional inertia but also to the fact that certain groups of workers will still find it difficult to remain employed longer and thus will face pressures or attractive opportunities to exit the labor market prematurely. The extent to which these measures still exist is expected to correlate positively with the persistence of early exit within a given country.

Particularly throughout the last two decades, active aging measures promoting a late exit from employment have gained in importance. Positive active aging measures (“maintain factors”) may have increased the ability of older workers to remain employed until later ages. At the same time, reforms in the design of pension provision may have increased the financial necessity to remain employed in order to ensure a decent standard of living in old age (“need factors”). We assume that the more developed either need or maintain factors are in a given context, the more older workers will have the ability or face the pressure to continue working and fewer will retire early.

We assume, however, that the above-mentioned institutional factors impact not only on the actual *timing* of retirement transitions but also their *modality*; that is, the degree of voluntariness in the decision to retire or to remain employed. Among the early exit measures, pull factors set

positive incentives for an early exit and thus effectively amplify the degree of choice in retirement decisions. In countries in which such measures are strong, we thus generally expect a higher proportion of voluntary early exit transitions. Push factors, in contrast, crowd out older workers from employment without requiring their consent and thus may be at odds with their individual preference for work continuation. In countries in which such measures loom large, we expect a comparatively high level of involuntary early exit transitions among older workers.

Among late exit measures, maintain factors are generally expected to improve the degree of choice in employment versus retirement transitions, given that they enhance job opportunities through promoting human capital or providing a more age-friendly work environment. We thus assume that the more widespread these measures are, the more likely decisions to continue working will be of a voluntary nature. In contrast, “need factors” create the necessity for older workers to remain in the labor market by making an early exit financially untenable. Given that older workers are ultimately forced to remain in the labor market, we assume that in countries in which such factors are highly prevalent, the decision to remain in employment will more often be of an involuntary nature.

## 4 Outlook on This Volume

The following chapters of this book will make explicit reference to the theoretical model developed in this introductory chapter. The next chapter (König et al.; Chap. 2 in this volume) will provide an international comparison of selected institutional features of the countries under study and attempt to elaborate how prevalent the four determining factors of retirement transitions outlined above are in each single country. In doing so, the comparison pays attention to both public policy institutions and firm-level factors.

The findings serve as a reference for the subsequent country studies (Chaps. 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15). Each country study provides a detailed overview of developments in national labor market policies and welfare programs throughout the transition from the “early exit” to the “active aging” era. Again, authors will use the above differentiation

of push, pull, maintain, and need factors to provide a systematic description of the institutional contexts that shape the options available to older workers when deciding whether to exit or to remain employed. Subsequently, these institutional overviews are contrasted with an empirical assessment of the general development in older workers' employment participation. Detailed analyses of selected subgroups will eventually permit not only the investigation of the effects on national averages in retirement timing but also the reconstruction of how far institutional changes have impacted on the degree of social inequalities in modern societies. In order to facilitate a systematic institutional comparison between countries, national case studies have been grouped according to the standard welfare regime classification already used in this chapter (Tables 1.1, 1.2). A concluding chapter summarizes the findings of the national and international analyses and draws conclusions from both scientific as well as sociopolitical angles: What can be learned from the studies in this book for the future analysis of retirement transitions during the active aging era? And, what trends can be observed for retirement transitions under the active aging paradigm—both between as well as within countries? And how could policymakers react in order to ensure that the recent political shifts in older workers' employment play out in a socially sustainable way?

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# 2

## Trends and Determinants of Retirement Transition in Europe, the USA and Japan: A Comparative Overview

Stefanie König, Moritz Hess, and Dirk Hofäcker

This comparative chapter serves as a stylized frame of comparison for the single country chapters. It briefly contrasts the development of retirement transitions in the 13 countries selected for this book by showing older workers' employment trends over the last decades and allowing us to contrast trends in early retirement (in the 1970s and 1980s) with active aging (since the late 1990s). Furthermore, it provides an overview on the context of retirement transitions that reflects on institutional, workplace, and individual conditions.

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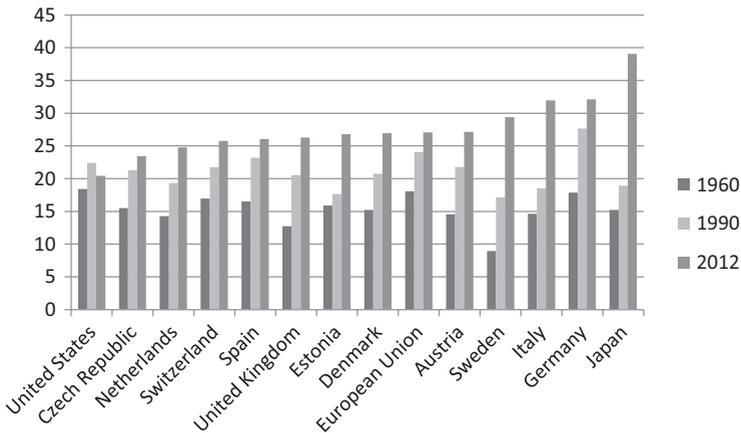
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Retirement timing, developments in aging, and longevity are crucial factors in the discussion. Throughout the last decades, we can observe a clear trend toward an aging population resulting from a simultaneous increase in life expectancy and longevity combined with declining fertility. Both together are exerting pressure on the financial sustainability of pension systems. A future projection on the situation in Europe 40 years from now predicts a rise in the over-65 population by two-thirds and a threefold increase in the population over 85 (Lisiankova and Wright 2005). Whereas today, there are, on average, four working-age individuals for one person over 65, this ratio is expected to decrease to 2:1 by 2050 (Hofäcker 2010). Hence, the financial sustainability of old age pensions is endangered, and welfare states are faced with the rising challenges of an aging population.

To illustrate the degree of population aging in the countries studied in this volume, Fig. 2.1 gives an overview on population aging in these countries by showing the ratio between the total number of persons aged 65 years and over and the number of persons of working age (that is, aged 15–64 years) in a comparison of long-term trends from the 1960s to 2012. Japan clearly displays the highest old age proportion of 39 % in



**Fig. 2.1** Old age dependency ratio  
 Ratio between total number of persons aged 65 and over and number of persons of working age (from 15 to 64)  
 Source: World Bank (2012)

2012 and shows the strongest increase of almost 25 percentage points in the last five decades. The USA are on the opposite side of the distribution with an old age dependency ratio of only 20 younger per 100 older citizens and no noteworthy increase. European countries range between 23 % (Czech Republic) and 32 % (Germany and Italy). Among the European countries, Sweden experienced the strongest increase since the 1960s with an increase of 20 percentage points in the last five decades owing to a very low old age ratio in the 60s.

## 1 Employment Trends

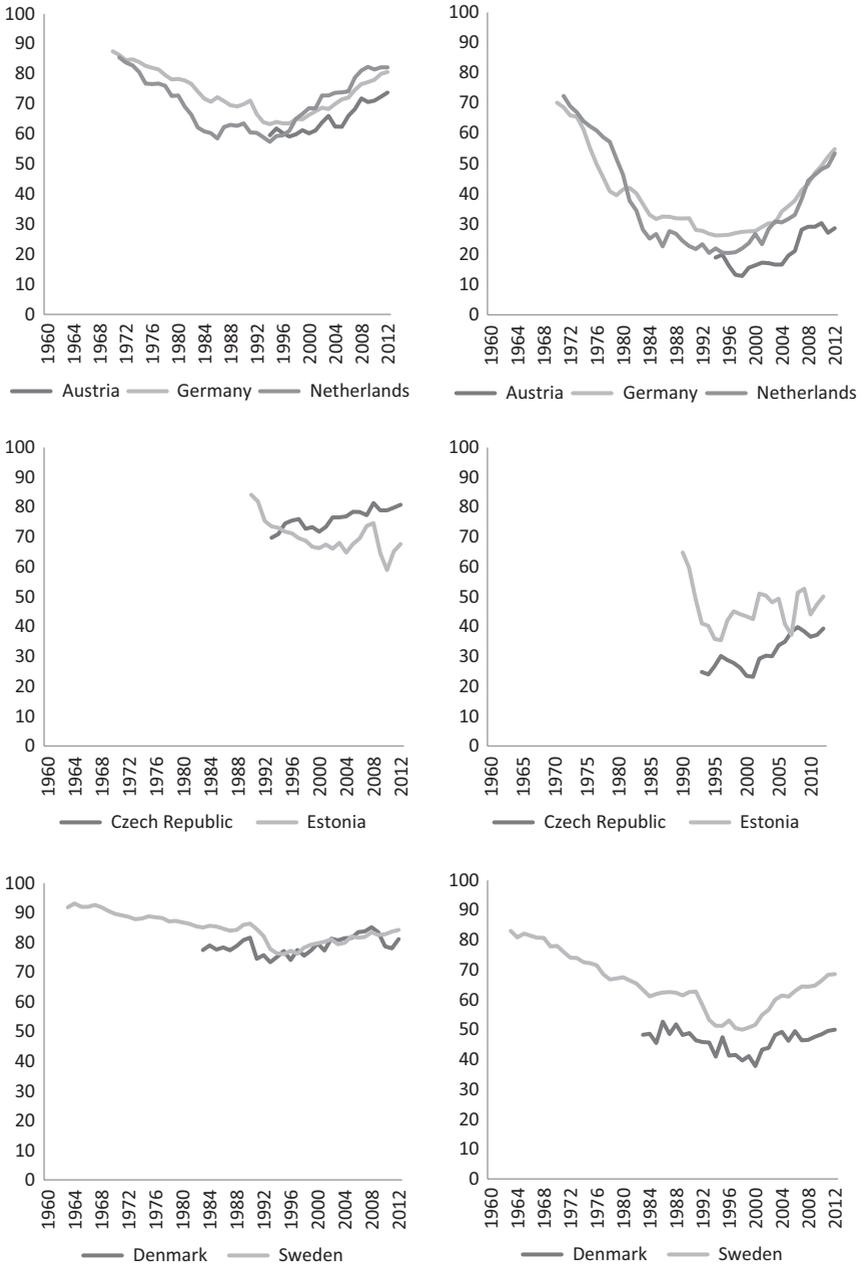
As previously described by Hofäcker and Radl (first chapter in this volume), the employment or retirement behavior of older workers can be viewed as the result of an interplay between push, pull, need, and maintain factors. To provide an overview of employment behavior, Fig. 2.1 displays employment rates of older workers in the 13 countries analyzed in this book for the time period 1960–2012.<sup>1</sup> To this end, we focus on two major age groups before the age limit of 65—that many countries regard as the normative “retirement” benchmark (see Ebbinghaus and Hofäcker 2013)—differentiating between those in their late 50s (55–59 years) and those in their early 60s (60–64 years). In doing so, we complement the empirical findings of the previous chapter that illustrated retirement behavior in exit rates. This allows for a cohort-sensitive comparison of exit processes across longer time spans. Whereas employment rates are less sensitive to cohort-specific developments, they better capture most recent trends in older workers’ employment behavior. Furthermore, we consider employment rates to be more informative for our purposes than labor force participation rates that are often used as an alternative (see, for example, Hofäcker and Pollnerova 2006). Yet, particularly for older workers, the latter might overestimate the working population in times

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<sup>1</sup>We restrict our overview to men alone because women’s employment rates are often influenced by two simultaneous processes that may counteract (or amplify) one another: (a) the general trend toward an increased employment participation of women and (b) the equally visible trend toward early respectively late exit: for a more thorough discussion of women’s exits, see Hofäcker and Radl (Chap. 1, in this volume) and the single-country chapters.

of high unemployment. Some countries might offer generous early retirement options to pull older workers out of the labor force. In other countries, in which no such options are available, older workers might instead get pushed into unemployment. In some countries, unemployment insurance was indeed used formally as an institutionalized pathway into early retirement. In this case, unemployed older workers formally take a status within the workforce, but effectively occupy a status out of active employment. To avoid misinterpreting this ambiguous nature of unemployment and to gain a clear insight into actual employment in different countries and across time, we therefore consider it crucial to look specifically at employment rates instead of labor force participation rates. Throughout the last decades, the employment rates of older workers have undergone two major transformations. In order to better identify cross-national similarities and trends, Fig. 2.2 differentiates results by geographic region, distinguishing Central, Southern, Northern, and Eastern European countries; Anglo-Saxon countries; and Japan. Most of the countries experienced a substantial decline in employment participation among their older workforce starting in the 1970s and 1980s, a trend that in some regions lasted almost up to the millennium. Apparently, this trend was most pronounced among individuals in their early 60s for whom in some countries (for example, Germany, the Netherlands, and Spain) employment rates almost halved within a period of only two decades.

Earlier studies (for example, Blossfeld et al. 2006, 2011; Ebbinghaus 2006; Hofäcker 2010) have traced this decline back to economic downturns, particularly those resulting from the oil price shocks in the 1970s and growing international competition from Asia that resulted in mass unemployment in many European economies. Faced with numerically large “baby boomer” cohorts about to leave the educational system and enter the labor market, many national governments reacted by creating generous early retirement incentives for older workers. This made an early withdrawal from employment before the mandatory retirement age financially attractive. At the same time, hope was high that these open positions could be filled by the young and numerically substantial baby boomer cohorts (see Kohli and Rein 1991). Pronounced cross-national differences exist in the degree of the decline in older workers’ employment. Early exit from employment was particularly widespread



**Fig. 2.2** Employment rate for men aged 55–59 (left) and 60–64 (right)  
 Source: OECD (2015a)

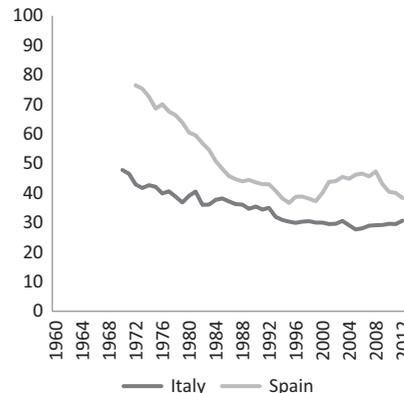
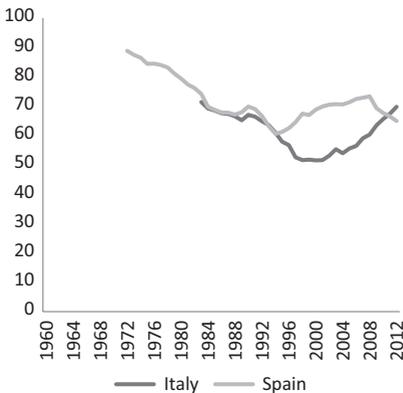
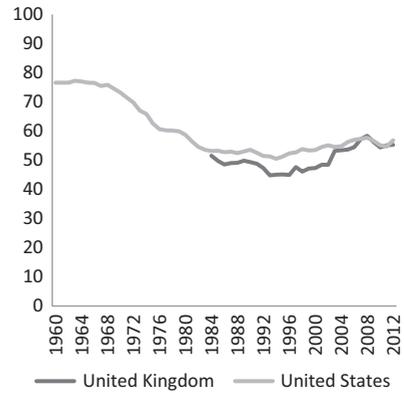
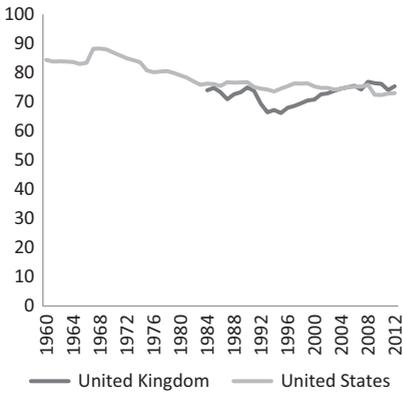
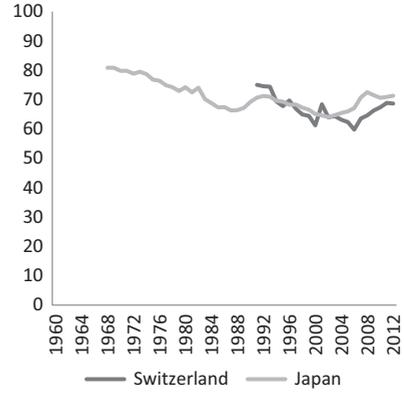
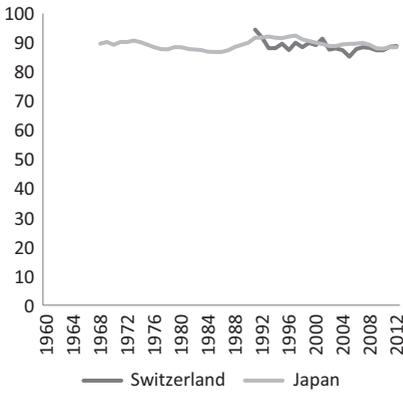


Fig. 2.2 (continued)

among most Central and Southern European countries. In contrast, employment rates among older workers have remained at significantly higher levels in both Northern and Anglo-Saxon countries (including the USA) whereas trends in Eastern European countries were more diverse.

Since the mid-1990s, however, there have been signs of a trend reversal in employment rates among older workers in most European countries (see also Zaidi and Fuchs 2006). Following various reforms in labor market, education, and pension policies on the national as well as at the European Union level (see European Employment Observatory 2012), early exit has halted or even started to reverse in a number of countries. For those countries with the highest declines in previous decades (that is, Central and Southern European countries), trend reversals in employment are being observed among those in both their late 50s and early 60s. These trends are particularly pronounced in Germany, the Netherlands, and Austria where employment rates have risen by up to 30 percentage points since the millennium, whereas especially in Southern Europe, reversal trends have failed to appear up to now or remain rather modest (see also Ebbinghaus and Hofäcker 2013). In the previous “late exit countries” (that is, Northern Europe and Anglo-Saxon countries), employment ratios have risen rather modestly, probably reflecting that the previous employment decline in these countries also had been less pronounced. The only exception is Sweden that—after a major downturn in the 1980s and 1990s (see Sjögren-Lindquist 2006)—has now returned almost to its previous values from the 1970s. Most recent OECD data between 2008 and 2011 indicate that employment of older workers has declined following the financial euro crisis in some countries, especially in Spain and Estonia. Generally, however, early exit reversal has remained remarkably stable among European countries following the most recent crisis. Nonetheless, older workers’ employment rates often still remain below political targets and their labor market integration is still considered as being critical.

Japan represents a notable outlier case compared to European countries and the USA. Japanese employment rates of men in both their late 50s and late 60s have been traditionally high and have declined to a far lesser extent than in the other countries. This “late exit pattern” has been traced back to maintenance-oriented strategies of Japanese employers designed

to maintain their workforce up to or even beyond retirement age as well as strong state subsidies to reintegrate the unemployed (Ebbinghaus 2006; Hofäcker et al. 2016). The following part of this chapter will introduce the drivers of these developments and levels of older workers' employment rates. It is structured according to the three levels of determinants (institutional, workplace, and individual) introduced in the first chapter.

## 2 Institutional Determinants

The broadest context in which retirement decisions are made is the institutional context on the national level. For the retirement decisions of older workers, the public pension system is particularly important. Pension systems can, on the one hand, provide financial incentives for leaving the labor market prematurely through generous compensation levels before reaching retirement ages (“pull factors”). On the other hand, they may also create the financial necessity for continued work through, for example, high retirement ages, low levels of compensation, or a high degree of privatization. In the following, we shall focus on some selected institutional characteristics of national pension systems in the countries featured in this book—namely, each country's official retirement age, replacement rates, and the importance of occupational and private pension schemes.

### 2.1 Official and Effective Retirement Age

The official retirement age reflects the eligibility for a pension irrespective of contribution years. It is a crucial benchmark for retirement decisions, because it is commonly the reference point for actuarial pension deductions and supplements. In addition, the official retirement age often provides a psychological orientation for older workers in planning their retirement transitions (Hofäcker 2014). To provide an overview of statutory and real retirement ages, Table 2.1 contrasts effective and official retirement ages for the countries studied in this book for the year 2012 and provides a comparison of official retirement ages in 2004 and 2012.

Table 2.1 Effective and official retirement age by gender

	Men				Women				Gender difference	
	Effective		Official		Effective		Official		Effective	Official
	2012	2004	2012	2004	2012	2004	2012	2004	2012	2004
Japan	69.1	61	65	61	66.7	65	65	60	2.4	0
Switzerland	66.1	65	65	65	63.9	64	64	63	2.2	1
Sweden	66.1	65	65	65	64.2	65	65	65	1.9	0
USA	65.0	65	66	65	65.0	66	66	65	0	0
UK	63.7	65	65	65	63.2	61.2	61.2	60	0.5	3.8
Estonia	63.6	63	63	63	62.6	61	61	59	1	2
Netherlands	63.6	65	65	65	62.3	65	65	65	1.3	0
Denmark	63.4	65	65	67	61.9	65	65	67	1.5	0
Czech Republic	63.1	62.5	61.3	61.3	59.8	61.3	61.3	59.3	3.3	1.17
Spain	62.3	65	65	65	63.2	65	65	65	-0.9	0
Germany	62.1	65.1	65.1	65	61.6	65.1	65.1	65	0.5	0
Austria	61.9	65	65	65	59.4	60	60	60	2.5	5
Italy	61.1	65	66	65	60.5	62	62	60	0.6	4

Note: Effective retirement age is for the 5-year period 2007–12; official retirement age is for 2012 and 2004 (2002 for Japan and USA)

Source: OECD (2013a): Pensions at a Glance 2013 for effective and official retirement age 2012; MISSOC (2015) for official retirement age 2004; OECD (2011): Pensions at a Glance 2011 for official retirement age 2002

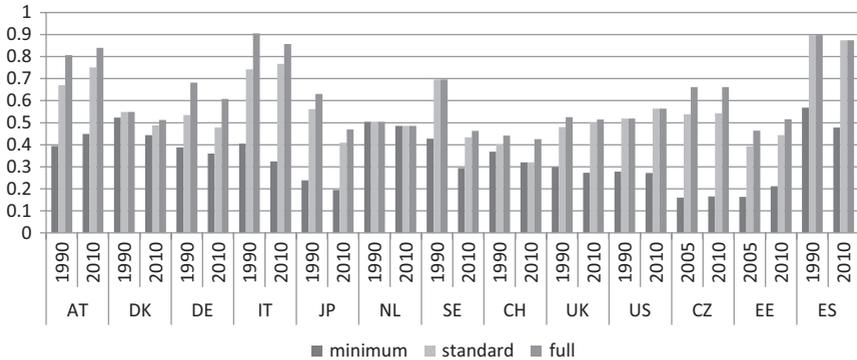
With the exception of Denmark, official retirement ages in all countries have either remained the same or even risen, reflecting the policy shift from early to late exit. However, in most countries, the official age is still higher than the effective retirement age.<sup>2</sup> Hence, on average, men and women retire earlier than the statutory retirement age; that is, many older workers still leave employment before they receive a statutory old age pension. One clear exception is Japan, where men retire more than 4 years and women almost 2 years after the official retirement age of 65. The other extreme is Italy, where men retire almost 5 years before the official retirement age of 66. For Italian women, this discrepancy is less severe, due to a low official retirement age. Italy is one of the few countries that have different requirements for men and women along with Austria, the UK, and, to a lesser degree, the Czech Republic and Estonia. Looking at effective retirement ages, however, a clear gender gap can be found with women retiring earlier than men in almost all countries except Spain.

## 2.2 Replacement Rates

A discussion of the need factors, which, according to the conceptual Chap. 1, summarize financial reasons for delaying retirement, must always consider the replacement rates of old age pensions. The need to continue work for financial reasons is encouraged in countries in which replacement rates are low and retirement is a threat to the maintenance of previous living standards. In this section, replacement rates from public pensions are investigated to give an overview of the potential impact of retirement on income. This has to consider the relative importance of the public scheme for the overall pension income. In countries in which occupational or private pensions are mandatory or provide a substantial share of the overall pension income, the replacement rate of public pensions alone might be less crucial (Fig. 2.3).

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<sup>2</sup>The average effective age of retirement is defined as the average age of exit from the labor force during a 5-year period. Labor force (net) exits are estimated by taking the difference in the participation rate for each 5-year age group (40 and over) at the beginning of the period and the rate for the corresponding age group aged 5 years older at the end of the period. The official age corresponds to the age at which a pension can be received irrespective of whether a worker has a long insurance record of years of contributions (OECD 2013a).



**Fig. 2.3** Annual replacement rates for a standard production worker  
 Source: Social Policy Indicators (SPIN) (2015) (This information on replacement rates from old age pensions can be derived from the “Social Citizenship Indicator Program,” a contextual dataset that includes the annual replacement rate for a standard production worker in all countries. The research leading to these results was supported under the European Commission’s 7th Framework Programme (FP7/2013–2017) through grant agreement No. 312691, InGRID—Inclusive Growth Research Infrastructure Diffusion)

Figure 2.3 presents the replacement rate for a full-time standard production worker, comparing the situation in 1990 (reflecting the “early exit” phase) and 2010 (reflecting the shift to active aging). The “standard” bar refers to the replacement rate assuming a standard period of 35 years of contributions. However, requirements for pension receipt may differ between countries. The “full” bar thus marks the country-specific requirements for *full* pension benefits, whereas the “minimum” refers to country-specific minima; that is, *basic pensions* or *minimum contribution years*. There is a strong between-country variation in the differences between minimum and full pensions as well as in the level of replacement rates. Denmark, the Netherlands, and Switzerland show the smallest gaps between minimum and full pension. Whereas in the Netherlands, this is due to a flat rate for old age pensions, the Danish system is known for providing generous minimum pensions even without many contribution years.

Focusing on the change of replacements from 1990 to 2010, no systematic shifts can be detected across countries. The strongest drop in replace-

ment rates of old age pensions can be found in Sweden. However, it has to be kept in mind that occupational pensions gained importance at the same time, which means that overall pension benefits are not affected so negatively by this change (Flood 2004). In order to interpret the replacement rate for public pensions correctly, it is necessary to consider the share of public pensions in overall pension income. Table 2.2 thus shows how important benefits from public pensions are for the respective old age income. To simultaneously consider the redistributive effects of the public pension system across different societal strata, it differentiates the share of different income groups reflecting the country's average income, one-half of the average income, and one-and-a-half times the average income.

In Japan, Austria, Italy, and Spain, public pensions are the only source of pension income. In the Czech Republic, Denmark, Estonia, the Netherlands, Sweden, Switzerland, and the UK, public pensions are much more important for low-income compared to high-income groups. In these countries, high-income groups rely more on their additional private or occupational pensions that account for the main share of pension income. Replacement rates of public pensions are higher for low earners in these countries, adding a redistributive element to the pension

**Table 2.2** Public pensions as percentage of total pension as of 2013

	50 % of average income	Average income	150 % of average income
Austria	100	100	100
Czech Republic <sup>a</sup>	65	53	47
Denmark	56	39	28
Estonia	62	52	48
Germany <sup>a</sup>	72	72	72
Italy	100	100	100
Japan	100	100	100
Netherlands	63	33	22
Spain	100	100	100
Sweden	69	61	38
Switzerland	77	58	58
UK <sup>a</sup>	62	49	39
USA <sup>a</sup>	57	50	47

<sup>a</sup>Includes voluntary private pensions

Source: OECD (2013a): Pensions at a Glance 2013, own calculations

system. In the USA, the tendency is the same, but with weaker differences between income groups. The strongest redistributive effect can be observed in the Netherlands where public pensions consist of a flat amount and play only a minor role in the total pension income of high earners. In Germany, on the other hand, replacement rates are the same for all income groups, which rather serves to maintain income inequalities. Public pensions are very important even for high earners.

### 3 Workplace Determinants

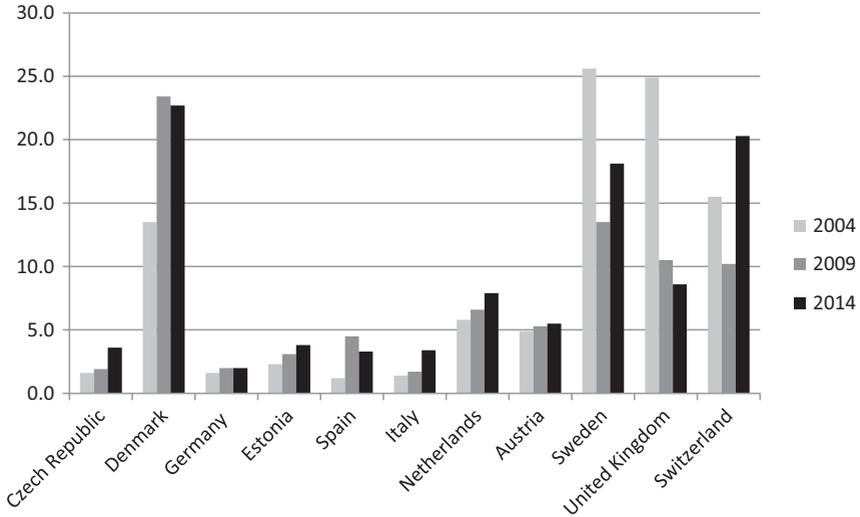
As outlined in the opening chapter, workplace context and employment conditions are the second main sphere of determinants of retirement timing. Employers may amplify the influence of nation-specific pension systems, for example, through the provision and design of occupational pension systems. Further to this, the workplace context might offer support to facilitate employment in old age (maintain factors). In the following part, we highlight two relevant workplace-level determinants for which data are cross-nationally available: older workers' participation rate in training measures and the share of employees working part-time.<sup>3</sup>

#### 3.1 Training of Older Workers

Training measures can be regarded as indicators for how far active aging policies have been implemented across countries and industries. Higher participation rates in training and education programs are, on average, associated with later retirement, because they increase older workers' employability (Hofäcker and Unt 2013). Generally, it can be observed that younger workers participate in training more frequently than older workers. However, as Fig. 2.4 shows, even among older workers, training rates vary substantially between countries. Training rates can be described as high in the liberal and social democratic welfare states and low in the

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<sup>3</sup> Unfortunately, no cross-national information is available on the occupational pension systems of the countries in this volume. These are, however, discussed in more detail in the respective country chapters.



**Fig. 2.4** Share of older workers (55–75) who participated in formal and non-formal education and training in the last 4 weeks in 2004, 2009, and 2014  
*Source:* Eurostat (2014): Labour Force Survey, no data for Japan and USA

Continental, Southern, and Eastern countries. In 2013, the share of older workers between 55 and 65 years is lowest in Germany (4.3 %) and the two Southern European countries, Italy (4.5 %) and Spain (6.5 %); and it is highest in Denmark, where 28 % of older workers participated in some kind of training within the last months.

When comparing 2014, 2009, and 2004, a general upward trend can be found for the training participation of older workers, indicating a shift toward an active aging policy throughout Europe (Fig. 2.4). The two countries with the highest training participation in 2004 are the only exception to this overall pattern: In the UK and Sweden, the participation rate declined. The upward trend might indicate that policymakers and also employers have recognized the pressure of offering older workers training measures to increase their employability.

The rather positive development in older workers' average participation rates in training measures is, however, put into perspective when participation rates are differentiated by education (Table 2.3). This reveals a rather homogeneous picture in which higher educated workers receive

**Table 2.3** Share of older workers (55–75) who participated in training in the last 4 weeks in 2014

	ISECD 0–2	ISECD 3–4	ISECD 5–6
Austria	1.9	4.80	12.5
Czech Republic	0.8	3.00	9
Denmark	16.4	22.00	32.10
Estonia	0	1.70	8.00
Germany	0.4	1.40	4.70
Italy	1.3	5.10	11.30
Japan			
Netherlands	3.5	8.40	14.70
Spain	1.7	4.70	8.10
Sweden	11.6	16.80	27.10
Switzerland	5.7	17.70	34.70
UK	4.1	7.40	16.70
USA			

Source: Eurostat (2014): Labour Force Survey. No data for Japan and USA

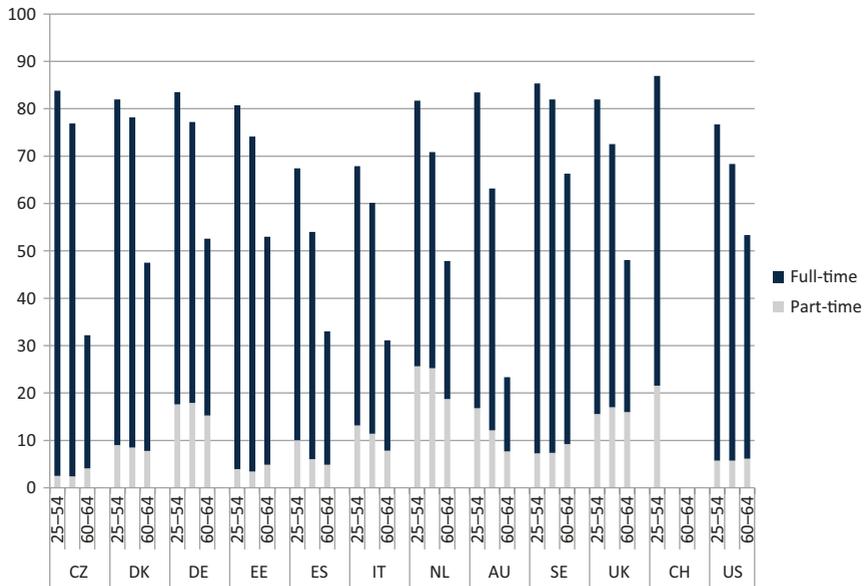
much more training than their lower educated peers. This finding is also confirmed by Sommer et al. (2004), raising some concern about fostering already existing social inequalities. The largest differences between educational groups are observed in Switzerland where 35 % of higher educated workers, but only 6 % of low educated workers, participated in training (Table 2.3). A similar pattern is found in the second liberal country, the UK. Although the variation by education is smaller in Scandinavian countries, even here, those with higher education participate significantly more often in training than their lower educated peers. This supports concerns (Hofäcker et al. 2015) that it is mainly those with high education who are benefiting from the policy of active aging, whereas those with a lower skill level see no change.

### 3.1.1 Working Hours

Dissatisfaction with working hours increases the odds that older workers will perceive themselves to be unable to continue in their jobs at age 60 (Eurofound 2012). Part-time employment may thus serve as a possible way of arranging working hours more flexibly in late careers and adjusting them to individual preferences. Previous research has also shown

that part-time work has often been used effectively as a means to exit employment stepwise and thus promote continued work. To show the opportunities to work part-time, Fig. 2.5 displays the share of full-time employment differentiated between three age groups: those in their early and mid-career (25–54 years), those in their late 50s, and those in pre-retirement age. Despite problems regarding country-specific definitions of part-time work (see, for example, the German block model in this volume and the specifically Dutch definition of part-time), some trends can be detected. As Fig. 2.5 shows, the possibilities of working part-time vary significantly between countries. All in all, the share of part-time work is much higher for women than for men at all ages (OECD 2015a), reflecting the gender-specific use of part-time employment as a means to reconcile work and family duties.

Notably, differences in overall employment are largely subject to differences in full-time employment that vary significantly between countries.



**Fig. 2.5** Share of full- and part-time employment for different age groups in 2014

Source: OECD (2015a) (For Switzerland, no data in the older age groups)

In contrast, the share of part-time employment is more homogeneous across age groups and countries.

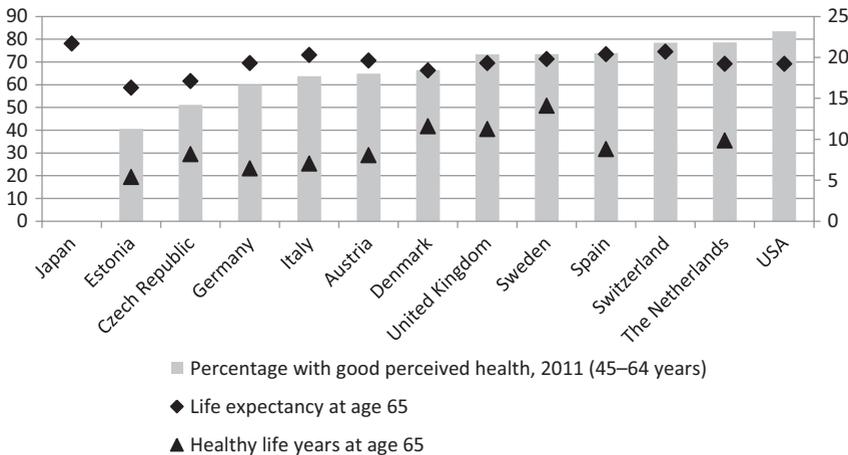
## 4 Individual Determinants

Besides the institutional frame and the workplace context in which retirement decisions are made, individual characteristics are important. First of all, awareness of the importance of the phenomenon of aging will influence the intensity with which politicians (who may fear rising financial viability problems for public pension insurance) and employers (who may fear a shortage of qualified labor) address the issue of promoting longer working life. In addition, the implementation and specific shaping of active aging measures themselves may depend on the level of individual qualifications as well as the degree to which individual health allows older workers to make use of such measures. The following section thus gives an overview of individual conditions regarding age, education, and health on an aggregated level.

### 4.1 Health

Good health is a necessary precondition for continuing work in old age. Older workers will be able to postpone their retirement only if they have a sufficient level of functional health. The following section gives an overview across countries on self-perceived health among older individuals and life expectancy at age 65. We can assume that the healthier older workers are within a country, the more room there may be for participation in active aging measures. Vice versa, the poorer the health of the older workforce, the more likely it will be for older workers to be pushed into states of inactivity or into (early) retirement. We supplement these figures by information on (healthy) life expectancy. Whereas healthy life expectancy may be interpreted along the lines outlined above, life expectancy in general may additionally affect older workers' readiness to remain employed. Older workers with a high (healthy) postretirement life expectancy may be more ready to postpone their employment exit than workers with low

life expectancy and only a few remaining years of (healthy) life after retirement. As shown in Fig. 2.6, the percentage of individuals between 45 and 64 years of age who perceive their own health to be at least good (on a scale ranging from very bad, bad, fair, good, to very good), displays huge variation across the countries featured in this book, ranging from 40.6 % in Estonia to 83.5 % in the USA. With the exception of Estonia, the majority perceive their health as good or very good in this age group. Besides individually perceived health, life expectancy at age 65 is another measure of health in old age. Again, life expectancy is lowest in Estonia with 16.3 years, closely followed by the Czech Republic with 17.1 years. The highest life expectancy is found in Japan with 21.7 years of life being expected at age 65. Healthy life expectancy differs slightly from this indicator and comparative data are available only for Europe (Eurostat 2013). Sweden has the highest healthy life expectancy with around 14 years at age 65, followed by Denmark, the UK, and the Netherlands. Estonia and Germany are found at the other extreme, with a bit more than 5 and 6 years respectively of healthy life at age 65 (Fig. 2.6).

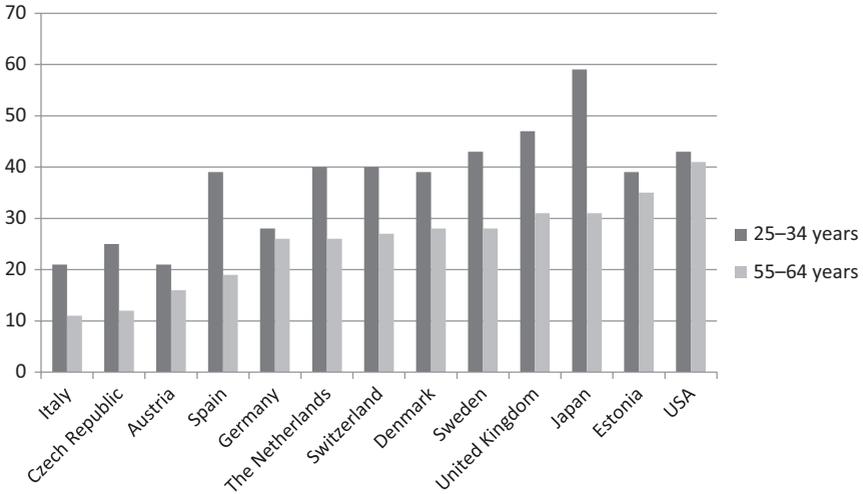


**Fig. 2.6** Perceived health status and life expectancy  
 Axis on the left for perceived health status, axis on the right for life expectancy  
 Source: OECD (2015b) (no data for Japan) for Perceived Health Status. OECD (2013a) for Life Expectancy at 65. Eurostat (2013) (no data for Japan, USA and Switzerland) for Health Life Expectancy at 65

## 4.2 Education

Retirement timing is often related to educational level, with a higher level of education being associated particularly with the opportunity and readiness for later retirement (Hofäcker 2010). Education is thus a useful proxy for employability and also job identification (Radl 2013). The following section provides an overview on educational attainment across the countries featured in this book by presenting the percentage share of those with tertiary educational level in young (25–34 years) compared to older workers (55–64 years). Age groups are contrasted in order to evaluate not only the absolute educational attainment of older workers but also the level in relation to younger workers with whom older workers may be competing. It can be assumed that in countries in which the educational attainment of older workers is low in both absolute as well as relative terms, conditions for a successful reintegration into employment are least favorable. Figure 2.7 demonstrates that the educational level varies significantly between countries: Tertiary education in the older age group of 55- to 64-year-olds ranges from a high of 41 % in the USA to a minimum of 11 % in Italy and 12 % in the Czech Republic. Spain and Austria are also below the OECD average of 24 %. Germany, Switzerland, the Netherlands, Denmark, and Sweden range between 26 and 28 %, whereas the UK, Japan, and Estonia have the highest educated older workers with 31–35 % holding a tertiary education degree (Fig. 2.7).

In general, a continuing trend toward rising educational attainment can be observed. Owing to the educational expansion within the last decades, younger individuals have a higher proportion of tertiary education than older individuals. However, the degree to which educational attainment levels differ between age groups shows a strong cross-national variation. One notable finding is that absolute educational attainment among older workers does not seem to correlate strongly with low inter-age-group differences in educational attainment. In fact, among the countries with a high absolute degree of tertiary education, it is only the USA and (to a lesser extent) Estonia that exhibit only minor age-group differences. In contrast, in Japan, the difference between younger and older workers is huge, with the younger generation exhibiting a level of tertiary educational attainment that is almost twice as high as that



**Fig. 2.7** Percentage with tertiary education in 2011 by age group

Source: OECD (2013b): Education at a glance 2013

of older workers. Similarly high differences are also found in the UK, Sweden, the Netherlands, Switzerland, the Czech Republic, Denmark, and Italy where differences make up more than 10 percentage points. In the short run, this may indicate relative labor market disadvantages for older workers. Yet, in the long run, because higher education is often related to higher retirement ages, this might shift the average retirement age in the respective countries upwards.<sup>4</sup>

## 5 Retirement Preferences

In addition to discussing the cross-country variation in exemplary determinants of retirement behavior, an overview of current older workers' planned retirement age gives an outlook over future retirement cohorts.

<sup>4</sup>A study by Qi (2016) investigates the role of changes in educational attainment in the Swedish population in the increase in old age employment. He concluded that, at least for Sweden, the increase in educational attainment did not contribute to the rising employment trend for men. However, among women, this compositional change explained 2.5 % out of 9.3 % increase in old age employment across cohorts. Hence, it could be concluded that a minor part of the increasing employment rates might be related to structural changes in the population.

This summarizes older workers' preferred retirement age given the institutional and workplace context. Including the planned retirement age in the analysis is a useful extension of previous studies (Blossfeld et al. 2011) that have focused mostly on *retrospectively* reconstructed retirement transitions of current pensioners. Examining prospective retirement plans—thus, indirectly assessing future retirement behavior—yields three main advantages: First, the retrospective reconstruction of the retirement decisions of current retiree cohorts is always associated with a “time lag” and, thus, does not allow us to fully capture possible effects of current political reforms in their full scope. In contrast, attitudes and preferences allow us to analyze the prospective retirement plans of future retiree cohorts that have spent larger parts of their employment lives under the active aging paradigm. Second, as research has demonstrated, retirement preferences and plans can be taken as rather reliable proxies of future retirement behavior (Ekerdt 2010). Finally, a deeper knowledge of retirement plans and preferences seems justified for reasons of political relevance, because both future reforms and the effectiveness of current reforms depend on a sufficient level of consent among the relevant target population. Table 2.4 shows that, among the European countries considered in this book, the preferred retirement age is lowest in Eastern Europe and highest in Scandinavia, with both Swedes and Danes expecting to retire at around age 63. In contrast, older individuals in the Czech Republic prefer to retire earlier at age 60, whereas women expect to retire even earlier. There is a general pattern indicating that in

**Table 2.4** Preferred retirement age

	Men	Women
Czech Republic	60.11	57.74
Estonia	60.13	57.5
UK	62.01	60.97
Germany	62.21	61.2
Spain	62.34	61.52
Netherlands	62.54	62.49
Switzerland	62.9	62.41
Sweden	63.33	63.2
Denmark	63.89	63.33

Source: European Social Survey (2014), own calculations. No data for Austria, Italy, Japan, and the USA

countries where expected retirement age is low, gendered differences are high. This is probably due to the still persistent gender differences in formal retirement ages (see Sect. 2.1). At the same time, it is notable that in all countries under study, at least the *average* preferred retirement age still falls short of the politically envisioned target of retirement at age 65.

## 6 Summary and Outlook

Table 2.5 summarizes the main findings of the previous comparative analyses of institutional, firm-level, and individual level for the 13 countries featured in this volume. Following earlier research on early exit, countries are grouped into five “regimes” reflecting different welfare state and labor market arrangements (see, for example, Blossfeld et al. 2006, 2011). Our findings suggest that the differential levels of older workers’ employment—as outlined in Sect. 1—appear to show close connections with the respective context conditions on the institutional, workplace, and individual level:

- In **liberal** countries (such as the USA, the UK, and Switzerland), employment rates have been persistently high throughout recent decades. A major explanation for this outcome is that public pension systems have provided only low incentives for early exit from employment: Retirement ages are high and compensation levels of public pensions alone often hardly suffice to guarantee a sustainable outcome in old age. Public pension payments thus frequently need to be backed up by additional savings through occupational or private pension plans. Workplace conditions often allow for a continuation of employment by providing flexible training opportunities on the job and allowing for at least some working time flexibility, particularly with regard to gradual retirement. The fact that the USA offers hardly any such flexibility may be traced back to the fact that in its highly privatized social security system, part-time employment often does not suffice to afford insurance. A third major factor in ensuring long working lives is that individual conditions are favorable: Older workers are often rather well-educated, particularly in the UK. Furthermore, both

Table 2.5 Overview of country characteristics (categorization based only on the 13 countries in the book)

	Institutional level			Workplace level			Individual level		
	Employment rate	Retirement age(m/f)	Pension generosity	Public pension share (%)	Training rate	Working hour flexibility	Education	Health	Life expectancy
J	High	65/65	Low	100			Moderate		High
USA	High	66/66	(Low)	50			High	High	Moderate
UK	High	65/61.2	Moderate	49	Moderate		Moderate	High	Moderate
CH	High	65/64	Low	58	High		Moderate	High	High
SE	High	65/65	Low	61	High		Moderate	High	Moderate
DK	Moderate-high	65/65	Moderate	39	High		Moderate	Moderate	Moderate
AU	Low	65/60	High	100	Low		Low	Moderate	Moderate
DE	Moderate-high	65.1/65.1	Moderate	72	Low		Moderate	Moderate	Moderate
NL	Moderate-high	65/65	Moderate	33	Low		Moderate	High	Moderate
IT	Low	66/62	High	100	Low		Low	Moderate	High
ES	Moderate	65/65	High	100	Low		Low	High	High
CZ	Low	62.5/61.3	Moderate	53	Low		Very low	Low	Low
EE	Moderate	63/61	Low	52	Low		Very low	Low	Low

the above-average level for reported health as well as longer life expectancy enable older workers to effectively pursue a longer working life.

- In **social-democratic countries** (Denmark and Sweden), after a temporary decline in the 1990s, employment rates of older workers have risen again; and nowadays, they are among the highest in Europe. As in the liberal countries, one major reason for this high labor market performance is pension systems with high formal retirement ages and—in the Swedish case—few incentives for early exit. An outstanding feature of these countries, however, is the active investment in supportive workplace measures, particularly training measures. Individual-level preconditions such as a sufficiently high level of reported health and moderately high levels of life expectancy set positive incentives at the individual level for older workers to make use of such measures.
- Among the late exit countries, **Japan** represents an extreme outlier. Employment rates, particularly among the older age groups, are the highest. As in both liberal and Scandinavian countries, the formal retirement age is set at 65, after which a modestly generous pension becomes available that may provide some incentives for further employment. Another major driver in allowing older Japanese workers to continue work is their generally good health and high (healthy) life expectancy. Due to data restrictions, little comparative evidence exists for workplace conditions in Japan. The respective country chapter (Chap. 11, in this volume) describes these in more detail and indeed suggests that the unique coordination of employment conditions plays another major role in explaining the exceptional situation in Japan.
- In **conservative** countries, recent developments in older workers' employment appear to polarize: Both Germany and the Netherlands have succeeded in seriously reversing the early retirement trend and now rank among the late exit countries (see Ebbinghaus and Hofäcker 2013). In contrast, Austria has remained among those countries still with an early exit, and with only very modest changes in older workers' employment attachment throughout recent years. Possible reasons for this worse performance of Austria may be that the public pension system—which is virtually the only major source of old age income—still

grants generous early exits particularly for women. Likewise, only little support is given at the workplace level at which both training opportunities for older workers as well as flexible working time options are of little significance. Another major drawback may be that the older Austrian workforce still exhibits a comparatively low level of educational attainment. Yet, average values in terms of both subjective health as well as life expectancy leave at least some leeway for the successful introduction of active aging measures in the future. The major difference in both Germany and the Netherlands lies in their design of pension systems. Retirement ages have been virtually unified for men and women, and formal retirement is now at around 65 years for both genders. Pension levels are rather modest, and, particularly in the Netherlands, occupational and private pension schemes necessitate longer working lives to guarantee sufficient old age income. Persistent deficits in both countries appear to exist with regard to support through workplace arrangements in which both countries occupy at best a middle rank.

- **Southern European countries** (Italy and Spain) exhibit lower employment levels. In particular, the most recent development of employment rates in these countries has remained well below the level of Germany and the Netherlands. One reason for this may be that, as in Austria, a highly compensating public pension system is almost the only source of old age income. Flexible work opportunities and workplace-related training are among the lowest in Europe—a trend that is particularly critical given that educational attainment for older workers is still very low in both countries.
- Exit ages in **Eastern European countries** (Estonia and the Czech Republic) are the lowest among the countries featured in this volume. One major factor in this regard is their low formal retirement age, particularly for women. Unlike in Southern European countries or Austria, however, these early exits are not buffered by generous public pension systems. Workplace support for older workers is also a marginal phenomenon: Neither flexible working time opportunities nor training help older workers to remain in employment. Findings for individual-level factors suggest that one reason for this may be the unfavorable composition of the older labor force in

Eastern Europe—both with regard to its health status as well as its life expectancy. Taken together, it seems that both unfavorable working conditions and individual restrictions force older workers out of paid employment, yet without the guarantee of sufficient material compensation.

In sum, the results of our international comparison suggest a close relationship between older workers' employment levels and contextual factors at the institutional, workplace, and individual level. The profiles outlined above further suggest that it is not one factor alone that explains a country's performance with regard to older workers' employment, but rather the mutual interplay of various different factors. The positive performance of Scandinavian countries may be traced back to both the design of national pension systems, the generous provision of workplace-level support, and comparably favorable conditions at the individual level. In contrast, the situation of older workers in Eastern Europe appears to be the result of an interplay between unfavorable individual-level preconditions and workplace policies that provide only little support to older workers.

Comparative international data are good for providing a schematic overview of cross-national patterns in older workers' employment and their differential determinants. Yet, when it comes to describing concrete mechanisms, their explanatory power is inherently limited. The subsequent country studies fill this gap by providing detailed descriptions of nation-specific characteristics and trends at all analytical levels. They additionally shed light on another critical issue that could not be addressed by the nation-specific averages in this chapter—namely, whether the described employment behavior and the relevance of institutional, workplace, and individual factors, apply equally to all societal groups.

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# 3

## Determinants of Retirement and Late Careers in Estonia

Marge Unt and Ellu Saar

### 1 Introduction

Economic and social reforms in Estonia have had a profound impact on population development trends, bringing about a decline in the population and changes in age demographics (Schlitte and Stiller 2006). As a consequence of low fertility rates and increasing life expectancy at birth, Estonia has become an aging society. From 1990 to 2012, the proportion of the elderly in the population more than doubled from 11.6 to 24.3 %. Remarkably rapid population aging is also evident in comparison with other European countries (Puur and Pöldma 2010). According to United Nations demographic projection, the proportion of people over 60 will increase rapidly in Estonia to 26.5 % in 2030 and to 31.8 % in 2050 (United Nations 2008). Estonia is indicated as one of the EU countries

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in which the structure and size of the working-age population are likely to be most problematic (European Commission 2012). The country will also face a substantial increase in its demographic old-age dependency ratio which is set to increase from 25.2 % in 2010 to around 30 % in 2020, 40 % in 2040, and 55 % in 2050 (European Commission 2012). The growing old-age dependency ratio shows that the working-age population is expected to support an increasing number of old people. These trends call for an increase in the economic participation of older people in order to prevent a future labor shortage. Given the growing proportion of older people, late career developments and the dynamics of social inequalities in later life employment are highly relevant scientific and political issues. In this context, what type of policy the Estonian government should use to promote higher labor market participation among older workers becomes a key challenge.

The highly turbulent restructuring process in postsocialist Estonia triggered by the economic exposure to global markets as well as system transformation has affected working-age groups in different ways. One ambivalent group has been older workers. At the beginning of the socio-economic transition, working pensioners were the first group to be laid off, and many postsocialist countries introduced early retirement schemes to avoid long-term unemployment among their older workers (Fortuny et al. 2003; Fultz and Ruck 2001). This weakened the previously secure position of older workers in the labor market.

The aim of this chapter is to analyze institutional conditions affecting employment and the move to retirement in Estonia from the socialist period up to the end of the 2010s and to summarize previous results of the impact of individual characteristics on retirement and late careers.

## 2 Employment Among the Elderly

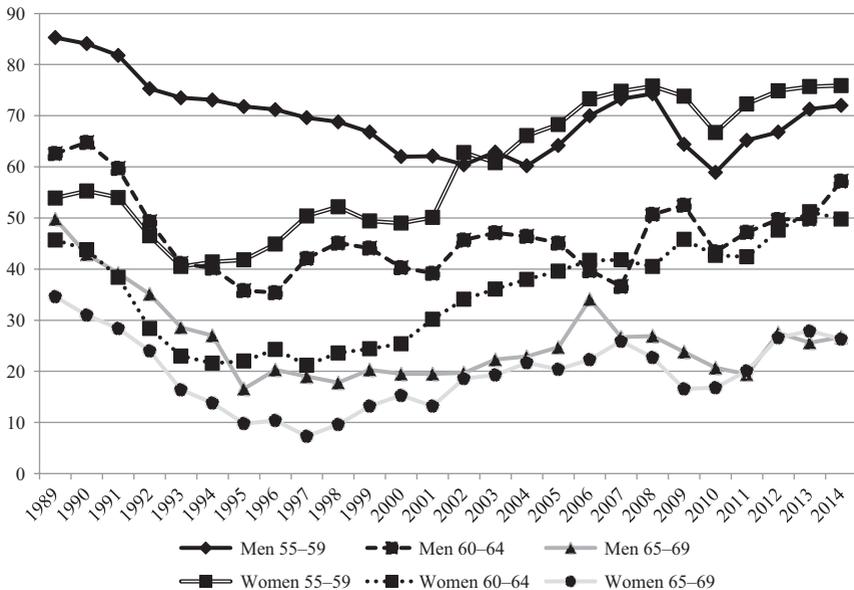
The 1979 census data indicate that within the 60- to 65-year-old population, about 40 % of men and 30 % of women were still active. According to 1989 census data, 80 % of the working population were employed at the age of statutory retirement<sup>1</sup> (Klesment and Leppik 2012). This

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<sup>1</sup> The statutory retirement age in 1989 was 55 for women and 60 for men.

indicates exits due to health, hazardous occupations, and so on to early retirement. Around statutory retirement age, there was about a 20 % drop in activity rate. The median age at retirement was 66.2 years for men (male life expectancy at birth was 66.15 in 1989) and 62.1 years for women (life expectancy at birth was 74.97) (Klesment and Leppik 2012). Compared to the 1979 census, retirement age has increased by more than 1.5 years.

During the transition to a market economy, the employment rate of elderly people dropped considerably. Nonetheless, this rate of the elderly has not been static over recent decades, because the various age groups among the elderly have experienced different trends (Fig. 3.1). Labor market tensions at the beginning of the 1990s were initially solved by pushing older workers (and especially working pensioners) out of the labor market, resulting in a drop in the employment rate of the elderly. The decrease, which happened in 1992, was about 40 % for those aged 60–64 and about 60 % for those aged 65–69. The greatest problem was



**Fig. 3.1** Percentage employment rates in different age groups, 1989–2012  
*Source:* Estonian Labour Force Survey, 1995–2014

faced by those in preretirement age who experienced layoffs under conditions in which the pension system did not support early retirement. The median age at labor market exit declined by about 4 years for both sexes (Katus et al. 2003).

After Estonia achieved economic recovery, the employment rate started to increase again and this was also the case for the older participants in the labor market. The latter trend is also partly due to the deferred pension age (especially for women for whom the pension age was increased from 55 to 63 years), low pensions, and pension laws favoring working pensioners. Because pensioners receive a pension whether they work or not, they were more willing to accept less stable and low-paid jobs (see also Fortuny et al. 2003). In Estonia there are no big gender differences in the employment rates of older age groups.

During the present economic crisis, the employment rate for the 60+ age group has even held up somewhat better than that for younger age groups. Whereas the employment rate in the 40–44 age group declined from 88.3 % in 2008 to 77.1 % in 2010, the rate in the 60–64 age group declined by only 2 %. However, the situation for those in preretirement age (age group 55–59) weakened considerably: For men in this age group, the employment rate dropped from 74.6 % in 2008 to 59 % in 2010; for women, the drop was much lower (from 75.4 to 66.4 %). In 2011, the employment rate started to rise again and returned to the precrisis level in 2012. The only exception was men in the 55–59 age group for whom the employment rate remained lower than before the crisis. The employment rate for older workers in Estonia is above the EU-27 average. The average exit age from the labor market in 2010 was 63.6 (63.2 for men, 63.9 for women) and is also above the EU-27 average.

Whereas unemployment did not really exist in the 1980s, it has since become an important feature in late careers. Unemployment rates in Estonia also differ for age groups, and tend to decline with age. Until the 2000s, the difference between the prime age group (29–45 years) and the older age group (50 years and older) accounted for three percentage points. The lower unemployment rate of late career workers was mainly the result of early withdrawal from the labor market, along with difficulties facing the elderly when returning to the labor market after being unemployed. For preretirement age groups, one of the pathways out of unemployment was exit through a disability scheme (Klesment and Leppik 2012). Previous

analyses of labor market flows into and out of unemployment indicate that the flows for prime age and late career workers have similar dynamics, but that the return rate to the labor market for late career workers is clearly below that for prime age workers. Older people differ from the others mainly through a lower level of flows (Saar et al. 2011). Reemployment after unemployment became rarer over time: In 1992, as many as 59 % of late career workers returned to the labor market within 6 months, whereas in 2004, only about 24 % managed to do so. Despite the situation on the labor market, the share of long-term unemployed remained higher among the unemployed aged 50–64 (Krusell 2010).

### 3 Institutional Context of Old-Age Employment

The transition process has brought fundamental changes to the composition of employment both by economic sector and by branch. Whereas changes in the proportion of employment in the industrial sector have been quite modest, changes in the agricultural and service sectors have been substantial. In agriculture, total employment dropped from 150,000 (1989) to 30,000 in 2004 (Eamets et al. 2006). Blue-collar workers were particularly affected: Their number declined by 36 % between 1989 and 2008, whereas the number of white-collar workers declined by only 6 %. The occupational structure of different age groups was also affected. In 1989, 50- to 74-year-old workers were overrepresented in unskilled occupations as well as in agricultural occupations. Both of these occupational groups were strongly affected by the structural changes. Although the proportion of late career workers in unskilled occupations did not change between 1989 and 2006, this group was quite successful in relocating to higher-level occupations because the percentage of older employees in white-collar positions increased from 40 % in 1989 to 52 % in 2006 (for the total working age population, the increase was from 47 to 57 %) (Statistics Estonia).

When Estonia was part of the Soviet Union, pensions were based on a PAYG (PAYGO) system. Pensions were calculated from the reference wage of monthly earnings received in the last 12 months. This often led workers to attempt to increase their reference wage during the last 12 months of

employment by, for example, multiple appointments, changing to a blue-collar or other better paid job, and so on. These attempts to increase their pensions raised the job mobility of older workers. In 1992, the pension system changed—all old-age pensioners received pensions of a similar amount based on the minimum wage. In 1993, a differentiation according to length of employment was introduced. In 1998, Parliament adopted a reform program aiming to produce the three-pillar system used by most other post-socialist countries (Müller 2002; Ferge and Juhász 2004). The three pillars were: (1) a mandatory PAYG (PAYGO) public pension system to ensure a minimum standard of living; (2) a mandatory funded and privately managed pension system based on personal finances (the Latin American approach); and (3) a voluntary pension plan system. The State Pension Insurance Act that came into effect in 2000 introduced several important changes in the national pension system—most importantly, to meet the objective of equalizing the pension age for men and women and add a component of a state pension related to previous contributions (Leppik 2006).

### 3.1 Pull Factors

The prereform statutory retirement age was fairly low in Estonia, being set since 1956 at 60 years for men and 55 years for women. It started to be revised only at the beginning of the 1990s. In 2012, the statutory retirement age was 63 years for men and 61.5 years for women. It will be equalized at 63 by 2016, and starting in 2017, it will increase gradually to 65 years by 2026.

Some authors have claimed that postsocialist countries used an early retirement policy as a substitute for welfare and unemployment benefits (Müller 2002). As Fortuny et al. (2003: 42) stated, labor offices were skeptical about the employment chances of many older job seekers and therefore often dropped any intensive job search assistance and offered either early retirement or a disability pension. In Estonia, special early retirement schemes existed both during the Soviet era and after the pension reforms of the 1990s, but such options were limited to specific professional groups such as pilots, sailors, miners, and the parents of families with numerous or disabled children. The 1998 State Pension Insurance Act was the first move to provide the opportunity to take early retirement

up to 3 years before statutory retirement age. However, the choice is penalized by reducing the pension by 0.4 % for each month before statutory retirement age. Those who choose to postpone retirement can defer their pension. Their benefit from this is a pension level that is 0.9 % higher per month of continuing to work without drawing a pension. In 2007, 4.2 % of all pensioners received early retirement pensions (Sotsiaalministeerium 2008: 41). More than 80 % of those drawing early retirement pensions were previously unemployed (Leppik and Kruuda 2003).

Disability pensions have also been used quite frequently as an early retirement pathway. In 2007, the proportion of people receiving a disability pension was 17 % of all pension recipients (Sotsiaalministeerium 2008: 40). More than 20 % of people aged 55–59 receive disability benefits. This is connected to poor health in old age (see the next section). Thus, the disability pension is one of the reasons for the quite remarkable outflow of mainly older workers from the labor market (see also European Commission 2008). Previous analyses indicate that the proportion of inactivity (including both disability and old-age pension) for the 50+ age group has remained quite stable from the 1980s to the 2000s and is fairly comparable between genders (at a level of 4–7 %) (Saar et al. 2011).

### 3.2 Push Factors

The key factor influencing older people's decision to enter, reenter, or remain in the labor market is the availability of suitable jobs (European Commission 2007). Nonetheless, age norms and perceptions about older workers may well discourage older people from even looking for work. As highlighted previously, analyses indicate that older job seekers are likely to experience barriers to entering or reentering employment in Estonia: Older workers are overrepresented among the long-term unemployed, and the hiring rate for older workers is well below that for people of prime working age (European Commission 2007). Especially large differences can be found in the hiring rate of medium-skilled prime age versus older workers.

Bassanini and Duval (2006) found that although employment protection legislation (EPL) is likely to reduce the opportunities of older job seekers through its negative impact on hiring rates, this may be more

than offset by the lower risk of already employed older workers being laid off. Until mid-2009, Estonia was above or close to the EU-15 average and the Central and East European (CEE) average (Tonin 2005) on most of the OECD's EPL strictness indicators. This is usually considered to be evidence of rather low labor market flexibility. However, Estonia's strict laws appear to have little effect on the economy, perhaps due to frequent violation of the laws, weak law enforcement agencies, or to the fact that the laws cover only a small proportion of the total workforce. A new Employment Contract Act took effect on July 1, 2009. As a result, the total balance of responsibilities and rights was shifted toward the interests of employers. Employees lost to some extent in terms of employment protection while it was proposed they should have stronger unemployment protection. Several changes were made to the initial draft law as a result of the recession. Whereas the main measures to raise social security for employees (that is, increases in unemployment insurance benefit, unemployment allowance, and the number of people eligible) were postponed, provisions increasing flexibility in the labor market remained in effect. As result of these changes, the new Employment Contract Act is more flexible than the OECD average and closer to the English-speaking countries (that is, close to liberal market economies) (OECD 2010: p. 14). Increasing flexibility seems to have had a negative impact on the employment of older workers. According to SHARE data, 25 % of all pensioners and 43 % of early retired people mentioned redundancy or dismissal as their main reason for exit from the labor market (Karilaid-Vidder 2015).

Both the readiness and ability of older workers to remain in employment may depend not only on the opportunities created through structural institutional characteristics but also on the "age culture" prevalent in a country (Maltby et al. 2004). In a country with a distinct "early exit culture," older workers may develop higher preferences for leaving employment prematurely than those in countries with a "late exit culture." At the same time, an entrenched early exit culture may foster the development of "ageist stereotypes" among employers that lower the likelihood of employing older workers (Schröder et al. 2009). Overall, being old is perceived positively on the average EU-27 level in Estonia (59 % believe that the over 55s have a positive image vs. 61 % in the

EU-27) (Eurobarometer 2012). The perceived discrimination seems to be connected closely with the positive image of older people in society. Here, Estonia is even below the EU-27 average (42 %): Only 36 % of Estonians believe that age discrimination is widespread (Eurobarometer 2008).

The Estonian pension system also contains features aimed at stimulating career exits before statutory retirement age: (1) the statutory right of certain professions to retire before the retirement age, (2) the opportunity to choose the age of retirement, (3) liberalized disability provisions, and (4) a combination of the existing unemployment insurance and unemployment benefit scheme that may reduce late employment. Because unemployment insurance and unemployment benefit cover only short-term unemployment risk in Estonia, their positive impact on late employment is low and motivates unemployed late career workers to retire as soon as this option becomes available.

Health problems are another push factor. The major social changes in the early 1990s impacted on life expectancy. Although life expectancy decreased among both males and females, the impact of the transition years was harder for the male population. Subsequent social stabilization boosted life expectancy: Over two decades (1989–2012), the cumulative increase in the life expectancy of the Estonian population exceeded 10 years (Karelson 2013). In 2012, male life expectancy was 10 years lower than female life expectancy (71.5 and 81.6 years respectively) (Statistics Estonia). Although women have a longer life expectancy than men and also have a greater number of healthy life years, the period lived with health-related limitations is proportionally longer for women than for men. Approximately 27 % of the whole life span is spent in poor health. The life expectancy for the population in Estonia is lower than the EU average, and the proportion of years lived with health problems across the whole life expectancy is significantly higher than the EU average (Altmets and Karelson 2010). The share of people with health problems increases with age and shows a rapid growth starting after the age of 44 years. According to the Estonian Social Survey, every second 55- to 64-year-old person had a chronic disease or health problem in 2012. The share of people with health-related limitations starts to increase at the age of 35–44, and every second person aged 65 and older is limited in

their everyday activities due to health problems (Karelson 2013). Also in a comparative perspective, Estonia stands out through the particularly severe health problems of older workers (see Chap. 2 for details) that clearly push people toward involuntary early retirement. The proportion of people with poor health in Estonia exceeds the proportion of those with good health before the age of 65, whereas in the EU, on average, this change becomes apparent only after the age of 75 (Saks 2009). According to SHARE data, 13 % of old-age pensioners and 38 % of disability pensioners mentioned health as the main reason for leaving the labor market (Karilaid-Vidder 2015).

### 3.3 Maintain Factors

The mandatory state pension insurance system in Estonia includes several incentives for working. First, working pension receivers can further contribute to their insurance component and thus also the future pension amount. And second, according to the State Pension Insurance Act (2004), it is possible to be paid for work and receive a pension simultaneously without being either restricted or penalized.

An important feature of the Estonian labor market has been the lack of opportunity for older workers to enter the educational system or receive (re)training over the life course (Saar 2002). Despite the introduction of the lifelong learning concept, actual participation of older age groups in retraining and further education programs has remained very low. In the Soviet period, any return to the education system was difficult. This seems to have carried over into the new labor market environment, because in 2007, the majority of the 50+ age group considered themselves to be too old to study. An adult education survey carried out in 2007 indicated that for those older than 55, the participation rate in training was one-half that for 25- to 34-year-olds.<sup>2</sup> According to the same survey, retraining and further education were, in terms of supply and means of participation, accessible largely for white-collar workers. Thus the probability of a quick and successful return to the labor mar-

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<sup>2</sup> Authors' own calculations based on Adult Education Survey 2007.

ket for those losing a job in the industrial or agricultural sectors was lower. In addition, further training is restricted to the working population—the participation rate of the unemployed and pensioners is very low. Therefore, the lifelong learning system is not working as a maintain factor in Estonia.

Previous analyses of the impact of relative wages on the employment outcomes of older workers in EU countries reveal a strong correlation between employment rates for the 55–64 age group and the ratios of mean annual earnings of older age groups compared to the young age group and prime age workers (European Commission 2007). In Estonia the 50–59 age group earn much lower wages compared to younger age groups: Earnings ratios of this age group versus the young (under 30) and middle-aged group (40–49) are 90 and 78 % versus the 30–39 age group (Statistics Estonia). The differences between the 60–69 age group and younger age groups are even bigger. This means that Estonia has no seniority-based wage system. This might indicate that the relative low cost of older workers compared to younger ones should encourage employers to hire or retain older workers.

### 3.4 Need Factors

The pension replacement ratio has remained rather low and stable in Estonia since the introduction of the pension scheme in 1956, fluctuating between 30 and 40 %. In the early 1990s, the replacement capacity dropped to one-half the previous level (from 36 to 16 % in 1992). After that, it increased gradually, regaining the level of the late 1960s by the late 1990s. Because the pension replacement ratio is low and there is still very little differentiation between pension receivers, becoming a pensioner significantly increases an individual's poverty risk. This means that the financial need to work longer might be high in Estonia. The elderly have always been at the greatest risk of poverty. The economic boom did not have the same positive effect on all age groups. Although from 2000 to 2005 the relative poverty risk of children and the working-age population decreased, it increased for the elderly (65 years and older). In 2005–2008, the 60+ age groups

had the highest at-risk-of-poverty rate compared to other age groups. However, their situation has improved since the pension rise in 2009 (Laes 2013). The at-risk-of-poverty rate of those older than 60 was 24 % in 2012. This is considerably higher than the EU-27 average. The median relative income of those over 65 as a ratio of the income of people aged 60–64 is 73 % (EU-27 average is 88 %) (European Commission 2007). There is a remarkable difference in the at-risk-of-poverty rate between elderly men and women (15.3 vs. 27.7 % respectively in the 60+ age group, and an even greater difference compared to the +65s). If women do not stay longer in the labor market, they face higher poverty risks.

## **4 Workplace Characteristics as Determinants of Retirement Decisions**

### **4.1 Occupational Group**

There have been no previous analyses on the impact of occupational group on retirement age in Estonia. However, research does indicate that routine nonmanual employees together with semi- or unskilled workers are more likely to lose their jobs compared to upper service workers (Saar et al. 2011). This can be attributed to two main reasons: a sharp decline in the demand for blue-collar workers starting from 1989, and the rationalization and reorganization of work based on new technologies that favored people with new skills.

### **4.2 Economic Sector**

Workers in the extractive and transformative sectors retire earlier than those in personal services (Täht et al. 2011). These are the two sectors that have seen the most dramatic drops in number of employed. Furthermore, earlier retirement might be associated with poorer health conditions, because the work in these sectors is the most physically demanding and often has negative consequences for health.

## 5 The Impact of Individual-Level Characteristics

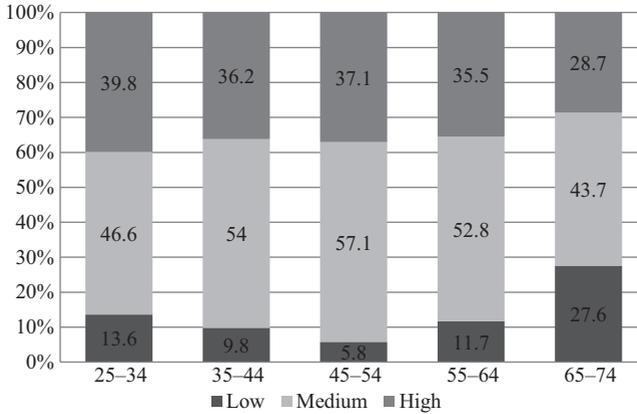
### 5.1 Gender

Previous analyses indicate that females retired earlier in both the socialist and postsocialist periods, but that the gap compared to males decreased in the post-1994 period (Täht et al. 2011; Klesment and Leppik 2012). This is explained at least partially by the increase in the statutory retirement age. However, late career women seem to be especially vulnerable in the labor market. Compared to men, they are more likely to be made redundant and are more likely to experience downward mobility (Saar et al. 2011).

### 5.2 Education

Older people are somewhat less well-educated than other age groups, but the differences are quite small (Fig. 3.2). The percentage of lower-educated people is even higher in the 25–34 age group compared to those in preretirement age. The share of the higher-educated is somewhat higher among the young and middle-aged groups, but these differences are also quite small. Data gathered in the Survey of Adult Skills indicate a close relationship between proficiency in the information-processing skills assessed and age (OECD 2013). The gap between the old and the young is particularly marked in the domain of problem solving in a technology-rich environment (for the 20–24 age group, the average is 295.6 points; for the 60–65 age group, 247.6 points—a gap of 48 points) (Halapuu and Valk 2013). Even when educational attainment, socioeconomic status, and immigrant background are taken into account, age continues to show a strong relationship with proficiency (OECD 2013).

Previous results on the impact of education on retirement are somewhat contradictory. Klesment and Leppik (2012) found that in both the socialist and market economy periods, the highly educated retired at a higher age than other educational groups. The effect of higher education seems to be stronger in the market economy period. Results from Saar et al. (2011) indicate the highest retirement age for those with specialized secondary education. Moreover, their analysis showed that higher educa-



**Fig. 3.2** Educational levels of the 25- to 74-year-old population in 2012  
*Source:* Statistics Estonia

tion protected late career workers against unemployment and increased the likelihood of upward mobility. Compared to those who are secondary educated, basic education increases the risk of retirement.

### 5.3 Previous Work Career

Previous work career influences the timing of retirement. Those who have been inactive before the age of 50 years and have returned to the labor market tend to work longer than others. People who have been more mobile in their late career retire earlier, which may indicate their more vulnerable labor market position and less stable late life working career. Late career mobility is also predominantly downward, suggesting that their earlier retirement might reflect their lower job security. Unemployment episodes before the age of 50 years increase the risk of moves into unemployment as well as downward moves (see Saar et al. 2011).

### 5.4 Health

Ill health shortens the time to retirement. However, the effect is observed only in the market economy period and not during the socialist one (Klesment and Leppik 2012). These authors offer two different

explanations for this result: In the market economy, ill health may become a more critical disadvantage, because of the greater competition for jobs compared to the socialist period. The ill health effect can also be more pronounced due to the rising pension age. This might indicate that the health status of the Estonian population has either worsened or improved more slowly than the increase in the statutory retirement age (Klesment and Leppik 2012: 23).

## 5.5 Number of Children

Earlier research found that the number of children is not related to the timing of retirement (Klesment and Leppik 2012). Only 5 % of all pensioners mentioned family-related circumstances as the main reason for leaving the labor market (Karilaid-Vidder 2015).

## 5.6 Ethnicity

Non-Estonians retire earlier than Estonians during both the socialist and the market economy period. However, in the post-1994 period, the gap between ethnic groups has grown (Klesment and Leppik 2012). Late-career Estonians are also better shielded against long-term unemployment than non-Estonians (Täht et al. 2011). This might indicate the vulnerable position of non-Estonians in the labor market.<sup>3</sup>

# 6 Conclusion

In Estonia, many of the career processes and much of the general labor market situation of elderly workers can be explained by the general institutional context. Previous analyses based on factors that might influence the labor market attachment of older people and either encourage or prevent them from extending their working lives classified Estonia together with Lithuania in a group that is broadly similar to the Central European

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<sup>3</sup>Non-Estonians comprise 30 % of the Estonian population. Most are Russians (25 %). In the 50+ age group, the percentage of non-Estonians is even larger (35 %) (Statistics Estonia).

grouping of countries (European Commission 2007). The group of Baltic states is also characterized by relatively low perceived health, standard retirement ages, active labour market policy spending, lifelong learning participation, and work flexibility. However, the Baltic states differ from the Central European ones through having much lower pension replacement rates and relative earnings among older workers.

In terms of the institutional setup shaping late careers and the retirement process, Estonia has often been considered as a 'deviant' case (Hofäcker et al. 2006) that does not follow any clear welfare regime pattern. On the one hand, Estonia's welfare regime seems to be close to the liberal model, providing only few opportunities for early retirement, applying strict criteria to unemployment, and having disability benefits that are small in amount and short in duration. On the other hand, some of the features are close to the welfare regimes in Southern European countries, especially the rather strong insider–outsider logic. Due to the differentiation between outsiders and insiders, the return of older workers to the labor market is relatively rare. This delivers a rather ambiguous message to late career workers: On the one hand, there is very little institutional support for them to stay successfully in the labor market; on the other hand, there is a strong pull and clear encouragement to postpone the retirement decision. Policies related to the promotion of employability in older workers are rather underdeveloped in Estonia, and (re)training is seldom offered to older workers (see also Saar et al. 2011). Moreover, health-related reasons for early retirement can be particularly severe.

The little support offered by the welfare regime is one of the reasons for the general increase in late career insecurity and inequality. The welfare regime has made late career workers highly vulnerable to economic upturns and downturns, and the decision to leave or stay may well be driven by structural factors rather than individual preferences. The experiences of labor market changes vary across time, and we can observe a general trend toward increasing insecurity for late career workers. As long as the increase in the retirement age is the main measure used to prolong people's economic participation, inequalities between the elderly will increase. Age-based discrimination is recognized by one-third of the population, which is a high proportion, but still lower than the EU average.

However, because of the lack of further research in this area, it is hard to determine how far difficulties in reentering the labor market relate to age-based discrimination. Although there are no seniority wages in Estonia, some older workers may also not have the skills needed such as problem solving in a technology-rich environment. A prolonged work career will also require additional institutional support, because retraining and other special active labor market policies are targeted at older workers.

Specific risk groups face a higher risk of poverty and have been pushed from the labor market: non-Estonians, the low-educated, people with poor health, and women. The main constraints preventing these groups from staying in the labor market seem to be the insider–outsider logic, traditional gender roles, and a poorly developed lifelong learning system.

Currently, need factors strongly encourage older workers to stay in the labor market. Up to now, the pension system and pension income have been on a low level but quite uniform. However, with the introduction of a more individualized pension scheme at the end of the 1990s, increasing inequalities can be expected in the future (see e.g. Holzmann 2000)—both during late careers as well as during and after any retirement decision has been made.

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# 4

## Path Dependency Versus New Determinants of Retirement in the Czech Republic

Lucie Vidovičová

### 1 Introduction

Within the European context, the Central Eastern European states held a somewhat different position due to their disrupted historical development (BlebaVý 2008). Although it is already 26 years since the 1989 Czech Velvet revolution, this path dependency continues to influence recent trends and future developments in many ways. This also holds for the determinants of retirement among older workers in the Czech Republic. This chapter tries to highlight these effects, describe the current situation, and show some of the key factors influencing the outcomes for the retirement system, individual plans, and the institutional context on several levels.

The Czech Republic together with other EU states could be characterized as demographically aging, compared to Western and Northern

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European states; this trend began later, but it is now accelerating rapidly (Rychtaříková 2000). The resulting rise in economic dependency indices has led to concerns about the long-term sustainability of the pay-as-you-go pension system as well as the future sustainability of economic well-being in general. Different measures are being implemented to keep people working longer. A combination of pure demographic effects, different policy efforts, individual (and/or cohort/generational) value system changes, and some mesolevel influences has resulted in a rise of almost 4 years in the average age of workers in the Czech Republic over the last two decades (CZSO 2015). Whereas in 1993, there were more than twice as many workers aged 15–24 as those aged 55–64, 20 years later this ratio has inverted (Vidovičová and Wija 2015).

Despite these trends, the Czech Republic, together with Slovakia and Hungary, has been identified by Hofäcker and Unt (2013) as a country with an institutional framework unfavorable for continuing employment, with a low average retirement age, low health expectancy, “virtually no participation of older people in retraining (1.2 %), and overall very little spending on active labor market policies” (Hofäcker and Unt 2013: 176). These authors also believe that the structural dimensions are reinforced by attitudinal factors such as considering the onset of old age to be before age 60, low positive images of older people in society, and extremely little support for an increase in the statutory retirement age.

Retirement decisions are embedded in a web of various macro, meso, and microlevel influences that “pull,” “push,” and “flow” in various directions. In this chapter, we first present the development of the employment rate among older workers and some of the key factors influencing the resulting curves. Then we move on to discuss the institutional determinants of retirement decisions, concentrating on pension system developments, unemployment, and age discrimination as push factors and a general understanding of pension rights, early retirement options, and the “working pensioner” institution as the main pull factors. There are also factors affecting retirement plans and actions that can be characterized as need and maintain factors, and we shall discuss these here as well. We shall then move our attention to individual characteristics, and in this section we recapitulate findings on the important characteristics such as gender, income, and health in the specific context of the Czech Republic.

We assign a great weight to individual preferences and values that prove to be an important key to the outcomes of retirement plans. In the next to last section, we shall also dwell briefly on the mesolevel determinants of retirement decisions, especially industry and sectors of the national economy.

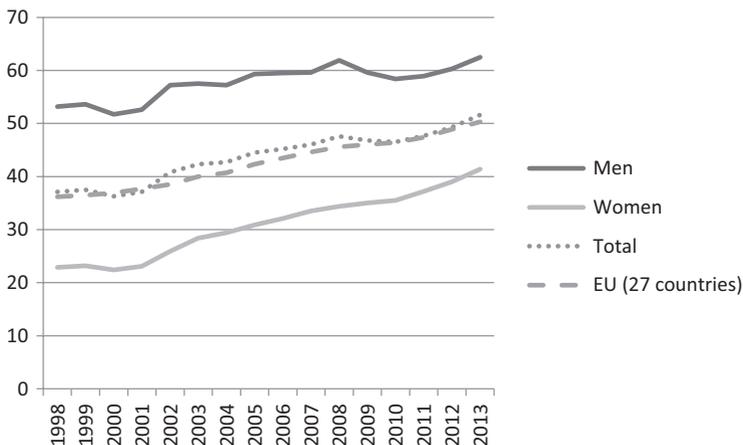
## 2 Employment Trends Among Older Workers in the Czech Republic

As mentioned above, current discussions on labor market issues have to bear in mind the specific conditions of 40 years of socialist experimentation and a centrally planned economy. As Vidovičová et al. (2004) summarize, until 1990 the Czech Republic did not have an institutionalized labor market, and, for ideological reasons, there was also no unemployment. Wage policy was based on central wage regulation. The peak of the age curve of wages developed in favor of older workers (Večerník 1998). A specific feature of this period is also working old-age pensioners. The low retirement age and the large supply of work opportunities gave people of retirement age an opportunity to continue in the jobs that they had pursued until then or to continue working in their profession while retired. Economic activity became a general criterion for the health and vitality of seniors. Working pensioners moreover often supported their children financially with income from their economic activity (Možný 2009). The cultural perception of older people as being privileged and secure had, to great extent, survived upcoming changes.

The so-called Velvet revolution in 1989 brought a rapid and extensive change in ownership and ownership rights connected with restitution, privatization, and the development of the private sector. However, thanks to the high qualification levels of employees, higher rates of employment in both industry and agriculture, along with insufficiently developed services, the unemployment rate still remained very low, oscillating between 3 % and 4 % (Gitter and Scheuer 1998; Večerník 2009). The labor market in the first half of the 1990s was characterized by high mobility not only in internal company “markets” in terms of work positions but also

in transfers between employers and private businesses. Vidovičová et al. (2004) have noted that the slowing of the pace of reforms, the problematic course of extensive privatization, the absence of a number of legal norms, insufficient law enforcement, and some other economic obstructions slowed down economic reconstruction in 1997. This was accompanied by a decrease in the productivity of the economy and economic stagnation that also continued in the following years (Večerník 2009). This development evidently had a major impact particularly on (un)employment. Growing unemployment especially affected young people, people with minimum qualifications, women with young children, and citizens with special needs—including those in older age categories.

The expectation of joining the EU at the turn of the millennium marked the start of a period of expansion and growth in the Czech Republic (1999–2008). Privatization continued, real wages increased, and a reform of public finances was introduced. Within this period, the unemployment rate dropped from 10.2 % in 2002 to 5.4 % at the dawn of the global financial crisis in 2008, rising back to 10 % in 2012. In 2009, the number of available jobs decreased, whereas the number of job



**Fig. 4.1** Employment rate of 55- to 64-year-old workers (%) in the Czech Republic compared to the EU 27 (total)

Source: Eurostat, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde100&plugin=1>

seekers and the unemployment rate increased. This also affected older workers (see Fig. 4.1), especially men and those with lower qualifications.

The general condition of the economy and the availability of (adequate) jobs play a crucial role in older workers' labor market situation. There is, however, another side to the story told by retirement policies. Due to the changes introduced into the retirement system, which are described in greater detail below, the employment rate of older workers continued to rise slowly but steadily even through the critical period of the crisis with the restrictive budgetary policy reforms introduced by the Czech government. As a result, the total employment of older workers increased from 37.1 % in 1998 to 51.6 % in 2013. At the beginning of 2014, the employment rate of workers aged 55–64 was 53 %: 43 % for women and 64 % for men. However, that only mirrors the general gender gap, because the employment rate of Czech women is below the EU average (34.8 vs. 37.9 % in the EU). The general employment model in the Czech Republic differs from those in Western and Northern Europe particularly through lower employment rates for both young women with children and older women, indicating difficulties in achieving a work–life balance across the entire life course. As a result, the untapped potential of older workers is strongly gendered and could be ascribed to a low availability of flexible work forms. However, from a demographic point of view, relying on the middle-aged male workforce could be regarded as rather short-sighted and unsustainable.

### 3 Institutional Determinants of Retirement Decisions

None of the decisions related to retirement timing are made in a social and economic vacuum. We have mentioned the influence of the developmental and historical path dependency on the perception of work in later life stages and older workers, and how developments in society have influenced the labor market participation rates of older workers both directly and indirectly. In this section, we shall take a closer look at some of the push, pull, and maintain/need factors playing a role in retirement determinants within the Czech sociopolitical context (see Chap. 1 for

general discussion of these factors). First, we shall use a short overview of the development of the pension system in the Czech Republic to illustrate how policy changes and unstable political preferences may more generally influence retirement preferences and timing.

### 3.1 Unfavorable Institutional Features: Push Factors

Historical developments following 1989 are de facto a continuation of constitutive changes in the “ingrained” pension system. Bigger or smaller legislative steps that model the current situation are introduced literally annually, and they tend to change direction after almost every general election. The reforms will be described in more detail in the section on need factors because they tend to be aimed toward prolonging working lives; however, we would argue that the complexity of the system as such may represent a push factor prompting older workers to retire early and take advantage of the available options “before it gets worse”—that is, stricter and even less generous. Although these “motives” are not covered in surveys, they may well be illustrated by the recognizable increases in the numbers of new pensioners before major changes are introduced.

Respondents surveyed by Kotíková and Remr’s (2007) study reported that employers are more often the reason for early retirement, because they (presumably) lack interest in older age groups (see also Doleželová 2008). The workers’ lack of desire to work, lack of flexibility, or inability to learn new skills are quoted less often. For the majority of those surveyed (over 90 %), the most important reason for taking early retirement was being of preretirement age, losing one’s job, and not being able to find another one due to redundancy or the inability to find suitable work (Brátková 2000). These results are replicated in a study based on the SHARE dataset from 2011 and 2013 in which 40 % of 50- to 64-year-old respondents reported that the reason for their premature retirement was losing their job (Alternativa 50+ 2014).

In 2014, people over the age of 50 represented 29.2 % of all registered job seekers—an increase from 27.2 % in 2013 and 26.5 % in 2012 (Ministerstvo práce a sociálních věcí 2015). This increase is also notable in the unemployment rates differentiated by age groups. The unemploy-

ment rate of those just before retirement age (55–59) was 6.4 %. This was lower than the average (7.0 %), but higher than the rate for 50- to 54-year-olds (5.8 %) and 60- to 64-year-olds (4.3 %). Historically speaking, there are three models of older age unemployment: first until 1997, when those aged 55–59 had higher unemployment rates than those aged 50–54 years; second, between 1998 and 2007, when this trend reversed with those aged 50–54 years having a higher unemployment rate than the older group; and third, since 2008, when the pattern has become similar to that in the 1990s when those before retirement seem to be at a higher risk. Unemployment in the youngest groups (up to age 25) is, on the other hand, traditionally higher, although decreasing (from 18.1 % in 2012 to 16.8 % in 2013, and 14.7 % in 2014) (Ministerstvo práce a sociálních věcí 2015: 9). The unemployment of older workers is considered a “costly” problem, because it is connected to a higher risk of early labor market exit, dependence on social support or invalidity pensions, and higher expenses in terms of unemployment benefits. Therefore, unemployment could be characterized as the major push factor in terms of retirement decision making (Hora 2008).

A closely related issue is the problem of age discrimination. The Czech Republic is repeatedly among the top three EU countries with the highest share of respondents stating that the problem of age discrimination is widespread and rising (Special Eurobarometer 393 2012). Three out of four respondents claim that chronological age plays an important role in the world of work, mainly in hiring and dismissals, but also in training, promotion, and remuneration (Vidovičová 2008). If there are large-scale dismissals, older workers are prone to be the “first to go.” Therefore, unemployment can be seen as a direct result of age discrimination.

### 3.2 Invitation to Retire: Pull Factors

The perception of retirement as a “natural right” is embedded deeply in Czech culture (Haberlová 2000; Rabušic 2004). This perception together with the still available, although nowadays restricted, early retirement options could be labeled as pull factors inviting older workers to retire. The concept of the early retirement culture also mentioned in other chap-

ters of this volume has a slightly different meaning in the Czech cultural context. As Haberlová (2000) puts it, the early exit from economic activity belongs to standard notions about later life arrangements and is perceived as a *natural entitlement* to be claimed from the state that should be universal (see also Rabušic and Vidovičová 2003; Šlapák et al. 2010). And there is also the employers' side on which the early retirement option is a handy way to carry out an age-selective downsizing of employees in what is considered to be a socially acceptable, and, in that sense, institutionalized manner.

Early retirement used to be possible 3 years before the legal retirement age. At the same time as the increase in retirement age was introduced, this time span was increased to 5 years, but with higher deductions (Holub and Háva 2011). Deductions are at 0.9 % for each 90 days (that is 3.6 % per year) for the first 2 years of early retirement and 1.5 % per year for the time over 2 years (Šimák 2010). In 2013, there were 87,520 new retirees of whom about 27,300, that is one-third, chose an early retirement option. There were almost half a million Czech retirees with reduced pensions due to the early exit, which was almost 3.5 times more than in 2000. Given an average pension benefit of 10,970 CZK (approx. 400 EUR), those who left the labor market earlier have to be satisfied with an average of 9,800 CZK (approx. 360 EUR). Deductions have been identified as a strong dissuading factor, especially when they are permanent, therefore shifting more prominence to other possibilities such as unemployment benefits or disability pensions. Research found that people would actually prefer to pay higher contributions to the system rather than retire at an older age (Haberlová 2000).

The special cases in terms of early retirement are so-called power jobs, such as the police, army, and miners. Employment categories favoring certain jobs in respect to pension insurance was one of the first things abolished in 1992, but it is now being renegotiated between the government and mining industry representatives due to miners' high exposure to health risks in a demanding work environment. However, it has also been stated openly that these early retirement arrangements (up to 5 years earlier) should help to downsize the number of employees without

considerably raising unemployment,<sup>1</sup> confirming it as a socially acceptable norm. Even when it is understandable in this particular case, other alternatives could have been proposed such as support for upskilling and requalification.

One of the other “inviting” features of the Czech pension system is the possibility to work and simultaneously draw a pension. The old regulation allowing this for “two years after the origination of the claim to such pension, only not exceeding the fixed income limit” (Šimák 2010) has been abolished. A new regulation states that in order to combine pension benefits with earnings, the work contract has to be limited to a maximum of one year but can be extended over an unlimited number of such contracts (“chaining”; Šimák 2010). Since January 2010, it is permissible to work after retirement age and draw either full or one-half pension benefits. This is accompanied by a 0.4 % increase of the pension calculation base for every additional year worked in case of full pension receipt or 1.5 % for every 6 months in case of a half-pension receipt (that is 3 % per year) (Šimák 2010: 35). At about 5 %, working pensioners represent an important part of the entire workforce. In the 65+ age group, working pensioners represent 91.3 % of all working persons. In other words, fewer than 10 % of older people continue to work without simultaneously drawing a pension. Around one-third of them work in the tertiary sector, and the majority of female retirees (60 %) work part time (Český Statistický Úřad 2011). It should be underlined that these opportunities are not available to early exit pensioners, because Czech law restricts their ability to combine old-age pensions with income from employment, including self-employment, before reaching the regular retirement age. This restriction should therefore be understood as one of maintain factors that are addressed in the next section.

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<sup>1</sup> See [http://www.mpsv.cz/files/clanky/23592/TZ\\_MPSV\\_hornicke\\_duchody.pdf](http://www.mpsv.cz/files/clanky/23592/TZ_MPSV_hornicke_duchody.pdf) (cit 2016-17-3).

### 3.3 The New Active Aging Policies as Need and Maintain Factors

The Czech government (via the Ministry of Labor and Social Affairs) issued the “National Action Plan Supporting Positive Aging for 2013–2017 (NAPSPA)” in 2013 and updated it in 2015. It is already the third such document in a row defining strategic priorities and responsibilities for different ministries and other relevant bodies. Among other elements, it includes employment of the older workforce in relation to the area of pension systems. In respect of active aging in employment, NAPSPA is based on the following general goals: revising the pension system to increase the motivation for longer employment among pre-retirees; supporting the interests of the unemployed in self-employment with necessary help and support; and implementing age management strategies on different levels. Together with the Government Council for Older Persons and Population Aging set up in 2006, these initiatives clearly raise the profile of aging issues in both the public arena and in state administration and ministerial structures. As a result, general awareness of the changing demographic profile of society is rising along with an awareness of individual responsibility for ensuring one’s income in later life. These can be considered as the starting points for the current change in the behavior of workers including those still in their prime age.

### 3.4 Need Factors

The statutory pension age is being raised for Czech workers. According to a 2011 reform, the retirement age will be 67 from 2044 onward, and it will rise continuously so that those born in 2012 will have a legal retirement age of 72 years and 10 months (Loužek 2014)—which should happen only in 2084. The increase in the retirement age for men and childless women<sup>2</sup> to 63 was introduced already in 1995 and was accompanied by other efforts to make retirement less popular. These changes included lowering pension benefit in case of early exit, introducing support for

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<sup>2</sup>Women gain one year for each child with a minimal statutory retirement age of 59 years.

delayed exits in 2001, and increasing the necessary insurance period from 25 to 30 years in 2010. In 2010–12, there was a so-called “small pension reform,” including raising the retirement age for younger cohorts and both sexes and introducing a rule for a further increase with no age ceiling and a further gradual increase in the necessary insurance period up to 35 years (including noncontributory periods covered by the state). As of today, the changes introduced clearly communicate the institutional need for a later exit from the labor market.

The year 2013 saw the implementation of the so-called “big pension reform.” This introduced the voluntary opt-out from the first pillar into the second, enabling people to transfer a certain percentage of their pension contribution to private pension funds. However, the political will to maintain this second pillar is weak, and (therefore) so is the workers’ interest to participate in it. The Social Democratic government has prepared immediate plans to close this possibility again in 2016. Other recently debated issues include abolishing the no-ceiling rule on the increasing statutory retirement age.

Continuous changes, as mentioned above, may, however, raise feelings of uncertainty about retirement entitlements. This is reinforced by the complexity of the calculation of the pension benefit. The final sum is composed of several factors that are all entered into a complex equation. Until rather recently, it came to new retirees as a big surprise. The Czech Social Security Administration ([www.cssz.cz](http://www.cssz.cz)) is making a new effort to send out an information sheet to every insured person who requests it, and there are web-based tools, so-called “calculators,”<sup>3</sup> that can be used to work out the approximate sum of one’s future pension. For some older workers, such information has been an incentive to continue working or (to plan) to look for an extra income when they realize that the pension benefit will not suffice to maintain their (planned) lifestyle and cover their (expected) needs (Šlapák et al. 2010).

Due to the high level of redistribution, replacement rates differ according to income. A retired person with a median gross income of 23,000

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<sup>3</sup> See, for example, <http://www.mpsv.cz/cs/2435> that includes an “age calculator” that helps to define the appropriate statutory retirement age; or <http://www.finance.cz/duchody-a-davky/kalkulacka-a-aplikace/kalkulator-starobniho-duchodu/>. Calculators are also available from commercial providers of financial and insurance consulting.

CZK will lose 44 % of previous income. In comparison, a person with a previous income of 15,000 CZK will lose only 27 %, whereas a person with an income of 50,000 CZK will lose 62 %.<sup>4</sup> In this sense, the replacement ratios can also serve as a need factor. People with lower incomes are “advantaged” by a higher replacement rate, and this makes them more prone to an early (or earlier) labor market exit, because the drop in their income is not as steep as that for higher-income groups. Further need factors are, first, restrictions on the valorization of pension benefits (which was adopted, for example, during the 2012–14 period as a part of restrictive budgetary policy reforms) or, second, the above-mentioned deductions for early retirement. All of these represent quite strong need for staying longer in the labor market.

The Czech Republic is one of those countries in which older unemployed workers are obliged to seek work actively and are at the same time assisted by employment services. Unemployed people aged 50 and over have to build their individual plan and take part in career training programs. But maximum unemployment benefit duration depends on age: Those below 50 receive earnings-related unemployment benefits (with a low ceiling, see Baum-Ceisig et al. 2008) for up to 6 months; those between 50 and 55, for up to 9 months; and those over 55, for up to 12 months (Potůček 2009). The comparatively fast expiration of eligibility for earnings-related benefits tends to force the unemployed to actively look for work. Even the longer periods of 9 or 12 months for older unemployed persons are rather short in any international comparison (Naegele and Bauknecht 2013).

### 3.5 Maintain Factors: National Action Plan, European Structural Funds, and Operational Program-Related Initiatives

Many experts agree that financial subsidies to employers are one possibly efficient incentive to prolong labor market activity among older workers,

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<sup>4</sup>For example, Calculator: <http://www.finance.cz/duchody-a-davky/kalkulackyy-a-aplikace/pomer-mezicistou-mzudou-a-duchodem/>.

to prevent their being pushed out of the labor market, or to enable them to return to it more easily.

As one example, we can cite the ‘Czech kurzarbeit’. Employers going through temporary difficulties do not downsize their labor force but shorten working hours, and they use the additional time to further educate and train their workers. In 2013, almost 200 applications were submitted to the Ministry of Labor and Social Affairs, out of which 107 received funding of 17 million Czech crowns (approximately 630,000 EUR) for about 600 employees. The Senate of the Czech Republic reapproved this tool in July 2015 for those employers who do not have enough work to engage their employees full time due to the economic recession or natural disasters. Employees receive 70 % of their wage: 50 % from the employer and 20 % from the state budget. Each application has to be approved by the government. Despite skeptical voices<sup>5</sup> pointing to the bureaucratic burden and the risk of untimely help for firms, this could prove to be a good tool with which to prevent employers using downsizing in which case it is older workers who are usually “the first victims,” who are unable to find a new job, and who are forced into early retirement.

There are many other projects focusing on the unemployed that tend to be of a regional character to reflect the regional disparities in unemployment rates and sectoral variations. “Let’s use the experience in Pilsen (Plzeň) region”<sup>6</sup> was the title of a project launched by the Regional Directorate of Job Offices in Pilsen. The project ran from 2011 to 2014 and addressed workers aged 45+ with the rationale of preventing later life unemployment risks. The project was multifaceted and provided wage subsidies, upskilling (IT courses), motivational courses, professional requalification, and individual consultations. The success rate of such projects in terms of the number of previously unemployed participants who have gained jobs is about 30 %.

In this and similar projects, the determining factors for maintaining older workers in the labor market is the support both they and their

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<sup>5</sup> See [http://www.tyden.cz/rubriky/byznys/cesko/senat-schvalil-kurzarbeit-firmam-v-krizi-pomuze-stat\\_350003.html#.VbIX3bVRomw](http://www.tyden.cz/rubriky/byznys/cesko/senat-schvalil-kurzarbeit-firmam-v-krizi-pomuze-stat_350003.html#.VbIX3bVRomw).

<sup>6</sup> <http://www.personalista.com/projekty-financovane-z-esf-tiskove-zpravy/vyuzijme-zkusenosti-v-plzenskem-kraji.html>.

employers receive in difficult situations. Such projects provide bridges and open doors.

## 4 Individual Characteristics as Determinants of Retirement Decisions

Empirical research on individual characteristics as determinants of retirement decisions in older Czech workers is rather scarce. From what is available, we can suggest that the general principles are also valid for our particular national context with gender, income, education, health, partnering<sup>7</sup> and caring responsibilities, and employment status being the usual variables. To this we can add age, cohort, or generation affiliation and individual values, including preferences regarding the retirement age and preferences related to later lifestyle. All these characteristics are to some extent interrelated and not completely free from institutional influences.

The first strong relation is between income and education, especially in older cohorts (Rabušic 2005). Those with a higher education and higher income tend to postpone their labor market exit from their less physically demanding and to some extent more secure jobs. However, as we have already mentioned, this does not necessarily mean that they do not draw a pension from the system. Many become working pensioners. One specific phenomenon is the high share of self-employed individuals who have no employees—a common alternative to employee status in times of restrictive budgetary policy reforms. Old-age pensioners are allowed to pursue business activities without restrictions. For active business people, this once more means that the retirement age itself does not represent a

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<sup>7</sup>Although some research suggest that partners tend to time their retirement exit together, data available in the Czech Republic show that almost 70 % of those retired claim they would not change their decision on the basis of the retirement plans or behavior of their partners, and another 17 % say they did take this into account but it did not change their decision either. In other words, only around 15 % did coordinate their retirement timing with their partners, and the same (similar shares) holds for those still working when they talk about their plans. It should also be pointed out that not everybody among this 15 % planned to leave the labor market at the same time as their partners, because there were cases making use of the partner's longer work engagement for own earlier exit, or vice versa (based on the same data as Vidovičová 2014; author's own calculation).

major change. However, many of the self-employed tend to pay only the minimally required sums to pension insurance and to health and social insurance, resulting in minimal pension benefits and an increased risk of social exclusion when it becomes impossible to carry on working due to deteriorating health and disability (Vlach et al. 2013).

Health status is related to both income and education (Petrová Kafková 2015) because these are proxies for health literacy. Deteriorating health is considered to be the key reason for labor market exit after controlling for the institutional (statutory retirement age and unemployment) and organizational components (stereotypes and age discriminatory practices) (Kotíková and Remr 2007). Health issues in this sense are represented by a combination of physical and mental variables such as tiredness and exhaustion from work. However, according to some survey results, health issues motivated only 17 % of early exits (as opposed to the above-mentioned 40 % due to loss of job; Alternativa 50+ 2014).<sup>8</sup>

Women tend to leave the labor market earlier because of the lower statutory retirement age and the traditional female care model obliging them to look after both younger and older generations (Dudová 2013). Currently, the statutory retirement age for women varies according to the number of children they have brought up. More children means a more disrupted working career as well as potentially more grandchildren in the future to care for (and birth of a grandchild prompts people to exit the labor market earlier, Vidovičová 2014). Because of disrupted working careers and the gender gap in wages, Czech women have lower average pensions. This means a higher replacement rate and a somewhat higher probability of early exit. On the other hand, a low pension tends to motivate a search for additional income, which is indeed more typical for older women (Český Statistický Úřad 2011).

As in other EU countries, older people's participation in the labor market decreases with decreasing *educational level* (Šímová 2010). It is mainly

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<sup>8</sup> Kotíková and Remr (2007) employed a different approach, but even in their study, when stating what was “definitely the reason for my early retirement,” 50 % of respondents reported “losing my job,” compared to “only” 38 % who reported being “generally tired, exhausted from working,” and 32 % who reported having “health problems.” However, because this item did permit multiple answers, the primary reasons for early exit may be over- or underestimated (cf. the interpretation by Šímová 2010).

the participation rates of older Czechs with no formal education and low qualifications that are below the EU average. There is also a considerable gender/education gap: If we look at the employment rates of those with secondary education in 2014, only 54 % of women participate compared to 71 % of men (Český Statistický Úřad 2015). If and how this “rule” will change in future generations of, on average, better educated retirees is yet to be seen.

Šlapák et al. (2010) examined the preferred retirement age in people in their last 10 or fewer years before statutory retirement age. When asked “At what age would you prefer to retire if it would depend only on you?” men answered, on average, 59.7 years (median 60) and women 56.1 years (median 55). These numbers are not only way below the statutory retirement age (for these respondents, this would be 63 years for men and childless women), but also below the “reality” expectations of the respondents themselves. When asked “When do you expect to actually retire?” the average answer was 62.8 years (median 63) in men and 60.1 (median 60) in women. In this case, gender was a strong intervening variable that overrode the influence of education, because only people with tertiary education expected to retire one year later than other education groups. These differences may point to the existence of a high level of involuntary or need-driven work in old age.

Alongside the preferred retirement age and preferred retirement lifestyle, other values can intervene in the retirement decision. These can include the value of family, leisure time, or work. When testing Hakim’s (2000) preference theory adapted for later life, Vidovičová (2014) has shown repeatedly that retirement plans, preferences, and work and family values determine both expected and actual retirement timing. This research identified three types of older workers labeled as active/work-oriented (25 %), passive/retirement oriented (35 %), and adaptive (40 %). Work-oriented people more often work—also beyond the statutory retirement age—and to a greater extent view the concept of retirement with more reluctance or even disdain. The key message was that different types of older workers, when faced with the same policy incentive or family and other circumstances, may tend to react differently, namely in line with their orientations or values. Some circumstances and policies such as receiving a retirement incentive of approximately 3,700 EUR,

loss of a job, considerable health deterioration, or need to care for a family member seem to be the strongest incentives to early exit over all preference types. However, it is interesting to note that they do not all contribute to the same extent. For example, whereas the need to provide care would *push* all three types out of the labor market earlier (69 % of work-oriented, 66 % of adaptive, and 67 % of retirement-oriented), in the case of sudden unemployment, 76 % of the retirement-oriented, but only 66 % of the work-oriented respondents would opt for earlier exit (Vidovičová 2014: 67). This research also confirmed the suggestions of Kantarci and van Soest (2013) that individuals who are attached to the labor market for noneconomic reasons are significantly more likely to remain in it, because the intrinsic value of work and activity itself seems to be the “maintaining” key (see also Šimová 2010). However, value of work among Czechs has decreased over the last few decades and also among younger older 60-74 years people (Zachariášová 2009).

## 5 The Working, Physical, and Social Environment as Mesolevel Determinants of Retirement Decisions

When looking at the determinants of retirement decisions, we also need to mention the mesolevel aspect related to employment and work as such. Here again, empirical national sources are limited, but some of these issues can be “read off” from the available general surveys on older workers. As in other countries, both *industry* and *firm size* also play a role in retirement decision making in the Czech Republic (Balcar and Gavenda 2012; De Preter et al. 2012). Vidovičová and Wija (2015) have analyzed the age structure of the employed in selected sectors of economic activity. In manufacturing industry, for example, they found that there is intensive economic activity in the prime years (age 35–39) and a sharp drop in later working life. This contrasts with, for example, agriculture in which age groups are distributed more equally. Industry differences are also described in the Eurofound (2015a, b) research on the gender and age structure in different industries, size of the firm, work environment

risks, stress, workload and autonomy, influence of work on health status, day/night regimes, expectations of workers that they will continue in this particular job when they are 60, and so on. Because industries differ in these characteristics to various extents, there are no true age-friendly sectors by default. However, sectors such as education or social services have an above-average share of workers saying they can imagine doing their work when they are 60 (Eurofound 2015a, b).

Managerial stereotypes and practices are among the most important determinants (Vidovičová and Wija 2015), along with social relationships at the workplace in general. Kotíková and Remr (2007) found that a relatively low but still significant share of respondents stated that their early retirement was due to bad relations with younger coworkers (answers “definitely” and “to some extent”: 31 %), not knowing how to adapt (40 %), or being unable to meet job expectations (58 %)—the latter two indicating the nonexistence of proper age-management systems. In many ways, the mesolevel determinants of retirement decisions could be the most crucial, because they are usually more flexible and open to change than policy and institutional level aspects. Their change and adjustments can make a big difference in providing a favorable environment for those who weigh the pros and cons of (early) retirement face to face with their personal values, opportunities, and obstacles.

## 6 Conclusion

We have shown not only that “it is okay” for Czechs to work at a greater age but also that “it is okay” to make use of the pension system as soon as possible, if not early. This holds true in the context of the high perception of existing age discrimination against older workers and the rising prominence of active aging policies on government agendas and media coverage. These evident paradoxes are easy to solve by (1) engaging with the concept of the heterogeneity of older people and older workers, and (2) varying the contexts that we have covered to some extent in the limited space of this chapter.

In summary, the decisive factors in the Czech Republic operate on all levels, and we should always look at retirement decisions in context and

in terms of the mutual influences that can both support and diminish expected outcomes. These can take three forms: (1) labor market exit at the statutory retirement age, (2) postponed labor market exit, or (3) premature, or early labor market exit. Moreover, we should bear in mind that within Czech legislation, retirement is not synonymous with an absence of labor market activity (although the definition in past laws was built on this notion). When looking at the demographic scenarios for the Czech Republic, prolongation of labor market activities seems to be inevitable in terms of not only the sustainability of pension funds but also the need to secure a sufficient labor force. However, as Mullan (2000) has argued, there is more than demography in the equation. We also have to consider lowering the burden on the youngest generations, the increasing productivity and economic performance driven by the robotization and automatization of industrial production, and so on. But there is also more to work and employment than just paying bills and taxes. The Czech case particularly reveals the importance of social relations at the workplace with, for example, their quality being indicated by an absence of age discrimination. This, together with health status and the (potential or real) risk of unemployment, has been repeatedly quoted as the main reasons for early retirement (Kuchařová 2002; Kotíková and Remr 2007; Šlapák et al. 2010; Vidovićová 2014). These can be clearly labeled as the main factors. With regard to the theoretical framework, they represent push factors that are being reinforced in the context of lower education, low socioeconomic status, lower-income groups, and in women's careers. The state discourages the use of institutional pull features such as early retirement options. However, other actors still perceive these as a right and necessity within a socially responsible welfare state, and they possess and use their negotiating powers to hold on to these unemployment and/or disability pension alternatives (as recently seen in the debates on exceptions for miners' retirement schemes).

As to other possible outcomes, postponing labor market withdrawal still seems to receive little support either from policy making (usually in the form of financial incentives and subsidies, see Münich and Jurajda 2012) or on the mesolevel from employer-related factors. The latter are undermined by (1) a difficult postcrisis recovery; (2) the stereotypes about older workers; and (3) the fact that older workers have fewer years

of formal education, to some extent lower IT and language skills, and low levels of further education (lifelong learning). This applies particularly to the small and medium-sized firms (Balcar and Gavenda 2012) that are the largest group of employers in the Czech Republic (companies with one to nine employees, even though their numbers are declining slightly, still make up more than 95 % of all companies in the Czech Republic and employ more than one-third of all employees).<sup>9</sup> One could cautiously conclude that the individual-level factors that seem to keep people working longer are often financial (financial needs in terms of maintaining one's usual standard of living, lowering the shock from the low replacement rates in the high-income groups, need to support other family members [direct connection to unemployment of younger age cohorts, caring responsibilities], high housing costs especially in bigger cities (Vidovičová et al. 2014), rising costs of health care and drugs, and so on). Regardless of the prominence of financial motives, they are not the only ones. We have shown that at least one-fifth of older workers have a strong will to work for the sake of work as such, and that good relationships at the workplace and higher work autonomy represent strong incentives for prolonging a career, although education does play quite a differentiating role in this field.

The variability of demographic development in Europe is not large, but retirement regimes and policies are. In some aspects, today's Czech retirement system design looks like an old German early retirement scheme (retirement at 63 years after 35 years of contributions; see Chap. 7). Many countries have moved forward from this design and can serve as a source of inspiration for further system adjustments in order to make retirement decisions of Czech workers more effective—both for the state and for the individuals themselves—and last but not least, more satisfactory, because they open the door to what is becoming an increasingly longer phase of life.

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<sup>9</sup> Source: <http://www.amsp.cz/modules/marwel/index.php?rewrite=17-3-2015-hospodarske-noviny-ubylo-5-tisic-podnikatelu-podle&str=2>.

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# 5

## Retirement in a Context of Strong Institutional Uncertainty and Territorial Diversities: The Case of Italy

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### 1 Introduction

Along with other European countries, Italy has a dramatically growing share of people older than 65. However, despite a steady increase in the employment rate for older workers, the actual rate of this increase is slow.

Historically, the employment rate for workers aged 55–64 was characterized by two phases: first by a decline up to 1999 when it fell to

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27.6 %, and second by a growth up to 2012 when it reached 40 %. Nonetheless, this is still lower than the 48.3 % registered across the European Union. A wide and permanent gap between men and women still persists, reflecting the “patriarchal arrangement” of the Italian labor market. Nonetheless, recent decades have seen a slowing down of the traditional drop in female employment rates in the central and later periods of working life, although with big differences between levels of education and with a persistently strong north–south divide.

The first phase in the decline of the older workforce was a consequence of industrial restructuring. This impacted especially on low-skilled workers, who are particularly numerous in the 55–64 age group in Italy. The surplus workforce was managed by significant state intervention in terms of early retirement policies and seniority pension schemes, but also in terms of disability pensions that, over the course of time, became the most widely used mechanism for regulating early labor market exits. In addition, paths of early exit from the labor market were managed with a redundancy fund (Cassa Integrazione Guadagni) and mobility lists<sup>1</sup> that were used as a bridge to retirement, especially for those over 50.

The trend started to reverse in the 1990s when several reforms were launched aimed at raising the retirement age of the labor force. Moreover, the pension system was changed from earnings-related to contribution-based. More recently, in 2009, the minimum retirement age in the public sector was set at 65 years for both men and women, and there has been a transition to a multipillar system with the introduction of a framework for complementary “funded” pensions divided between Pillar II of occupational type and Pillar III of “open” funds managed by financial institutions.

It is not just pension policies, gender differences, and educational levels that play a role in retirement decisions. Health is another important individual characteristic influencing retirement age, because poor health conditions are strongly associated with an early departure from work. However, the coordination of retirement between spouses and the size

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<sup>1</sup> Mobility lists include particular categories of workers laid off by businesses in financial difficulties. Workers are sustained by an income support benefit and by other devices addressing the reintegration into work.

of their family also exert an important influence on retirement timing. In addition, the self-employed retire later than employees. This can be attributed to their higher statutory retirement age and the fact that they have a quite disadvantageous income replacement rate. Finally, retraining programs for older workers are a key element in the management of human resources; but in Italy, these programs are not very widespread in enterprises and there is little research on their effects.

These issues will be discussed in detail in the course of this chapter and three subjects will be examined in particular: first, the development of the employment rate for older workers in Italy; second, the institutional conditions affecting retirement decisions in Italy, focusing on pension policies and singling out push, pull, and need factors; and third, personal characteristics that act as determinants of retirement decisions. These distinct levels of analysis will permit us to emphasize their interactive effect.

## 2 The Development of the Employment Rate for Older Workers in Italy

This section focuses on the situation of older workers (aged 55–64) in the Italian labor market over the last three decades and aims to analyze the most relevant changes that have occurred.

Since the mid-1990s, following an accelerated decline in the employment rate, the issue of older workers has received broad attention in Italian public debate. This discussion has also spread to the more general debate about the extremely significant Italian demographic aging process and the consequent effect on the pension system (Pizzuti 2004).

Over the last three decades, the occupational status of older Italian workers has seen two different phases of roughly the same duration. The first, up to 1999 (the year in which the employment rate for older workers was at its lowest value: 27.6 %), was characterized by a decreasing trend. At the end of the 1990s an evident change occurred, and the previous negative trend was reversed. In the new phase, the employment rate for older workers increased steadily, reaching just over 40 % in 2012. This was the highest level reached in the last three decades, but still much lower than the 48.3 % registered across the European Union.

Interpreting the factors behind these trends is not easy. However, there is broad consensus on the fact that the decrease in the employment rate for older workers during the first phase resulted in large part from industrial restructuring. This involved predominantly large firms active in the manufacturing sector.<sup>2</sup> The consequent decline in employment impacted primarily on older workers, especially those employed in manual and low-skilled jobs. Specially designed early retirement schemes and seniority pension schemes were used to organize a so-called secure transition toward retirement (Capellari 1989). In other words, up to the end of the 1980s, pension and social security schemes were used to avoid any excessive increase in the unemployment rate and potential escalation of social conflict (Sestito 2002).

Starting from the early 1990s, the trend reversal in the employment rate for older workers can be considered, at least in part, to be the outcome of an equivalent reversal in public policies aiming to increase employment and postpone the age of retirement among older workers. An imbalanced pension system confronted with extraordinary growth in social expenditure, an increase in life expectancy, and the gradual aging of the labor force brought into question the institutional answer used throughout the 1980s.

Analysis of the trend in the overall employment rate for older workers provides only a superficial overview of the situation in the Italian labor market, and this actually hides a very different situation. For example, there is still a wide and permanent gap between men and women, reflecting the “patriarchal arrangement” of the Italian labor market (Morlicchio and Pugliese 2005).<sup>3</sup> Nonetheless, trends in employment rates throughout the last three decades have not run in an effectively parallel fashion for the two genders. As far as the first phase is concerned (1983–99), the male employment rate followed a clearly declining trend, whereas the female rate was more stable with moderate fluctuations up to 1995—the year in which the female employment rate started to grow. In the second phase (2000–12), although both male and female employment rates

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<sup>2</sup> Between 1982 and 1984, Italy experienced a very sizeable employment fall in the manufacturing sector and in 1984 a boom in early retirements occurred.

<sup>3</sup> The gender gap between the employment rates for older workers in Italy in the last three decades has been roughly the same as for the total working-age population.

show an increasing trend, the growth for females has been higher than that for males (15.6 percentage points against 9.5).

Therefore, women have played a significant part in the growth of the employment rate for older Italian workers, although they continue to register a considerably lower rate compared to males. Thanks to socio-economic and cultural changes, women in Italy have become more active in recent decades, increasing their propensity to search for a job and remain in the labor market (Scherer and Reyneri 2008).

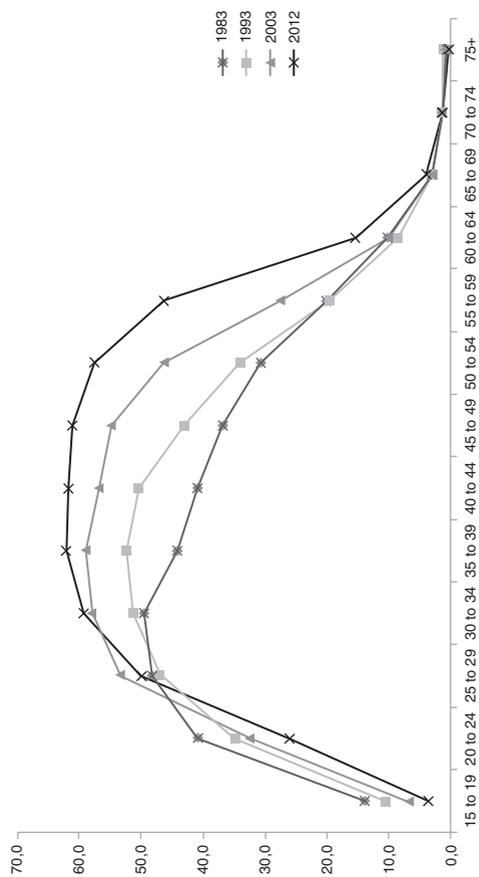
Figure 5.1 shows how far the female labor market participation pattern has changed over the last three decades, and how important the contribution of older workers has been to growing female participation in the Italian labor market.

As shown by the curve in the employment rate plotted by age groups, female participation in the Italian labor market in the early 1980s was of short duration. The group of women aged 30–34 experienced the peak employment rate of just under 50 %, closely followed by the 25–29 age group. Then employment rates declined as age increased. The trend in the other curves, referring to the next period, shows a relevant change in the pattern of female participation in employment. The structure becomes more similar to the male pattern (although based on lower percentages), characterized by high employment rates in the central age groups and a declining process only in the last part of the work career. In other words, one of the most important changes in the Italian employment pattern has been a slowing down of the traditional fall of employment rates in the central and later periods of working life.<sup>4</sup>

However, it is also useful to consider how the employment rates for older workers differ in relation to regional area and education level. Regarding regional area, despite the deep-rooted differences in overall employment rates between the center and north of Italy versus the south, southern older workers showed higher employment rates than northern ones up to the onset of the economic crisis in 2008. Over the last few

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<sup>4</sup>In the last decade, the most relevant employment rate increase occurred in women aged 55–59. Indeed, in this age group, the employment rate has moved from 27.5 % in 2003 to 46.3 % in 2012, coming ever closer to younger age groups.



**Fig. 5.1** Female employment rates by age groups in Italy: 1983, 1993, 2003, and 2012  
 Source: OECD, downloaded on December 7, 2013 from [http://stats.oecd.org/BrandedView.aspx?oeid\\_by\\_id=ifs-data-en&doi=data-00310-en#](http://stats.oecd.org/BrandedView.aspx?oeid_by_id=ifs-data-en&doi=data-00310-en#)

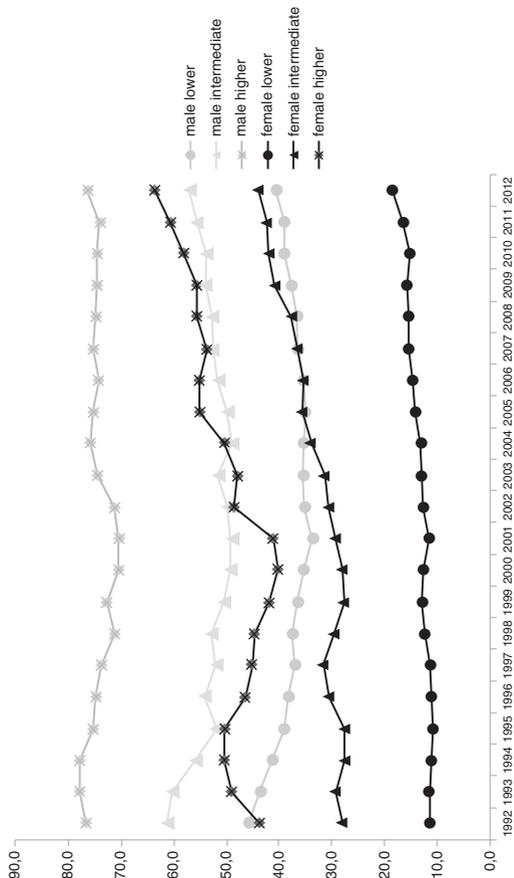
years, the employment rate of northern older workers has increased faster, exceeding the southern rate by almost six percentage points in 2012.

In the same time frame, the rise in the employment rate of older workers has affected both males and females all over Italy with different intensities. In particular, older female workers in the north and center of the country reveal the highest percentage increase, widening the gap compared to those living in the south.

As Fig. 5.2 shows, employment rates are linked strictly to educational levels across the whole observation period: the higher the educational level attained, the higher the employment rates for older workers. Some simple factors explain this relationship: First of all, higher-educated workers usually join the labor market later than intermediate or poorly educated workers; hence their retirement also occurs later (Zenezini 2009). Furthermore, they are less likely than lower-educated workers to take early or forced retirement, because it is reasonable to expect that they possess the necessary skills to adapt to rapidly changing labor markets. Finally, higher-educated workers also have a higher social status and higher wages—two elements that can reduce the likelihood of early withdrawal from employment.

Figure 5.2 also shows that even if employment rates correlate with educational levels, higher- or intermediate-educated women are more vulnerable to inactivity than men with the same educational level. For example, older higher-educated females were less likely to work than men with an intermediate level of education. It is only from 2004 onward that female employment rates begin to slowly exceed those for men with a lower educational level.

In summary, whereas educational level is a key factor in fostering employment rates in general, it seems to be particularly relevant for women.



**Fig. 5.2** Employment rates for older workers (55–64) by gender and educational attainment in Italy  
 Source: OECD, downloaded on 7 December 2013 from [http://stats.oecd.org/BrandedView.aspx?oecd\\_by\\_id=ifs-data-en&doi=data-00310-en#](http://stats.oecd.org/BrandedView.aspx?oecd_by_id=ifs-data-en&doi=data-00310-en#)

### 3 Institutional Conditions Affecting Retirement Decisions in Italy

From a policy perspective, Italian pensions belong to a social insurance model in which the state provides the greater part of benefits through public earnings-related schemes run on a pay-as-you-go basis. The development of the Italian pension system, notwithstanding that it still absorbs above 14 % of GDP (one of the highest percentages for any European country), has generated strong distortions of a distributive nature between diverse occupational categories. The very generous benefit formulas provided during the first phase of development (from World War II to around the 1980s) favored the main labor market categories (especially public employees and employees of large enterprises), whereas safeguards for the most peripheral categories (temporary and seasonal workers, the self-employed, and employees of small businesses) were much more modest.

From the mid-1970s onward, an important process of change in the pension system can be seen in conjunction with other transformations that affected the economic-productive system, the labor market, and the demographic structure (Jessoula 2009).

In this perspective, we describe the various phases of the pension policy in Italy by distinguishing trends in the different institutional factors that have influenced the retirement choices of diverse social actors.

Particular focus is placed on the factors responsible for the creation of rules for making older workers redundant and pushing them out of the labor market. These push factors are generally related to personal characteristics (age, gender, state of health) and the social organization of work, and they interact and combine with different types of conditions—such as economic shocks—to give rise to discriminatory employment phenomena related to age. Then there are the so-called pull factors that represent the set of exit opportunities available via alternative routes through the application of measures and devices providing incentives for older workers to retire early from the labor market. Finally, there are the so-called need factors that correspond to the most recent policies introduced as a result of the reforms of the pension system in a period of

imbalance in public finances. These aim to tighten eligibility criteria for pensions and close special early retirement schemes. The criteria introduced are extremely rigid and do not leave much room for free individual choices. The only possibility of voluntary/involuntary retirement decisions refers to a specific device in the so-called “Fornero reform” which will be described briefly at the end of Sect. 3.3.

### 3.1 Push Factors

In general, as in most European countries, age represents an important discriminatory factor in relation to participation in the labor market. From the mid-1970s and through the 1980s, Italy suffered greatly from the effects of the economic crisis following the oil shocks. These caused long-term stagflation, an increase in public debt, and growing levels of unemployment arising from layoffs in large enterprises.

The combination of these transformations had multiple effects on occupational structure. Industrial labor is indeed physically exhausting, and innovations in terms of the organization of work and the rhythms imposed by an increasingly demanding market competition worked against the retention of older, less productive workers (Mingione and Pugliese 2004).

Since the 1980s, therefore, intervention measures were adopted in the form of early retirement that constituted part of a broader strategy to reduce the labor supply (*labor reduction route*), particularly of workers over the age of 50, according to policies based on the principle of *young in–old out* (Contini and Rapiti 1999). This is a phenomenon that has, among other things, contributed to hindering the retraining and relocation of older workers, slowed the introduction of age management instruments, and more generally inhibited the implementation of active aging policies.

In an attempt to ease the pressure on a critical labor market, not least because of an inability to provide jobs for cohorts of younger workers, the state resorted to alternative routes for exiting the labor market (pull factors) (Zaccaria 2009).

## 3.2 Pull Factors

The so-called golden age—the 30 years from the postwar period to around the end of the 1970s—saw a robust growth of the Italian pension system in which:

- Pension coverage through compulsory insurance was extended, leading to the creation of new schemes for self-employed workers who have always been a large part of the working population (around 25 %) in Italy.
- A safety net for the elderly who could not meet contribution requirements was put in place. A first phase introduced the integration of minimum pension benefits for amounts less than a predetermined threshold (1952). This was followed by the introduction of a social pension (1969) aimed at preventing poverty and delivered on the basis of means testing for all citizens over 65 who were in need.
- The calculation of benefits was changed from a contributory to an earnings basis, thus raising the amounts paid out and making them commensurate with the salary at the end of a career rather than being calculated on the basis of contributions paid throughout working life.
- The mechanism for managing contributions was changed from funded to distributive.

Along with an increase in the generosity of the system with regard to the benefits paid out, less stringent accessibility criteria were introduced.

The first thing to emphasize here is that whereas eligibility criteria for old age pensions remained unchanged, those relating to seniority pensions were changed. In 1956, the possibility for public employees to retire before reaching retirement age was introduced on the basis of the satisfaction of an extremely favorable contributory requirement. Seniority pension for this category of workers could in fact be claimed after only 20 years of contributions: These are the so-called “baby pensions.” This 20-year requirement was also reduced to 15 for married women with a child. Seniority pensions were subsequently extended (1965) to private sector employees and the self-employed, giving these groups access to

retirement benefits after 35 years of work regardless of age. The introduction of seniority pensions had long-term consequences for the Italian pension system: First, because the reduced contribution requirements would result in a deepening gap between contributions paid in and benefits paid out in the following years (which struck a not inconsiderable blow to the financial equilibrium of the system); and second, because the different rules introduced amongst the various categories of workers increased fragmentation of the system, with obvious consequences in terms of equity between the generations.

The second thing to note regarding the conditions of access to retirement concerns the introduction of disability pensions. Over the course of time, these became the most widely used mechanism for regulating early exits from the labor market. This tendency has assumed a radical character in a country such as Italy in which criteria relating to the employability of older workers were included along with medical eligibility criteria. Disability has traditionally been an early retirement eligibility parameter provided in welfare regimes, but what was new here was the fact that the transition into inactivity was redefined beyond conditions relating to physical limitations to include criteria relating to age and the obsolescence of skills, thereby introducing criteria of inability to work that were determined by low employability and by particular negative conditions in the local labor market.

The third element to be stressed regarding the paths of early exit from the labor market relates to the Cassa Integrazione Guadagni (CIG redundancy fund) and the mobility lists. These are instruments for income support with replacement rates of up to 80 % of salary for workers made redundant in certain productive sectors (industry) and employees within certain companies (large enterprises). Mobility comes in at the end of the CIG and affects workers involved in collective redundancies. It can serve as a bridge to retirement, especially for those over 50. In this case one is dealing with a “long mobility allowance,” which extends the term of “ordinary”<sup>5</sup> mobility in order to permit an employee to acquire the right

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<sup>5</sup> Ordinary mobility has a duration of 12 months for employees under 40 years of age, or 24 months for employees in firms in the south; 24 months for employees between 40 and 50 years of age, or 36 months for employees in companies in the south; 36 months for employees over 50 years of age, or 48 months for employees in companies in the south.

to a pension. This long-term mobility was made available to workers made redundant by: (1) companies in the south; (2) companies located in areas with unemployment rates above the national average; and (3) companies in the chemical, textile, clothing, and footwear industries. The extension lasts until the day before the effective date of retirement.

### 3.3 Need Factors

From the beginning of the 1990s, in the face of unsustainable financial pressure and the evident iniquity of the distributive mechanism, pension policies introduced interventions designed to start the transition to a multipillar system. These interventions began to impact progressively on the level of permanence of older workers in the labor market while adding to the services supplied.

In a schematic way, in a period of 20 years (1992–2011), there were three alternating phases in the process of reform of the Italian pension system: (1) an emergency phase between 1992 and 1997 in which the “Amato reform” and the “Dini reform” redesigned the system to protect old age pensions; (2) welfare reform of a parametric type from the end of the 1990s until 2007; and (3) new emergency measures between 2008 and 2011 culminating in the Fornero reform that is currently in force.

During the course of the first phase, the aforementioned reforms introduced important measures to improve the financial sustainability of the welfare system and to initiate harmonization of legislation dealing with the various professional categories.

In this context, the most important need factors were raising the retirement age for private sector employees by 5 years (from 60 to 65 for men and from 55 to 60 for women); eliminating the so-called “baby pensions” for public employees along with their short contribution periods; and extending the minimum contribution period for access to old age pensions from 15 to 20 years. In addition, measures were approved that aimed to change benefits amounts, eliminate index-linked payments, and extend the reference period for calculating pensionable earnings. Finally, a transition to a multipillar system was initiated with the introduction of the first regulatory framework for complementary “funded” pensions,

itself divided between Pillar II of occupational type (“closed” funds created through collective bargaining at a sector level) and Pillar III of “open” funds managed by financial institutions such as banks, insurance companies, and financial advisors.

With the Dini reform in 1995, the first phase of the review of the system of public protection for old age pensions was completed with measures designed to reform both access conditions and benefit amounts. Regarding the former, measures were introduced to prolong working life by means of incentives designed to postpone retirement. Regarding the latter, the logic of the function of the public pillar changed radically for the categories of public and private employees and the three categories of self-employed with the transition from an earnings-related to a contribution-based system. The public pillar remained pay-as-you-go, but the value of pension benefits reflected not only the duration of contributions but also the actual amount paid in through coefficients of variation calculated on the basis of demographic and economic trends. Also, the contribution requirement for access to retirement pensions was raised gradually from 35 to 40 years.

Furthermore, the reform provided for the replacement of the social pension with a new means-tested benefit for all citizens over 65 years of age and below a certain income threshold.

Despite these measures aimed, in the medium to long term, at harmonizing pensions for the main categories of employees and self-employed, when the law was implemented it actually created a rift between the various groups of workers, because older workers were exempted from the transition from a earnings-related to a contribution-based system.

Regarding supplementary welfare, in the early 2000s, tax breaks were extended to supplementary pension schemes, and the range of the so-called third pillar was also expanded through individual pension schemes taken out through insurance policies.

In subsequent years, the elements introduced in the first decade of reforms were gradually strengthened through parametric adjustments designed to prolong the time spent by older workers in the labor market through not only an articulated series of measures that acted both on the minimum age of retirement and on benefit amounts but also a steady expansion of supplementary pensions. With reference to the latter, the

enactment of the Consolidation Act of 2005 should be noted; this regulates the sector and provides for the transfer of TFR (severance indemnities) to a pension fund in a nonmandatory way, but which established a mechanism of “tacit approval.”

In more recent years, following the most recent economic and financial crisis and as a result of international pressure on national policymaking processes, major new emergency measures were enacted in the field of social security policies. These followed the direction of increasingly more cuts aimed at making cost reductions not only in the medium to long term but also in the short term.

Starting in 2009, the minimum retirement age for both men and women in the public sector was set at 65 years. In addition, measures aimed at strengthening the mechanisms for the containment of social security spending were enacted and adopted the following year.

Then, the Fornero reform further tightened the conditions for retirement in the short term through a number of criteria: gradual harmonization of the retirement age of workers employed in the private sector; introduction of a mechanism for the automatic adjustment of the retirement age to life expectancy; raising of the minimum retirement age to 67 (in 2021); elimination of the waiting period for retirement benefits after reaching the requirements previously introduced; and extension of the minimum contribution period from 5 to 20 years.

In summary, this latest phase of reform has established new eligibility conditions for old age pensions (and social allowances or welfare benefits) and has eliminated the seniority pension, thus showing a strong trend toward need factors that do not provide any room for individual choice. The only exception is a new form of early retirement that leaves room for choice between retirement and the continuation of employment careers. Indeed in the so-called Fornero reform, retirement before 66 years of age is allowed if the amount of the monthly benefit that would be received is equal to at least 1.5 times the value of welfare benefits. Early retirement at 63 years is now possible for those workers who belong entirely to the contribution system and on condition that the monthly pension benefit is equal to at least 2.8 times welfare benefits (Jessoula 2012).

As regards maintain factors, the available data show that the average number of firms in Europe that have provided retraining programs for

older workers is higher than that in Italy. It should be noted, however, that there are big differences between Italian regions and particularly between the north and the south of the country. Moreover there is a strong correlation between firm size and the propensity to retraining activities and continuing education: the larger the company, the stronger the orientation toward retraining programs for older workers. This trend may in part explain the Italian delay, because the country's productive system is marked by a strong presence of microenterprises (around 94.9 % of all Italian enterprises).

## 4 Individual Characteristics as Determinants of Retirement Decisions

Besides institutional factors, retirement decisions may also be influenced by individual characteristics such as education, health, and personal relationships.

*Education* is an important individual characteristic related to retirement age. As already mentioned in Sect. 2, level of education is one of the main factors influencing a worker's decision whether to remain in the labor market or to withdraw. In fact, workers with higher levels of education continue to work much longer than those with lower levels of education (Malpede and Villosio 2009). This is explained by the fact that the less educated workforce has little chance of requalifying and the fact that workers with higher qualifications come into the labor market later and have an income growth path associated with age, higher than for other categories (Miniaci 1998).

However, there are significant regional differences in this context in Italy. In the center and north, the increase in the level of education decreases the tendency to retire when educational levels are higher, revealing a greater attachment to work with increasing specialization. In the south, this positive relationship between educational level and work permanency emerges only for those who are in possession of a university degree but not for those with other qualifications (Squarcio and Tuzi 2002).

*Health* is also an important individual characteristic that influences retirement age. Several studies show that poor health conditions (although all studies are based on self-reported information) are associated strongly with an early departure from work. The study by Alavinia and Burdorf (2008) considers the association between self-perceived poor health and early retirement in 10 European countries. For 7 out of the 10 countries, the association is positive and significant. This includes Italy where poor health conditions are associated with a 45 % excess risk of retirement and where, in addition, self-reported poor health is also strongly associated with unemployment. However, results for Italy seem to be unclear and not unequivocal: Schuring et al. (2007) found a small but nonsignificantly reduced risk of retirement associated with both perceived poor health and the presence of a chronic disorder.

Following these contrasting results, Li Ranzi et al. (2013) carried out a similar study just for Italy using data from the Italian Health Interview Survey (provided by Istat). Building on figures that show a much younger age of actual retirement compared to the legal pension age,<sup>6</sup> the authors wondered whether the phenomenon might be attributable to a poorer health status or rather to country-specific socioeconomic factors: for example, the particular generosity of the Italian public pension scheme.

This study highlights that early retirement has a significant positive association with chronic disease,<sup>7</sup> gender (a significantly higher risk for men), low levels of education, and social class (belonging to the middle and working classes increases the risk). In contrast, characteristics associated negatively with early retirement are area of residence and work sector: Workers residing in central or southern regions of Italy experience a lower risk of early retirement due to poor health conditions compared to those residing in the northern regions. However, the most interesting finding arising from the interaction between health and social class is that the association between health and retirement is not the same across all social classes. The probability of early retirement is lower among people

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<sup>6</sup>In 2006, the average age of people starting to receive retirement benefit in Italy was 58.1 years for men and 58.4 for women, against an average of 60.0 and 60.5 in the EU (Li Ranzi et al. 2013). Up to 2009, the legal pension age was fixed at 65 for men and 60 for women.

<sup>7</sup>The strongest associations are with diseases of the nervous system, malignant tumors, arthrosis/arthritis, and myocardial infarctions.

of lower socioeconomic status, possibly because of insufficient financial resources to face the reduction in earnings following retirement. In contrast, the association between chronic health and retirement is stronger in the highest social classes: When poor health affects an individual belonging to a high occupational social class, it has a strong positive effect on her or his retirement from the labor market. Furthermore, the study highlights that socioeconomic indicators such as educational level and occupational social class are associated much more strongly with early retirement than indicators of poor health. This relationship holds true even after adjusting for chronic disease so as to ensure that social differences in early retirement are not attributable to differences in health status among social classes (Li Ranzi et al. 2013: 301).

The coordination of retirement between *spouses* also has an important influence on the timing of retirement. A study on data from the Bank of Italy (Miniaci 1998) evaluates two different models for the retirement paths of men and women. One of the microfactors that influences men in their retirement path is the employment status of their partner: If the partner is working at the time of the man's retirement, this has a positive effect on the propensity of the man to retire; whereas if the partner is not working, this has a negative effect on the probability of retiring, probably due to reasons related to income.

Family size is also a key factor: the larger the family, the more the propensity for men to retire decreases. These trends are confirmed by a study involving men and women carried out by Squarcio and Tuzi (2002) showing that being part of a family with more than two members tends to delay one's exit from the workforce, thereby reducing the likelihood of making an early transition to retirement.

Further, retirement decisions may differ significantly by *gender*. Women tend to show a common trend toward postponing retirement: Italian female employees, resident either in the center and the north or in the south, tend to stay in the labor market longer than men (Miniaci 1998; Squarcio and Tuzi 2002).

This phenomenon can be explained by both income reasons and personal motivation. Women tend to have more fragmented careers compared to male employees; that is, longer periods of temporary, low-paid jobs before reaching stable jobs. Some of them also have had to exit the

labor market for maternity reasons and face difficulties in returning after childbirth. All these elements force them to stay longer in the labor market in order to reach the required age limit or accumulate sufficient contributions in order to benefit from the pension system.

In terms of personal motivation, women show a higher degree of interest in their jobs, particularly when they are highly educated and in managerial positions. A survey by Abburrá and Donati (2008) on both employed and retired people aged 50–60 years residing in the Piedmont region (northwest Italy) shows that most of the women interviewed love their job, even when not associated with high levels of income. In fact, after the two most common reasons of needing to reach the minimum criteria for a pension and increasing income, the third reason for continuing in work was love of one's job, on which women register seven percentage points higher than men. This trend is characteristic for all levels of education and occupational roles. In contrast, attachment to the job among men is typical only for high occupational roles such as managers and those in executive positions. Further, the survey highlights that most of the women aged 50–60 who are employed would postpone their exit from the labor market (even among blue-collar workers) if only a more flexible and better designed arrangement of working hours was made possible for them along with care services that could help them balance family and work duties. However, unlike most European countries, part-time rates in Italy for older women are very low and even lower than those for younger women. This is particularly relevant, because most caregiving in Italy still relies on women, and older workers in particular have to deal with the double commitment of being at one and the same time mothers of daughters/sons who may have children of their own as well as daughters of aged parents in need of care. This causes a lot of tension for older female workers who see the transition to retirement as a strategy to cope with the burden of care they have to provide to relatives—to the detriment of their desires for self-determination and self-fulfillment (Abburrá and Donati 2008).

A study on a sample of over-50-year-old employees working in a public organization in Italy examined types of intentions of retirement (Zaniboni et al. 2010) in relation to several psychosocial factors. They found that having learning difficulties and difficulties in adapting to

change are associated positively with the choice of full retirement and negatively with job mobility (intention to continue working in another place). In contrast, having the feeling that working skills are still adequate induces older workers to continue to invest in their career development. Similarly, having job opportunities for growth and development relates negatively to full retirement intentions. Also the fear of losing relationships with people at work and a loss of social integration as a consequence of leaving work increases the desire to remain in the labor market or choose part-time work.

In terms of their *employment position*, the self-employed retire later than employees. This can be attributed to the fact that they have a higher statutory retirement age and a quite disadvantageous rate of income replacement (the ratio between their final salary and pension) (Miniaci 1998).

In determining the choice of retirement, there is a clear distinction between physically demanding work and white-collar professions (Malpede and Villosio 2009). A study on older workers in Piedmont (Abburá and Donati 2008) shows that for blue-collar workers, the main reason for exiting the labor market as soon as they have achieved the required contributions is a feeling of being exhausted, of being tired by everyday commuting and working hours (for women in particular), and of having outdated skills compared to the younger generation (for men in particular). In contrast, among retired people with middle to high occupational roles, curiosity about “changing one’s life” and a desire for more time for their personal interests and hobbies are more common.

## 5 Workplace Characteristics as Determinants of Retirement Decisions

Besides institutional and individual-level characteristics, firm- or industry-level measures might also have a relevant impact on the transition out of the labor market among older workers.

In the last two decades, European policies have emphasized the importance of active aging. But for Italy, it emerges that employers

have an ambivalent attitude toward older workers: On the one hand, they would like to exploit them for the skills they possess; but, on the other hand, they would like to get rid of them. Businesses recognize that older workers possess specific commercially relevant expertise, and that they are custodians of a potentially valuable wealth of skills. In addition, older workers are more trustworthy (Isfol 2006) and loyal and have less fear of the future than youngsters with precarious jobs. Nonetheless, because the attitude of Italian employers is predominantly to look to the short term and reduce costs, they tend not to invest in older people (Malpede and Villosio 2009). In fact, interventions are of an economic nature and the business view is often very short-term. Because the motivation for Italian companies in recent years has been to cut costs and because older workers increase the average cost of labor, they are often the first to be laid off. Then it is often too late when companies realize that they have lost valuable skills through laying off their older employees.

There is full awareness of the fact that retraining programs for older workers are destined to become a key element in the management of human resources, but there is little research on this in Italy (Malpede and Villosio 2009). Human resource managers stress that both younger and older employees experience disorientation when it comes to comprehending new ways of working. Moreover, they admit that in the absence of continuing education, as is often the case in Italy, prolonging an individual's working life can be problematic.

However, employer attitudes toward older workers seem to be positive: A survey of employed and retired people aged 50–60 years living in Piedmont (Abburá and Donati 2008) shows that more than 70 % of respondents agree on the idea that companies consider employees over 50 as reliable and experienced, and that they often rely on them for training newcomers. However, they also recognize that this is not the result of specifically oriented policies—which are lacking. What matters most in the workplace are the specific company culture and the individual working environment.

Differences in local production systems are also an important element in shaping retirement decisions. Some studies highlight signifi-

cant regional differences in the transitions to retirement: Squarcio and Tuzi (2002) showed that in northern and central regions, people enter retirement at an earlier age than in the south, and that this is linked more often with seniority than old age.

In addition, the uncertainty generated by successive measures to reform the pension system since the mid-1990s has instilled a feeling of fear and uncertainty over the introduction of possibly unfavorable regulatory actions. This increases the propensity for people to retire as soon as possible (as soon as the minimum requirements are met).

The highly differentiated structure of the labor market in the center and north versus the south is a major element that impacts on the retirement choices of workers: The north (and to a lesser extent also central Italy), where the major industrial enterprises are located, was affected by the restructuring processes typical of the 1980s and 1990s that encouraged the early exit from the employment market of many workers. In addition, the presence here of big corporations, lower levels of unemployment, and a greater chance of getting regular employment enable employees to begin accruing pension contribution requirements from their earliest years of work and to continue doing so on a regular basis throughout their working career. This allows them to qualify for seniority pensions even before they reach the old age limits.

However, in the south, where the labor market is characterized by less regularity due to the strong presence of irregular work and high unemployment rates, it is probable that the accumulation of the necessary requirements for retirement commences later than the actual start of work, or that during the course of their career, workers have had episodes of unemployment with a negative impact on pension contributions. This forces them to wait until they meet the age limits to qualify for retirement. Therefore, they take advantage of old age pensions (or invalidity pensions), whereas workers in the central and northern regions more often take advantage of seniority pensions.

Finally, at the company level, there may be special human resources measures at work that focus specifically on the needs of older workers. Because policies supporting the technological retraining of older workers might be helpful in countering trends toward early retirement, Biagi et al.

(2013) investigated the impact of ICT knowledge and use on retirement choices in Italy. They found that the combined effect of being computer literate and using a PC at work increases the probability of remaining employed. When taken separately, PC literacy and use do not possess any significant effect, but when combined, these variables have an economically and statistically significant effect on reducing the likelihood of retirement (Biagi et al. 2011: 694). Even after controlling for possible endogeneity, the relationship remains consistent and significant and predicts that the retirement probability for male workers using a computer at work is reduced by about 12 percentage points.

## 6 Conclusions

Italy's demographic structure has changed greatly over the last 50 years. A diminishing number of workers have to support the pensions of a growing number of retirees. One effect of this trend has been the reorganization of the pension system from an earnings-related to a contribution-based system and the raising of the retirement age by linking it to increasing life expectancy.

This has had consequences for individual retirement decisions and led to a continuing increase in the employment rate for people aged between 55 and 64 years—though it is still far short of the European average. In addition, increasing levels of education amongst older workers and increasing female employment, even in mature age, have had a significant impact on diminishing the numbers of workers opting to go into early retirement.

In addition to improved levels of education and the growth of women's employment, other factors have also affected individual retirement decisions: the individual state of health that also depends on the type of employment sector the individual is working in and the type of work she or he is doing; household finances and the gender division of labor; and the active aging strategies of companies. These other factors have not been studied greatly in Italy, and the country is lagging well behind its European partners in its policies regarding lifelong learning.

It is also necessary to understand that retirement decisions in Italy show a strong regional differentiation due to major differences between the center and north compared to the south in labor market structure and the abilities to absorb the supply of labor.

Finally, it remains to be fully understood what influence the Fornero reform (which will be fully implemented in 2021) will have on retirement decisions as well as how the current trend toward the creation of a multipillar system will evolve.

In conclusion, we believe that the current changes in the structure of the labor market and pension policies will have important effects on social inequalities. The transition from an earnings-related to a contribution-based pension system results in lower pensions for younger cohorts in light of the increase in precarious working careers that are not limited to the very early stages but are prolonged until 45 years of age. This means that the current protection that male breadwinners offer their children will no longer be continued by future pensioners, and the prolonging of working careers will be determined by financial problems and insufficient pension amounts. Women will also continue to prolong their careers, especially because of the risks of having low pensions due to their fragmented careers, but also because the male breadwinner will no longer be able to provide the protective role experienced in the past by their mothers. Finally, the general extension of working careers generated by pension policies that imply a need to postpone retirement will impact on older workers in low-skilled jobs who are obliged to remain at work despite physically arduous conditions and poor health. In this regard, active aging policies carried out by businesses are only just beginning in Italy.

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# 6

## Ebb and Flow of Early Retirement: Pension Reform and Labor Market Participation of Older Workers in Spain

Elisa Chuliá, Luis Garrido, and Jonas Radl

### 1 Introduction

In Spain, the discussion over early exit from work has traditionally been formulated against the background of structurally high unemployment. During periods of recession, this has frequently soared to 25 % of the economically active population while rarely falling below 10 % during periods of expansion. Throughout the first decades after the transition to democracy in the mid-1970s, early exit was generally regarded positively

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because, according to a widely held (though flawed) assumption, it facilitated the incorporation of younger workers into the labor market. Thus, trade unions concentrated on improving conditions for early exit from work either through preretirement plans agreed with employers or through early retirement schemes within the public social security. Employers, by contrast, often used these arrangements as a device to get rid of costly workers with high wages and strong employment protection and replace them with younger and increasingly better educated workers under fixed-term contracts. For their part, governments tacitly backed these strategies in the hope of reducing unemployment rates. Finally, the bulk of older workers also developed favorable attitudes toward early exit from work, perceiving it as a sort of reward after long working careers that they had often begun as children. Given this effective “early exit consensus” between trade unions, employers, governments, and workers, it is hardly surprising that the average effective age of retirement for male workers sank abruptly during the last third of the twentieth century from 69.4 years in 1970 to 61.7 in 2000 (OECD 2015).

However, since the mid-1990s, and more intensively since the start of the great recession in 2008, the background to this discussion has shifted toward the financial sustainability of the public pension system and the need to promote active aging and longer working lives. Sustainability worries have been associated primarily with population trends, but also with the steady improvement of pension coverage and benefits. First, as regards demographics, Spain is among the European countries that have been affected most intensely by population aging as a result of the sharp decline in fertility since the mid-1970s and the persistent rise in longevity (Abellán and Ayala 2012). Forecasts show that increasing numbers of older people will become economically dependent on a decreasing working-age population, thus prompting a significant deterioration of the ratio between pensioners and workers. Second, as regards the pension system’s maturation, average pension benefits have been growing consistently in real terms and currently stand out through their considerable generosity in terms of replacement rates.

In view of these challenges, early retirement has been presented more and more as a problematic phenomenon in need of reversal. Even with unemployment rates above 20 %, governments led by both the Socialists

(center-left) and the People's Party (center-right) have tried to curb early retirement during the last decade. It seems that their efforts have been at least a partial success because the average effective pension age has been increasing since 2005 (62.2 for male and 63.1 for female workers in 2014). As we shall show in this chapter, however, this evidence requires at least three important qualifications: First, the increase in the effective pension age may be due not only to new legislation but also to the change in the composition of older-worker cohorts. Second, the importance of permanent disability as a pathway to exit from work has grown notably during the crisis years. Third, under the surface of comparatively restrictive conditions for early retirement as established by national labor market and pension legislation, a much larger variety of exit pathways can be found with so-called special agreements forming a recurrent feature.

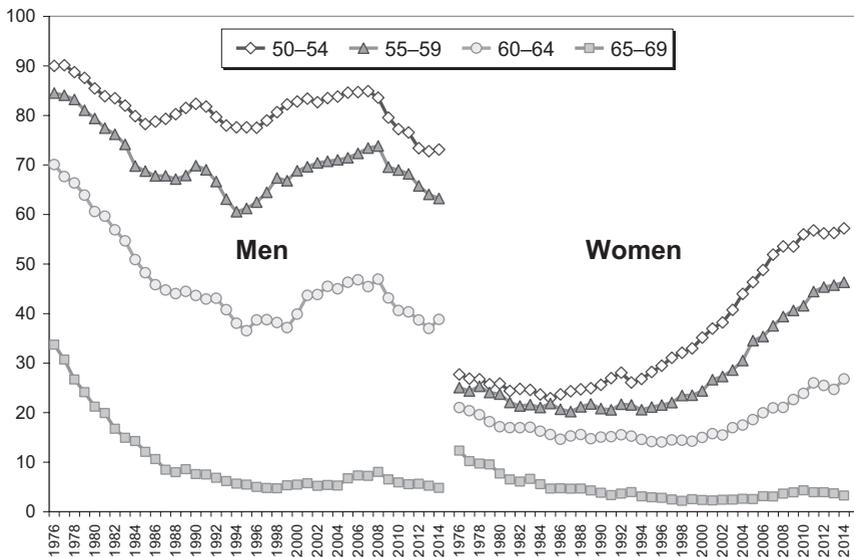
In the next section, we shall present time-series data on the employment situation of older workers in Spain. Next, we give an overview of the institutional context of retirement and explain how the original weakness of early exit incentives (pull factors) was actually overturned under circumstances of economic and labor market restructuring (push factors). In Sect. 3, we outline how restrictions to early retirement and incentives to keep older workers in the labor market have been introduced more recently (maintain factors). We then look at individual determinants of early retirement, including need factors, and pay attention to the role of workplace conditions (Sects. 4 and 5). Finally, we sum up the main arguments and reflect on plausible future trends in Spanish retirement behavior.

## 2 Overview of Employment in the Older Population

A look at the employment-to-population ratios (EPRs)<sup>1</sup> of Spanish men and women between 1976 (immediately after the end of the Francoist dictatorship) and 2014 allows us to make some comments on labor market

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<sup>1</sup>Employment-to-population ratios are attained by dividing all type of workers (employees, self-employed, and employers) within a group by the whole population of the same group.



**Fig. 6.1** Employment rate of Spanish people born in Spain by age groups and sex

Source: INE, LFS 1976–2014

evolution during the whole democratic period (Fig. 6.1).<sup>2</sup> This extends previous research that had not yet included the recent economic crisis (Radl and Bernardi 2011). In sum, the EPR of older workers dropped quickly in the first decade of democracy and then more slowly until the millennium. Until 2008, there was a general recovery in employment. With the onset of the crisis, EPRs unsurprisingly decreased again, although older workers can be considered one of the groups that have been least affected by the Spanish double-dip recession. A closer look at the quinquennial groups between 50 and 69 years of age shows that the

EPR of the oldest male workers (65 and 69 years) declined significantly in line with consolidation of the pension system. In 1976, nearly 35 % of men aged 65–69 were employed, whereas in 1995, the percentage

<sup>2</sup>When we refer to “Spanish people” or “Spaniards,” we mean only Spanish citizens born in Spain. This excludes all immigrants (included the high number of those who have obtained Spanish citizenship) in order to control for immigration. It is well known that Spain is the European country that has received the highest number of immigrants during the last two decades, particularly between 2000 and 2007.

amounted to only 5 %. The 60–64 age group, whose EPR in the mid-1970s amounted to 70 %, also displays a sharp decrease until 1995, with a slow but slight recovery in the initial years of this century until the onset of the crisis. Concerning the younger groups (50–54 and 55–59 years), the fall since 1976 has been less strong in relative terms, but the devastating effects of the crisis can still be seen.

The trends for older women are even more different because their level of participation in the labor market was very weak in the 1970s and 1980s. However, it began to increase in the mid-1990s; and since then, it has maintained an upward tendency showing much less sensitivity to the economic cycle. The 50–54 and 54–59 age groups exhibit the greatest change. At the beginning of the 1980s, their EPRs were about 28 and 21 %, but by 2013 they had risen to around 56 and 46 % respectively.

The data show conclusively that the crisis has been more detrimental for male than for female older workers in terms of late-career employment exit. The majority of older workers who leave employment become unemployed; for the less qualified workers among them, the probability of getting a job in the following years is very low, and it is lower the older they are.

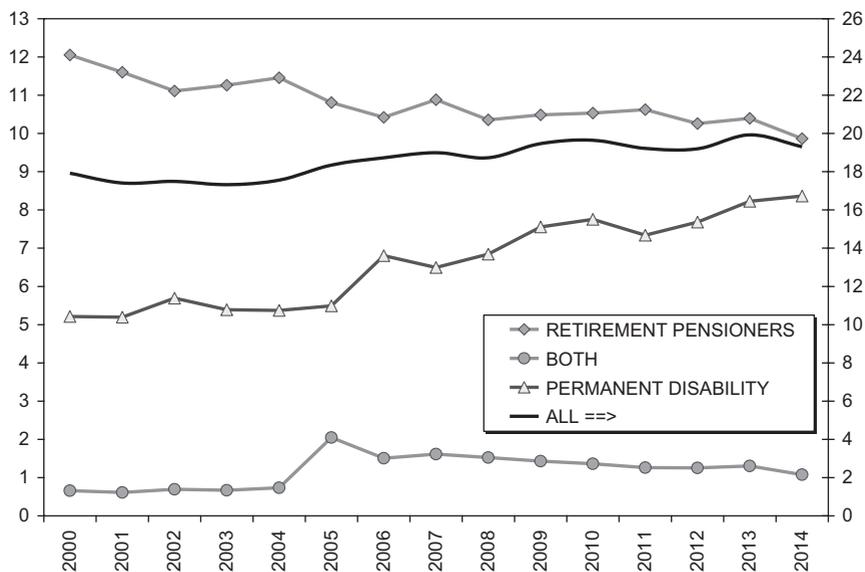
In contrast to these unemployed workers, older workers who have accessed early retirement have been more fortunate.<sup>3</sup> But Spain has not witnessed an increase in early retirement during the crisis. Whereas the number of early retirees among people between 53 and 64 years has remained quite stable (658,000 in 2005 and 644,000 in 2014) the proportion has fallen from 14.0 per cent in 2005 to 11.1 per cent in 2014 (reflecting the aging population). Among male workers, the drop has been even more significant. In 2005, a total of 19.8 % were early pensioners, whereas in 2014 the corresponding figure was 15.4 %. Because women in this age group have shorter and interrupted working careers, they often do not fulfill the eligibility criteria for early pension uptake. Hence, among female workers, numbers are smaller and the reduction has been only slight: from 7 to 6.4 %.

A further group of older workers has left the labor market through permanent disability. This group is smaller than that of early retirees, but

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<sup>3</sup>As of this point, we use the term “workers” to refer to people having worked some time in their lives according to the LFS.

contrary to trends in early retirement, permanent disability among older workers has grown during recent years. In fact, the use of permanent disability as a pathway to early labor exit was a fairly widespread practice during the first democratic decades. Despite different restrictive reforms to rein in access to permanent disability, the number of total permanent disability pensions grew from 793,000 in 2000 to 943,000 in 2012. The number of male and female workers between 53 and 64 reporting that they are permanently disabled in the Spanish labor force survey has also increased significantly from 348,000 in 2005 to 469,000 in 2012. Whereas in 2013 and 2014, the number of disability pensions decreased in absolute terms, the number of people between 53 and 64 years reporting that they were permanently disabled in the LFS remained practically stable. In 2014, a total of 10.1 % of male workers and 7.0 % of female workers between 53 and 64 reported permanent disability; in 2005, the corresponding figures were 8.5 and 6.1 % respectively (Fig. 6.2).



**Fig. 6.2** Percentage of old age and/or permanent disability pensioners over total population (age 53–64)  
 Source: INE, LFS 2000–2014

The increase in permanently disabled workers during the crisis (2008–13) has neutralized to a large extent the decrease in early retirees during the same period. Summing up both groups, the proportion of older workers (53–64) leaving the labor market has remained stable across these 6 years (from 27.1 in 2008 to 27.0 in 2013). The data suggest that, similar to the situation in the 1980s, permanent disability has worked as a sort of safety valve for older workers hit by the labor market shock.

### 3 The Changing Institutional Context of Early Retirement

#### 3.1 Overview of the Spanish Pension System

The Spanish pension system consists of a strong public pillar and a modest private one. The public pillar (social security) was established in the 1960s as a contributory, pay-as-you-go-financed system to which a non-contributory subsystem financed with general revenues was added in the early 1990s. Social security is mandatory and provides pensions representing 12 % of GDP in 2013 (Eurostat 2015). The private pillar was created in the late 1980s. It is voluntary and its total assets in 2015 were roughly 10 % of Spanish GDP.

The contributory social security pension system provides defined-benefit retirement, permanent disability, and survivor pensions (for widows, widowers, and orphans) as well as allowances for dependent family members. In 2015, with a population amounting to around 46.44 million, it provided around 5.63 million retirement pensions, 2.35 million widows' or widowers' pensions, and 0.93 million permanent disability pensions with average monthly amounts of 1,020, 630, and 930 euros respectively.<sup>4</sup> Spanish contributory pensions show relatively high net pension replacement rates in comparative terms. According to the OECD, the net pension replacement rate is 80 % (for the median earner

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<sup>4</sup>Whereas public health care and social services are regulated by the 17 autonomous communities (regional governments) forming the political-administrative structure of the highly decentralized Spanish state, social security is a centrally governed institution.

as well as for pensioners above and below mean earnings) and ranks (with Austria, Denmark, Hungary, Italy, and the Netherlands) among the highest in Europe (OECD 2013: 141). Contributory pensions, divided into the general regime and five special regimes (self-employed, coalminers, fishermen, agricultural workers, and domestic employees) are paid exclusively by payroll contributions.<sup>5</sup> Workers integrated in the general regime (around two-thirds of all formally employed workers) contribute 28.3 % of their salary base to social security (23.6 % paid by the employer and 4.7 % by the employee).<sup>6</sup>

In contrast, the noncontributory subsystem pays means-tested flat benefits for older and disabled people who do not fulfill the eligibility conditions for a contributory pension. Noncontributory retirement pensions are granted exclusively to people aged 65 or more who have contributed less than 15 years to the social security system. The amount of a noncontributory retirement pension (367 euros per month in 2015) is well below the minimum contributory pension, and the number of beneficiaries is also rather low (253,700 in 2015).

As regards the private pension pillar, at the beginning of 2015, its beneficiaries amounted to no more than 308,000 people. These are mostly high-salaried workers who have, for the most part, saved for their retirement voluntarily following the enactment of the first law on private pensions in 1987. This figure will certainly skyrocket in the long term, because there are 10 million private pension contracts; but in the foreseeable future, private pension benefits will supplement public pension benefits only slightly.<sup>7</sup>

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<sup>5</sup>As regards civil servants, those working in municipalities, autonomous communities, and specific public entities are integrated into the social security general regime. Civil servants in the national administration hired before 2011 are ascribed to different public mutualities, whereas those hired as of that year are integrated in social security.

<sup>6</sup>Salary bases are split into 11 groups according to professional categories: For 2015, the maximum salary base for employed workers affiliated to the general regime was set at 3,606 euros per month and the minimum at 753 euros.

<sup>7</sup>There are three types of private pensions: personal, occupational, and associative. Occupational pension plans are less developed than personal pension plans, the latter being nearly three times higher in terms of participants, but only twice higher in terms of total assets. Associative plans are marginal.

In sum, contributory pensions represent the lion's share of current retirement incomes. The rules governing the public pension system are therefore the main determinants of income in old age. These rules have changed during recent decades following a reform path framed in a discourse emphasizing coherence and continuity. The flagship of this incremental pension policy has been the Pact of Toledo. Unanimously approved by all political parties represented in Parliament in the spring of 1995 and supported by trade unions and employers, this parliamentary agreement explicitly rejected "either to substitute the system of pay-as-you-go and intergenerational solidarity for another based on the capitalization of the public pension system and on individual provision" or to limit the Spanish public pension system "to the simple provision of minimum pensions."

In 2001, based on the Pact of Toledo, the Spanish government created the social security reserve fund to capitalize the surplus in workers' contributions. With the yearly remainders obtained during its first decade of existence, the reserve fund had accumulated 66.8 billion euros by 2011 that was invested mostly in domestic public debt. In 2012, 2013, 2014, and 2015, the government drew upon this fund in order to cover some pension deficit. In the summer of 2015, the reserve fund accrued 39.5 billion euros (roughly 3.5 % of Spanish GDP).

### 3.2 Mixed Pull Factors and Strong Push Factors

Since its establishment in the last period of the Francoist regime, the Spanish pension system has displayed quite strong conventional disincentives to early exit from work. First of all, the statutory retirement age for men and women, originally set at 65 years, has never been lowered (in contrast to other European pension systems). Early retirement was possible from the age of 60 years, but penalties were substantial (8 % for each anticipated year to legal retirement age), although some groups enjoyed more favorable conditions (for example, sailors and miners because of their unhealthy and dangerous jobs, military personnel, and government employees).<sup>8</sup> In addition, supplementing scarce public benefits with pri-

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<sup>8</sup> Early retirement for workers under 60 years was possible only in case of specific unhealthy and dangerous jobs (for instance, sailors and miners) or industrial restructuring regulated by special

vate annuities was not possible, because private pension plans were introduced only in the late 1980s.

But these ostensible disincentives built into the Spanish pension system may have hidden fairly powerful implicit pull factors. One pull factor for low-salaried workers has been the existence of minimum pensions (Jiménez-Martín and Sánchez Martín 2007). Thus, when the contributory benefit calculated for the individual beneficiary according to the pension rules lies below the legally established minimum pension, the system pays a supplement to bring it up to this minimum amount (which the government sets yearly). In 2015, the monthly minimum contributory retirement pension for a person aged 65 and over ranged from 602 to 783 euros depending on their family situation. In contrast, one implicit pull factor for high-salaried workers has been the existence of maximum pensions. The Spanish pension system caps pension benefits so that even after penalizing for early retirement, workers may be able to get a maximum pension. The monthly amount of the highest contributory pension in 2015 was 2,561 euros.

Likewise, despite the restrictive rules regarding early retirement, premature exit from work has been a fairly widespread answer to negative labor demand shocks and particularly to companies' obsolescence. A strong push out of the labor market for older workers took place in the early 1980s in the wake of intensive industrial restructuring. Economic recession, aggravated by labor rigidities inherited from Francoism that hindered staff adjustments, led many enterprises to close down. Dismissed workers, who were hardly employable because they had low qualifications, could benefit from specific arrangements to stop working, often using unemployment and disability benefits to bridge the gap between severance and pension uptake. During these years, the unemployment rate rose from 11.1 % in 1980 to 21.7 % in 1985. At the end of the decade, it amounted to 17 %; but in the mid-1990s, it soared again to more than 24 %. In 1995, the effective retirement age of male workers plummeted to a historic level of 60.7 years, whereas the official number of employed workers remained stagnant at around 12 million.

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legislation. Government employees needed only 30 years of contributions to be pensioned off with full benefits, whereas military staff were allowed to retire after 20 years of service.

During the decade of economic expansion beginning in the second half of the 1990s, the number of workers grew enormously, reaching 19 million in 2007. Though the proportion of early to total retirement remained high (40–50 %), the trend began to change slowly as a result of two dynamics: new legislation and the different gender and educational composition of older-worker cohorts (Garrido and Chuliá 2005; Jiménez-Martín 2012).

### 3.3 Strengthening of Maintain Factors and Adjustment of Pull Factors

Although the 1995 Pact of Toledo aimed to remove doubts about the stability of the pension system, it marked a change in the understanding of early exit from work. The Pact explicitly recommended bringing flexibility into the retirement age and encouraging work beyond 65. However, this issue was not tackled by the first pension law approved after the Pact. Backed by an agreement signed between the first center-right minority government of Aznar, the main trade unions, and the employers' association, the 1997 law concentrated on rules to calculate pensions in order to promote actuarial fairness (Chuliá 2007, 2011). Early retirement was not restricted; quite the contrary, the law established a distinction between voluntary and involuntary early retirement in order to reduce penalization in case of dismissal. Those workers older than 60 who had contributed to the pension system before 1967 and who involuntarily lost their jobs could retire with penalties somewhat lower than those leaving the labor market voluntarily (7 % for each anticipated year previous to legal retirement age instead of 8 %), but only after a 40-year working career. Legislation to curb early retirement and promote longer working lives had to wait until Aznar's second government (2000–4) that had gained an absolute parliamentary majority.

### 3.4 The 2001 and 2002 Decrees to Promote Later Retirement

According to the recommendation included in the Pact of Toledo and on the basis of a new agreement with the trade unions and employers' associations, the government published two decrees in 2001 and 2002 to

improve the incentives to retire later and work either part- or full-time beyond 65. Thus, workers older than 65 years with a full working career (35 years) would be exempted from contributions to social security and rewarded with two percentage points of the pension base for each year of full-time work and retirement delay. Moreover, mandatory early retirement through collective sectorial agreements—a quite widespread practice in big companies—was forbidden by law.

### **3.5 Renewal of the Pact of Toledo and the 2007 Law on Social Security**

In October 2003, the Pact of Toledo was renewed in Parliament after incorporating some additional recommendations. One of these emphasized the need to “protect older workers” from early labor market exit by limiting early retirement and introducing disincentives for employers willing to terminate labor contracts. The new version of the Pact also stated the political will to restrict the use of social security resources for the purpose of reducing staff through preretirement agreements. Once perceived as a worthwhile method for easing the pressure on the labor market, early exit from work began to be framed as a harmful and discriminatory practice.

In 2006, the first Socialist government of José Luis Rodríguez Zapatero signed a new agreement on social security with the trade unions and the employers’ associations that was translated into law one year later. The 2007 law raised the minimum early retirement age from 60 to 61 and the minimum contribution period for eligibility for an early retirement pension from 30 to 31 years (except for workers who had paid contributions before 1967 who were allowed to access early retirement if they were 60 and had 30 contribution years). In line with the 1997 legislation, the new law established that workers opting for early retirement after involuntarily losing their job and being registered as job-seekers for at least 6 months would suffer a lower penalty (between 6 and 7.5 % for each anticipated year depending on the length of the work career) than workers who voluntarily retired before 65. But, on the whole, the law restricted conditions for early as well as for partial retirement, and it did so at a time when macroeconomic data were still auspicious.

### 3.6 The 2011 and 2013 Pension Laws in the Context of Deep Crisis

Under worsening economic and financial circumstances, Zapatero's second government approved a new pension law in the summer of 2011. Drafted upon a new agreement with trade unions and employers' organizations at the beginning of the same year, the so-called "Zapatero pension reform" introduced a progressive delay in the legal retirement age from 65 to 67 beginning in January 2013. In accordance with the new law, the postponement of the retirement age and the enlargement of the contribution period would be phased in incrementally, so that in 2027, access to a full pension would be granted only at the age of 67 years and after having contributed for at least 37 full years. The law also extended the contribution period to calculate the pension base (180–300 months) and modified the weight of the contribution years to determine the percentage of the pension base with the effect of reducing average benefit levels. Furthermore, whereas the law resolutely rewarded retirement beyond 67 (depending on the length of work careers, between 1 and 4 % yearly), it also restricted the eligibility conditions for early retirement pensions. Thus, the minimum age for early retirement was set at 61 (in case of involuntary job loss and only after at least 33 contribution years) with a 7.5 % penalty for each anticipated year prior to age 67. Voluntary early retirement would just be possible at 63 after 33 contribution years and with the same penalty, but it would not be allowed if the resulting pension amount were to remain below 125 % of the average pension. Finally, early retirement would be attainable without penalties at 65 for those workers who have contributed at least 38.5 years to the social security system at this age. As regards partial and flexible retirement schemes, they were also toughened up in order to prevent strategic behavior of older workers geared toward gaining higher benefits.

Even though the 2011 legislation represented the most restrictive pension reform in decades, the center-right majority government elected at the end of that year saw the need to further constrain conditions for early retirement. A decree published in March 2013 included measures to favor the continuity of older workers in the labor market and promote active aging by placing additional restrictions on early and partial

retirement as well as on penalties for collective redundancies affecting workers older than 50. First of all, the minimum age for involuntary early retirement is being increased incrementally from 61 to 63 until 2027 (after a minimum period of 33 contribution years) and for voluntary early retirement from 63 to 65 years. Second, early retirees due to involuntary job loss will have to certify indemnity payments by the firm and be unemployed during the 6 months prior to applying for an early retirement pension. The 2013 decree also increased the minimum contribution period for voluntary early retirement from 33 to 35 years and enlarged penalties, establishing only slight reductions after 38.5 contribution years (Table 6.1). Furthermore, should the calculated amount of the early retirement pension be lower than the minimum contributory pension, social security would be disallowed (thus refusing to supplement pensions for early retirees).

Still another legislative change adopted in the winter of 2013 had important effects on the evolution of pension outlays: the law regulating the sustainability factor and the indexation of social security pensions. Whereas the sustainability factor links the amount of retirement benefits to the evolution of life expectancy, the new indexation rules take into consideration the revenues and outlays of the social security system, as well as the variation in the average retirement pension. Both elements are likely to have a combined effect of reducing pensions and thus providing an indirect incentive to work longer.

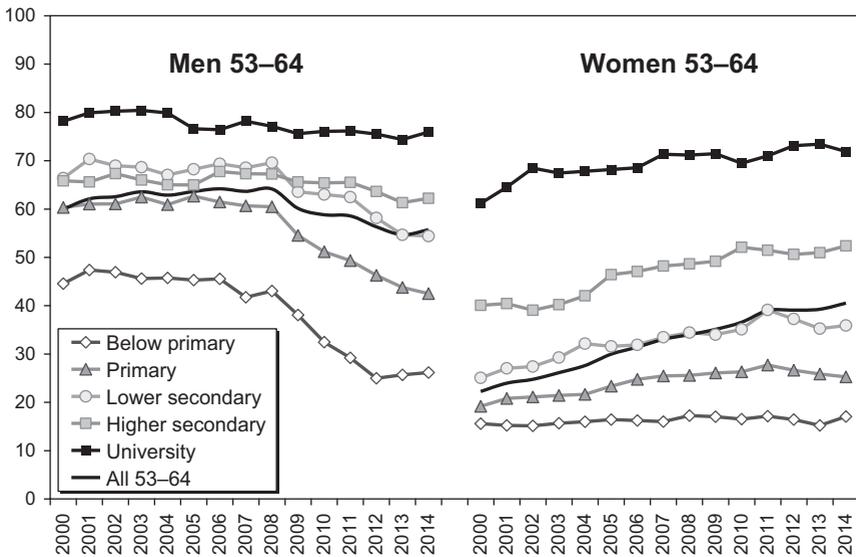
**Table 6.1** Early retirement as of 2013: Penalties

Previous legislation - Number of contribution years	Penalty (%) for each anticipated year of <b>involuntary</b> early retirement)	2013 (current) legislation: Number of contribution years <sup>a</sup>	Penalty (%) for each anticipated year of <b>voluntary</b> early retirement) <sup>a</sup>
30–34	7.5	38.5	8
35–37	7	38.5–41.5	7.5
38–39	6.5	41.5–44.5	7
40 +	6	44.5 +	6.5

Source: Decree-law 5/2013.

<sup>a</sup>These penalty coefficients do not apply to workers who were paying contributions to the mutuality system before the establishment of social security (1 January 1967).

In summary, the 2011 and 2013 legislation significantly limited pull factors for early retirement and strengthened retention factors through several disincentives to leave the labor market (and also some incentives to work longer). According to the government, the impact of these measures was immediate: The number of early retirements in 2013 dropped by 6.5 %, whereas the number of workers who retired at the legal retirement age increased by 10 %.<sup>9</sup> However, as specified in the second section of this chapter, the scope of the reduction may well be overestimated when the evolution of the permanent disability path to early exit from work is disregarded. This conclusion is supported by the estimated percentages of older workers who report having retired early or being permanently disabled (see Fig. 6.3).



**Fig. 6.3** Employment rate of Spanish men and women born in Spain (age 53–64) by level of education  
 Source: INE, LFS 2000–2014

<sup>9</sup> According to the press release of the Spanish government, published on January 21, 2014.

## 4 Changing Workplace Contexts of Retirement

### 4.1 Variation by Economic Sector and Gender

In which sectors has early exit from work been more frequent during the crisis for either men or women? We answer this question by using Labor Force Survey (LFS) data and focusing on early retirees and permanently disabled people aged 53–64 years. Because both groups were no longer working at the time of the survey, we use the information they offered about their last job. The LFS gathers such information only from interviewees who have left their job during the last year. This provides us with data on the annual flow to early retirement and permanent disability for those people who were working the previous year and enables us to explore the recent dynamics of both processes leading to definitive exit from work.

Before analyzing our data in greater depth, however, it is important to emphasize the large gender differences (see Radl 2013). First, between 2007 and 2014, the EPR among workers aged 53–64 oscillated at around 48 %. However, this continuity conceals important differences between men and women. At the beginning of the crisis, the female EPR was 22.2 %; in 2014, it amounted to 40.5 %. Thus, the majority of women who entered the 53–64 age group during the crisis years did not lose their jobs. Second, the annual flows of early exit from work between 2007 and 2014 have remained remarkably constant. During these 8 years, the annual percentage of workers aged 53–64 who left the labor market through early retirement has fluctuated between 3.7 (2008) and 4.4 % (2012 and 2013). Female proportions were definitely smaller, between 2.1 (2008 and 2010) and 2.7 % (2013). As regards permanent disability, the highest percentages for men are located in 2009 (0.9 %) and 2010 (1.0 %); for women, in 2009 (0.9 %) and 2012 (0.7 %).

There are also marked gender differences with respect to the composition of the workforce by economic sector. Throughout the period 2007–14, the majority of Spanish men in this age group worked in manufacturing industry (19.0 %), trade (13.3 %), construction (11.1 %), public administration (10.1 %), or the primary extractive sector (9.3 %).

Female remunerated work was concentrated in health and social services (18.1 %), trade (14.7 %), education (13.1 %), and public administration (10.0 %).

During the crisis years, early retirement among male workers was pronounced in the biggest sector—industry and transformation—with a maximum of 6.9 % early retirees in 2009. Construction (6.3 % in 2012), transport and distribution (6.1 % in 2011), and education and research (7.2 % in 2012 and 2013) also displayed high early retirement rates. The construction sector, wrecked after the burst of the Spanish property bubble in 2008, revealed a significant number of early work leavers through permanent disability (with a maximum of 2.2 % in 2010). Among female workers, early retirement has been more frequent in education and research (4.8 and 4.7 % in 2012 and 2013) due to specific retirement conditions. Curiously enough, female early retirement has been much lower in the health sector (with a maximum of 1.3 % in 2011). Thus, female teachers tend to retire earlier than female doctors, nurses, and social workers. In both sectors, early exit from work through permanent disability is quite low, whereas it is relatively more common than early retirement among women working in the primary sector, in household services, trade, hotels and gastronomy, as well as personal and cleaning services (Table 6.2).

## 4.2 Special Agreements

We argue here that any description of the institutional framework of work–exit transitions in Spain is incomplete without referring to the casuistic nature that often characterizes the retirement pathways adopted in practice. Such particularistic arrangements usually involve a so-called special agreement with social security (*convenio especial*). A special agreement is a voluntary contract signed between a worker and the social security through which the former commits herself to pay social security contributions in order to gain or keep the right to specific contributory benefits (retirement, death and survival, disability and sickness, but not unemployment). The Spanish social security recognizes a considerable amount of special agreements: for example, for workers aged 55 or older

**Table 6.2** Average yearly exit rates (2007–2014) from employment of Spanish men and women (born in Spain) toward retirement and disability

	Men		Women	
	Retirement	Disability	Retirement	Disability
Agriculture and mining	3.06	0.81	2.47	1.07
Manufacturing	5.77	0.71	3.59	0.73
Construction	3.21	1.14	2.44	0.75
Transport and retail	5.46	0.73	4.57	0.58
Trade	2.62	0.63	1.45	0.64
Hospitality restaurants and bars	2.54	0.81	1.34	0.82
Company services	4.71	0.59	2.39	0.33
Public administration	3.93	0.75	2.27	0.50
Education and research	5.24	0.35	4.39	0.40
Health and social services	1.76	0.62	1.55	0.46
Leisure and associations	3.40	0.91	2.21	0.74
Personal services and cleaning	2.10	0.64	1.59	0.88
Domestic work	2.13	1.40	1.62	1.14
<b>All</b>	<b>4.01</b>	<b>0.76</b>	<b>2.29</b>	<b>0.65</b>

Source: Flow statistics of LFS 2007–14, authors' calculations

who are receiving noncontributory unemployment subsidies, for workers who reduce their working hours in order to provide care to a family member, and for returned migrant workers. Special agreements are particularly prevalent among older workers who lose their job and have used up their right to contributory unemployment benefits.<sup>10</sup> Paying these contributions by themselves often allows them to fulfill the number of contribution years needed to be eligible for a contributory pension. A special agreement with social security can be discontinued voluntarily by the worker; in any case, it has to be suspended if the worker finds a job with a higher contributory base or when she begins to draw a retirement or disability pension.

Normally, special agreements are accessible only for workers who have contributed to the social security for at least 3 years within the 12 previous years before losing their job. The worker who decides to adhere to a special agreement has to take on both the employer's and the employee's

<sup>10</sup> The contributory unemployment benefit includes payment by the state of contributions to social security. The noncontributory unemployment subsidy does not include these contributions.

shares of social security contributions (for regular employment contracts, currently 28.3 % of the contributory base).

Special agreements are often also the result of collective redundancy schemes (*expedientes de regulación de empleo* or *ERE*) negotiated by employers and trade unions (at the workplace level). Under these circumstances, the firm implementing the ERE earmarks an income plan for the dismissed workers including in it the amount to be contributed to social security through a special agreement that, in the case of older workers, serves as a bridge between subsidized unemployment and the take-up of a pension.

To give an example, workers at the Spanish Telefónica telecommunications company with at least 15 years of seniority who endorsed the collective redundancy scheme implemented between 2011 and 2013 by this formerly state-owned company were offered, besides any indemnity payments, a special agreement with social security. This arrangement would come into effect as soon as the dismissed worker had exhausted the legal period of unemployment benefits (2 years).<sup>11</sup> Access to this special agreement was granted to workers who had paid contributions during at least 1,080 days within the previous 12 years. For workers aged 55 or older, Telefónica committed itself to pay all social security contributions (corresponding to the maximum contributory base providing the worker had contributed on this basis for 24 months within the last 5 years) either directly or via reimbursement, until the worker becomes entitled to an (early) old age pension at age 61 or later.

This particular special agreement should illustrate only what such an arrangement may look like, and it has to be taken into account that the conditions offered to older displaced workers at other companies may well differ. Often, the terms of these special agreements are not disclosed to the public.

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<sup>11</sup>The scheme (officially denominated *Plan Social—Expediente Regulación de Empleo —Telefónica de España, S.A.U. 2011–2013*) was signed by the company and the workers' representatives on July 7, 2011 and approved one week later by the Ministry of Labor and Immigration. The scheme envisaged the severance of a maximum of 6,500 workers through different arrangements. The information about the implications of this collective redundancy scheme for older workers has been extracted from the document published by the trade union *Comisiones Obreras* (2014).

## 5 Changing Individual Contexts of Retirement

In Spain, older people's employment behavior is being profoundly affected by the rapidly changing composition of worker cohorts. The educational expansion during the last half century has been impressive by any standard. For example, the percentage of men aged 25–39 with tertiary education (32.5 %) is more than double the corresponding percentage for men aged 60–69 (14.3 %). At the opposite end of the spectrum in the older age group, the proportion of those having attained only primary education is nearly seven times higher than in the younger group. The generational differences are even higher among females: 39.6 % of women aged 25–39 have reached tertiary education compared to only 12.7 % of their mother's generation (60–69); the former display a 10 times higher proportion of primary education level than the latter (61.4 and 6.0 % respectively).

As shown by Garrido (2004) for the period 1976–2002, the higher the educational level, the lower the decrease in male EPR and the higher the increase in female EPR during the decades following the transition to democracy. This relationship still holds true today: Fig. 6.3 shows the EPR by sex and educational level for the age groups in which early retirement is more frequent. It clearly illustrates important differences in how the last crisis impacted on employment. Male workers with tertiary education have not suffered such drastic employment drops; in fact, their employment rate in 2014 is practically the same as it was in 2006. In contrast, workers who have attained only secondary education (including first grade vocational training) have suffered a decrease of six percentage points between both years; the fall has been greater for workers with basic secondary and elementary education (15 and 19 percentage points respectively). In summary, the great recession has again confirmed that higher levels of education reduce employment vulnerability during periods of economic crisis.

As emphasized before, female workers have not been hurt so intensively by the crisis, and older women even less. Actually, the female EPRs (53–64) for all educational groups have increased between 2006 and

2014. Although all educational groups of female workers within this age span have managed to prevent employment losses, women with higher educational levels have been more fortunate with an EPR of 72 %—55 points higher than the EPR of female workers with only elementary education. The favorable employment trend among older women has undoubtedly been a crucial factor in cushioning the impact of the crisis on private households.<sup>12</sup>

What future trends can we expect? At present, there are still significant proportions of low-educated individuals among older workers in Spain, and, as we have seen, this group is the most affected by early exit from work. However, the educational level of older workers is improving notably as better educated younger cohorts replace less educated older cohorts. The employment behavior of current older workers with higher educational levels suggests that as the skill level of older-worker cohorts continues to evolve, early exit from work may decrease significantly as a consequence of this composition effect. Hence, the significant differences in educational attainment between young- and older-worker cohorts could have considerable implications for the retirement timing of future cohorts—as also hinted at by the comparative chapter in this book.

## 6 Summary and Implications for Further Research

The literature on early retirement decisions in Spain has often stressed the incentives to retire early provided by the pension system (for instance, Blanco 2000; Boldrin et al. 1997). But this literature may well have failed to sufficiently underline the fact that the Spanish pension system—created in the late 1960s—was originally designed to maintain male and female workers in the workforce until 65, and thus disincentivize early retirement. In fact, after 1967 and until 2011, the legal minimum eligibility age for a full pension was established at 65 for men and women—Spain being among the European countries that have never lowered the

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<sup>12</sup>As in other countries, spouses plan their retirement transitions together in Spain (Radl and Himmelreicher 2015).

original retirement age. Furthermore, penalties for early retirement have been kept comparatively high (between 6 and 8 % for each year previous to pension uptake, depending on whether retirement was voluntary or not and on the length of the work career). Yet, push factors (economic crisis, high unemployment rates, technological and organizational obsolescence of firms, and very low educational levels of older Spanish workers) were crucial for the development of pull factors (that is, early exit incentives) through fragmented legislation and casuistic arrangements. Special agreements such as the Telefónica *convenio* described above play an important role in the de facto renegotiation of conditions that are theoretically dictated by the national labor market and pension policies.

For decades, early exit from work through retirement or permanent disability was one of the strategic devices for easing pressure on the labor market and the structural unemployment problems suffered by the Spanish economy. Although pension laws have not explicitly included early retirement incentives, trade unions, employers, and governments often resorted to special and casuistic legislation in order to smooth the exit from the labor market for workers facing employment difficulties because of outdated skills or lack of ability to adapt to shocks and changes in production regimes. High actuarial penalties for early pension entrance were to some extent countervailed by relatively generous pensions (with respect to wages earned before retirement).

But since the mid-1990s, political and social actors have openly embraced a policy of early exit reversal. In the context of substantial pension reforms—the last of which, approved in December 2013, introduces a sustainability factor and new indexation rules (Herce 2013)—governments have been trying to trim early retirement incentives since the millennium, and more specifically since the start of the economic and financial crisis. And in fact, they have succeeded in delaying the effective average retirement age, as shown by recent statistics that the current government has celebrated repeatedly. Nonetheless, labor force data allow us to observe a growing share of workers younger than 65 leaving the labor market through the recognition of permanent disability. Most of these receive contributory or noncontributory disability pensions until they reach the legal retirement age.

In this chapter, we have also shown that the great recession has had a strong impact on older workers in Spain. However, it has been mostly men who have been pushed out of their jobs during these years of economic crisis. More specifically, the crisis-related spike in early exit has been confined largely to older men with lower secondary education or less. Furthermore, we have shown evidence in line with previous research (Radl and Himmelreicher 2015) that retirement patterns vary markedly by economic sector, with manufacturing, transport, and retail along with education and research (both as a result of strong public austerity measures) being the sectors with the highest exit rates.

In conclusion, the complexity of retirement in Spain is associated with the multiple exceptions and allowances that labor policies and labor jurisprudence make possible even though they are at odds with manifest pension policies. Hence further research is needed on labor regulations, labor law implementation, and administrative practices and procedures (such as disability recognition). This will lead to a better understanding of the mechanisms by which older workers leave the labor market before reaching the legal retirement age.

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# 7

## Germany: A Successful Reversal of Early Retirement?

Moritz Hess

### 1 Introduction

Nowadays, demographic aging is placing European pension systems under considerable pressure. Due to the increasing ratio of pension recipients to contributors, financing the existing pay-as-you-go pension system is becoming ever more critical. Among Southern and Continental European countries, Germany is facing a particularly pronounced need to increase the labor force participation rate of its older workforce: From a demographic perspective, Germany is one of the “oldest” countries in Europe, with a shrinking total population and a growing share of people older than 65—as outlined in the second chapter of this book. Between 1990 and 2009, this share increased from 13 to 21 % and it is expected to rise to 29 % by 2030 (Statistisches Bundesamt 2009). Together with an explicit policy of early retirement starting in the late 1970s, this has led to

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a gradual rise in the recipient-to-contributor ratio of the German public pension system (Wilke and Börsch-Supan 2009). It was only in the late 1990s that German policymakers started to become increasingly aware of these developments and launched several reforms aimed at raising the average retirement age and the labor force participation rate of older employees (Bäcker et al. 2009). In the frame of far-reaching labor market reforms introduced by the 1998 coalition of Social Democrats and Greens with the intention of making Germany's economy more competitive, the government adopted state-subsidized, public early retirement programs and raised the legal retirement age from 65 to 67 (Micheel et al. 2010). In addition, companies were given subsidies for hiring older unemployed workers; and various training programs, partly financed by the state, were introduced for older workers. These reforms led to a steep rise in the employment rate among workers aged 55–64 from 40 to 60 % between 2000 and 2010, along with a shift in retirement entry from an average of 60.3 to 62.1 years. The increase in the average retirement age and the employment rate prove, beyond doubt, that these political reforms have substantially changed the opportunities and constraints under which older individuals, when reaching certain age limits, make their decisions regarding the transition from employment to retirement. However, it is not just the institutional framework that affects an individual's decision on when to retire. Apart from institutional conditions, individual characteristics such as gender (Radl 2012) and education (Hofäcker et al. 2015; Leinonen et al. 2012), along with workplace conditions such as company size (Brussig 2009) or the availability of specific human resource measures for older employees (Rau and Adams 2012), determine the age of retirement. For Germany, two examples of individual characteristics are the individual's gender and the company sector: Because the German welfare state is still based on the idea of the male breadwinner, women generally retire earlier and have a lower employment rate (Fasang et al. 2013). Apart from that, the production sector suffered severely from global competition and therefore pushed older blue-collar workers into early retirement (Rinklake and Buchholz 2012).

To summarize the conditions affecting employment and retirement decisions concisely and to outline their development over time, this chapter presents a review of the literature on how retirement decisions of

women and men in Germany are influenced at the *macrolevel* by welfare state settings; at the *mesolevel*, by workplace conditions; and at the *microlevel*, by individual characteristics, while emphasizing possible interaction effects between these three levels of retirement determinants. Hence, this chapter is structured as follows: First, we briefly outline the main developments in the employment behavior of older workers in Germany over the last three decades. Then we turn to the various determinants affecting retirement decisions. In the third section, we provide an overview of the major trends in the German welfare state and particularly in pension policies; and we follow this in the fourth and fifth sections by discussing the effect of individual characteristics and workplace conditions on retirement decisions. We conclude by summarizing the main aspects of this country study and once more embed the determinants of early retirement within the theoretical framework.

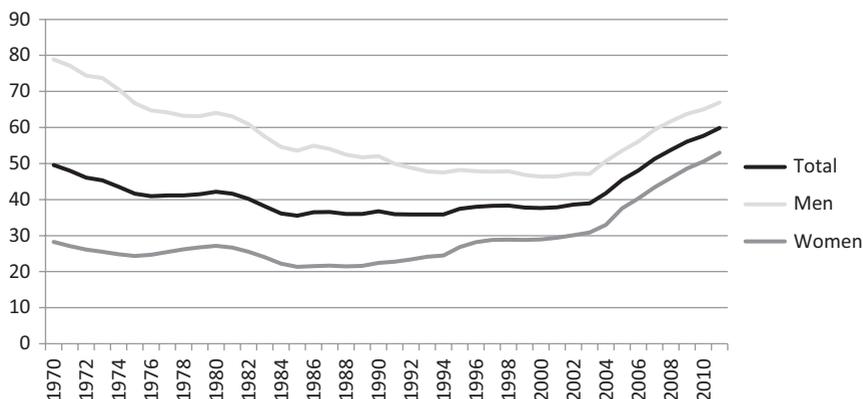
## 2 Trends in the Employment Rate of Older Workers in Germany

Throughout the last 40 years, the employment rate of older German workers has been characterized by large fluctuations. Running at 70 % in 1970, international competition in the 1970s and 1980s, especially in the production sector, put pressure on German companies that were largely concentrated in the extractive and transformative sectors (Rinklake and Buchholz 2012). Frequent reactions were personnel cutbacks, with different effects for workers depending on their age: Younger employees were offered less secure jobs and faced comparatively higher job insecurity than the previous generation of workers. In contrast, older workers benefited from the high level of job protection of the German labor market policy and, hence, could not be dismissed into unemployment, although being considered very costly due to the seniority wage principle (Buchholz et al. 2009). To solve this conflict, policymakers, employer associations, and trade unions jointly agreed to implement early retirement measures (Rinklake and Buchholz 2012) that were adopted particularly by blue-collar workers. The massive utilization of these measures

is reflected in a sharp and continuous decline in the labor market employment rate of older workers in the 1970s, reaching its lowest level of just below 40 % in the early 1990s (Fig. 7.1).

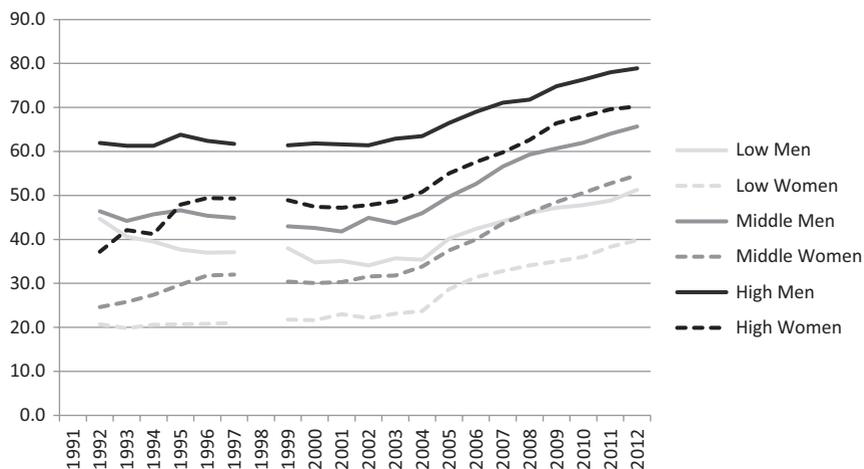
However, the turn of the century marked the beginning of a reversal trend in employment rates. These have grown steadily since 2003, owing to labor market and pension system reforms such as raising the statutory retirement age and closing off early retirement pathways. Already by the year 2011, slightly more than one-half of all workers aged 55–64 were in employment. A second indicator of this reversal trend was the increase in the effective retirement age: On average, men retired 2 and women 3 years later in 2012 than in 1996 (OECD 2013).

However, Fig. 7.2 shows that the employment rate of older workers and also its most recent development vary depending on gender and education. From an absolute perspective, the percentage of men and highly educated employees who are still working in their late 50s and 60s is higher than that in the respective group of women and people with lower education. Gender differences in older workers' employment can be related to the particularities of the German welfare state that long used to favor a male breadwinner model and, to some extent, still does so today (Fasang et al. 2013). Furthermore, higher education often implies better



**Fig. 7.1** Employment rates of female and male workers aged 55–64

Source: OECD. Until 1990, data only for former West Germany. Downloaded on April 25, 2013 from [http://stats.oecd.org/BrandedView.aspx?oeed\\_bv\\_id=ifs-data-enanddoi=data-00309-en#](http://stats.oecd.org/BrandedView.aspx?oeed_bv_id=ifs-data-enanddoi=data-00309-en#)



**Fig. 7.2** Employment rate of older workers aged 55–64 by education and gender

*Note:* Education was coded according to the International Standard Classification of Education (Low = 0–2, Middle = 3–4, and High = 5–6)

*Source:* EuroStat. Data for the different education levels not available for the year 1998. Downloaded from [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_ifs/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database)

employability and, hence, less unemployment; or, in the case of older workers, a lower probability of involuntary retirement (Leve et al. 2009). Nevertheless, some differences between men and women can be found in the development of the employment rate: The rise was slightly stronger for women than for men. This has resulted in a closing of the gender gap in the employment rate, as can be seen in the figures.

### 3 Institutional Determinants of Retirement Decisions in Germany

The trends in the employment of the group of older workers presented above reflect the aggregation of individual employment behavior. From a rational choice perspective, this behavior may be traced back to older workers' employment versus retirement decisions under the given

opportunities and constraints. One major contextual factor affecting employment behavior is the institutional or welfare state setting in which retirement decisions are made. Earlier research has found three different types of institutional determinants influencing individual retirement decisions (Ebbinghaus 2006; Ebbinghaus and Hofäcker 2014). As described in the first chapter of this book, these are referred to as *push*, *pull*, and *stay factors*. In our analytical framework, we further distinguish the stay factor into *need* and *maintain factors*. The following description of the institutional determinants of retirement decisions is broadly structured according to this scheme of four different institutional determinants, while, at the same time, giving a brief chronological overview of their development in Germany.

When analyzing retirement determinants, one must always keep in mind that they are embedded in a more general welfare state setting. According to standard welfare state classifications, Germany belongs to the so-called “conservative–corporatistic” welfare state regimes characterized by high labor market rigidity, strong boundaries between different occupation levels, as well as a high standardization and stratification of the labor market (Blossfeld et al. 2006). Job protection is comparatively high and rises continuously with employment experience and job tenure.

Although policymakers have emphasized the need for private pension insurance such as the *Riesterrente* and private pension funds (Ebbinghaus et al. 2011), the main source of income for the retired is still the public pension (Ebbinghaus 2006) that is based on contributions from previous employment and not on taxes. Until 2012, the statutory retirement age was fixed at 65 and the average pension replacement rate amounted to about 70 % of the last net wage, a ratio that can be considered rather generous in comparison to other Continental European public pension systems.

### 3.1 Globalization as Push Factor

Over recent decades, older workers were particularly affected by major economic and technological transformations of the German labor market. The structural change described in the preceding section and the

growing international competition in the 1970s led to a strong shift in the working force as a whole from production to the service sector (Schils 2008) and a particularly strong decline in the demand for traditional blue-collar workers. Due to the lack of a tradition of lifelong learning and the predominance of strict occupational boundaries, the requalification of such older blue-collar workers was not a realistic option (Rinklake and Buchholz 2012). Furthermore, employers showed little interest in training older workers considering the short time they would remain in employment. On the contrary, employers wanted to shed their workforce in order to cut costs, and preferred to send their workers into long-term unemployment or retirement. As a result, particularly the low educated and low-skilled blue-collar workers were “pushed out” of employment (Flynn et al. 2013).

### 3.2 Early Retirement Paths as Pull Factors

As the “crowding out” of older employees through dismissal proved difficult due to high legal protection as well as being very unpopular politically, a policy of early retirement had been fostered since the 1980s, driven equally by policymakers, employers, and unions. The corporatist character of the German welfare state further enhanced this cooperation. Financial incentives to induce early retirement were introduced and used particularly by lower qualified workers, who were thus disproportionately “pulled” out of employment into retirement.

To facilitate this transition, different routes to early retirement were established that enabled women and employees suffering from chronic illnesses or disability to retire at the age of 60 after having contributed to the public pension system for a sufficient time. Apart from that, men and women had the option of retiring at the age of 63 after 35 years of contributions (Knuth and Kalina 2002). Furthermore, the *Altersteilzeit* (literally translated “old age part-time”) scheme was established. Supported by a public subsidy, it allowed older workers to effectively retire with only moderate pension cuts before reaching the mandatory retirement age of 65 (Duell and Vogler-Ludwig 2012). There were two models of *Altersteilzeit*: the first was the so-called *Gleichverteilungsmodell* (literally:

equal share model) that made it possible for older workers to reduce their working hours and work in part-time employment for the whole period until retirement age. The second was the so-called *Blockmodell* (block model) in which older workers worked full-time in the first half of the *Altersteilzeit* and effectively withdrew from employment only in the second half while receiving part-time-equivalent wages and benefits throughout the entire period. Among German employees, the *Blockmodell* was clearly more popular with 80 % of older workers in *Altersteilzeit* using it as their model of choice (Wanger 2010). This clearly demonstrates that, in Germany, the *Altersteilzeit* scheme was used as a tool for early retirement, unlike in Scandinavian countries where companies made use of part-time programs mainly to retain older workers and their experience (Delsen 1996).

Labor market exit through *unemployment insurance* constituted a third major pillar of the early retirement policy in Germany. This was used as a “bridge” from employment to retirement. Older workers at age 57 could draw benefits from unemployment insurance for 3 years without being obliged to participate in the necessary activation measure and means test of unemployment insurance, and they were allowed subsequently to retire via the regular “early exit” scheme (Rinklake and Buchholz 2012). The policy of early retirement reached its peak shortly after German reunification in 1990 with the introduction of the *Altersübergangsgeld* (old age transition scheme) that made it possible for employees in East Germany to already retire at 55 in the case of unemployment (Bönke et al. 2009). As illustrated in Fig. 7.1, this led to a sharp decline in the employment rate of workers aged 55 and older.

### 3.3 German Active Aging Policy as Need and Maintain Factors

In the mid-1990s, triggered by, amongst other things, a rising awareness of demographic aging and related workforce shortages, policymakers began to acknowledge the financial burden imposed on the German pension system by the early retirement policy, because fewer and fewer pension contributors were facing more and more benefit recipients (Dietz

and Walwei 2011). Consequently, a slow but steady shift from an early retirement to an active aging policy took place (Brussig 2009), with the aim of raising the retirement age and labor force participation among older German workers. This increasing share of older workers should help to “relieve” the pension system from financial pressure while simultaneously countering the shortage of labor and employees with work experience in companies.

### 3.4 Need Factors: Making Early Retirement More Expensive

In recent years, several reform packages have been approved and implemented. The most prominent was clearly the raising of the statutory retirement age from 65 to 67 (Sporket 2010). This reform is designed as a stepwise process to be implemented between 2012 and 2029. From 2012 to 2025, the increase in the retirement age will amount to one month per year; and from 2025 till 2029, to two months per year. Employees born in 1964 will then be the first cohort with an actual statutory retirement age of 67 years. Given the actuarial character of the German pension system, the rise of the official retirement age made working longer financially attractive for older workers.

Less visible in the public and the media, but probably even more significant than the raising of the statutory retirement age, was the closing of existing early retirement routes. In this context, the subsidies for the *Altersteilzeit* and *Altersübergangsgeld* schemes were discontinued and the option of early retirement after 35 years of contribution was abolished.<sup>1</sup> Furthermore, older workers were affected by the radical *Hartz* labor market reforms in 2005 that aimed to activate the unemployed by combining unemployment benefits for long-term unemployed (*Arbeitslosenhilfe*) with welfare benefits (*Sozialhilfe*) and restricting the eligibility for full unemployment benefits for younger workers from 2 years to 12 months. For

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<sup>1</sup>One very topical development in Germany is the reestablishment of the early retirement option via the public pension system after a set number of contributing years. The *Rente mit 63* (“retirement at 63”) allows workers to retire 2 years before the official retirement age of their birth cohort if they have contributed to the public pension system for 45 years.

older workers, the entitlement period of the relatively generous unemployment benefits was cut from around 36 to 18 months,<sup>2</sup> making it increasingly unattractive for older employees to use unemployment insurance as a “bridge” from employment to retirement (Giesecke and Kind 2013).

### 3.5 Maintain Factors: Increasing Older Workers' Employability

Although Germany's efforts to increase the retirement age and to promote higher labor force participation rates among older workers should not be underestimated, it is obvious that, up to now, reforms have focused largely on labor market and pension policies. Although being essential for the employability of older workers, education and lifelong learning do not play a major role for German policymakers. This still leaves considerable room to further improve the employability of older workers and, thus, to raise their employment rate. Especially in smaller companies and trades, older workers rarely participate in any kind of training measures (Goebel and Zwick 2010). Furthermore, when looking at the participation rate of older employees in training measures, initial education is found to constitute a decisive factor: Almost 70 % of older workers with tertiary education participated in some kind of further training, whereas the respective rate for workers without a formal education ranges below 10 % (Schmidt 2009). This situation was improved slightly by the introduction of targeted state subsidies such as the pilot project *Weiterbildung Geringqualifizierter und beschäftigter ältere Arbeitnehmer im Unternehmen* (WeGebAU) that funds training costs for older low-skilled workers (Duell and Vogler-Ludwig 2012). In 2009, a total of 102,000 older workers used this program (Lott and Spitznagel 2010). Singer and Toomet (2013) found that participating in training financed by the WeGebAU improved older workers' job stability and survival in employment.

In addition to financially supporting training measures for older workers, the state also gives subsidies to employers for hiring older workers, for example in the form of *Eingliederungszuschüsse* (integration

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<sup>2</sup> The exact duration depends on the beneficiary's age: 15 months for older workers aged 50 or older, 18 months for those 55 or older, and 24 months for those 58 or older.

subsidies) and *Entgeltsicherung* (integration vouchers) (Dietz and Walwei 2011). The *Eingliederungszuschuss* is a subsidy that compensates companies for the potentially lower productivity of newly employed older workers (Stephan 2009). The *Entgeltsicherung* is a subsidy that partly compensates wage losses for older unemployed when reentering the labor market in an occupation with a lower wage than the one they had before unemployment (Dietz et al. 2011). Brussig et al. (2006) claim that the *Entgeltsicherung* has not been very effective so far, due to the fact that it is not well known among potential beneficiaries and that the application process is relatively complicated. In fact, the figures show that, in 2010, the subsidy was used by only 18,000 older workers (Dietz et al. 2011).

In summary, in reaction to structural changes, Germany introduced a policy of early retirement in the 1970s that led to sharp declines in the retirement age and employment rate among older workers. In the 1990s, however, the increasing financial burden on the public pension insurance led to a change toward a policy of active aging. In the course of this, several reforms were implemented including the raising of the statutory retirement age to 67 and the closing of early retirement routes as well as the payment of subsidies to encourage employees to hire older workers. However, comparably few improvements were made in the field of education and lifelong learning. Nevertheless, the increasing labor market participation rate of older workers indicates an overall positive impact of the latest pension system reforms.

However, apart from institutional and welfare state settings, the retirement age is also determined strongly by individual characteristics, which we shall discuss in the following section.

## 4 Individual Characteristics as Determinants of Retirement Decisions

As earlier research on this topic has demonstrated, retirement decisions may be influenced by several individual-level characteristics such as health, education, financial security, and personal relationship status.

From an economic perspective, *income* during employment is an important determinant for retirement decisions. Based on an analysis with data from the German Pension Fund in 2004, Radl (2007) finds a U-shaped connection between economic welfare, measured by the last wage before retirement, and the age of retirement for men. Accordingly, German men with either comparatively high or comparatively low economic welfare seem to retire later than those with an average income. He argues that individuals with a low income are often forced to work longer because they cannot financially afford to retire early. Moreover, individuals with a high income also avoid early retirement because they often occupy positions that are connected with a high reputation and work satisfaction that they do not want to lose. This accounts for their strong job attachment.

There is a similar relationship between *education* and early retirement, insofar as occupations with a high reputation and work satisfaction are often held by employees with a high level of education and qualification who are therefore more reluctant to retire early than lower-skilled individuals. In addition, higher education also implies a better level of employability and, hence, a lower risk of involuntary (early) retirement (Blossfeld et al. 2006). Empirically, this positive connection between education and age of retirement in Germany has been found in several studies (Buchholz 2006; Himmelreicher et al. 2009). However, a current development shows that lower-educated workers also tend to retire later than workers with an average education. This can be explained by the closing of early retirement routes that were frequently used by low-educated blue-collar workers. Recent pension reforms have increased the need to work longer in order to ensure a sufficient pension particularly for this group, given that they generally earn and contribute less (Hochfellner and Burkert 2013; Hofäcker and Naumann 2014).

*Health* is another important individual characteristic affecting the retirement age. Empirical findings show that poor health (De Preter et al. 2012) and disabilities (Neuner et al. 2012) promote an early withdrawal from the labor force. For German men, occupational or general disability and chronic health impairments are the strongest predictors of early retirement (Siddiqui 1997). Nonetheless, it has to be kept in mind that good health is only a necessary but not a sufficient condition for a later

retirement (Ekerdt 2009). Older workers might want to retire as early as possible independent of their health status, whereas they will work longer only when they are in good health. Not only may the health of the retiring persons themselves matter for retirement timing, but also the health of relatives and close friends. *Caring for older relatives* is a common reason for early retirement (Schneider et al. 2001) and has become more and more important throughout the last 20 years due to demographic aging and a growing share of the “oldest old” facing high risks of dependency. Because the excessive burden of taking care of relatives while working at the same time impacts negatively on an individual’s physical and mental health, it is a common reason for early retirement. Furthermore, in the conservative German welfare state, up to 70 % of older people in need of care live at home and are nursed mainly by their relatives who receive financial support from the public long-term care insurance. Accordingly, the problem of balancing nursing and work affects comparably more people in Germany than in countries such as Sweden with highly institutionalized nursing systems (Lyon and Glucksmann 2008). Most of this informal nursing is done by daughters and daughters-in-law (Heinicke and Thomsen 2010), who, in turn, are also mainly affected by early retirement due to nursing reasons. Based on a sample of 1,800 employed German women aged between 43 and 60, Leve et al. (2009) show that they spend an average of 20 hours a week nursing on top of their jobs.

Apart from income, education, and health, the coordination of retirement between *spouses* is an important factor for its timing, because spouses often try to synchronize their exits from employment. Given that women are, on average, younger than men when entering into marriage, they also tend to be younger when retiring. Differences in couples’ retirement behavior are also found depending on the spouses’ employment status, with full-time employment of both spouses fostering late retirement (Schneider et al. 2001). Not only the spouses themselves but also other family members matter for retirement timing. Apart from caring for a dependent parent or another older relative, as explained above, children and grandchildren also affect the retirement age of older workers. They might want to spend more time with their grandchildren and, as a consequence, exit the labor market earlier. However, this decision is often not only one of leisure but is also determined by the parents’ need

for support in rearing their children. This effect is again reinforced by the conservative German welfare state: Although some improvements have been made in recent years, the coverage of kindergartens, day care centers, and all-day schools is still comparably low. Therefore, combining work and raising children still represents a challenging task (Hochman and Lewin-Epstein 2013). As a result, the grandparents—in most cases, the grandmothers (Mahne and Motel-Klingebiel 2010)—frequently step in and support their children by taking care of their grandchildren. To be able to offer such support, older employees with grandchildren often retire earlier than those without grandchildren (Hochman and Lewin-Epstein 2013).

The discussion above already suggests that the determinants of retirement may differ according to *gender*. Within the German male breadwinner model, which has played a considerable role in previous retirement cohorts, female careers are often characterized by discontinuity and instability. These gender differences in retirement behavior are particularly prominent in Germany with its “conservative–corporatistic” welfare state. The option of equally splitting income between spouses before taxation (the so-called *Ehegattensplittung*) and the low coverage of primary child care facilities provide incentives for married women and mothers to temporarily interrupt their working careers. In combination with a strict insider–outsider labor market, this often leads to fragmented employment histories (Fasang et al. 2013), lower individual pension claims, and a dependency on the husband’s retirement income. Therefore, the coordination of the spouses’ retirement age often involves the woman synchronizing her retirement with that of her husband.

Another important individual determinant of the retirement age is an employee’s personal desires, wishes, and preferences about the optimal retirement age. Considering the context created by welfare state settings, workplace characteristics, and social networks, individuals will try to move their actual retirement age as close as possible toward their *preferred retirement age* (Raymo and Sweeney 2005). Literature on retirement desires is comparatively scarce, particularly in Germany. A study by Micheel et al. (2010) shows that older employees working in small companies and in positions with a higher occupational status plan to retire late. A high income, however, is correlated with the desire to leave the labor market

at an earlier stage. Not only the actual retirement behavior, but also the preferred retirement age seems to be affected by the institutional changes in the German pension system. In fact, since 2002, the preferred retirement age has increased by 2 years (Coppola and Wilke 2010).

A final characteristic influencing the age of retirement on the individual level is *employment status*. In Germany, self-employed persons tend to retire late, because the statutory retirement age of 67 is not applicable to+ them. They are not eligible for public pensions and hence have no access to any early retirement option. Their privately organized pensions often force them to contribute longer and therefore to postpone retiring (Schils 2008). Added to that, due to occupational selection, the self-employed often have a high job motivation and attachment (Gorgievskia et al. 2010) and therefore prefer extending their working life (Schils 2008). Employment status as an individual determinant links up closely with the next section that describes different workplace characteristics as determinants for retirement.

## 5 Workplace Characteristics as Determinants of Retirement Decisions

Besides welfare state settings and individual factors, conditions and contexts at the workplace also influence retirement decisions. These include the type of industry, the direct environment of the workplace such as ergonomic seating, as well as the “scope” of work such as whether it is part- or full-time.

Earlier research found that both *industry* and *firm size* matter for retirement decisions. As mentioned above, early retirement was used most intensively in the German manufacturing sector, in which older low-skilled workers were frequently “forced” into early retirement to facilitate downsizing or company restructuring. In contrast, high-skilled workers in the service sector, which was not affected as negatively by globalization, were and still are less likely to retire involuntarily (Buchholz 2006). Early retirement has also been shown to be particularly widespread within large companies. One reason for this could be age discrimination that is found

especially in larger businesses (Micheel et al. 2010). In addition, most large companies in Germany are located in the production sector which has suffered heavily from increasing international competition. This led to a common company policy of labor force shedding through either dismissing older workers or offering them financially attractive compensation in exchange for their early employment withdrawal (Bäcker et al. 2009).

Not only the kind of industry, but also the workplace's *regional infrastructure* is an important factor, as some German regions suffer more from demographic aging than others. Of particular interest in this respect is the east of Germany, where the transition from the policy of early retirement to active aging took part at an extremely accelerated speed. After German reunification, the hardly efficient, state-run East German companies were faced with particular labor market pressures, often resulting in mass early retirement. As mentioned in Sect. 3 of this chapter, the program of *Altersübergangsgeld* allowed older employees who were facing unemployment to retire as early as age 50 (Bönke et al. 2009). Together with the migration of high-skilled younger workers to the west and especially to the south of Germany, this led to a shrinking workforce in the east (Juessen 2009). Due to this selective outmigration, since the turn of the millennium companies in the east of Germany have been facing severe problems in finding skilled workers and are relying more and more on older employees (Klüsener and Goldstein 2012). Alongside the differences between the east and the west of Germany that stem from the division into two Germanys, there are also other regional differences in the general labor force demand. Generally, this demand is higher in the economically prosperous south of Germany. As in parts of the east of Germany, companies are facing a shortage of qualified workers (*Fachkräftemangel*) and are therefore trying to extend the work life of their older workers and even hire new older employees (Elias-Linde 2012). Against the background of demographic aging, retirement age is expected to rise especially for industries that suffer most from labor shortages, namely high-technology industries with highly skilled employees (Mueller 2012).

Another important aspect at the company level is the prevalence of *human resource measures* focusing particularly on the needs of older workers.

One example is the reduction of working time by offering part-time contracts and thus allowing older employees to retire gradually (Goebel and Zwick 2010). Goebel and Zwick (2010) explore the effect of such human resources measures on older employees: Based on data from 2008, they find that more than 50 % of German older employees have participated in at least one specific measure for older employees, even though the participation rate varies between different companies with higher rates in larger companies.

## 6 Conclusion

Demographic aging is imposing increasing pressure on Europe's and especially Germany's social security systems. A low fertility rate and a policy of early retirement have led to fewer and fewer contributors being confronted with more and more recipients in the public pension system. To counteract this development, German policymakers are currently trying to switch from the former policy of early retirement to a policy of active aging by implementing several pension system and labor market reforms aimed at raising older workers' labor force participation rate. However, not only the government but also companies have become aware of the aging workforce, because some industries are already experiencing difficulties in finding qualified workers, and, therefore, gradually shifting their attention to older workers. In order to increase older employees' work ability and prolong their professional life, and, hence, also to preserve their knowledge and experience in the company, several human resource measures particularly addressing this group have been introduced. These changes in the institutional and organizational determinants of retirement have led to a steep rise in the employment rate of German workers aged 55 and older.

When linking the three levels of retirement determinants in Germany, one comes to the conclusion that individual older workers (microlevel) are affected differently by changes in the welfare state and labor market (macrolevel), and workplace characteristics (mesolevel). Two examples are gender and qualification: The German welfare state used to, and to some extent still does, foster the model of the male breadwinner. Child

care and the nursing of older relatives led to instable female careers and consequently to lower pension claims, whereas men were in continuous full-time employment. Hence, many women relied, and still rely, on their partner's pension. Although a slow convergence of male and female older workers' labor force participation rates can be observed, gender differences and inequalities clearly persist.

Recently, an apparent social inequality between high- and low-skilled workers can be observed in Germany in the transition from work to retirement. High-skilled white-collar workers with a high income easily meet the requirements of the new policy, in the sense that they are less reluctant to work longer, also due to a high identification with their job. Furthermore, being the main target group of human resource measures, they profit highly from training measures. In contrast, the increase in the employment rate of lower-skilled manual workers is driven mainly by monetary pressure. Owing to the reforms, early retirement has become financially less attractive; and hence, in order to ensure a sufficient pension, many are forced to work longer not only in often unfavorable employment conditions (Hochfellner and Burkert 2013; Hofäcker and Naumann 2014) but also for employers who offer only few human resource measures. Referring to the theoretical framework, we may summarize that the main reasons why high-skilled older workers postpone their retirement in Germany are *maintain factors*, whereas the low skilled are driven mostly by *need factors*.

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# 8

## From Early Exit to Postponing Pension: How the Dutch Polder Model Shapes Retirement

Maria Fleischmann and Ferry Koster

### 1 Introduction

As in most Western countries, the proportion of older people in the population is steadily increasing in the Netherlands. As a result, the generous early pension benefits introduced in the 1970s constitute an increasing financial burden for the Dutch welfare state. A solution to this sustainability problem is sought by both raising individuals' effective retirement age and encouraging a higher labor market participation of older workers (European Commission 2001, 2009).

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Some figures illustrate the pressure on the Dutch welfare state due to population aging. In 1990, roughly one in eight people in the Netherlands was aged 65 years or older. In 2013, about one in six Dutch people were beyond retirement age. Projections for the upcoming years show that an ever-increasing proportion of the population will be aged 65 years or older: In 2025, about one person in five will be aged 65 years or older and this proportion is estimated to climb up to even one in four in 2050 (United Nations 2007). Due to the increasing proportion of older people in the population, the Dutch welfare state will have problems in sustaining generous welfare benefits. Similar to other European countries, the old-age dependency ratio is increasing in the Netherlands, indicating that a larger proportion of the population beyond working age are dependent on the contributions of a relatively smaller proportion of working-age people. Whereas 100 working-age people sustained about 12 older individuals in 1950 and 17 in 1975, they had to sustain about 21 people beyond working age in 2007. Projections show that in 2025, 34 individuals above age 65 will be dependent on 100 younger ones, and this proportion will even grow to 43 older persons by 2050 (United Nations 2007). Similar developments are visible in other European countries. An overview of the age dependency ratios in the 13 countries studied in this book can be found in the second chapter.

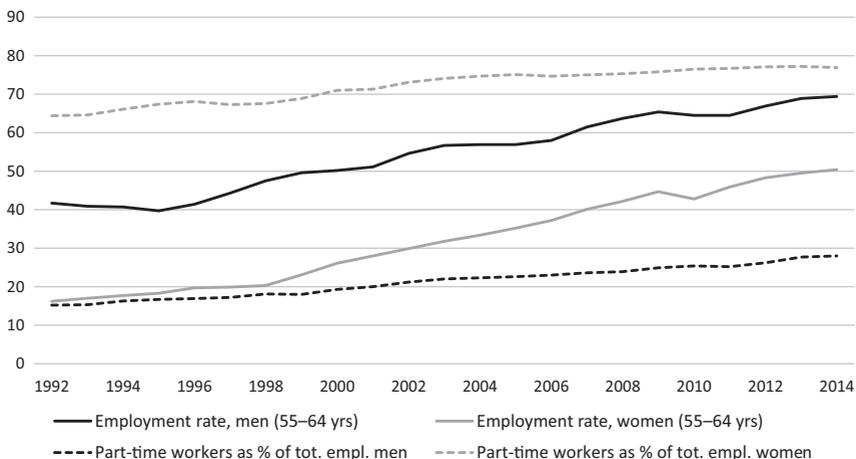
Without doubt, the institutional setting in which individuals live and make their transition from work to retirement affects their pathway toward retirement. The statutory retirement age and the early retirement possibilities are examples of the institutional context. Moreover, the institutional context might well generate differences between individuals or organizations.

In the remainder of this chapter, we describe the Dutch context and discuss institutional, individual, and organizational determinants of retirement. We embed this elaboration in the conceptual framework of “push,” “pull,” “need,” and “maintain” factors (see Chap. 1) and provide an overview of research conducted in the Netherlands. Moreover, we link prior research findings to recent public discussion.

## 2 Context: Developments in Aging and Retirement

### 2.1 Employment Rate

The employment rate of older workers aged 55–64 years reached its lowest point in the early 1990s. At that point, about 40 % of 55- to 64-year-old men and less than 20 % of women in this age group were participating in the labor market (see solid lines, Fig. 8.1). This low employment rate can be attributed largely to the generous opportunities for early retirement introduced in the 1970s (see below). From the late 1990s/early 2000s onward, the employment of 55- to 64-year-old men and women started to increase rapidly at a rate that was unmatched by any other European country with the exception of Germany (compare Chap. 2). In 2014, about 70 % of 55- to 64-year-old men and about 50 % of older women were in employment. Notably, during this whole period, older men's employment rate was about 20 % higher than that of older women. Although labor market participation of women in general and also older women has increased tremendously in recent years, there is still a large gender gap in the employment rate of older men and women.



**Fig. 8.1** Employment rate of older workers (55–64 years) and share of Part-time employment in the Netherlands  
*Source:* Eurostat (1992–2014)

The high labor market participation of Dutch women compared to other European countries can be attributed partly to the high share of part-time employment. As depicted in Fig. 8.1 (dotted lines), an increasing percentage of working-age women were employed in part-time jobs between 1992 and 2014. In 2014, nearly 80 % of all working-age women had a contract of 34 hours per week or less. Part-time work is also an accepted option for men: Between 1992 and 2014, the share of working-age men with a part-time contract doubled from about 15 to nearly 30 %. A comment is necessary when comparing these numbers to other countries: In the Netherlands, a part-time contract is defined as working 34 hours per week or less, whereas in other countries the benchmark is often set lower: for example, 30 hours per week. Part-time employment is a very prominent option in the Netherlands for women both with and without children. The so-called “large” part-time job (between 28 and 34 hours per week) is almost equally prominent as the “medium-sized” part-time job (20–27 hours per week) (Portegijs 2009).

## 2.2 The Dutch Welfare State and Pension System

Characterizing the Dutch welfare system is a less straightforward endeavor than it is for other countries. Its establishment required the collaboration of different political parties with varying ideals (Van Gestel et al. 2013). Furthermore, many agreements in the Netherlands were sought as part of the so-called “polder model,” characterized by cooperation between government, employer organizations, and labor unions (Visser and Hemerijck 1997). The consensus achieved despite a range of political and ideological differences resulted in a welfare system that can be characterized as a hybrid version somewhere between the corporatist and the social-democratic type. For example, the Dutch welfare state resembles a corporatist (continental) welfare type with regards to early pension regulations and a social-democratic (Scandinavian) welfare type when it comes to a universal state pension for each resident (Schils 2008; Van Gestel et al. 2013). As a consequence, the positioning of the Netherlands in welfare state typologies depends on which kinds of welfare state arrangements are being considered.

The Dutch pension system is a three-pillar system. A state pension (*AOW-Algemene Ouderdomswet*) was introduced in 1957 when developing the welfare state. This state pension is available universally for every resident of the Netherlands. The statutory retirement age was 65 years up until 2014 and

65 years and 3 months in 2015. It will be augmented by 3 months each year until 2018 and by 4 months each year from 2018 onward until it reaches age 67 in 2021. After 2021, it will be linked to life expectancy (OECD 2014). In each of the 50 contribution years between age 15 and 65, people living or working in the Netherlands accumulate 2 % of the state pension benefits. This percentage will be slightly lower in the future, because the retirement age will increase to 67 years and the contribution period will thus be longer. As such, the accumulation of a state pension in the Netherlands is independent of citizenship and whether individuals worked during the contribution period. Compared to other countries, the Dutch state pension provides only a basic income. The maximum amount is about 770 euros gross per month per person for couples living together (about 50 % of the minimum wage) and about 1,110 euros gross per month for those living alone (about 70 % of the minimum wage) (Pensioenfederatie 2010; SVB 2015). The state pension is organized as a pay-as-you-go system. This means that the working population contributes to the costs of the pension benefits.

The second tier in the Dutch pension system consists of collective pensions. Both employers and employees contribute to this part of the pension system during working life. Even though employees are not obliged by law to contribute to a collective pension fund, governments can make contributions to collective pensions obligatory if social partners decide to arrange occupational pensions (Pensioenfederatie 2010). As a result, participation in collective pension schemes is very high in the Netherlands at more than 90 % of all employees (OECD 2014; Schils 2008).

The third pillar comprises private pension arrangements. They are used mostly by the self-employed or those who work in an organization or sector in which no collective pensions are available (Pensioenfederatie 2010). Compared to the state pension and collective pension, fewer people are insured via private pension arrangements.

### 3 Institutional Characteristics as Determinants of Retirement Transitions

The institutional context in a country largely determines how and when individuals make their transition into retirement. On the one hand, (governmental) incentives that facilitate early retirement (pull factors) or restrict

employment opportunities (push factors) can promote early exit. On the other hand, late exit might result from measures that stimulate a better integration of older workers (maintain factors) or from changes in the institutional setting restricting early exit and making participation unavoidable (need factors). In the following, we describe institutional developments regarding retirement in the Netherlands. Afterwards, we discuss the relation between these institutional characteristics and changes in individuals' transitions into retirement in the light of so-called push and pull factors as well as need and maintain factors (see Chap. 1; Ebbinghaus and Hofäcker 2013; Hofäcker and Unt 2013; Van Oorschot and Jensen 2009).

### 3.1 Introduction of Early Retirement Pathways

Early retirement pathways were introduced in the Netherlands as a response to the economic recession of the late 1970s. During this recession, prime-age and older workers were largely protected from unemployment through permanent contracts, whereas younger persons found it difficult to enter the labor market. The result was high youth unemployment. The response to this problem was to set up early retirement schemes. The main idea was to replace each older worker who retired with a younger person (Van Oorschot and Jensen 2009).

The first early retirement schemes in the Netherlands were organized as occupational pensions. They were introduced in the mid-1970s, first in single sectors and companies, but were soon implemented in most labor agreements. The first early retirement scheme became known as the VUT regulation (*Vervroegd uittreden*, literally: early exit) and provided older workers with generous opportunities to exit the labor market around age 60 (Euwals et al. 2004; Van Oorschot and Jensen 2009). The VUT was clearly designed to offer older workers an incentive to leave the labor market early. Retiring through the VUT provided older workers with an income of about 70–80 % of their last monthly wage. Delaying early retirement past VUT age did not increase this replacement rate, and workers choosing these early retirement benefits did not experience any reduction in their state pension. Because the VUT pension, along with its successor, was arranged through occupational pension funds, early retire-

ment was organized slightly differently for workers in different occupations or sectors of employment, for example in terms of the age of early retirement and the replacement rate.

The decrease in the actual retirement age in the Netherlands throughout the 1970s and 1980s (see Fig. 8.2), can be regarded as a result of mainly pull factors: Extensive early retirement benefits offered older workers the opportunity to withdraw from the labor market around age 60. Due to the generous regulations, the VUT early retirement scheme became known as “an offer one cannot refuse” (Van Oorschot and Jensen 2009); incentives to remain in employment were minimal.

As discussed above, the economic recession of the late 1970s in the Netherlands did not push older workers out of the labor market, but younger people instead. Hence, early retirement schemes were introduced to provide employment for the young. These early exit schemes pulled older workers out of the labor market and allowed the young unemployed to enter the labor market as a replacement.



**Fig. 8.2** Average effective retirement age in the Netherlands, 1970–2012  
*Note:* Average effective retirement age is calculated as weighted average of (net) withdrawals from the labour market at different ages over a 5-year period.

*Source:* OECD data

### 3.2 Reversing the Early Retirement Trend

Theoretically, the early retirement trend can be reversed in two ways. First, countries can introduce institutional policy changes that make early retirement (financially) less attractive or they can close early retirement pathways (Conen et al. 2011). In this way, older workers “need” to remain in the labor market, whether voluntarily or involuntarily. Second, state-funded programs or initiatives can improve the fit between older workers and the labor market and increase their employability (Ebbinghaus and Hofäcker 2013). The implementation of policies targeted toward the integration of older workers in the labor market can help to maintain them. In the Netherlands, these two ways of reversing the early retirement trend were arranged in two more or less consecutive phases: In the first phase, the focus was on need factors, whereas in the second, more emphasis was placed on the introduction of maintain factors.

### 3.3 The Need to Retire Later

The 1990s saw a growing awareness that the VUT early retirement scheme, financed through a pay-as-you-go system, would be unsustainable in the long run (Euwals et al. 2004). Early retirement benefits for the increasing proportion of older workers could not be sustained by contributions from the workforce. Therefore, several changes were implemented in the late 1990s to make early retirement less attractive.

VUT benefits were phased out and the *prepension* (literally: *prepensioen*) was implemented as a transition scheme (expiring around 2015). Although the prepension scheme was, compared to the VUT, advantageous because it allowed older workers to decide more individually on their early retirement age, its main aim was to reduce early retirement benefits. In contrast to the VUT, the prepension was capital funded, meaning that benefits were paid from members’ own contributions (as a kind of savings scheme) rather than from the current workforce’s contributions. Moreover, the earlier workers exited the labor market through the prepension, the lower their replacement rate and, thus, their retirement benefits. The replacement rate with prepension was lower than that

with VUT, namely around 70 % of employees' prior income, and mostly realized later, namely at around age 62 (Euwals et al. 2004). Both the lower replacement rate and the higher early retirement age were meant to discourage older workers from retiring early (Conen et al. 2011; OECD 2014). As intended, the employment rate of older men and women started to increase from the late 1990s onward (see Fig. 8.1). Moreover, the effective retirement age (see Fig. 8.2) started to rise. Note that the average effective retirement increased only from the early 2000s onward, partly due to the calculation of the effective retirement age as an average over the preceding 5 years.

From the 2000s onward, additional changes were introduced in order to make early retirement less attractive and increase the labor market participation of older people. In 2006, the Dutch government decided to tax both the premium and the benefits received through early retirement regulations (Euwals et al. 2004; Van Oorschot and Jensen 2009). This decreased the financial attractiveness of early retirement schemes. With a short durability, the life-course scheme (literally: *levensloopregeling*) was introduced in 2004. This scheme provided workers with the opportunity to save part of their gross salary for unpaid leave (such as early retirement). This regulation was intended to be changed toward a vitality scheme providing financial assets to take leave for schooling or child care. However, this life-course scheme was abolished in 2012. The restriction of access to early retirement schemes seems to be yielding benefits: Fig. 8.2 shows that the effective retirement age increased steeply for men and women from the late 2000s onward, reaching about 64 years for men in 2012.

In 2012, after years of discussion, the government passed a legislative proposal to raise the statutory retirement age stepwise from 65 to 67 years by 2023. Later, the Rutte-II government (since 2012) agreed to increase the statutory retirement age even faster, reaching 67 years in 2021. From 2021 onward, the statutory retirement age will be linked to life expectancy. The effects of this increase will become visible in the years to come.

Next to the changes in early retirement regulations and statutory retirement age, the Netherlands restricted early withdrawal from the labor market via disability benefits and, to a lesser extent, via unemployment benefits. Workers had used generous disability benefits (*law work disability*; literally: *Wet Arbeidsongeschiktheid* [WAO]) to “retire” (OECD

2014). Also employers made use of disability benefits to lay off older workers (Conen et al. 2011). The extremely high numbers of people receiving disability benefits (about 1 million people) became known as the “Dutch disease” (Ebbinghaus and Hofäcker 2013). In the late 1980s, access to WAO benefits was limited through several reforms. Until the WAO was replaced by a new law, the replacement rate in case of full disability was 70 % of the prior wage paid for 6 years for those aged 58 (Van Oorschot and Jensen 2009) and until statutory retirement age for those who were older. In 2006, the WAO was succeeded by the WIA (*law work and income depending on work ability*, literally: *Wet werk en Inkomen naar Arbeidsvermogen*). The WIA places a stronger emphasis on ability and rehabilitation rather than disability, for example by underlining that people are expected to reenter the labor market and work according to their abilities (OECD 2014). The shift from a disability scheme to an ability scheme reflects the normative shift in the Netherlands toward a “participation society” characterized by a strong emphasis on individual responsibility (Van Oorschot 2006).

To conclude, the Netherlands were known as a country with ample early retirement opportunities. Early withdrawal was the norm rather than an exception. Several reforms introduced from the late 1990s onward contributed to the successful reversal of this early exit trend (Ebbinghaus and Hofäcker 2013). In the Netherlands, early retirement routes were closed and made fiscally less attractive, and the statutory retirement age was raised. Older workers thus became obliged to remain in the labor market longer. Today, the Netherlands, similar to Germany, is known as a country in which pensions are postponed.

### 3.4 Maintaining Workers’ Participation

Retirement can also be delayed by implementing arrangements that help to maintain older workers’ employability and, thus, their labor market participation. One of the most general means to improve the employability of workers is (formal) training activities that increase a worker’s human capital. In 2014, about one in nine people between the ages of 55 and 64 in the Netherlands had participated in training in the last 4 weeks

(Eurostat 2015). The training participation of older Dutch employees has been increasing slowly in recent years and is now slightly higher than the OECD average (OECD 2014). Nonetheless, it lags far behind countries such as Denmark, Sweden, or Switzerland in which about one in four to five older people participated in training activities in 2014 (Eurostat 2015).

On-the-job learning constitutes an important part of employability enhancement especially for older workers. Whereas there has been a major debate about lifelong learning (WRR 2013), these initiatives seem to be more a matter of ad hoc investments from employers or workers rather than a long-term investment strategy that prepares workers for future developments or deals accurately with changes in qualitative labor demand. In the Netherlands, it is possible to receive a so-called experience certificate (literally: *ervaringscertificaat*) documenting one's acquired on-the-job skills that come on top of formal degrees or education (OECD 2014). Especially older workers often do not have formal educational degrees reflecting their skills. These certificates can help them to make work-to-work transitions and to indicate their employability. Frequently, these certificates are paid for by training and development funds (literally: *Opleidings- en Ontwikkelingsfondsen*). These funds are organized at the sector or branch level and are financed by employees' and employers' contributions. Through these funds, employers can receive subsidies to provide training for their employees. Until now, both employers and employees have used these training and development funds to a very limited extent. However, social partners and the government have agreed that these funds will provide, amongst others, more vocational training and personal budgets for training (OECD 2014).

## 4 Individual Characteristics as Determinants of Retirement Decisions

Individual characteristics are often used to explain differences in retirement behavior. Because most of these differences are not specific to the Netherlands, we discuss only those that can be regarded as being typically

Dutch. As explained above, early retirement benefits are obtained via the second pillar—that is, occupational pensions. This means that schemes vary between workers and, thus, differences with regards to workers' time point of retirement might emerge (Schils 2008).

A pronounced difference can be expected between women and men. In the Netherlands, women and men were traditionally separated into the roles of homemaker and breadwinner respectively. However, these spheres are increasingly merging (Wielers and Raven 2013). Today, Dutch women engage in paid work to a large extent and solve the evolving work–family problem through part-time employment (Wielers et al. 2013). Part-time work is socially accepted in the Netherlands (SCP 2008; Wielers and Raven 2013). This is expressed in its high incidence: In the last decade, more than 70 % of working-age women had part-time jobs (compare Fig. 8.1). Due to pregnancy breaks, child care, and part-time work, it is argued that women in the Netherlands meet their necessary early pension requirements later than men (Hakim 1996; Schils 2008). This might explain why older working women in the Netherlands are less likely to enter early retirement than men (Schils 2008).

For men as well, disrupted employment history might delay entry into retirement because of insufficient early pension requirements. Findings reported by Damman et al. (2011) support this rationale: Dutch male older workers who experienced a dismissal or a job switch in their career have a lower intention to retire. This argument also holds for self-employed workers. Self-employed persons who are excluded from occupational pension schemes in the Netherlands retire later than employees (Statistics Netherlands 2015). Furthermore, self-employed persons in the Netherlands are less likely than their counterparts in the UK and Germany to exit the labor market through early retirement schemes (Schils 2008).

In contrast to these groups, wealthier people meet the necessary requirement earlier and may, thus, retire earlier (Gruber and Wise 1999; Schils 2008). In line with this, Damman et al. (2011) found those Dutch workers who do not perceive that they have a pension shortage report a stronger intention to retire and also actually retire earlier. Furthermore, a financially more secure position, for example, because of a higher household income or higher (perceived) wealth, is related to earlier intended and actual retirement in the Netherlands (Damman et al. 2011; Henkens

et al. 2009; Mnderlein et al. 2013; Schils 2008; Van Solinge and Henkens 2009, 2013).

Disability benefits used to be a common alternative to occupational pensions for an early exit from the labor market. Although access to disability benefits was made more complicated in the Netherlands from the 1980s onward (see above), work disability benefits are still a possible early retirement route. Schils (2008) found that men and women with poor/fair health compared to good health had higher probabilities of exiting the labor market through social security schemes in the year 2000. In general, health has repeatedly been reported to play an important role in individuals' retirement in both the Netherlands and other countries. Health impairments restrict older workers' opportunities for employment and promote early exit (Damman et al. 2011; Geuskens et al. 2012; Mnderlein et al. 2013; Van Solinge and Henkens 2009, 2013).

The early retirement pathways generate differences between individuals' retirement ages. Moreover, individuals' work ethic and work orientation might be related to their retirement behavior (Van Oorschot and Jensen 2009; Wang and Shultz 2009). Individuals who attach a higher importance to their career or have higher job values might regard work as more beneficial and retire later (Mnderlein et al. 2013; Van Oorschot and Jensen 2009). Van Oorschot and Jensen (2009) show that the Dutch are less intrinsically and more extrinsically motivated in their jobs compared to Danish older people who are more intrinsically and less extrinsically motivated. They suggest that extrinsic rather than intrinsic motivation might contribute to a higher incidence of early retirement in the Netherlands. Mnderlein et al. (2013) find, however, that both higher intrinsic and extrinsic work values are related to a lower intention to retire.

## 5 Workplace Characteristics as Determinants of Retirement Decisions

In recent years, more attention has been given to the role of job quality or workplace characteristics in general for individuals' retirement behavior (for example, Schmidt and Lee 2008; Siegrist et al. 2006; Siegrist and Wahrendorf 2010; Wang and Schultz 2009). The assumption is that older workers in bad-quality jobs are pressed toward early retirement due

to the accompanying lower job satisfaction (Van Oorschot and Jensen 2009). Employers, or organizations in general, are assumed to affect workplace characteristics by deciding on the features of the workplace and the employability-enhancing practices they provide (Gazier 2001). In the following, we discuss employability-enhancing practices and the role of workplace characteristics in older workers' retirement entry in the Netherlands. Additionally, some employers may be more, whereas others are less, prone to provide employability practices. We elaborate on this topic as well.

## 5.1 Workplace Characteristics

The literature on job stress and burnout reveals that workplace characteristics affect whether individuals are satisfied with their job. The theoretical models in this field assume that job demand and job control (Karasek 1979), job demands and job resources, efforts and rewards (Siegrist et al. 2006), or more generally “costs” and “benefits” are inherent to each job and need to be balanced in order to avoid negative effects such as job stress. Stated differently, job demands are characteristics of the job that increase the costs of work. Examples are job pressure or physically demanding work. On the other side of the coin, job control/job resources comprise the benefits of the job. Examples are career opportunities provided through the organization, task autonomy, or job control. These costs (job demands) and benefits (job resources) can also be expected to relate to retirement behavior (for example Mündenlein et al. 2013; Van Solinge and Henkens 2013).

## 5.2 Job Demands or Costs and Job Control or Benefits

Generally, research in the Netherlands indicates that both job demands and the absence of job control relate to earlier retirement. Job demands such as job pressure and physical demands are related to an earlier intended retirement (Geuskens et al. 2012; Henkens et al. 2009; Mündenlein et al. 2013; Van Solinge and Henkens 2009, 2013), as well as an actual earlier

exit (Van Solinge and Henkens 2009). Moreover, older workers' willingness and ability to work until official retirement age (65 years) proves to be affected negatively by high job demands or emotional demands (Geuskens et al. 2012). The absence of job control, operationalized by, for example, a low level of job control, low autonomy, or low satisfaction with career opportunities, is related to a lower ability to work until retirement age or a higher likelihood to retire (Geuskens et al. 2012; Siegrist et al. 2006).

The presence of control or resources is associated with later retirement. Different findings for the Netherlands show that opportunities for growth or work challenges decrease early retirement (intentions) (Damman et al. 2011; Van Solinge and Henkens 2013). However, a challenging job can also be a curse. Henkens et al. (2009) highlight this by showing how a challenging job relates to a higher intention to exit the labor market early.

Experiencing support is a beneficial characteristic of the job. Social support provided by the supervisor (Geuskens et al. 2012) and supervisors supporting workers who work longer (Van Solinge and Henkens 2013) contribute to postponing retirement (intentions).

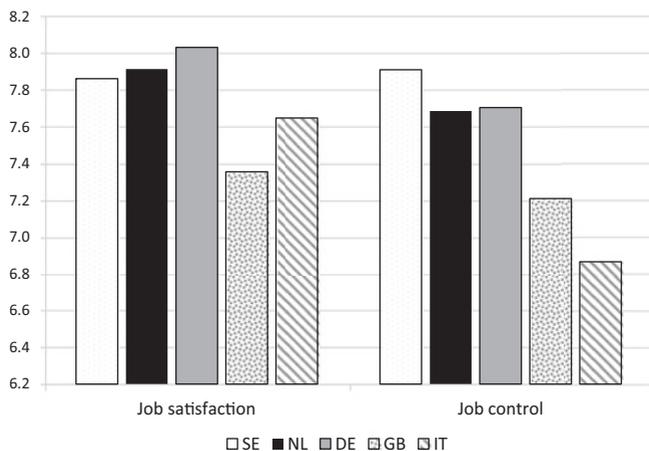
To summarize, bad job quality is assumed to push people into early retirement. Indeed, research results for the Netherlands show that both job control/demands and the absence of job resources are generally related to earlier retirement, whereas the presence of job resources delays exit. Hence, a higher quality of working life—that is, better workplace characteristics—can contribute to later retirement.

### 5.3 Imbalance between “Have” and “Want”

In addition to the (perceived) job quality, individuals value particular characteristics of their workplace. What one “has” and what one “wants” might either fit and be balanced, or not fit and be imbalanced. A related assumption is that a certain balance is needed between the individual and the work (person–environment fit) or the needs and the supply to prevent job stress (for example, Kristof-Brown et al. 2005). Poorer fits have been related to lower (job) satisfaction (for example, Wu 2008). Moreover, retirement decisions might also be affected by a poor fit, because an

imbalance between the work environment and individual needs might contribute to the costs of work. Research in the Netherlands confirms that a poorer fit between individual wishes and the supply of these is related to a higher likelihood to intend to retire (Münderlein et al. 2013). Similarly, Siegrist et al. (2006) show that an imbalance between efforts and rewards also increases the intention to retire.

The values older persons ascribe to various aspects of work might differ across countries. As depicted in Fig. 8.3, older people (aged 50–65) in the Netherlands, as well as in Sweden and especially Germany, find job satisfaction an extremely important work characteristic. On a 10-point scale, people in these countries ascribe an average value of above 7.8 to the importance of job satisfaction. A similar picture applies with regards to job control. In the Netherlands, Sweden, and Germany, older persons perceive job control to be an important job characteristic, whereas this is less so in Great Britain and Italy. If the high importance of job quality translates into jobs with effectively better quality, retirement might be postponed. The case of Sweden might provide an example for this rationale. Compared to other European countries, Sweden is known for its consistently higher job quality (Gallie 2003; Van Oorschot and Jensen



**Fig. 8.3** Importance of job satisfaction and job control among older workers (aged 50–65)

Source: European Values Survey 2008, own calculations

2009). Moreover, the effective retirement age in Sweden is one of the highest in Europe (Eurostat 2015). Hence, a better job quality might contribute to later retirement.

## 5.4 Employability-Enhancing Practices

The organizational provision of human resources (HR) measures such as training and employability-enhancing practices might contribute to later retirement. Although research assessing this relation is scarce, organizations in the Netherlands are familiar with many HR practices that contribute to older workers' employability. Two forms of practices can be distinguished:

On the one hand, organizations use "spare measures" (literally: *ontzietmaatregelen*) as part of their employability practices. Employers experience these measures as easy to implement, mainly because they are included in collective agreements (Remery et al. 2003; Van Oorschot and Jensen 2009; Ybema et al. 2009). Examples of spare measures are ergonomic improvements, part-time retirement, extra leave days, or an exemption from working overtime for older workers. These instruments alleviate older workers' tasks and in this way, sustain their employability. On the other hand, organizations can implement so-called "development measures" (literally: *ontwikkelmaatregelen*) or "retention measures." Often, these measures involve a certain degree of organizational reorganization. Examples are long-term care breaks or sabbaticals. Also demotion, meaning that older workers take a step back in terms of their hierarchical position and wages, is an example of measures that entail a reconsideration of the existing organizational structures that can be subsumed under the heading "development measures."

Dutch organizations consider development measures less frequently than spare measures (Fleischmann et al. 2015; Van Dalen et al. 2006). Moreover, the implementation of HR measures differs between organizations. Larger organizations and those that expect competition through employee scarcity implement more employability-enhancing practices (Fleischmann et al. 2015). In larger organizations and organizations with a larger number of older workers, employers also give more encourage-

ment to older workers to prolong their careers (Conen et al. 2011; Ybema et al. 2009).

When comparing the implementation of HR measures across countries, it seems that Dutch employers show a particular preference for spare measures. Van Dalen et al. (2006) have shown that 47 % of Dutch employers implemented or considered part-time retirement. In the UK, about 33 % of employers incorporate this measure compared to only 12 % in Greece and 9 % in Spain. Moreover, in 57 % of Dutch organizations, additional leave days for older workers are considered/implemented—again compared to a very low percentage in other countries (10 % in the UK and even less in Spain and Greece). In contrast, Dutch employers implement development measures far less frequently. Training programs for older workers are implemented or considered by 13 % of Dutch organizations compared to 18 % of organizations in the UK. Demotion as a measure to retain older workers is implemented/considered by 6 % of Dutch and Greek employers compared to 16 % of organizations in the UK.

To sum up, although Dutch employers implement a wide range of spare measures, they use hardly any development measures to retain older workers. Employers appear to choose the easily implementable measure that has been agreed upon collectively (Fleischmann et al. 2015; Van Dalen et al. 2006; Ybema et al. 2009).

## 5.5 Employers' Views of Older Workers

Some employers might regard older workers as a more valuable asset for their organization than others. The implementation of HR measures can also be expected to differ depending on these views. Dutch employers find older workers more reliable, accurate, and committed to the organization, whereas they think that younger workers are more flexible, more creative, and have a higher willingness to be trained (Van Dalen et al. 2010). Furthermore, Dutch employers perceive older workers to be less adaptable and resistant to innovation (Henkens 2004). That these views relate to employers' investments in HR practices is corroborated in a

study by Fleischmann et al. (2015): A better perception of older workers was found to relate to more investments in age-aware HR measures.

## 6 Conclusion

The Netherlands were known for their explicit early retirement culture. As a response to high youth unemployment, generous early retirement options were introduced in the late 1970s and became known as an “option one cannot refuse.” To reverse the early retirement trend, several changes have been adopted over the past decades. In the late 1990s, pension funds decided to phase out the occupational early pension regulation VUT and change the prepension, its intermediary successor, from a pay-as-you-go system to a capital-funded one. Moreover, replacement rates were decreased. This prolonged the contribution period to achieve the required pension benefits and indirectly increased early retirement ages. Furthermore, the accessibility of disability benefits has been made more difficult, closing this “retirement” route for older workers and this layoff possibility for employers. The Dutch government has made early retirement routes fiscally less attractive, especially since 2006, and in 2012, it decided to increase the statutory retirement age. All these changes contributed to an increased need for older workers to retire later.

In addition to increasing the need to remain working, several measures have been taken that affect older workers’ voluntary labor market participation. Employability measures, such as the opportunity to receive experience certificates and age-aware human resources measures, are examples of initiatives that sustain older workers’ participation. All in all, the welfare state reforms and occupational initiatives implemented in the last decades have contributed substantially to shifting the Dutch early exit culture toward a postponement of pension entry.

The Netherlands are a specific case, because many arrangements and measures are related to the occupation of the worker. Collective agreements and the collaboration between social partners and governments that were also specific to the formation of the Dutch welfare played an important role in the decline in the retirement age in the late 1970s and 1980s as well as in its subsequent rise. For example, early retirement was

organized through occupational pension schemes. More recently, training and development funds have organized employability measures such as the provision of training and certificates. Employers' responsibilities regarding age-aware HR measures—particularly so-called “spare measures”—are defined in collective agreements that can contribute to their successful implementation. All in all, the collaboration between employers, employees, and governments—the so-called Dutch polder model—has influenced the rise and modification of the Dutch pension system, the development of employability and HR measures, and, as a result, the retirement decisions of people in the Netherlands.

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# 9

## Retirement Determinants in Austria: An Aging Society but a Hesitant Policymaker!?

Lisa Schmidhuber, Heike Schröder,  
and Edmund Panzenböck

### 1 Introduction

The low labor market participation of individuals aged 55+ combined with low fertility rates and rising life expectancy poses a challenge to the sustainability of Austrian social security systems. This is especially true for the state pension systems, because the decreasing labor market participation of older-age cohorts is exerting increasing pressure on the financing of this pay-as-you-go system. Low employment rates of older people result partly from high rates of early retirement due, for example,

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to the influence of disability pension schemes. Also, women can already retire at age 60, 5 years earlier than men (Raab 2011). In response to discussions on the sustainability of social security systems, Austria implemented various pension reforms in the 2000s. Their main purpose was to modify the pension assessment basis, to increase the base period from the financially best 15–40 years, and to abolish early retirement pathways step by step by 2017 (Wipplinger and Winter-Ebmer 2009). These measures aim to increase the effective retirement age by decreasing early retirement options and introducing incentives for older workers to stay in employment.

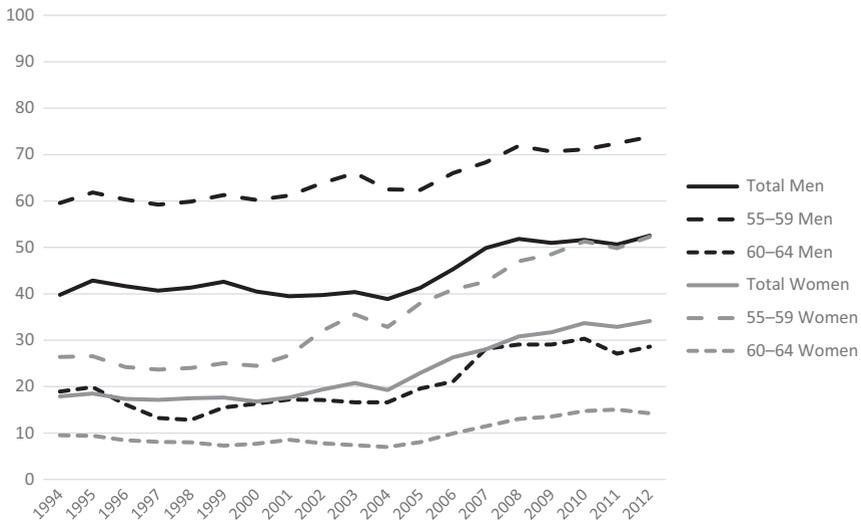
Even though the challenge from demographic change has been a policy concern throughout recent decades, it remains an issue of public debate in the mid-2010s. Unsurprisingly, the raising of the de facto retirement age is also a focus in the current “work program 2013–2018” of the Austrian “grand coalition” government constituted in 2013. This chapter provides an overview of the development of the employment rate of individuals aged 55+ as well as the institutional determinants and contexts of retirement decisions in Austria. The first part investigates main trends in the labor market behavior of older workers. The subsequent parts contain an analysis of the institutional framework conditions as well as a literature review on individual and workplace characteristics that influence retirement decisions.

## 2 Development of the Employment Rate of Older Workers in Austria

Austria is affected particularly strongly by population aging. Increasing life expectancy and declining fertility rates are changing the age structure of the population. Whereas in 2012, about 18 % of the population was aged over 65, this will increase to 25 % by 2030 (Hanika et al. 2012). Simultaneously, the size of the working-age population will decrease, and labor supply will fall in the long term. Even though Austrians live longer than they did 30 years ago and spend an increasing number of years in good health, they do not work longer. In fact, the effective retirement age

has declined. Due to a high dependency ratio,<sup>1</sup> the financing of future pensions is a major challenge (European Commission 2012; OECD 2005).

Since the mid-1970s, the employment rate of workers aged 55+ has decreased significantly. Whereas in 1975, nearly 98 % of men between 55 and 59 worked, this number had decreased to around 70 % in 1985 (Unger 2001). Early retirement remained an important labor market exit option throughout the 1990s, and the employment rate of those aged 55+ remained low until the early 2000s (Felderer et al. 2006). However, participation rates have been rising since 2001 for women and since 2004 for men (Budimir 2010) (see Fig. 9.1). This increase has resulted partly from recent labor market reforms (OECD 2005). Nevertheless, there are still pronounced differences between male and female employ-



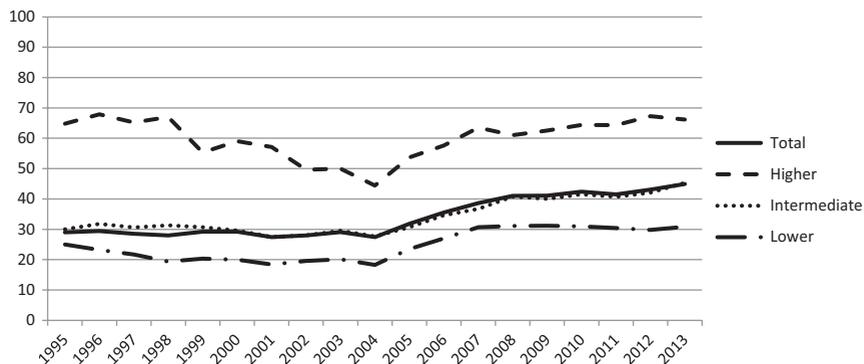
**Fig. 9.1** Employment rate (%) of workers aged 55–64

Source: OECD, downloaded on October 10, 2013 from <http://stats.oecd.org/index.aspx?r=664972>

<sup>1</sup> This indicator refers to the ratio between the total number of inactive population aged 65+ and the number of employed people aged between 20 and 64 (European Commission 2012).

ment rates. Both the employment rate of women between 55 and 64 and the total female employment rate have increased continuously over recent decades, whereas the employment rate of men aged 55 to 64 has remained stable or even decreased slightly due to modifications of the eligibility criteria to retirement benefits until the mid-2000s. Similar to the female rate, however, the male rate has increased since 2004. Overall, the male employment rate continues to be higher than the female one (Wiedenholzer-Galik et al. 2013), with a persistent 20 percentage point difference since the early 1990s (OECD 2013b).

Comparing the employment behavior of older Austrians with other OECD countries (see also Chap. 2) shows that the Austrian employment rate of 43 % remains below the OECD average of 55.6 % (2012) despite positive developments during recent years. Furthermore, the educational level influences employment rates. Figure 9.2 shows that a higher level of education is associated with increasing employment propensity. Nearly 70 % of those aged 55–64 and holding a higher education degree were employed in 2013. Thus, more time spent in initial education is connected to a later labor market exit. This indicates that the level of initial



**Fig. 9.2** Employment rate (%) of people aged 55–64 according to education level (education was coded according to the International Standard Classification of Education (lower = 0–2; intermediate = 3–4; higher = 5–6))  
 Source: EuroStat, downloaded on July 8, 2014 from <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec430&plugin=1>

education has a (direct) influence on employment chances in later life (Wiedenholzer-Galik et al. 2013).

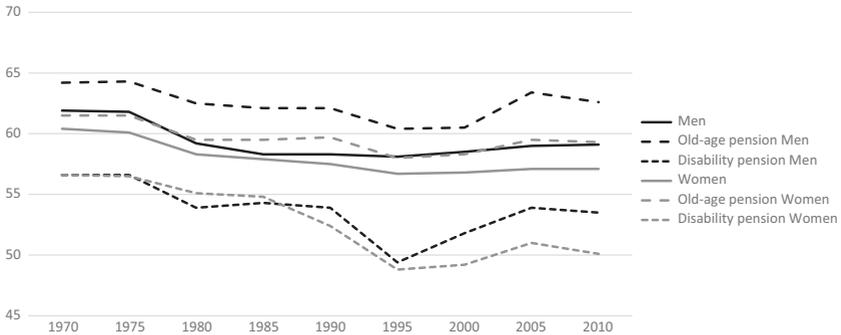
The rising employment rate of older workers is also due to an increasing number of people working part-time. Overall, the average weekly working time is 41.5 hours for men and 32.5 hours for women. Part-time work is particularly common among women, which reflects the dominant Austrian male breadwinner and female caregiver model. Whereas only 10 % of men work part-time, 45.5 % of women do so (Fasching et al. 2014). This difference also holds true with regard to older workers. Both men and women decrease their working time toward the end of their working life, which might be associated with the possibility of reducing working time via the part-time early retirement scheme (*Altersteilzeit*) (Bucheberner-Ferstl et al. 2011). However, women use this scheme more often than men: In 2012, over 60 % of those participating in the scheme were female (Wiedenholzer-Galik et al. 2013).

Furthermore, despite the increase in the employment of older workers in the 2000s, the effective retirement age did not change significantly for either sex.<sup>2</sup> Although the Austrian pension age is 60 for women and 65 for men, both sexes leave the labor market prior to the statutory retirement age. Women retire at around age 57–58, whereas men leave at around age 59. However, early retirement is more common among men (Stiglbauer 2013), and more women work beyond retirement age. This is because women have often not accumulated sufficient insurance years due to maternity breaks and therefore do not qualify for early retirement schemes.

Figure 9.3 illustrates the development of the effective retirement age for both men and women. The slope of the lines demonstrates that the low average retirement age (all pensions) results from the fact that those people who received disability pensions were in their early to mid-50s. However, the retirement age of old age pensioners of both sexes declined from the mid-1970s onward, rose around the turn of the millennium, and has been falling slightly since 2005. The same holds true for older work-

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<sup>2</sup>However, the rough way of calculating the retirement age must be considered when analyzing these data. Changes in the age structure, the amounts of foreign pension, and so on can lead to biased results.



**Fig. 9.3** Effective retirement age, 1970–2010

*Source:* Social Insurance Authority from February 22, 2013. Old age pension includes invalidity pensioners over 60 (female)/65 (male) years and disability pension includes people under 60 (female)/65 (male)

ers who have received disability pensions. Nevertheless, the decrease in the retirement age of disability pensioners was sharper than the decrease in the retirement age of old age pensioners.

Generally speaking, the number of transitions into disability pension schemes, the propensity of which increases with age (Biffl and Isaac 2007), has risen over recent decades. However, this growth resulted from, among others, an increasing number of pension benefit applications from abroad and the shift in the age structure, and thus cannot be influenced actively by the statutory pension insurance. Nevertheless, the pension reforms in the early 2000s succeeded in decreasing the rate of new transitions into the disability pension. Furthermore, the positive labor market situation contributed to the decline in the rate of disability pensioners (Stefanits and Mayer-Schulz 2008).

Recently, political actors have resumed the discussion on increasing the official pension age. However, it would be more reasonable to align the effective retirement age with the statutory one before discussing any increase in the legal retirement age (Wipplinger and Winter-Ebmer 2009). This is because Austria is, beside Luxembourg, the country with the lowest average effective retirement age among OECD countries. Since the low effective retirement age results from the low employment rate of individuals aged 55+, measures toward increasing employment rates

could help to close the gap between effective and official retirement age. The low employment rate over recent decades can be explained partly by various features of the Austrian pension system allowing early retirement (Felderer et al. 2006). However, recent pension reforms have attempted to close off these early retirement pathways. The next section gives an overview of the functioning of the pension system and points to several factors that influence retirement decisions.

### 3 Institutional Determinants: The Context of Retirement Decisions

The Austrian pension system is a typical example of a Bismarckian welfare state. The system is funded by contributions from wages, serves as income compensation after working life, and is based on the male breadwinner model. The public pension insurance scheme provides an earnings-related pension for workers with at least 15 insurance years that is accessible from age 65 for men and from age 60 for women (OECD 2005). The statutory pension system, which constitutes the most important income source in retirement, offers old age pensions as well as early retirement and disability pensions. The effective pension amount depends on earnings prior to retirement and the insurance duration. If the pension amount remains under the “equalization supplement reference rate” (*Ausgleichszulagenrichtsatz*), there is a “means-tested equalization supplement” (*Ausgleichszulage*). Simultaneously, there is an upper earnings limit for insurance contributions and pension benefits (Fink 2011).

In addition to the statutory pension insurance, workers can take out an occupational pension or pay into an individual savings account (Reiter and Woltran 2010). However, only 8.6 % of pensioners received an occupational retirement provision in 2012. Private pension schemes are also voluntary and might complement (low) state pensions. Due to the generosity of the public pension scheme, replacing about 80 % of men’s and 75 % of women’s average earnings (OECD 2005), these two forms are of minor significance (Hinrichs and Aleksandrowicz 2006), but they may well increase in importance as replacement rates of public pensions decrease in the future.

Because civil servants are not covered by the statutory pension insurance, they are not included in the tabulation of pension entry ages in the social security statistics. The statutory retirement age for civil servants was 60 for both men and women until the pension reform in 2000. After an initial increase to age 61.5, the pension age will be raised gradually to age 65 by 2017 (Gabmayer and Strantz 2012). Although average retirement ages and retirement incentives for civil servants differ from those for private sector workers (OECD 2005), civil servants also retire prior to the statutory retirement age (Stieglbauer 2013).

Because the pay-as-you-go pension system<sup>3</sup> is no longer sustainable under the conditions of demographic change, Austrian public policy underwent a paradigm shift in the early 2000s from promoting early retirement to supporting extended working lives (Budimir 2010). The 2000 and 2003 pension reforms aimed to render the system more sustainable by better coupling pension benefits to individual pension contributions, and by reaching a later effective retirement age (OECD 2005). One of the most important aspects of pension reforms was the introduction of the 2004 general pension law (*Allgemeines Pensionsgesetz*) that came into effect in 2005. This reform introduced quasi-pension accounts, and harmonized pension schemes for workers aged below 50. Based on the Act on the Harmonization of Pensions (*Pensionsharmonisierungsgesetz*), a standardized pension system was created for nearly all occupational groups. The aim of the reform was for people with 45 insurance years to receive 80 % of their average earned income at age 65 (Obinger and Tálos 2006).

### 3.1 Push Factors

Starting from 1967, older unemployed people were sent into early retirement to address structural labor market problems resulting from, among others, the oil price shock. Early retirement was justified as a means to create jobs for the young unemployed (Lefebvre 2013). In the early 1980s, both a recession and the entrance of the baby boom generation onto the

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<sup>3</sup> In the pay-as-you-go system, current pension benefits are financed by the contributions of the currently active working population (Guger 1998).

labor market led to rising unemployment (OECD 2005). As a consequence, until the 1990s, the state financially subsidized early retirement to further decrease the overall labor supply. Such schemes included early retirement without actuarial deductions (Budimir 2010) as well as “golden handshakes” for those accepting early retirement (OECD 2005). However, because of increasing public deficits and debts in the mid-1980s due to financial problems in state-owned industries, numerous measures of welfare retrenchment were needed in the following decades to tighten early retirement eligibility criteria (Obinger and Tálos 2010).

Due to employment constraints and a lack of employment options, individuals frequently have no opportunity to actively choose their preferred retirement age. In general, generous early retirement provisions lead to both voluntary and involuntary early retirement. On the one hand, many older workers make use of the opportunity to retire earlier. On the other hand, the system gives firms incentives to reduce their workforce by shedding older employees and pushing them into (early) retirement. Because older people face difficulties in finding new employment, they are forced instead to retire early when they become unemployed. In addition, firms are more likely to move older workers into early retirement instead of making them redundant, because employment protection legislation renders the dismissal of older employees difficult. Because Austria provides rather generous early retirement possibilities and employment protection legislation (“dismissal protection for older employees”—*Kündigungsschutz älterer ArbeitnehmerInnen*) that keeps employers from dismissing older workers, there are good reasons to expect that numerous early retirees have left the labor market involuntarily (Dorn and Sousa-Poza 2010).

### 3.2 Pull Factors

Austria has a generous and relatively flexible pension scheme with several early retirement options. For example, many individuals have received pension benefits associated with the “pension subject to very long insurance periods” (*Langzeitversichertenregelung* or *Hacklerregelung*). With an insurance period of 45 years for men and 40 years for women, men and

women are able to exit the labor market without actuarial deductions at age 60 and 55, respectively. Whereas the scheme was planned to be abolished in 2010, a legislative amendment in 2008 extended it until 2013. However, a new *Hacklerregelung* was eventually introduced in 2010 with eligibility ages of 62 and 57 for men and women respectively, starting from 2014 (Fink 2011).

Furthermore, the “heavy labor pension” (*Schwerarbeiterpension*) was implemented in 2004 and came into effect in 2007. It permits a retirement age of 60 for both sexes with an actuarial deduction of 4.2 % (“old law” for older age groups) or 1.8 % (“new law”) for each year in retirement prior to reaching the official pension age. Workers can claim this pension if they have 45 contribution years and have worked in jobs defined as heavy labor for at least 10 out of the previous 20 years. Because the female statutory retirement age was 60, this scheme had no effect on women (Fink 2011).

Although pension reforms in the early 2000s aimed at closing early retirement pathways, a new early retirement scheme, the corridor pension, was introduced in January 2005. This new scheme is similar to the “early retirement on account of long-term insurance contributions,” which is expected to be abolished by 2017. Workers are able to claim the pension between age 62 and 65 with the precondition of 37.5 insurance years and an actuarial deduction of 4.2 % for each year prior to reaching the statutory retirement age (Fink 2011). The entitlement to this pension will be restricted to those with 40 contribution years by 2017 (OECD 2012).

Moreover, the pension reforms in the 2000s brought several financial incentives for female workers to retire early. Women now need only 7 instead of 15 contribution years to be able to claim an old age pension. Furthermore, women receive four contribution years per child instead of the previous two, and the assessment basis for years of child care has been increased significantly (Fink 2011).

In addition to changes to existing early retirement schemes, a part-time early retirement scheme (*Altersteilzeit*) was introduced in January 2000. This is similar to the German scheme. Male and female workers older than 58 and 53 respectively who have worked for 15 of the past 25 years are able to reduce their working time by between 40 and 60

% for a maximum of 5 years at the end of their employment careers. During this time period, their earnings are cut to between 70 and 80 %. However, they receive pay compensation from the Austrian labor market service (*Altersteilzeitgeld*). This new scheme grants workers flexibility in scheduling their working hours as well as the opportunity to block their work hours together (Public Employment Service 2013a; Staubli and Zweimüller 2012). Consequently, workers are allowed to work full-time during the first half of this time period and zero hours in the second, which, in fact, leads to early retirement (OECD 2005). From 2013, the use of the block model is contingent upon the employer simultaneously recruiting an unemployed person or a new apprentice (OECD 2012). The purpose of this scheme was to increase work incentives for older workers and to reduce the propensity toward early retirement. Graf et al. (2009), however, found that the majority of workers have replaced full-time work with part-time work. As a consequence, the labor supply of older workers has declined, so that this scheme has the same effect as early retirement. Therefore, the scheme seems to cause early retirement rather than extend working life past statutory pension age as initially intended (Bosch and Schief 2005). Nevertheless, due to changes to eligibility criteria and access options for employers, the number of workers who use this scheme is declining (Bucheбner-Ferstl et al. 2011).

### 3.3 Need Factors

Various components of pension reforms create financial incentives for individuals to stay employed rather than opt for early retirement. First, in the 2000s, the formula for calculating pension benefits was changed by reducing the accrual rate so that each insurance year replaces 1.78 % instead of the 2 % prior to the reform (Fink 2011). Moreover, the assessment basis is gradually being increased from the financially best 15 income years to the best 40 years (OECD 2013a). These changes, which are being introduced stepwise from 2004 to 2028, imply a reduction of pension benefits due to the lower accrual rate and the new calculation of the assessment basis that now also considers low-income years (Staubli and Zweimüller 2012). Furthermore, in order to receive the maximum

replacement rate of 80 %, 45 contribution years are needed now compared to the 40 years prior to the reform (Fink 2011). The 2000 pension reform also aimed to postpone early retirement entry ages. Regarding “early retirement on account of long-term insurance contributions” (*vorzeitige Alterspension bei langer Versicherungsdauer*), the eligibility age was gradually raised by 1.5 years allowing men and women to retire only at age 61.5 and 56.5 respectively by October 2002 (Fink 2011). The 2003 reform further increased the earliest eligibility ages to 65 and 60 years for men and women, respectively, to equal the statutory retirement by 2017. Moreover, the 2003 reform increased the actuarial deductions for each year in early retirement from 3.0 to 4.2 % (Reiter and Woltran 2010). These modifications led to a decrease in the number of individuals who claimed this previously popular form of early retirement from 132,167 in 2000 to 10,720 in 2012 (Social Insurance Authority 2013). However, if workers fulfill the precondition of at least 45 or 40 insurance years, they remain unaffected by the increased eligibility age, because they can claim the “pension subject to very long insurance periods” (*Langzeitversichertenregelung* or *Hacklerregelung*) (Staubli and Zweimüller 2012). Furthermore, the 2000 and 2003 pension reforms abolished early retirement opportunities due to “reduced capacity to work” and “on account of unemployment” (Hamblin 2013).

### 3.4 Keep or Retain Factors

Whereas the previously discussed reforms aim at “forcing” individuals to postpone retirement, the following policies aim at enabling individuals to extend their employment careers. For example, the disability pension scheme, often regarded as a form of early retirement (Fink 2011), was modified in 2010 and 2012. Workers obtain the disability pension now only if their working ability cannot be retained through obligatory rehabilitation measures. Since 2014, the temporary disability pension (*befristete Invaliditätspension*) has been replaced by offering funds for medical rehabilitation or retraining to keep people employable. Only those with permanent disabilities are then allowed to obtain a disability pension (Federal Ministry of Finance 2013). Furthermore, the program

“fit2work,” implemented between 2001 and 2013, took preventive measures by providing support and information about health maintenance. This counseling service aimed to prevent health problems that could lead to early retirement (OECD 2012).

A further incentive for staying in employment was established with the corridor pension. Workers who exit the labor market later than at age 65 receive a credit of 4.2 % of pension benefit for each additional working year (Fink 2011). However, this scheme only applies to workers up until age 68. The pension benefit can therefore be increased by up to 12.6 % (Mayrhuber 2006; OECD 2011).

Furthermore, various labor market measures were implemented to raise employment rates of individuals aged 55+. For instance, national awards for age management projects and financial benefits aim at incentivizing firms to employ older workers (Taylor 2006). These are discussed in greater detail in Sect. 5. Further active labor market measures that target older workers directly are flexible working time arrangements and educational leave (Hamblin 2013) in which workers receive financial support for job-related training. Due to the facilitated access to training leave, the participation rate has grown significantly (OECD 2012).

## 4 Individual Characteristics as Determinants of Retirement Decisions

Whereas Austrian public policy aims to increase the statutory retirement age, individuals’ preferences concerning retirement differ from such political intentions. In general, retirement intentions increase with age (Eibel et al. 2009). About 50 % of workers aged 50–59 intend to retire as early as possible (Schober and Winter-Ebmer 2011). Nearly one-half of the women who participated in the 2006 European Social Survey wanted to retire before age 60, and about one-third of male respondents considered a retirement age of less than 65 years to be desirable (Jansen 2013). Moreover, Austrians generally do not support current pension reforms and changes in the eligibility age. Instead of retiring later, Austrians prefer an increase in the amount of pension contributions paid while still in

work (Hinrichs and Aleksandrowicz 2006). This engrained early retirement preference might explain why the Austrian old age employment rate is significantly below the OECD average, and why the effective retirement age remains below the statutory pension age.

Furthermore, as shown above, higher levels of education have a positive effect on the probability of labor market participation (Kalwij and Vermeulen 2007). In general, higher-educated people have better chances of finding employment and of staying employed after age 55 (Bosch and Schief 2005; Hochman and Lewin-Epstein 2013), and higher education is associated with a decreasing probability of retiring early (Wiedenholzer-Galik et al. 2013). In addition, highly educated workers are relatively unaffected by economic restructuring processes (Engelhardt 2012). In contrast to this, lower-educated people frequently exit the labor market prior to age 55. However, this does not automatically denote a shorter working life, because these individuals spend less time in education and therefore enter the labor market earlier than those with tertiary education (Bosch and Schief 2005). A formal upgrade of skills in later life can contribute to delaying the planned retirement transition. Individuals who complete tertiary education at or after age 40 aim to enter retirement at a later age, particularly in countries with early retirement schemes that are inflexible but highly generous. Because Austria offers a rather inflexible but generous pension scheme, this effect could be strong (Garrouste and Paccagnella 2012).

Raab (2011) found a strong relationship between financial incentives and the retirement decisions of private sector workers in Austria. He explained this through the number of pension pillars. Austrians depend mostly on the public pension system for their retirement income, whereas complementary occupational schemes or private defined-benefit plans serve as additional income sources in other countries. Moreover, female workers respond more strongly to the change in the accrual effect than males.<sup>4</sup> These behavioral differences between men and women are particularly strong in Austria. Because Gruber and Wise (2004) found a stronger accrual effect for men than for women in other countries, the Austrian case can be explained by the earlier statutory

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<sup>4</sup> An increase in the accrual effect makes it more expensive to retire now than later.

retirement age of women. Couples frequently exit the labor market at the same time. These joint retirement decisions thus seem to be driven by women who react more strongly than men to financial incentives offered by the pension system on grounds of an earlier eligibility age. Men appear to adjust the time of their labor market exit to that of their female partner. Male partners' retirement timing decisions are therefore influenced by an increase in women's statutory pension age, whereas female partners' retirement decisions are not based on their male partners' pension entitlement. Furthermore, women's decisions to retire are impacted significantly by constraints imposed by the social security system, including changes to eligibility criteria and replacement rates (Zweimüller et al. 1996). Male workers tolerate financial cutbacks due to early retirement more often than women who tend to work until the statutory retirement age (Eibel et al. 2009). Individuals have an incentive to stay in employment when earnings increase with age, because the pension benefit is based partly on the average salary prior to retirement. Because earnings increase with tenure and seniority in Austria, the financially best 15 years taken for pension benefit calculations are probably the last 15 years before retirement. On grounds of a steep age-earning profile, older workers have a financial incentive to stay in employment both due to higher salaries during employment and an increase in the pension benefit. Because of a decrease in the accrual rate and an extension of the assessment basis to the best 40 income years, the effect of income in later life on pension benefit is, however, decreasing (Raab 2011).

In addition to financial factors, several family characteristics influence the retirement decision. The number of children has a positive effect on the probability of labor market participation in older men (Hochman and Lewin-Epstein 2013). Also couples in larger households seem to retire later due to a greater number of dependent household members (Zweimüller et al. 1996). However, married men want to retire earlier than men who are single (Hochman and Lewin-Epstein 2013). Additionally, married women with children participate less often in the labor market (Kalwij and Vermeulen 2007). These results reflect the Austrian male breadwinner model, and this traditional division of labor can be observed particularly among older generations. Another charac-

teristic of the male breadwinner model, which is particularly widespread in Austria, is women's engagement in informal care of the elderly. Instead of hiring professional caring staff, female relatives often provide care of the elderly and sick care—particularly for their parents or grandparents (Haberkern and Szydlik 2008). Women who care for elderly people are therefore more likely to exit the labor market (Schneider et al. 2013). The fact that women in rural areas retire earlier than those in cities (Zweimüller et al. 1996) might be associated with the more traditional lifestyle in rural Austria. This may again correlate with patriarchal family structures characterized by caregiving and housework being done by women, who therefore do not participate in the formal labor market. Aside from care of the elderly, grandparenthood significantly increases the probability of leaving the labor market prematurely. In particular, rising labor market participation rates of young mothers and the intermediate level of child-care provision for young children in Austria support the notion that older people retire to care for their grandchildren (Hochman and Lewin-Epstein 2013).

Regarding employment status, self-employed individuals seem to have a higher labor market attachment and therefore retire later than employees (Hochguertel 2010). Civil servants have similar retirement preferences to self-employed individuals (Fischer and Sousa-Poza 2006). This also finds expression in their later retirement ages compared to dependent employees. However, blue-collar workers leave the labor market earlier than white-collar workers. Moreover, early retirement preferences can be observed most often among employees in the health and financial sectors (Eibel et al. 2009).

Lastly, only few older workers who already receive pension benefits continue to work. Reasons for employment past pension age are an interest in work, particularly among self-employed workers, and financial pressures, especially among dependent employees (Wiedenhöfner-Galik et al. 2013). If individuals receive pension benefits before reaching statutory retirement age, they have only minor options to supplement this pension with income through work. However, there are no restrictions after reaching the statutory pension age. Consequently, older people can continue working while claiming public pension benefits.

## 5 Workplace Characteristics as Determinants of Retirement Decisions

Although Austria is experiencing profound workforce aging (OECD 2005) and skill shortages (*Der Standard*, 25 January 2011; Schneeberger et al. 2012), firms appear to have implemented age-friendly human resource management (HRM) practices only recently. Whereas in 2005, employer-based initiatives did not exist (OECD 2005), these were more common in 2012 (OECD 2012). In fact, government bodies and social partners initiated mesolevel initiatives that targeted firm-level approaches to workforce aging, including lifelong learning and health management (Götz 2005). Nevertheless, there is a lack of literature discussing whether HRM measures have in fact been implemented and how age-friendly they are. An exception is Schmid and Kailer (2008), who found that those employers who offer lifelong learning and training sessions to older employees tend to also implement a more strategic approach to HRM.

Furthermore, based on the 1995 European Working Conditions Survey, 6.9 % of all Austrian workers reported that they had experienced age discrimination in the past 12 months. This was the highest percentage in Europe and more than twice the European average. Although the European average has remained largely unchanged in the 2000 and 2005 follow-up surveys, the Austrian rate decreased significantly to 2.4 % in 2005 (D'Addio et al. 2010). This indicates either that fewer cases of age discrimination have occurred in Austria or that organizations take more precautions to avoid such claims.

An important aspect that might trigger age discrimination in Austria could be the perception of decreasing productivity in old age. This assumption is based on the strong prevalence of the seniority principle that includes a steep age–wage curve (Marin 2013). In 2002, there was an average wage increase of over 100 % for full-time employed men in the 60–64 age group compared to the 25–29 year reference group in Austria—the highest among OECD countries (OECD 2006). Conen et al. (2012) analyzed 2009 employer survey data in eight European countries, though not including Austria, and found that a majority of employers perceive an increasing gap between labor costs and productivity as their employees

become older. Because the countries covered in this study do not have an age–wage profile as steep as Austria’s, it can be assumed that negative perceptions of Austrian employers even surpass those reported by Conen et al. (2012). Contrary to such negative age productivity stereotypes, a study using Austrian employer–employee panel data did not find an association between the relative share of older employees in a firm and that firm’s level of productivity (Mahlberg et al. 2013).

Inferentially, however, Austrian employers may be disinclined to hire or retain individuals aged 50+ due to this negative stereotype, as was seen in the study by Conen et al. (2012) for eight other European countries. Austrian policymakers responded to this challenge in the late 1990s. For example, in 1996, a “bonus–malus” system was introduced. This scheme provides financial incentives for firms to hire people aged 50+ by reducing nonwage labor costs while simultaneously financially penalizing employers if they lay off an older worker who has been with the company for more than 10 years (OECD 1998). In 2004, the penalty for contract termination was raised, whereas the bonus remained the same (OECD 2005). The scheme was terminated in 2009 (Marin 2013; OECD 2013b). Evidence about its effectiveness was mixed. The OECD (2012) suggests that the administrative burden for managing this scheme was substantial, while it had no significant impact on older workers’ employment, especially when compared with other active labor market policies (OECD 2012). In contrast, Schnalzenberger and Winter-Ebmer (2008) found evidence that the malus, penalizing layoffs of old workers aged 50+, was successful in reducing the turnover rate of both men and women significantly, at least after a reform of the bonus–malus system in 2000. The reintroduction of the bonus–malus system was, however, evaluated and discussed repeatedly after its abolition (Schweighofer 2013).

Furthermore, in the mid-2000s, a reduction of nonwage labor costs for older workers was introduced. Accordingly, firms no longer have to contribute to the unemployment insurance for female workers aged 56+ and male workers aged 58+ (Obinger and Tálos 2010). This age limit was later harmonized to 58 years for both sexes. In 2013, this age-related reduction was expected to be abolished (OECD 2012). However, employers do not have to pay accident insurance contributions for older workers 60+ from this time onward. Also, since 2000, employers who intend to lay off five

or more workers aged over 50 have to inform the Labor Market Service (Public Employment Service 2013b). According to Gómez-Salvador et al. (2004), such employment protection legislation leads to increasing layoff costs for enterprises, but simultaneously raises hiring costs. This may lead to higher retention rates, but also inhibits the recruitment of older workers.

In terms of the psychosocial work environment, people who experience good quality of work are more likely to stay in work longer, whereas poor quality of work is a determinant of premature labor market exit (Siegrist et al. 2007). Poor quality of work is associated with physically or mentally demanding jobs as well as monotonous and repetitive work. In addition, low control and decision latitude along with an imbalance between great effort expended and low rewards received adversely affect health and might lead to work disability (Marin 2013). In contrast, participation in lifelong learning has positive effects on quality of work (Siegrist and Wahrendorf 2011), and helps postpone retirement.

Even though lifelong learning might extend working lives, participation declines significantly for those 55+ in comparison to younger cohorts. Moreover, participation rates vary by sector. Schmid and Kailer (2008) found that participation rates in lifelong learning for those aged 55–64 vary between about 5 % in the utility and hospitality sectors and about 36 % in education. They suggest that these differences can be explained through sector-specific differences in access to training as well as differences in the perceived need to update skills generally and in later life. Furthermore, participation in lifelong learning varies by firm size, with the greatest participation being observed in large companies with 250+ employees (Schmid and Kailer 2008). Lastly, sectoral differences might influence retirement timing. This is because older workers are overrepresented in declining industries (OECD 2005) and are hence more prone to be made redundant or to be sent into (early) retirement due to firm closures.

## 6 Conclusion

In conclusion, the 2000 and 2003 pension reforms aimed to increase the labor market participation of older workers by raising the age at which individuals can access (early) retirement schemes. However, the tighten-

ing of early retirement options has been quite moderate in Austria compared to other European countries and has been carried out over a longer period (Hinrichs and Aleksandrowicz 2006). Stefanits and Hollarek (2008) doubt whether the measures implemented in the pension reforms of 2000, 2003, and 2004 have actually led to a reduction of early labor market exits. They point to the replacement of old forms of early retirement with new ones such as the new *Hacklerregelung*. It is also doubtful whether adequate measures were taken to improve labor market conditions for older workers. Thus, spillover effects to other welfare programs can be observed in the light of pension reforms. Whereas the eligibility age for early retirement pension was gradually increased between 2000 and 2005, the unemployment rates similarly increased among people aged 60 to 62 (Staubli and Zweimüller 2012). In order to increase the employment rate among older people, pension policies must be complemented with equality policies, lifelong learning measures, and more flexible employment schemes (Borsch and Schief 2005). Such policies might also influence Austrians' perceptions regarding their work–retirement transition timing and encourage them to postpone retirement.

Demographic change and its impact on social security systems has been and still is a major political issue in Austria. Whereas some advocate an increase of the statutory retirement age and an abolition of all early retirement pathways, others favor active labor market measures such as health provision, job rehabilitation, lifelong learning, and penalties for employers who lay off older workers (Fink 2011). A combination of both will most likely be necessary to increase the employment rate, postpone the retirement transition, and allow workers to lead longer, healthier, and happier working lives.

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# 10

## Employment and Retirement of Older Workers in the UK

Matt Flynn and Yuxin Li

### 1 Introduction

The UK is a liberal market economy (Hall and Soskice 2001) and liberal residual welfare system (Esping-Andersen 1990) with a Beveridgian state pension system providing a flat pension for those who have contributed into the National Insurance scheme for 30 years (with pension credits for periods of unemployment and inactivity due to full-time caring responsibilities) but low income replacement rates (OECD 2011). Compared with those elsewhere in Europe, older British workers have fewer social protections to insulate them from job loss during organizational change (Foster et al. 2014). However, there are also few formal institutional barriers to prevent older workers who want to stay in work beyond their expected retirement ages or who want to make a mid-career job change,

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even though ageism remains a significant challenge facing British workplaces (Flynn 2014). Older worker participation rates in the UK are high relative to Europe, and were sustained throughout the 2008–9 recession even though they have been made vulnerable by both the flexibilization of work (especially after the age of 65) and the erosion of occupational pension rights.

The UK, like most European countries, passed through the “demographic window”—the period in which the working age population rises as a proportion of the overall population—well before the turn of the twentieth century (Kasprowicz and Rhyne 2013). Data from the Office of National Statistics (ONS) show that the population under 16 years of age is now lower than that of the population over state pensionable age, and over the next 25 years, the 60+ population will grow from 22 to 29 % (ONS 2009).

By 2050, the ratio of the population aged 65 plus to the population aged 20–64 will reach 50 %, up from 27 % in 2003. Whilst migration has been proposed as a possible solution to alleviate the labor shortages associated with aging populations, recent political developments in the UK have shown that this solution comes at a high political cost, which is likely to be exacerbated if the current economic climate continues. The changing age population is resulting in not only pressure on the welfare state to provide for an increasing aging population but also a significant skills shortage that is encouraging employers to look to older workers to meet job vacancies. Over the next 10 years, it is projected that there will be 13 million job vacancies opening, but only 7 million school leavers to fill them (UKCES 2011).

However, few employers, governments, or trade unions paid much attention to the need for society to prepare for aging populations until 2001 when the European Commission issued the Lisbon Protocol requiring EU member states to take initiatives to raise both real retirement ages and workforce participation rates of people aged 55–64.<sup>1</sup> Although the

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<sup>1</sup>One of the few organizations to take an early focus on the impact of aging populations was the International Labour Organization that passed Resolution R162 (Older Workers Recommendation) in 1980. This noted that “older workers, without discrimination by reason of age, enjoy equality of opportunity with other workers in regards to training, use of skills, employment security, remuneration and social welfare, conditions of work and access to housing and healthcare.”

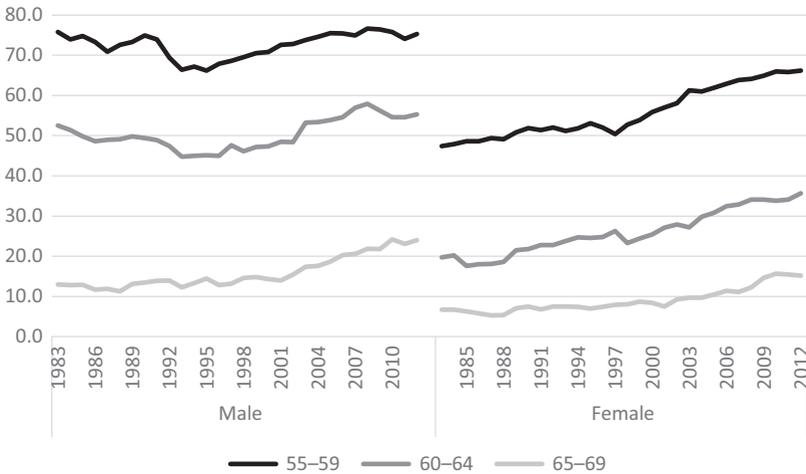
UK is one of only five EU member states to have achieved 50 % labor force participation rates for this age group by 2005 (High Level Group chaired by Wim Kok 2004), other states such as Germany have since caught up (Muller-Camen et al. 2011).

Relative to other OECD countries, the UK has, until recently, had low unemployment. Nationally, unemployment now stands at 5.6 %, the fourth lowest in the European Union (which as a whole has an unemployment rate of 11.1 %) and only higher than Germany in terms of large EU economies. Employers are facilitated in hiring workers by a low level of social contributions associated with labor costs (30 % of labor costs compared with an OECD average of 40 % (OECD 2010), as well as a strict regime of active labor market policies aimed at increasing labor market participation of particular groups such as the Work Programme, which is a privately delivered, government-mandated job placement program aimed mainly at younger people. Although the previous government had offered some support for older incapacity benefit claimants to return to work (Grierson 2003), none of the Work Programme deliverers now provide services targeted at older people (AgeUK 2013).

## 2 Employment Trends

Since the 1990s, the number of older people in the workplace has grown, especially amongst those 65 and older. Figure 10.1 shows UK older workforce participation rates over the past 30 years. Women's participation rates have increased steadily over the past three decades, particularly for those under 60 who are approaching parity with their male equivalents. For men, the picture is slightly different. Male post-65 participation rates have almost doubled in the twenty-first century. However, for men aged 55–64, participation rates bottomed out during the 1990–93 recession, and took almost another decade to return to the same levels of participation.

The older workforce is not a homogeneous group, and there are quite significant differences by gender, education, and occupation. Older women are concentrated heavily in the public sector and those who stay in work beyond 65 work in administrative roles. Older men are more likely



**Fig. 10.1** Labor force participation rates of older workers 1983–2012 (%)  
 Source: UK Labour Force Survey

to be found in the private sector, and those who stay in work beyond 65 are most often employed as managers, directors, and professional staff. Most of the 1.5 million job growth over the next decade will be in work that is now female-dominated such as social care and teaching.

Throughout the 2008–9 recession, employment rates for younger workers fell faster than those for older ones. At the start of the recession (2008, second quarter), employment rates were 66.5 % (20–24), 80 % (25–29), 45.8 % (60–64), and 16.7 % (65–69). By the end of the recession (2009, second quarter), these figures were respectively 62.9 % (–3.6 %), 76.4 % (–3.6 %), 44.2 % (–1.6 %), and 17.4 % (+0.7 %). In other words, the population above what was then the default retirement age (see below) saw a modest increase in employment before mandatory retirement was abolished. Further, numbers in inactivity rose slightly for those aged 60–64 years (from 53.2 to 53.9 %), whereas it fell for the 65–69 year population (83.0 to 82.0 %), the number of long-term unemployed in their early 60s also fell from 38.0 to 35.4 %.

However, it is important to remember that the older workforce is not a uniform group, and although participation rates generally held steady, older people with lower education were more likely to be pushed into

inactivity during the recession than those with formal qualifications. Older workers with qualifications and high-status jobs tend to delay retirement out of choice: They enjoy work and have the ability to tailor their work to their needs. Those without qualifications and in manual work are more likely to be either pushed out of work early due to health issues or forced to stay longer because they lack pensions and savings to retire comfortably. According to Labour Force Survey data, whereas 9 in 10 people in their 50s are economically active, 40 % of those with no qualifications are economically inactive. This is usually due to ill health or disability. The workforce is forecast to become more stratified over the next decade.

### **3 Macro- or Institutional-Level Determinants of Retirement**

In this section, we shall explore those features of the UK welfare state and employment laws that have shaped retirement patterns over the past quarter century, with a particular emphasis on employment and pension reforms in the twenty-first century because the government has shifted public policies toward those favoring extended working life.

#### **3.1 Push Factors**

Although the UK government introduced regulations to tackle workplace age discrimination in 2007 and abolished the default retirement age in 2010 (we discuss both below under stay factors), ageism remains a significant barrier for older people who seek to delay retirement. Although employers hold some positive views on older workers, such as the perception that they are more loyal and diligent in work than younger workers, stereotypes of older workers as being reluctant to learn, inflexible, and expensive to hire continue to prevail (Carnegie United Kingdom Trust 1996). Further, employers are more likely to have positive views about their own older workers than about the older working population as a whole (McNair et al. 2007), making it particularly difficult for older job

seekers to secure sustainable employment. This is a significant reason why the 29.7 % of the overall unemployed population who have been looking for work for over a year jumps to 40.2 % for jobseekers in their 50s.

Although employers report chronic skills shortages and job vacancies (Learning and Skills Council 2003), there is still a view that older workers who want to delay retirement “crowd out” younger people who are seeking work and/or promotion. A recent survey of employers found that a majority would like to be able to reintroduce mandatory retirement rules as a tool for workforce planning.

Whereas mandatory retirement was largely abolished in 2010, employers can reintroduce such rules where they can be objectively justified. Such exceptions are confined mainly to emergency services in which the physical demands of frontline work may be difficult for older workers to meet and that feature occupational pension schemes with low pension ages (Flynn 2010a). However, a 2007 case has given employers scope to use workforce planning as a justification for reintroducing mandatory retirement. In 2007, a senior partner in a law firm started proceedings against his employer because of a mandatory retirement clause in his partnership deed. This was a landmark case because it provides employers with the scope to use workforce management as a justification for retaining mandatory retirement rules, even where an older worker could reasonably meet the requirements for the job. However, in keeping with the regulations’ proscription that objective justification for age discrimination must be both in pursuit of a legitimate aim *and* proportionate, employers who seek to reintroduce a mandatory retirement policy need to be able to demonstrate that the objective of the policy (for example, creating promotion opportunities for younger employees) could not be pursued through nondiscriminatory means. To date, the largest employers to have used workforce planning as a justification have been Oxford and Cambridge universities that set retirement ages of 67 for academic staff (Flynn 2014).

### 3.2 Pull Factors

The UK government has not funded early retirement through the state pension since the Job Release Scheme (JRS) (1977–89) (Kohli 1991). This program had a negligible impact on youth unemployment and its

longevity has been attributed to a relative low take-up of the incentive by older people. Unlike other European programs, the JRS incentive was not earnings-related and therefore was attractive only to low-income older workers and those who already had occupational pension entitlements that would allow them to retire early (Banks et al. 2010).

Whereas state incentives for early retirement are not a feature of the UK system, early retirement incentives are commonly provided in occupational pension schemes, including public sector ones. These are discussed in the section on workforce characteristics.

### 3.3 Stay Factors

Both government (DTI 2005; DWP 2013) and stakeholder groups (Joseph Rowntree Foundation 2003) have often suggested that it would be desirable to replace the traditional “cliff edge” retirement (from full-time work to full-time retirement at one point in time) with a more gradual approach. “Bridging jobs” (usually with less responsibility or fewer hours that individuals take on to smooth the transition from full-time work to retirement; see Lissenburgh and Smeaton 2003) are popular with older workers, even when accompanied by extended working life. However, opportunities for gradual retirement are rare, and workers who seek them face resistance from employers, managers, and even colleagues (Loretto and White 2005). Bridging jobs, such as portfolio jobs, can be less secure, particularly if the worker is employed on an ad hoc basis (Platman 2003). As with opportunities for early retirement, the choices people make reflect their gender, job class, education, and attitudes.

In 2006, the Employment Equality (Age) Regulations came into effect abolishing workplace-related age discrimination. The regulations came about in part through intensive lobbying by the Trades Union Congress (TUC) and affiliated unions, together with age advocacy groups, the Chartered Institute of Personnel and Development (CIPD), and many employers organized through the Employer’s Forum on Age. The regulations were drafted to be “light touch” and permitted ageist human resource management practices that are objectively justifiable—that is, for reasons that are both legitimate and proportionate.

One of the main ways in which an older worker might face age discrimination is through mandatory retirement. Dismissal solely on the basis of age is permitted by most governments for reasons of workforce planning, managing labor costs, and job creation for younger workers. In 2006, the government opted to set a “default retirement age” (DRA) of 65 at which point employers could lawfully dismiss employees for reasons of age. Employers were obliged to consider, within a formal framework, requests from employees who wanted to continue in work beyond the DRA. Although the TUC and others had campaigned strongly in favor of abolishing mandatory retirement, others, led by the Confederation of Business and Industry (CBI), had campaigned for its retention, arguing that without mandatory retirement, employers would need to rely on dismissal procedures when terminating older employees’ employment, depriving them of the right to “retire with dignity” (CBI 2006).

Although government had set the DRA in the 2006 regulations, it had pledged to review the policy with a view toward abolition within a 5-year time frame. In October 2011, the DRA was abolished. Employers are, however, permitted to retain mandatory retirement ages where there is an objectively justified reason for doing so. Exceptions included occupations such as emergency services that require a high degree of physical fitness, and the test for retaining a mandatory retirement age is meant to be one that “is not easy to pass” (ACAS 2011). Like other liberal market economies in which mandatory retirement has been abolished (for example, the United States, New Zealand, Canada, and Australia), the UK has a flexible enough labor market to enable both older workers to extend working life and younger workers to progress in their careers (Wood et al. 2010).

### 3.4 Need Factors

The most significant “need factor” change to the UK welfare state has been the increase of the state pension age (SPA). The SPA is currently being equalized to 65 for men and women by 2018; and by 2020, it will rise to 66 for both men and women. It is then scheduled to rise to 68 by 2028, and in the last Treasury budget, plans were set out to make a further rise to 69 by the “mid-2040s” (HM Treasury 2014).

Currently, the basic state pension is £115.95 per week with pension credits available for low-income or low-wealth older people. Although the UK SPA is rising fastest in Europe, it is important to remember that state expenditure accounts for only 42 % of overall retirement spending, the rest of which is paid for by occupational pension schemes or private savings (OECD 2011). Therefore, although SPA for men has been 65 since the National Insurance Act was enacted in 1945, members of the four largest public sector pension schemes could retire at 60 and draw their occupational pensions at that point. New pension schemes in the largest parts of the public sector were set up in the 2000s with pension ages of 65 for new employees. Following a government-commissioned review of public sector occupational pension provision (IPSPC 2011), further changes were made in 2012 to the four largest schemes: a rise in employee contributions, a transition from final salary to average earnings, and, most significantly, a linkage between occupational pension ages and SPA. Members of the largest public sector pension schemes who are under 50 will see their normal pension ages<sup>2</sup> linked to SPA. Unions have responded differently in different sectors to the changes in SPA. In the Civil Service and local government, for example, unions have focused on negotiating the optimal accrual rate for members who reach full pension age, whereas the teaching unions have focused on minimizing the actuarial hit that members who retire early would face (Flynn 2014).

A second major “need” factor is the lack of access to an employer-funded occupational pension at all—a situation faced by 24 % of UK employees (Forth et al. 2014). Despite a few modest examples, private sector pension provision remains low compared to that of the public sector. Employer contributions to defined contribution schemes average 6.4 % (against 19 % in the public sector), and this figure represents only the minority of employers who offer employer-funded pensions. In response to the Pension Commission Report (Independent Public Service Commission 2010), the Pensions Act 2008 set in motion the creation of the National Employment Savings Trust (NEST) scheme for second-pillar pension provision for those not currently enrolled in a public trust, not-for-profit pension scheme. NEST, which is being rolled out

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<sup>2</sup> Defined as the age at which an employee is eligible to retire on a full pension.

by 2018, is a vehicle for pension savings for workers without access to an occupational pension scheme. It is an auto-enrolment scheme, although workers can opt out. Pension savings are accrued through a combination of employee and employer contributions as well as tax relief.

## 4 Workplace Characteristics as Determinants of Retirement Decisions

In this section, we shall discuss two wider trends in older workforce participation. On the one hand, as mentioned above, long-term skills shortages are compelling employers to retain older workers and encourage delayed retirement. On the other hand, many employers, especially in the public sector, have continued to use early retirement as a way to make short-term job cuts in reaction to the recession and public sector austerity measures. Older workforce participation rates have largely reflected wider trends in the UK. During the 1980s and 1990s, macro-economic shifts from manufacturing to service-related industries meant losses of high-paid blue-collar jobs (Phillipson 2004). This job attrition particularly hit older men who were permanently displaced from the labor market. High-paid, full-time, blue-collar jobs were replaced by lower-paid, flexible, service-related jobs as part of the so-called feminization of work. This accounts not only for rising participation rates of women, but also men over 65 who are working predominantly in part-time jobs (Beck 2000).

Whereas the recession of the early 1990s saw a precipitous decline in older male participation rates, a similar drop did not occur in the more recent recession that started with the 2008 collapse of Lehman Brothers. Labor market displacement impacted mainly on younger workers, especially those without formal qualifications (Bell and Blanchflower 2010). Unlike in previous recessions, private sector employers had held onto their more experienced workers, opting instead to make use of flexible work arrangements to reduce labor costs (KPMG 2010). The dearth of private-sector-defined benefit pension schemes has also reduced the scope for employers to use early retirement incentives as a way to deal with job

attrition. Redundancy rates of older workers are catching up only now with younger equivalents because public sector organizations are making job cuts.

As mentioned above, the UK government has not sponsored early retirement since 1989. However, occupational pension schemes, particularly in the public sector, have featured early retirement routes such as the 85-year rule in local government and teachers' pension schemes. These allow for a scheme member to retire early if her or his age plus years of contribution add up to the requisite number. Most of these routes were closed by 2006 when the government reformed the largest public sector schemes while also raising the retirement ages from (in the case of the four largest schemes) 60 to 65 for new entrants and making it more difficult for public sector employers to "pension off" older workers with health issues.

This has not, however, stopped the early exit of older workers. Since 2008, public services have been facing austerity measures and public sector job cuts that are having a disproportionate impact on older workers who are more likely than their younger counterparts to be employed by the state (EUROFOUND 2013). The National Audit Office (National Audit Office 2012) estimates the number of civil servants accepting early retirement or redundancy between 2010 and 2012 to be 17,800, whereas in Scotland, the figure is estimated to be 14,000 (Audit Scotland 2013). In local government, the number of people who retired early increased by 55 % between 2010 and 2012 (NAPF 2013). Since 2009, more public sector workers in their 50s have permanently left the labor market than their equivalents in the private or voluntary sector. For women, the figures are 9.0 and 8.6 % respectively; but for men, the gap is slightly greater (8.7 and 7.5 % respectively). The main reason for displacement in the public sector for both men and women has been early retirement. In the private sector, men are most likely to be pushed out of work through redundancy, whereas women are most likely to be pushed out for reasons of ill health.

There are distinguishing characteristics of organizations that have taken a lead on age diversity. The first factor is the labor and skills shortages that businesses face. Britain faces chronic skills and labor shortages that, if

left unremedied, will impact on future growth and economic stability. Skills shortages are significant problems for employers in education, care, construction, and customer service. Geography also plays a prominent role, because there is a significant North–South divide that manifests in unemployment rates ranging from less than 2 % in the South East to over 10 % in parts of the North.

Second, skills shortages for specific jobs, especially those requiring science, technology, engineering, and mathematics skills, are driving employers to offer accommodations to older workers to delay retirement (McNair and Flynn 2005). In general, the higher the skill level of the post, the more likely it is that employers will have some form of strategy for recruitment and retention, including succession planning.

Finally, pension changes are compelling employers, especially in the public sector, to find ways to support older workers to reach higher pension ages. For example, in the National Health Service (NHS), unions negotiated an agreement with government to convene a Working Longer Review partnership group to investigate the impact of higher pension ages on the delivery of health care services.<sup>3</sup> Faced with the threat of further industrial action, the government had agreed to set up the working group. In advance of the review, the unions aimed to bring together various sources of data to show retirement patterns within different occupational groups. It was noted that data on death in service, pensions, and the workforce in the NHS are gathered by different systems, and to get a clear picture of when NHS employees are leaving work and why, such information needs to be better collated. It was noted that the review group will be paying particular attention to health-related job risks faced by different occupational groups to first identify ways in which such health risks can be minimized, and second, to consider whether normal pension age rules should be adjusted for specific occupational groups. The working group also has a remit to identify effective human resource practices for supporting older workers in delaying retirement.

In the private sector, a number of employers have developed innovative approaches to managing older workers in order to address labor and

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<sup>3</sup> <http://www.nhsemployers.org/PAYANDCONTRACTS/NHSPENSIONSCHEMEREVIEW/IMPACTOFWORKINGLONGERREVIEW/Pages/WorkingLongerReviewSteeringGroup.aspx>.

skills shortages. The hardware retail chain BandQ has frequently been mentioned as an organization that has harnessed the expertise of older tradespeople (Bailey 2004). However, many large retail businesses have shown a willingness to recruit older people in order to address problems of rapid employee turnover (McNair and Flynn 2006). The supermarket chain Tesco offers training and guaranteed job interviews to older long-term unemployed people, whereas Barclaycard has developed an apprenticeship program designed to encourage mid-career job changers to work for them.

Other firms with aging workforces have focused on encouraging employees to delay retirement in order to improve workforce planning. The telecommunication company BT offers a range of options such as phased retirement, demotion, training, and lateral transfers for employees who wish to delay retirement (Parry and Urwin 2009). BAE Systems offers phased retirement to older staff as a way to manage peaks and troughs in labor demand (McNair et al. 2013).

## 5 Micro- or Individual-Level Determinants

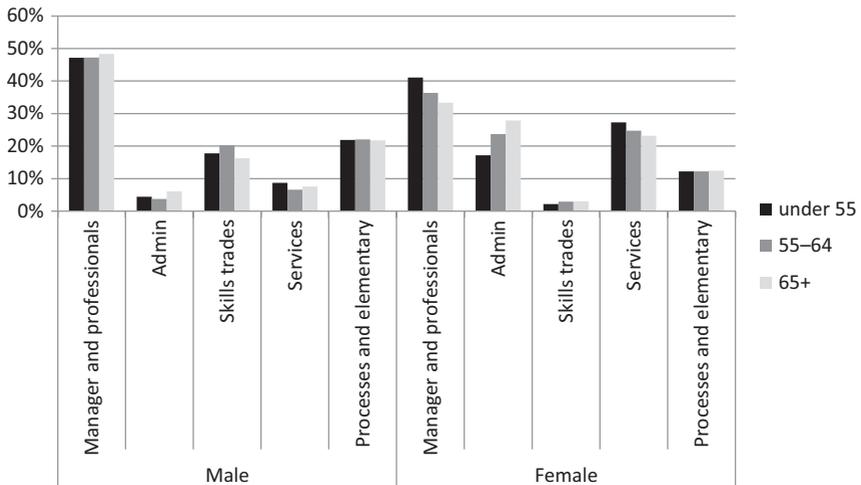
Finally, we turn to the individual-level determinants for retirement decisions. Because employers have sought to encourage more older workers to delay retirement, there has been a great amount of research on how delayed retirement ages will affect different types of workers and the impact that extending working life will have on social inequalities. There is a recognition that highly educated workers will be able to make best use of employment regulations favorable to older workers (Lain 2012), whereas those without adequate pension savings are most at risk from the state's gradual withdrawal from responsibility for delivering retirement income.

The simplest, and oldest, attempts to differentiate between groups of older workers is Titmuss' "two nations" of privileged workers with much choice over retirement versus the subjugated who have retirement thrust upon them. However, Titmuss' model was designed for a very different labor market, and he never specifically considered the issue of work in later life (in his day, work to SPA was normal and retirement brief). Since

then, attempts have been made to produce a more refined model (AARP 2002; Barnes et al. 2004; Employers Forum on Age 2005; McNair et al. 2004), Clustering can be based around attitudes toward and motivation to work, qualifications, occupation and sector, gender, and social class.

Starting with gender, older men are concentrated in banking, public service, manufacturing, catering, and construction, whereas older women are heavily concentrated in public services, accounting for over one-half of women aged 55–64 in employment. Older women are also more likely to be in public sector work than their younger counterparts (TUC Women’s Conference 2013). Past 65, public sector employment remains high for women, but drops significantly, mainly reflecting their entitlements to occupational pensions that currently allow for retirement between 60 and 65. Catering services are significant employers of women past the age of 65.

The workforce profile by occupational group, provided in Fig. 10.2, shows significant gender differences. As men age, they become concentrated in executive, managerial, and professional services. These jobs may be in financial and business sectors that employ the highest proportion of 65+ men. Older managerial and professional women, on the other



**Fig. 10.2** Older workforce participation by occupational group  
 Source: Labour Force Survey October to December 2012

hand, steadily leave the labor market, whereas the proportion of women in administrative positions rises after the age of 65.

Although financial circumstances have a significant impact on retirement decisions, many older workers, particularly those in managerial and professional positions (the largest occupational group cohort), stay economically active for other reasons such as enjoying work, maintaining workplace relationships with colleagues, feeling valued, and maintaining work identity. Surveys in the UK and other countries have shown that older workers would like to delay retirement if they have the opportunity to work flexibly and balance work and retirement activities (McNair et al. 2004; EFA 2002; Flynn 2010b).

The older workforce is not a homogeneous group, and it is important when considering why and how people retire to recognize that as people age, experiences with work, job autonomy, and career trajectories diverge rather than become more similar. This is particularly true with regard to those who stay in work up to and beyond 65. Studies have shown that people with formal qualifications, in high-status jobs, with good family relationships, and experience with voluntary job change are more amenable to delaying retirement (Flynn 2010b). One of the key factors influencing retirement outcomes is job autonomy. Those workers who have the space in which to decide the kind of work they will do and how they will carry it out can make adjustments enabling them to balance work and nonwork activities (McNair et al. 2011). Inevitably, those with such autonomy tend to be those in higher-status and professional jobs. For the majority of British older workers, career planning tends to dissipate as they age. Job rotation, training, and employer support for those with family responsibilities becomes less frequent, and appraisals become more of a “paper exercise.” Further, older workers whose job performance is declining receive less support than younger equivalents in improving their productivity (Snape and Redman 2003). Although the latter may seem more benevolent than the former, neither outcome is optimal. Like younger workers, older people thrive when they receive support to stay productive and feel valued.

Although older workers in the UK have a higher participation rate compared to the EU average and they managed to maintain a relatively stable and even increasing employment rate during the 2008 crisis, it has

also been found that there is a high incidence of nonstandard working. During 2006 and 2008, older workers aged 50 or over the SPA had a much higher proportion of nonstandard working compared to young people aged under 50. The rates of nonstandard working for each age group have risen considerably since the 2008 financial crisis. Young people were hit the most and have made up a higher proportion of nonstandard workers than people age 50–SPA.

Older workers aged over SPA have always had the highest nonstandard working proportions. However, the high incidence of nonstandard working is not obviously involuntary. Only a very small proportion of people doing part-time or temporary work reported they were unable to find a full-time or permanent job. It is more likely they choose to work in a nonstandard style.

Compared to young people, older workers are more likely to be concentrated at the top (such as managers) and especially at the bottom level of occupations (such as those elementary occupations along with process, plant, and machine operative occupations). People aged over SPA are also lower paid compared to all other age groups except 18- to 24-year-olds. This is consistent with the occupational profile of different age groups.

## 6 Conclusion

Historically, the UK has been amongst those countries with the highest real retirement ages owing to the lack of institutional barriers to older workers staying in work. It has a higher employment rate for older people than the EU average. Retirement ages have continued to rise, mainly due to chronic skills shortages faced by employer side and reduced pension entitlements compelling workers to stay in work longer.

Government interventions have focused mainly on removing barriers to extended working such as the default retirement age. However, as an employer, the public sector continues to use early retirement to manage job attrition. This impacts particularly on women's participation rates. There has been less focus on older workers' employability, because there is

little support for the older unemployed to reenter the labor market. Older people are also found to be working differently in postretirement age, and the incidence of nonstandard working is prominent among older workers compared to the younger workforce. Older workers do not benefit equally from active aging strategies leading to voluntary and involuntary retirement, and this has generated social inequality problems. Older workers with low educational attainment or employed in less prestigious blue-collar occupations are more likely to be pushed out of employment.

The issue of health of people in the late phase of working life is also a key factor in determining their employment and retirement decisions. Age regulations and policies have been acknowledged to have helped older employed people to stay in work, but they have been less helpful for older persons seeking a job.

The UK labor market has therefore produced a wide variety of older workers' experiences both in terms of maintaining employment and retiring (Flynn 2010b). Income is a particularly important determinant of their choices both in and out of the workplace (McNair et al. 2004). It has been noted that regulations to remove age barriers for older workers will most likely benefit higher-income and higher-qualified older workers while providing little positive support for the low-skilled (Lain 2012).

Employer policies have largely been a reflection of labor force demands rather than government directives that have consistently taken a voluntary light touch approach. Whereas employers, especially in the public sector, have used early retirement as a way to reduce headcount during the recession and austerity, longer-term skills shortages are encouraging businesses to adopt HRM policies encouraging longer working life.

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# 11

## Japan: Determinants of Retirement in a Hyper-Aged Society

Masa Higo, Heike Schröder, and Atsuhiko Yamada

### 1 Introduction: Japan as a “Hyperaged Society”

In the global trend of population aging and delaying the retirement of older workers, Japan deserves international attention. Today, Japan leads the rest of the world in population aging as indicated by cross-national comparisons of old age dependency ratios as well as the results on life expectancy reported in the comparative chapter. Over the coming

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decades, Japan will remain far ahead of the rest of the world on the population aging curve (Higo 2013).

Since the mid-1970s, delaying retirement—that of corporate employees in particular—has been a main concern among policymakers in Japan (Moriguchi and Ono 2004). Reflecting this growing public concern internationally, a unique classification scheme has been developed in the relevant literature that labels countries around the world based on the level and speed of population aging. This classification scheme consists of three stages: *aging society*, the stage at which those aged 65 and older account for at least 7 % of the total population; *aged society*, the stage at which this age group accounts for at least 14 % of the total population; and *hyperaged society*, the stage at which this age group accounts for at least 21 % of the total population (Coulmas 2007). According to this classification, Japan became an *aging society* in 1970. Having experienced population aging much faster than most other developed countries, it became an *aged society* in 1994. Once more outdistancing any other country, Japan then became a *hyperaged society* in 2007 (Japanese Ministry of Health, Labor, and Welfare 2010). Not only does Japan lead the world in population aging, but it has also experienced one of the world's fastest rates of population aging between these years. Therefore, Japan's experience of contending with the challenges associated with delaying the retirement of its older workers is a precursory case of an aging country that may provide a source of ideas for policy lessons, development, and reforms for other aging societies around the world both today and in the future.

This chapter introduces the main determinants of retirement in Japan today based on a review of relevant literature and findings from the latest publicly available survey data drawn mainly from the Organization for Economic Cooperation and Development (OECD) and the Japanese Ministry of Health, Labor, and Welfare (MHLW). To effectively illustrate the main determinants in the case of Japan, this chapter adopts a multilevel conceptual framework that consists of the *macro*, *meso*, and *micro* levels, each of which has been defined in the first chapter of this book. This chapter first outlines five major characteristics of trends in the employment and retirement of older workers in Japan. Then it introduces

and discusses the main determinants of retirement in Japan in recent years at each of these three levels.

## 2 Overview of Older Worker Employment in Japan: Five Characteristics

### 2.1 Japan's Older Worker Employment Rate Is High by International Standards

As indicated in the comparative chapter, the employment rate of older workers aged 55–64 in Japan, including both men and women, is high by international standards. This means that workers in Japan remain employed longer than those in most other industrial and populous countries around the world (Williamson and Higo 2009).

To date, research has suggested several factors that may contribute to this high rate. Seike and Yamada (2004) argue that, in general, workers in Japan have strong economic incentives to remain economically active as long as possible, mainly due to the modest provisions of the public pension system. Although pension benefits are one of the most important financial resources for many older adults in retirement, the replacement rate is very low—the second lowest among OECD countries after only the UK (OECD 2004). Income from work is therefore an important part of retirement income (Casey 2004). This economic factor has generated a number of *working pensioners* who need to remain employed out of economic necessity while receiving at least part of their income as public pension benefits (see also Yamada and Higo 2011).

Williamson and Higo (2009) emphasize the role of the national government in keeping workers in the labor force as long as they do. Due partly to the rapid decline in the birth rate, Japan is experiencing a shrinking population and workforce. Under this demographic pressure, the government has rendered it a de facto top national priority to prolong the working lives of older adults as a way to help maintain the country's economic vitality in the midst of an increasingly competitive global economy (see also Higo and Klassen 2015). Bass (2014) discusses the role of the national cultural value placed on work, employment, and corporate memberships

as a main source of positive self-esteem and purpose of life at large. In addition to economic reasons, older adults in Japan, currently male older workers in particular, have strong intrinsic reasons to continue working as long as their health and other factors permit (see also Weiss et al. 2005).

## 2.2 Japan's High Older Worker Employment Rates Are Historical

Second, the tendency for the older worker employment rate in Japan to be high relative to many other industrial countries is a historical rather than contemporary development. Over roughly the past four decades the employment rate in Japan has never fallen below 60 % and has constantly been higher than rates in Europe and the USA (Higo 2006, 2013).

The modern history of retirement as a social institution in Western Europe and, to a lesser extent, in the USA is characterized by government-condoned routes for early exit from the labor force that have been prevalent from roughly the early 1970s through the 1980s (Ebbinghaus 2006). During the periods of economic downturn and mass unemployment, the governments in these countries took the lead in creating various forms of early retirement incentives aiming to encourage older workers to leave the workforce earlier than the conventional pensionable ages (Schils 2005). These early retirement routes were created based on a belief that encouraging the early retirement of older workers would help reduce the rapidly rising number of unemployed youth. However, although successfully inducing a large number of older workers to retire, these government-initiated early retirement incentives largely failed to achieve their objective of reducing youth unemployment (Böheim 2014). Rather than following this path, policymakers in Japan have learned lessons from these unsuccessful attempts overseas (Seike and Yamada 2004). Having projected a shrinking of the country's workforce, it has never been a sound policy option for the Japanese government to encourage labor force exit of any age group. Therefore, unlike Europe and the USA, Japan completely lacks any history of early retirement incentives at a government level (Flynn et al. 2014; Oshio et al. 2010).

## 2.3 Gender Gaps in Employment Rates Are Significant and Persistent

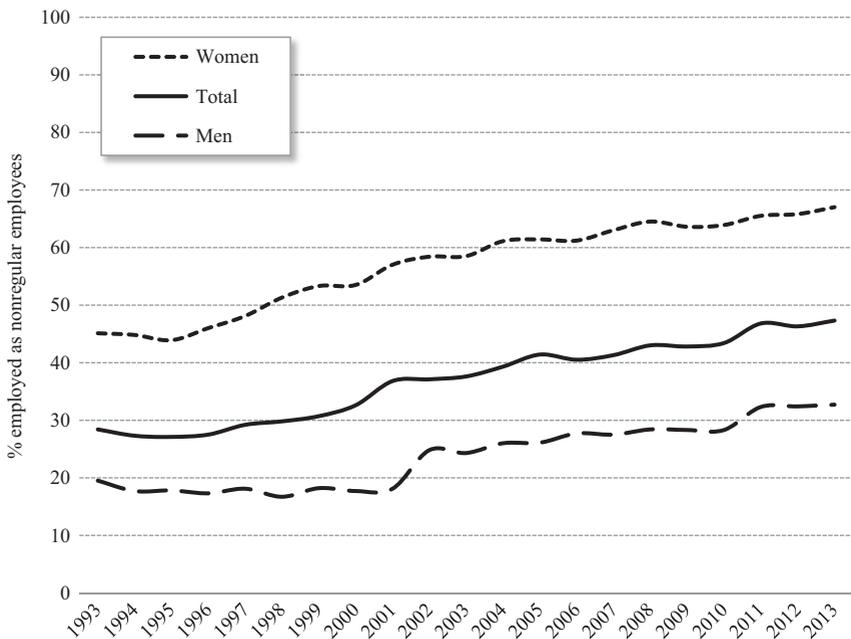
Whereas across countries, employment rates are higher for men than for women regardless of age, during recent decades most developed countries, including those in Europe along with the USA and Japan, have been closing the gender gaps at different timings and paces (OECD 2004). As a third characteristic, however, relative to the case of Europe and the USA, the gender gap still remains significant and persistent in Japan. In 2012, the employment rate in Japan was 52.4 % for women and 78.8 % for men—a 26.4 % gender gap. This figure is substantially higher than that in Europe and the USA. In Europe, the employment rate was 40.6 % for women and 56.4 % for men—a 15.8 % gender gap. In the USA, the rates were 56.1 and 65.5 % with a 9.4 % gender gap (OECD 2014).

One of the major contributors to the wide gender gap is the institution of *lifetime employment* that has characterized Japan's labor market throughout the country's postwar history (Ono 2007). Under this institution, workers are typically hired immediately after they complete schooling, and they stay with the same employer until they retire. They are generally assured of long-term, secure employment and regular wage increases through seniority-based wage increase systems (Dore 2004). Simultaneously, employers are assured of a stable labor supply due to the long-term corporate loyalty of their employees. Characteristically, the core workforce under lifetime employment in Japan consists mainly of male “regular employees”—those men who are employed full-time with presumably permanent contracts (Ogoshi 2006). Over roughly the last two decades, the lifetime employment institution has been in steady decline. Nonetheless, residues of this highly gendered labor market institution are still visible in many industries and organizations in Japan's workforce today, and they have contributed to the wide gender gap in the country (World Economic Forum 2014).

## 2.4 Nonregular Employment Has Been Increasing Steadily among Older Workers

Over roughly the past two decades, Japan's workforce has seen a steady increase in the share of older workers who are *nonregular employees*—those employed on a part-time and/or temporary basis—and these workers are typically outside the lifetime employment institution (OECD 2004). Figure 11.1 presents data on trends in the share of older workers who are nonregular employees from 1993 to 2013. As this figure shows, the shares have steadily increased, and this is the case for both men and women.

In Japan, married women have conventionally been overrepresented in the nonregular workforce (Japan Institute of Labor Policy and Training 2008, hereafter, JILPT). As will be discussed in more detail later, how-



**Fig. 11.1** Trends in the share of nonregular employees among workers aged 55–64 by gender, 1993–2013 (%)

Source: Japanese Ministry of Health, Labor, and Welfare (MHLW) (2015)

ever, the macrodeterminants of retirement in Japan—employer practices and public policies—have contributed to this trend. The interplay between employers' persistent use of corporate mandatory retirement policies and the national government's effort to prolong the working lives of older adults has contributed to a steady increase in the share of older men as well as women who are nonregular employees (Higo and Klassen 2016).

## 2.5 Japan's Effective Retirement Age Surpasses the State Pension Age for Both Men and Women, and Is High by OECD Standards

According to OECD data averaging the effective retirement age over a 5-year period between 2007 and 2012, Japanese men retire on average at age 69.1 and women at age 66.7—that is, 4.1 and 1.7 years after first being able to draw their public pension benefits. By international standards, Japan ranks very high with regard to effective average retirement age for men, and the same holds true for women, who rank fifth among all 34 OECD countries. One possible explanation for the late work–retirement transition in Japan might be the economic necessity to work while already drawing public pension benefits. In general, personal wealth and pension income influence retirement timing, and those who do not have sufficient funds to maintain their standard of living will probably remain in the labor force as working pensioners (OECD 2014). It is likely that the group of working pensioners is composed mainly of those with lower educational attainment and interrupted employment histories. This includes women who have, due to low wages and/or a lack of contribution years, accumulated insufficient pension entitlements (Hofäcker et al. 2016).

### 3 Macrolevel Determinants: Employer Policies and Public Policies at a National Level

This section discusses the major macrolevel determinants of retirement in contemporary Japan, paying specific attention to nationally characteristic employer practices and the role of public policy in intervening in employer practice. These structural factors characterize older workers' retirement behaviors at a national level in terms of the size and industrial sector of the workplace in which they work. Macrolevel determinants consist of four specific factors: *push*, *pull*, *need*, and *maintain* factors. *Push* factors refer to those factors that force older workers to retire from work. *Pull* factors are those factors that provide older workers with incentives to withdraw from the labor market. *Need* and *maintain* factors signify recent public policies that aim to facilitate older workers' continued employment beyond conventional retirement age, with *need* factors signifying those factors that "force" individuals to remain employed in order to generate sufficient income throughout retirement and *maintain* factors being those that enable individuals to extend their working lives according to their own personal wishes and preferences, though without forcing them to do so for financial reasons.

#### 3.1 Push Factors: Employer Policies of Mandatory Retirement at Age 60

The most effective push factor in Japan's labor market today is the presence of mandatory retirement: corporate policies that require employees to leave their workplaces, regardless of whether they are willing or able, when they reach age criteria set by their employers (Ito 1999; Lazear 1979). Once prevalent in many countries, mandatory retirement has now been abolished in most areas of employment in Australia, Canada, the UK, and the USA, because these employer practices have come to be viewed as a form of age discrimination (Macnicol 2006).

To date, however, mandatory retirement is still in effect and prevalent in most workplaces in Japan. According to the MHLW (2015), as of 2013, about 93.3 % of employers in Japan (with 30 employees and more) implemented these policies in their workplaces. About 98.4 % of those employers used a uniform age criterion to retire all their employees regardless of their job categories (for example, white- or blue-collar), rather than setting different age criteria for different jobs within their organizations. In the same year (2013), about 83.0 % of those employers who used a uniform age criterion for all workers set age 60 as the limit for mandatory retirement. Age 60 has been the most common age at which employers in Japan call for mandatory retirement over the past two decades (Yamada and Higo 2011). Since 1994, the government has required that employers set the age limit at least at age 60 or above if implementing mandatory retirement policies (MHLW 2010). Prior to this, no legislation regulated mandatory retirement practices, leaving employers free to determine the age by themselves (Ito 1999).

Arguably, the existence of mandatory retirement in the labor market is the primary structural barrier to the continued employment of those who reach age 60 and are willing and able to remain economically active (Higo and Klassen 2015). Especially for large-sized organizations, mandatory retirement is one of the most important methods for workforce adjustment (Dore 2004). However, the national government also plays a key role in maintaining this structural barrier to continued employment beyond age 60 by permitting its existence. Nonetheless, anticipating a workforce shortage and having doubts about the sustainability of public pension systems in the decade ahead, the government is pushing employers to increase the minimum age for mandatory retirement to at least age 65 (Higo and Klassen 2015). To maintain the country's economic vitality in the midst of the increasingly competitive global economy, however, the government is also facing unprecedented pressures not to force employers, in particular large employers, to drastically change any of their long-established workforce adjustment methods including mandatory retirement (Higo 2006). Therefore, as will be discussed in detail later, to date the government has yet to take any substantial measures aiming to abolish mandatory corporate retirement policies.

### 3.2 Pull Factor: The Generosity of Old Age Public Pension Benefits

In most industrial countries, the availability of old age pension schemes contributes significantly to reducing older people's labor force participation (Williamson 2004). Especially when offered generously, pension benefits are one of the most powerful pull factors encouraging older workers to leave the labor force (Maeda 2006). In the Japanese context, out of a variety of old age pension schemes, public pension benefits play a key role in providing older adults with resources for their financial well-being in retirement. According to a national survey conducted by the Japanese Cabinet Office (2013) in 2012, about 53.4 % of the country's baby boom generation—those born between 1947 and 1949—reported that public pension benefits were their main source of income in retirement.

Japan's public pension scheme is two-tiered, consisting of the *Old Age Basic Pension Program*<sup>1</sup> (BP) and the *Old Age Employee Pension Program*<sup>2</sup> (EP). Both programs are financed largely on a pay-as-you-go basis (Williamson and Higo 2009). BP is based on a flat-rate premium and provides flat-rate benefits. It is designed for all citizens of the country regardless of their employment status, and benefits are available at age 65 for anyone who has contributed premiums for 40 years between the ages of 20 and 59 (Higo 2013). EP covers most workers in private sector employment, and these workers receive EP benefits on top of those from BP (Okamoto 2013). EP also differs from BP in that EP is designed to provide beneficiaries with two separate benefits: flat-rate and earnings-related components (Yamada 2012).

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<sup>1</sup> Rourei Kiso Nenkin in Japanese.

<sup>2</sup> Rourei Kousei Nenkin in Japanese. Also, public sector employees participate in the Retiree Mutual-Aid Pension Program (Taishoku Kyousai Nenkin in Japanese) instead of the Old Age Employee Pension Program.

### 3.3 Need Factor: Old Age Public Pension Benefits and Its Reforms

Over recent decades, the EP benefit mechanisms have been subject to a series of reforms that aim to improve their fiscal sustainability (JILPT 2012). As the primary pull factor for older workers' retirement behavior in Japan, two major reforms are affecting older workers' retirement decisions most directly today: the 1994 and 2000 pension reforms (Seike and Yamada 2004). Up until the year 2000, the minimum eligibility age for full benefits from EP—including both flat-rate and earnings-related components—was set at age 60. As mentioned earlier, age 60 has been the most common mandatory retirement age since 1994. However, the 1994 pension reform introduced a plan to gradually increase the minimum eligibility age for the flat-rate component to age 65, thereby turning it into a *need* factor, because individuals have to stay in employment longer in order to offset the lack of full pension payments. The initial age increase to age 61 took effect in 2001, and reached the target age of 65 in 2013. Furthermore, the 2000 pension reform introduced a similar, gradual upward revision of the minimum eligibility age for the earnings-related component to age 65 as well. The initial age increase to age 61 became effective in 2013, and will reach the target age of 65 in 2025 (MHLW 2015).

The effects of these two major pension reforms have generated major national concern over older adults' financial prospects today and in the future. In sum, since 2003, although benefits from the earnings-related component of EP are available at age 61, benefits from BP and the EP flat-rate component are not available until age 65. However, most employers still set age 60 as the age limit for mandatory retirement. Together, these two macrolevel determinants—mandatory corporate retirement policies and recent pension reforms—have generated a gap during which a significant number of older workers in the country may run the risk of financial insecurity in retirement (JILPT 2012; Yamada 2012)

### 3.4 Maintain Factors: Recent Policy Reforms Regarding Mandatory Retirement

The most significant *maintain* factors are the last two major amendments to the *Law for the Stabilization of Employment of Older Persons* (LSEOP) enacted in 2004 and 2012 (Higo and Klassen 2015). Originally legislated in 1971, LSEOP has been the central legislative framework through which the national government has intervened in the labor market in order to increase the mandatory corporate retirement ages set by employers. The primary goal of both the 2004 and 2012 amendments of LSEOP was to promote continued work beyond age 60 (Higo and Klassen 2015). As discussed earlier, the share of older workers who are nonregular employees has been increasing over recent decades. Whereas the two amendments have certainly contributed to prolonging working lives, they have also contributed to this trend (Yamada and Higo 2015).

The 2004 amendment of LSEOP (enacted April 1, 2006) required employers to comply with one of the following three options by April 2013 at the latest: (1) fully abolish mandatory retirement rules in the workplace; (2) set the minimum age for mandatory retirement at 65 or above; or (3) introduce employment policies aiming to retain employees until at least age 65.

The main effects of this amendment were as follows: First, to comply with legislation, the majority of employers chose the third option instead of the first two—by 2012, about 92.1 % of employers had selected the third option. In this option, employers were required to introduce *prolonged employment policies*, *rehiring policies*, or both. The prolonged employment policy refers to allowing workers to remain employed beyond the mandatory retirement age at least until age 65. Contrary to this, rehiring policies refer to the termination of the regular employment contract once employees reach their organization's mandatory retirement age. Upon the termination of the regular employment contract, employees are rehired, though under different, often nonregular, employment conditions. The majority of employers who chose the third option only introduced *rehiring policies* (about 71.6 % in 2012) (Yamada and Higo 2015).

Second, the 2004 amendment of LSEOP was not generally effective in promoting continued employment of older workers beyond the mandatory retirement age (typically age 60). This was largely because employers were not necessarily obliged to offer continued employment opportunities to all who wished to continue to work; they were able to select employees if the criteria for selection had been negotiated in employer–employee agreements (EEAs). As of 2012, about 75.4 % of all workers who had reached their mandatory retirement ages reported that they desired continued employment at their workplace. However, according to a recent survey conducted by MHLW, only 47.9 % of those workers were allowed to work until age 65. All these measures were intended to provide employment opportunities to those who were able and willing to work until they reach the pension eligibility age of 65, while providing flexibility for firms to make arrangements suited to individual business circumstances (Flynn et al. 2014).

Third, the 2004 amendment of LSEOP contributed to generating non-regular workers. Whereas employers are required by law to at least rehire their employees who have passed the organization's mandatory retirement age, these employers have received a considerable degree of discretion over employment terms for this group of rehired employees (Yamada and Higo 2015). Under the current law, the government affirms that, in exchange for retaining employees beyond conventional mandatory retirement age, employers may change these employees' wages, employment status, work schedule, job contents, and even workplace. Employees might therefore be transferred within employers' business networks. In order to change terms of employment, typically employers terminate employment and then rehire workers in temporary or part-time positions with significantly lower wages and benefits (Ono 2007), thereby shifting their status from "regular employees" (the core workforce) to "nonregular employees" (the peripheral workforce) (Yamada and Higo 2015).

To address this issue, the latest partial amendment of LSEOP in 2012 (enacted April 1, 2013) has mandated that employers retain at least until age 65 all of their employees who have reached their mandatory retirement age and wish to continue to be employed. The key point of this amendment is that employers must retain all employees who wish to work until age 65. They are no longer allowed to select employees to whom

they offer continued or reemployment. This mandate has been reinforced by several specific measures including: (1) abolition of the mechanism through which employers had discretion to select those employees based on the criteria set by the employer–employee agreement; (2) the introduction of a new policy publicizing the names of employers who do not comply with this mandate; and (3) the provision of employment in a corporation’s affiliate companies permitting transfer as an acceptable form of continued employment arrangements as long as it complies with the standards set by the government.

One idea behind the 2012 partial amendment of LSEOP is to require all employers simply to raise the mandatory retirement age at least up to age 65 if not to abolish the mandatory retirement policy altogether. To the government’s and workers’ concern, such employer reluctance has generated considerable risks associated with financial security among older individuals, particularly among those aged 60–65. The government, however, still acknowledges the mounting pressure affecting many employers to reduce human resource costs in order to maintain organizational competitiveness in today’s national and global economy (Higo and Klassen 2015).

## 4 Mesolevel Determinants: Workplace Characteristics

This section introduces major determinants of retirement at the meso-level: the workplace characteristics. Within the macrolevel determinants discussed above, there are still some slight variations in older workers’ retirement behavior that are associated with two sets of workplace characteristics: *organizational size* and *industrial sector*. The first characteristic refers to the size of the work organizations in which older workers are employed in terms of the number of employees. The second refers to the sector of industry to which their work organizations belong. Arguably, each of these workplace characteristics, or a combination of both, contributes to creating some variations in older worker retirement behavior (Yamada and Higo 2011). This section focuses on two areas with which

these two workplace characteristics—organizational size and industrial sector—are associated and thus affect older workers' retirement behavior in Japan's workforce today: (1) the presence of mandatory retirement corporate policies in the workplace, and (2) age criteria set by employers to call for mandatory retirement.

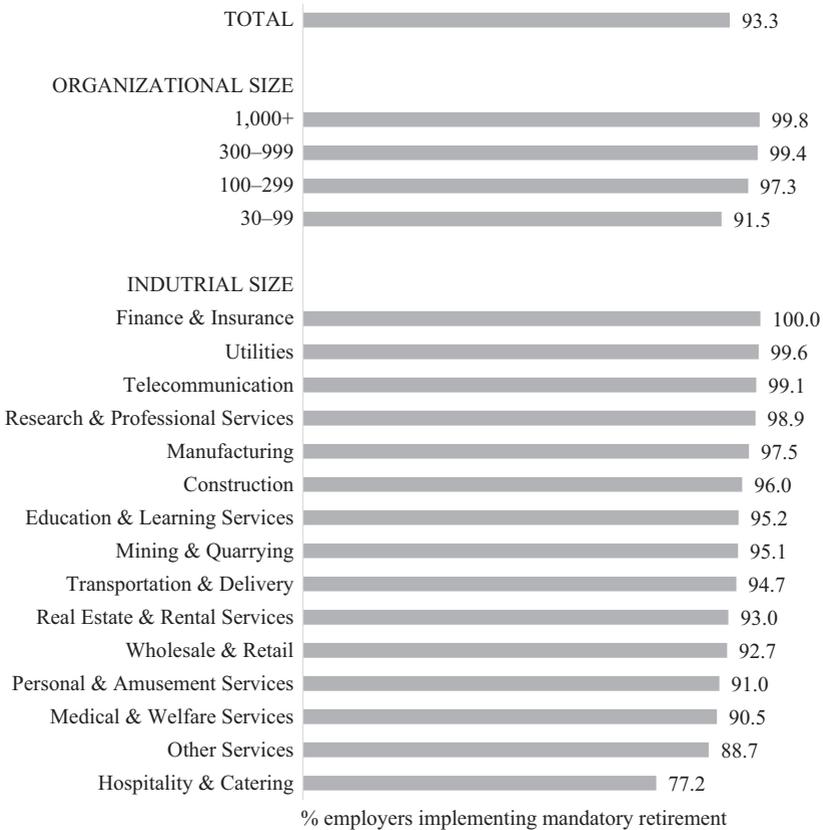
The discussion in this section is based on data drawn from the 2013 General Survey on Employment Conditions conducted in January 2013 by the Japanese Ministry of Health, Labor, and Welfare on a nationally representative sample of 6,114 employers in private sector workplaces with 30 employees and over<sup>3</sup> (response rate: 68.5 %). As will be discussed below, this survey classified workplaces into 4 organizational sizes and 15 industrial sector categories.

#### 4.1 The Presence of Mandatory Retirement Corporate Policies in the Workplace

Nationwide, as discussed earlier, in January 2013 about 93.3 % of employers reported implementing mandatory retirement corporate policies at their workplaces. As Fig. 11.2 shows, no significant variation is observed by organizational size ( $SD = 3.83$ ). However, larger organizations are slightly more likely than smaller ones to call for mandatory retirement. Almost all employers of larger organizations implement such corporate policies: about 99.8 % of employers with 1,000 or more employees and 99.4 % of those with 300–999 employees. The figure for smaller organizations, those with 100–299 employees, was slightly lower at 97.3 %, and that for the smallest organizations in the survey, employers with 30–99 employees, was the lowest at 91.5 % (MHLW 2015). In other words, regardless of organizational size, most employers in Japan—more than 90.0 % of them—oblige their workers to leave their workplaces upon reaching the set age for mandatory retirement. Generally, nonetheless, employers of larger organizations tend to mandate retirement more commonly than smaller ones.

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<sup>3</sup>The 2013 General Survey on Employment Conditions was not conducted on workers in public-sector employment (MHLW 2015).



**Fig. 11.2** Percentage of employers who reported implementing mandatory retirement corporate policies at their workplaces by organizational size and industrial sector, as of January 2013 (%)

Source: Japanese Ministry of Health, Labor, and Welfare (MHLW) (2015)

Note: This table includes data on private-sector employment only; data on public-sector employment are not available

Similarly, no significant variation is observed by *industrial sector* either (SD = 5.82). Nonetheless, it is worth highlighting some variations in this workplace characteristic. As Fig. 11.2 shows, 100 % of employers in the finance and insurance sector reported implementing mandatory retirement corporate policies at their workplaces. The corresponding figures for utilities and telecommunication were also above

99 % at about 99.6 and 99.1 % respectively. In contrast, the figure for employers in the hospitality and catering sector was the lowest at 77.2 %.

In sum, across organizational size and industrial sector, most employers in Japan implement mandatory retirement corporate policies at their workplace. This practice does not vary significantly in the two workplace characteristics. Nonetheless, within this sweeping national characteristic, older workers employed in larger organizations have to contend with corporate policies calling for mandatory retirement slightly more commonly than those in smaller ones. Older workers in the hospitality and catering sector are confronted less commonly with these corporate policies than those in the financial and insurance sector.

## 4.2 Age Criteria Set by Employers to Call for Mandatory Retirement

As discussed above, under the latest partial amendment of LSEOP in 2012, employers have been mandated to retain their employees at least until age 65, as long as these wish for continued employment (MHLW 2015). However, this latest legal mandate does not necessarily require employers to raise the age criteria for their mandatory retirement corporate policies at least up to age 65. Employers are still allowed to implement or retain their mandatory retirement corporate policies at their workplaces and to set age 60 as the age criterion for the mandatory retirement of their employees. Under the 2004 and 2012 amendments of LSEOP, most employers in Japan terminate the employment of older workers who have reached their mandatory retirement age (typically age 60), rehire them with lower wages or salaries as postmandatory retirement, nonregular employees, and retain them at least up to age 65.

As can be seen in Table 11.1, in January 2013, the majority—about 83.0 %—of employers who implement mandatory retirement at their workplaces reported that they still set age 60 for compulsory retirement. By organizational size, the share of employers who set age 60 for mandatory retirement shows some variations ( $SD = 5.61$ ). Larger organiza-

**Table 11.1** Age at which employers set mandatory retirement corporate policies by industrial sector and organizational size as of January 2013 (%)

	Age at which employers call for mandatory retirement						
	60	61	62	63	64	65	66+
Total	83.0	0.3	1.2	0.9	0.6	12.5	1.5
Organizational size							
1,000 or more	92.7	0.6	0.2	1.7	0.1	4.8	0.0
300–999	91.6	0.4	0.7	1.3	0.4	5.6	0.0
100–299	88.7	0.6	1.0	0.9	0.6	7.9	0.3
30–99	80.3	0.2	1.3	0.9	0.6	14.7	2.0
Industrial sector							
Mining and quarrying	94.5	1.5	0.0	0.0	0.0	4.0	0.0
Manufacturing	90.0	0.1	1.6	1.0	0.7	6.2	0.4
Finance and insurance	89.6	0.7	1.8	0.0	0.0	7.2	0.7
Telecommunication	89.1	0.2	0.1	0.0	0.3	10.2	0.0
Wholesale and retail	88.4	0.1	0.0	0.6	0.1	9.8	0.9
Real estate and rental services	87.5	1.1	0.0	1.1	0.0	9.1	1.1
Utilities	85.4	0.0	4.3	1.3	1.3	7.7	0.0
Education and learning services	83.5	0.0	0.0	2.4	0.2	13.9	0.0
Construction	83.3	0.0	2.1	0.3	0.9	12.7	0.8
Personal and amusement services	80.2	0.0	0.2	1.6	0.0	17.0	1.0
Research and professional services	79.1	1.3	5.4	0.8	1.0	12.5	0.0
Transportation and delivery	74.2	1.2	1.2	1.6	1.3	17.9	2.7
Hospitality and catering	72.1	0.0	1.3	0.2	0.4	23.4	2.6
Other services	69.5	0.5	2.4	1.8	0.9	19.0	5.9
Medical and welfare services	49.0	0.1	1.4	1.1	1.1	41.2	6.0

Source: Japanese Ministry of Health, Labor and Welfare (MHLW) (2015)

Note: This table includes data on private-sector employment only; data public-sector employment are not available

tions are more likely to limit the age criteria for mandatory retirement to age 60, whereas smaller ones are more likely to set the age criteria above this most common mandatory retirement age. About 92.7 % of employers with 1,000 employees and more reported that they still set age 60 for mandatory retirement, and the corresponding figures for those with 300–999 and 100–299 employees were 91.6 and 88.7 % respectively. The figure for employers with the smallest organization size, 30–99

employees, is substantially lower than larger ones at 80.3 %. Nearly 15.0 % of employers of this organizational size reported that they set age 65 for mandatory retirement. This means that older workers in smaller organizations are somewhat more likely to be allowed to work longer years before reaching the mandatory retirement ages set by their employers.

By industrial sectors, as in Table 11.1, the share of employers who call for mandatory retirement at age 60 varies significantly ( $SD = 11.39$ ). For instance, nearly or more than 90.0 % of the employers in the following industrial sectors set age 60: mining and quarrying (94.5 %), manufacturing (90 %), finance and insurance (89.6 %), and telecommunications (89.1 %). In contrast, the corresponding figures for employers in some other industrial sectors were substantially lower. Furthermore, significant shares of these employers reported that they set the age criteria at 65. Only 49.0 % of employers in the medical and welfare services sector reported that they set age 60, and as high as 41.2 % of those in the same industrial sector reported that their mandatory retirement age was set at age 65. Employers in the hospitality and catering sector show a similar pattern; about 72.1 % of them reported that they set age 60, and 23.4 % of them reported that they set age 65.

Overall, it can be argued that the mesolevel determinants of retirement with the two workplace characteristics moderately affect older worker retirement behavior in Japan. Across organizational size and industrial sector, most older workers contend with corporate mandatory retirement policies at their workplaces. This is particularly the case for those employed in larger organizations. As an exception, those in the hospitality and catering sector are slightly less likely than those in other industrial sectors to contend with the nationally characteristic condition of mandatory retirement. Nonetheless, at what age older workers in Japan are likely to contend with corporate mandatory retirement policies does differ in line with these two workplace characteristics. Those in larger organizations are most likely to contend with mandatory retirement at age 60; those in smaller organizations somewhat more commonly at higher ages. The presence of corporate policies calling for mandatory retirement at age 60 clearly stands as a nationally characteristic determinant of retirement. However, mandatory retirement is set at age 65 for a substantial share

of older workers in a few industrial sectors including the medical and welfare services sector.

## 5 Microlevel Determinants: Individual Characteristics

Research has long suggested that Japanese culture places high value on labor market participation. Workers draw self-esteem and their purpose of life from work, employment, and being a member of a group (that is an organization) (Bass 1996), and they have a strong intrinsic motivation to remain gainfully employed and, hence, productive (Williamson and Higo 2009). In a comparison with the USA, England and Misumi (1986) found that work plays a significantly larger role in people's lives in Japan than it does in the USA. By and large, individuals in Japan, and especially male workers, are expected to aim to remain in the labor force as long as possible in order to comply with socially prescribed expectations (Harpaz and Fu 2002). Nevertheless, a variety of factors might mediate whether or not individuals are able to continue working as per social expectations. These include, but are not limited to, gender, caring responsibilities, education, and the financial situation and health of the individual and the family.

Similar to Western Europe and the USA, roughly since the 1960s Japan has experienced an increase in female labor market participation both full- and part-time as well as an increasing prevalence and acceptance of women in career jobs (Rindfuss et al. 2010). Japan is, however, still characterized by a Confucian tradition placing a high value on family and filial piety in which marriage for Japanese women entails a rather exclusive focus on the household, childbearing and childrearing and, subsequently, care of aged parents (Rindfuss 2004). Multigenerational households have therefore been important social constructs in Japan in contrast to the more nuclear family concept in Western countries, even though their significance has been declining in recent years (Ogawa and Ermisch 1996). Women's labor market attachment has been relatively limited along with their opportunity to participate in the Japanese lifetime employment sys-

tem. This is especially true for those cohorts of women who are currently aged 50 or older (Clark and Ogawa 1997).

Nevertheless, the dichotomy between increasing female labor market participation (and hence the existence of a work–retirement transition) and family life poses a dilemma for the study of female employment (and retirement) in Japan. In fact, Hofäcker et al. (2016) found that in the Japanese context, women predominantly report transitioning from work into housekeeping instead of into retirement, even if they had been gainfully employed in their 50s. Work and family life therefore appear to be intertwined, at least for these cohorts. The existence of the multigenerational family concept might act as a support mechanism as well as an additional burden. Whereas elderly parents might support their daughters (in-law) during childrearing phases, hence allowing them to pursue gainful employment, daughters are expected to care for elderly parents (in-law) in the future, which might in turn hinder employment opportunities (Ogawa and Ermisch 1996). This argument is supported by Ogawa et al. (2010) who studied the probability of employment for middle-aged women with care responsibilities for (ill) elderly family members. They found that 75 % of daughters and daughters-in-law are employed despite caring responsibilities for ill parents (in-law) and regardless of the level of illness or disability. Furthermore, they show that employment probabilities increase with the level of severity of the illness or disability. This is apparently because serious illnesses cause longer spells of hospitalization and external care arrangements that force or encourage daughters (in-law) to work in order to cover health care costs (Ogawa et al. 2010). Nevertheless, Ogawa et al. (2010) also found that employment propensity decreases in line with the increasing age of the ill parent (though not with the level of disability), and, hence, probably also with the age of the caring daughter (in-law). This indicates that women transition out of work back into household and caring responsibilities and not into retirement in the traditional sense.

However, it is not only Japanese women whose work–retirement/family transition is influenced by family factors. Findings by Shimizutani (2011) indicate that Japanese men with a larger dependent family tend to retire earlier than those with no or a small family. This finding is counterintuitive in light of the previous discussion on female employment,

because one might expect that those with caring responsibilities for children and elderly parents will have to work longer to pay for education and, possibly, care (Ogawa et al. 2010).

Financial considerations are therefore bound to influence retirement timing alongside family factors. Both men and women who have access to larger sums of state pension income (that is JPY 150,000 and above per month), tend to retire earlier than those with a lower income from their state pension (Shimizutani 2011), even though those who can rely on a higher amount of accumulated net wealth are less likely to draw their pension early (that is prior to age 60) compared to those with less personal wealth (Shimizutani and Oshio 2012). In line with the first point made, Williamson and Higo (2009) argue that almost 64 % of Japanese men and women indicate that they want to continue working into their 60s for economic reasons, and mainly in order to maintain the standard of living that they have acquired in their 50s. This is because, as argued above, workers can only draw their state pension at age 65, even though some earnings-related pension schemes are already available at age 61. Social obligations as a cultural driver for being gainfully employed were relevant for only 9.5 % of the survey respondents (Williamson and Higo 2009). This finding indicates that culture as a main driver, and therefore work as an important purpose of life, might not be as significant as previously thought—at least for the age group 60–64.

Similarly, job status and education influence the work–retirement transition, at least for men. Those men working in technical or managerial positions as well as those with higher educational attainment are expected to retire earlier than those in manual jobs and with lower educational degrees (Shimizutani 2011). Using year 2000 microlevel data from the *Japanese Survey on Employment of the Elderly*, Shimizutani (2011) found that the survival rate of male employees in their 50s remains close to 100 %, but then falls from age 60 onward. The survival rate of those still in employment at age 69 was 30 % for university graduates, 45 % for senior high school and 2-year college graduates, and highest at 53 % for those with only junior high school education. In line with the discussion on financial factors, this might indicate that those individuals with sufficient financial assets and/or pension provisions do not need to continue working, whereas

those with assets that do not cover their standard of living might have to continue working out of economic necessity (Hofäcker et al. 2016).

Lastly, (subjective) health levels are also found to influence retirement timing. Japanese individuals have the highest life expectancy in the world. In addition, as discussed in the comparative chapter, on average Japanese men and women stay healthy, and thereby disability-free, longest in comparison to other populations, even though the average total amount of years in ill health increased for both men and women between 1995 and 2004 (Hashimoto et al. 2010). However, according to 2005 data, when asked about self-perceived health status, only 39 % of Japanese men and women considered their health as very good or good, and that is the second lowest percentage among OECD countries (Williamson and Higo 2009). Therefore, the high healthy life expectancy among Japanese individuals cannot be taken as a proxy for explaining extended working life, because subjective health status is more likely to influence decisions over labor market participation than actual objective health.

## 6 Conclusion

This chapter began by arguing that when looking at the global trend of rapid population aging and of delaying the retirement of older workers, Japan deserves special attention compared to other countries around the world. This is not only because Japan became a hyperaged society before all other countries, but also because it has kept workers in the labor force longer than most other countries around the world (Higo 2013). Does this mean, however, that Japan represents a successful model for other countries to follow in their current and future efforts to prolong the working lives of older adults in their own aging workforces? In response, this chapter has introduced the main determinants of retirement in Japan today based on a multilevel approach that clustered the key determinants into macro, meso, and microlevels. As this chapter suggests, Japan has contended with various challenges in further delaying the future retirement of its older workers—that of corporate employees in particular. Overall, this chapter concludes by arguing that the experience of Japan deserves close attention from other countries, not only to follow some

aspects of the recent approaches to addressing this issue, but also to draw some negative lessons for their future policymaking.

In the case of Japan, the most significant determinant of retirement at the macrolevel rests in the wide prevalence of mandatory retirement corporate policies that force the majority of employees across the country to leave their workplace at age 60. Through the last two major amendments to the LSEOP (carried out in 2004 and 2012), the government has aimed to pressure employers to increase the minimum age of mandatory retirement to at least age 65 if not to abolish it altogether (Yamada and Higo 2015). The current legislative framework, however, still permits employers not to guarantee retaining their employees until age 65 without changing their work conditions. If choosing to retain their postmandatory retirement workers, employers are allowed to rehire them as nonregular employees who are likely to experience considerable risks associated with financial security until reaching age 65 at which point they become eligible to receive a significant portion of their public pension benefits. This is the case because for most employers across the country—large-sized organizations in particular—mandatory retirement is one of the most important methods for workforce adjustment in an increasingly competitive global economy (Flynn et al. 2014).

This chapter has focused on workplace factors as the key meso-level determinants of retirement in Japan today. Whereas mandatory retirement is in effect almost universal and uniform across the country's labor market, its prevalence varies—albeit very slightly—by two variables associated with the workplace: organizational size and industrial sector (Yamada and Higo 2015). In general, larger organizations are more likely than smaller ones to implement mandatory retirement policies. In other words, workers employed in larger organizations must more commonly contend with corporate policies calling for mandatory retirement than those in smaller ones. A greater variation is observed in the prevalence of mandatory retirement by industrial sector. Whereas nearly all workers employed in the financial and insurance sectors of industry contend with mandatory retirement, workers in the hospitality and catering sector of industry do so

substantially less commonly than those in any other industrial sector (MHLW 2015).

The primary microlevel determinant of retirement rests in an individual, or demographic, factor: gender. Over recent decades, many other developed countries—those in Western Europe and North America in particular—have successfully been closing the gender gap in employment, including that among older adults. In the case of Japan, two factors deserve critical attention: the residue of lifetime employment as a characteristically male-centered labor market institution and the persistent social roles attached to women that are associated with being the primary caregivers for children, aged parents, and the household in the form of what is mostly unpaid labor (Rindfuss 2004). This tendency remains especially pronounced for those women who are currently aged 50 or older (Clark and Ogawa 1997). In the global trend toward closing the gender gap in employment, Japan lags behind many other developed countries around the world. Japanese women have the world's longest life expectancies at birth and the longest number of years free from disability (Williamson and Higo 2009). Therefore, if the government aims to delay the retirement of older workers as a way to increase the aggregate hours of labor that they supply, it is imperative for the country to follow the successful approaches of those countries in Western Europe and North America in particular.

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# 12

## The Gendered and Liberal Retirement Regime in Switzerland

Ignacio Madero-Cabib

### 1 Introduction

There have been several pension reforms aiming to reverse early retirement trends through state and market incentives to encourage a longer working life.<sup>1</sup> These have led to the retirement topic becoming of utmost importance in various countries (Ebbinghaus and Hofäcker 2013; Reynolds et al. 2012). These pension reforms claim to respond specifically to the impact of aging populations on the sustainability of pension systems by extending occupational activity. Here, what is at risk according to policymakers is the degree to which different pension systems, in view of aging populations, will continue to be effectively capable of ensuring the financial well-being of retirees (Reynolds et al. 2012). Policy discourses

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argue therefore that one way to alleviate the current disruption in the financial stability of public pension spending and private pension funds is to promote late retirement in societies by ensuring that older workers are increasingly able to remain attached to the labor force beyond state pension ages (Foster and Walker 2013).

Indeed, the European Union declared 2012 to be the *year of active aging*, aiming to promote numerous social policies addressing the continuity of the careers of older workers (Rosende and Schoeni 2012). As Rosende and Schoeni (2012) summarize, the proposed European policies include encouraging full employment at least up to the official age of retirement, progressively removing early retirement incentives, eliminating discriminatory stereotypes about older workers, increasing their training, and also, in case of unemployment, promoting their reintegration into the labor market.

Turning to the specific dispute over early and late retirement in Switzerland, the labor force has witnessed various economic and political procedures since the mid-1990s aiming to encourage not only early retirement but also work beyond the state pension age (defined as 64 for women and 65 for men). In this sense, despite being a country with a historically high employment rate for older workers compared to other nations, Switzerland has institutional mechanisms promoting flexible timings of labor market exits.

However, these flexible retirement timings need to be analyzed in light of the mediation effect of two additional characteristics of the Swiss retirement context: first, the gendered labor retirement regime, and second, the liberal basis of the Swiss pension institution. In Switzerland, the work and retirement conditions of women depend strongly on a male breadwinner scenario that uses institutional procedures to force female workers to accept disadvantaged status conditions such as part-time contracts, interrupted careers, and less access to pension funds (Madero-Cabib and Fasang 2016). Furthermore, as explained below, although the pension institution in this country boasts a public pension pillar based on the typical regulations for a corporatist welfare state, the Swiss pension structure operates on highly liberal principles given the low generosity of public pensions as well as the major relevance of investments in private pension pillars for the income of retirees.

Therefore, in light of the major relevance of the retirement topic in the public and academic debate, the current chapter aims specifically to problematize the context of the transition to retirement in Switzerland within the context of national and international contingencies. In particular, it will discuss four dimensions of the Swiss retirement context: first, the highly gendered work–retirement scenario; second, the liberal insurance regime embedded in the pension institution; third, the current institutional incentives and constraints for early and late retirement; and fourth, the workplace and individual determinants of the retirement transition. After discussing these four dimensions, the chapter closes with conclusions and prospective ideas for research on the retirement transition in this country.

## 2 Older Workers' Employment Rate in Switzerland: A Gendered Labor–Retirement Context

As Giudici and Gauthier (2013) have pointed out, Switzerland is a particularly appealing context for understanding inequalities between male and female work trajectories, due to a conservative state regime that promotes strong male breadwinner orientations in labor market participation. As Meyer and Pfau-Effinger (2006) summarize, the male breadwinner model assumes employment, upward career mobility, and financial independence as the norm for men compared to economic inactivity and family care combined with financial dependence, mostly through marriage, as the norm for women.

Swiss literature identifies specific public policies that foster the development of a male breadwinner model both in the labor and retirement contexts. For instance, Swiss tax legislation strongly penalizes second income earners—mostly women—in married couples through a joint taxation structure that favors female housework (Peters 2014). The country also had no mandatory maternity leave policies until 2005, and this also acted as a strong barrier to female work (Kuehni et al. 2013; Valarino and Bernardi 2010). Moreover, typical female occupations in Switzerland

tend to be concentrated in part-time jobs that are not covered by occupational pension schemes if they pay below a lower earnings limit (Oesch 2008). Finally, despite some variation between German, French, and Italian cantons (Buchmann et al. 2010), both limited public child care (in the year 2010, almost 28 % of children were still not covered) and the high costs of existing services set strong constraints for mothers wishing to remain in the labor market (Stern et al. 2013).

This gendered context has consequences for not only early and middle adulthood labor trajectories but also late labor periods. As we show below, although Switzerland has faced an increasing proportion of older workers during recent years, the gender differentiation of labor force participation during the last period of the working life is just as segregated as in earlier periods.

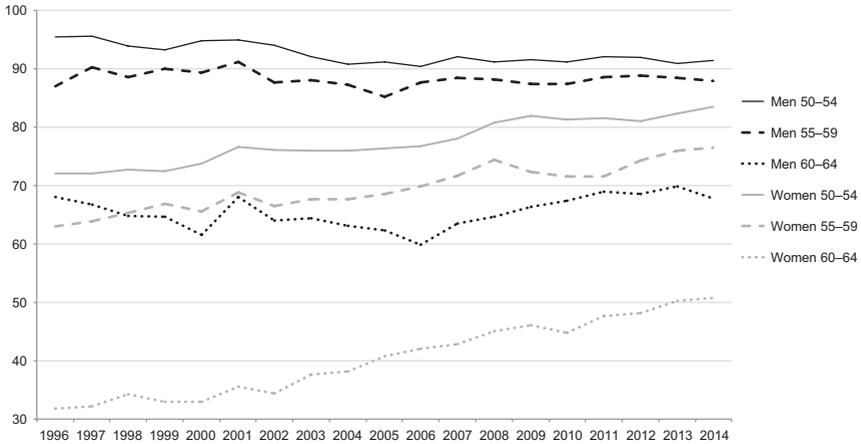
Data provided by the Federal Statistical Office of Switzerland (OFS) shows that from 2000 to 2010, the share of workers aged 55+ rose from 15.1 to 17.5 % of the active labor force (OFS 2011a). Likewise, according to projections by this source, the proportion of older workers will represent 21.2 % of the active labor force in 2060 with a peak of 22.3 % between the years 2025 and 2027 (OFS 2012a). These trends are certainly related to the high life expectancy rates in Switzerland, indicating that a person aged 65–69 can currently carry on living in good health for an average of 13 more years.<sup>2</sup>

Taking an international perspective, in the year 2009, a total of 68.4 % of Swiss people aged between 55 and 64 years were employed compared to 48 % in the European Union (Rosende and Schoeni 2012). Likewise, Switzerland has a large proportion of active older workers compared to the rest of the OECD countries: In 2012, the share of workers aged 50–64 in Switzerland was about 78 % compared to 65 % in all OECD countries (OECD 2012). Further details on cross-national rates of labor force participation in older workers can be found in the second chapter of this book.

Nevertheless, Fig. 12.1 shows that Switzerland has a high variability in the employment rate of older workers in terms of gender. Although both men and women show high employment rates in almost all age categories,

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<sup>2</sup> Chapter 2 gives an overview of average life expectancy in the 13 countries discussed in this book.



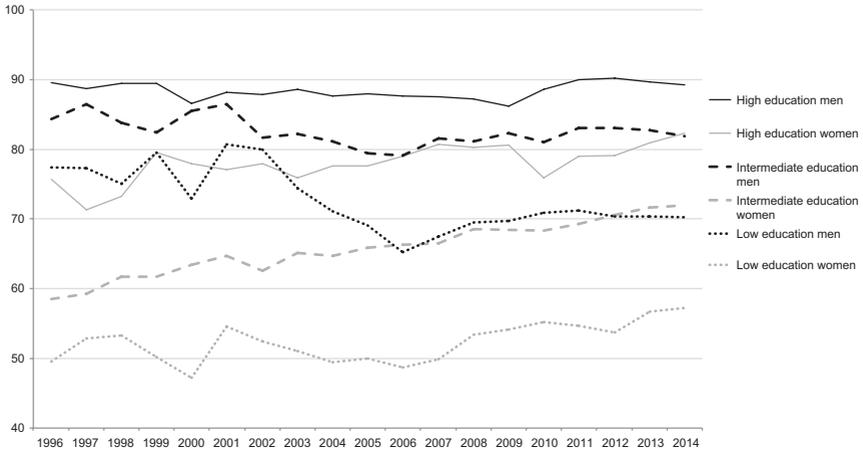
**Fig. 12.1** Employment rate by gender and age group in Switzerland between 1996 and 2014

Source: Eurostat 2015

male rates are always higher than female ones. For instance, women aged 60–64 pass the 50 % employment rate only in 2014, whereas men in the same age category are close to the 70 % employment rate in that year.

Moreover, relating the employment rate of older workers (aged 50–64) to both gender and educational level (Fig. 12.2) we observe that the strong labor participation of highly educated workers is more apparent for men than for women. Indeed, male workers with middle educational levels show a higher employment rate than female workers with high educational levels. As in the previous figure, these tendencies have been continuous between 1996 and 2014.

Furthermore, men and women in Switzerland also differ considerably in terms of retirement behavior. One illustrative example is the time point at which men and women, on average, take retirement. A recent study shows an increasing rise in retirement timings for both genders to 64.1 for men and 62.6 for women (Trageser et al. 2012). Yet according to OECD (2012) estimates, effective retirement ages are even higher: Whereas men in Switzerland retire, on average, at the age of 66.1, women retire at 63.9 years. Nonetheless, both research sources suggest a tendency over the last few years for older workers to continue working at least up to



**Fig. 12.2** Employment rate of older workers (aged 50–64) by gender and educational level in Switzerland between 1996 and 2014

Source: Eurostat 2015

the age of retirement, thereby decreasing the proportion of workers who retire early. However, although the average retirement age is higher for men than women in Switzerland, more men than women tend to retire before state pension age (Bütler et al. 2004; Madero-Cabib et al. 2016).

Moreover, the retirement differences between men and women are observable not only in terms of timing but also in access to the three different Swiss pension funds (explained in detail below). It has been noted that whereas almost every man and woman has access to the public pension fund, 81.7 % of men and 56.8 % of women receive pensions from the occupational pension fund, and 42.3 % of men whereas only 25.3 % of women receive pensions from the private pension fund (OFS 2011a).

Four recent Swiss studies focus specifically on the strong male bias in the labor–retirement structure (Kuehni et al. 2013; Le Feuvre et al. 2014; Madero-Cabib 2015; Rosende and Schoeni 2012). These studies explain the high gender difference in labor force participation, retirement timings, and pension benefits through the strong sexual division of the Swiss labor market that financially penalizes women who interrupt their careers or work part-time due to their family responsibilities. In other words, Swiss women with familial trajectories marked by marriage and motherhood

are mostly compelled to have a weak attachment to the labor market, to retire late from the work sphere, and to have lower pension savings (Madero-Cabib et al. 2016).

Additional studies suggest that the gender bias in the Swiss retirement regime is due to the liberal arrangement of pensions (explained in the next section) that tends to make pension benefits depend mainly on personal financial conditions (Tabin et al. 2008). In other words, the origins of this gender inequality seem to be rooted in the Swiss liberal welfare state that makes pension savings dependent on a financially stable occupational status; that is, full-time jobs and continuous careers from the end of education up to retirement. This fits the traditional stereotype of the qualified male breadwinner (Giudici and Gauthier 2013; Madero-Cabib and Fasang 2016).

### 3 Liberal Orientation of the Swiss Pension Institution

National and international literature indicates that social assistance procedures in Switzerland have been framed traditionally in liberal regulations (Cattacin 2006; Esping-Andersen 1990; Kuehni et al. 2013; Rosende and Schoeni 2012; Tabin and Togni 2013). In concrete terms, this means that the state externalizes the costs and risks of public systems of retirement or health disability to its citizens (Esping-Andersen 1990). The pension institution provides a good illustration of how liberal social assistance is in the country.

The pension institution is organized into three different pension funds or pillars. The first pillar is the Old-Age and Survivors Insurance (*assurance-veillesse et survivants*, or AVS), mandatory for every person living in Switzerland both occupationally active and inactive. This pension fund is financed individually by each person and, in the case of workers, by them and their employers in equivalent parts, collecting a total of 8.4 % of the annual income of the worker. In addition, this pension pillar is rooted in a “pay-as-you-go” (PAYG) scheme in which employed people finance the pensions of retirees and the state is the exclusive administrator of funds (Calvo et al. 2010). PAYG pension schemes traditionally belong to corporatist states.

The second pillar corresponds to the occupational pension planning (*prévoyance professionnelle*) fund administered by insurance offices and financed by each worker. This pillar is devoted to employees and civil servants earning more than 20,880 Swiss francs per year (about \$22,300 or €19,900) and became mandatory in 1985. According to the OFS, the central aim of this fund is to complement the AVS pillar in order to cover at least 60 % of the final salary of workers (OFS 2014). Finally, the third pillar is a private reserve accumulated by a person in a bank or insurance company. This is not compulsory, in contrast to the two other pillars, and is often used by the self-employed, though salaried people can also contribute to private programs (Dorn and Sousa-Poza 2004a, b; OFS 2012a, b). Both the second and third pension pillars are embedded in an “individual retirement account” (IRA) scheme, in which savings and contributions support the financing and management is completely private (Calvo et al. 2010). IRA pension schemes are usually to be found in liberal states.

Considering the description of the three pillars, one might argue that the Swiss pension structure does not have a strictly liberal focus, because it operates on the basis of economic distribution schemes typical of not only liberal but also corporatist countries known as IRAs and pay-as-you-go (PAYG) schemes (Calvo et al. 2010). However, in PAYG schemes, the risks of declining and not increasing public pensions are normally assumed by the state (Calvo et al. 2010). However, in the AVS pension fund, that is, the seemingly PAYG pillar in Switzerland, individuals assume such risks because when they stop contributing, they simply receive decreased pension funds, as practiced in retirement pillars based on an IRA scheme.<sup>3</sup> Put concretely, for every year in which a worker fails to contribute to the AVS pension fund, she or he has to face an average reduction of 2.3 % in accumulated savings (OFS 2012c).

Moreover, another paradoxical aspect of the AVS pension fund that is apparently based on a PAYG scheme is that its financing is supported by the contributions of its members and not by the regular taxes paid additionally to the state. Finally, one last aspect characterizing the Swiss pen-

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<sup>3</sup>Although it is mandatory for every active and nonactive individual to contribute to the AVS pension fund, there are some cases in which people are unable to contribute (see OFS 2012e).

sion institution as liberal is that the AVS pension fund provides only low financial benefits, whereas the pension pillars that depend on own market position—that is, the occupational and private pension plans—represent important sources of pension benefits in old age (Bonoli 2006).

Various Swiss scholars have pointed to these liberal orientations (which affect not only pensions but also health insurance), the absence of the state's accountability in social assistance, and specifically, the partial privatization of the main social assistance devices (Cattacin 2006; Kuehni et al. 2013; Rosende and Schoeni 2012; Tabin and Togni 2013). However, it is worth mentioning that there are, in contrast, scholars who partly support the Swiss pension system because it protects pensioners from poverty, guarantees a fair replacement income for individuals with a middle-class background, and ensures the financial sustainability of pension funds (Bonoli 2006).

#### **4 Institutional Determinants of the Retirement Transition: Between Early Retirement and Active Aging**

Currently, Switzerland still has institutional procedures fostering early departure from the labor market, although active aging started to be promoted through market mechanisms and policies in recent years. Indeed, since the mid-1990s, the Swiss labor force has witnessed several institutional macrolevel incentives or constraints aiming either to dissuade or to encourage early retirement as well as to work beyond the state pension age. These macrolevel institutional incentives or constraints will be discussed in four parts: (1) the contextual incentives to pull workers out of the labor domain before state pension age—or pull determinants; (2) the institutional constraints aiming to push workers out of the labor market before public retirement age—or push determinants; (3) the political and market incentives aiming to encourage workers to continue working after state pension age—or stay factors; and (4) the contextual constraints that force workers to remain active in the labor market beyond state pension age—or need factors.

Starting with pull determinants, it is relevant to mention that until the early 1990s, the Swiss retirement structure tended to dissuade early retirement. Indeed, if individuals wanted to retire early, they benefited only from an occupational pension fund, with significantly diminished benefits in comparison to what they would have received when retiring at the state pension age. Furthermore, individuals who retired early had to continue paying contributions to the AVS pillar until state pension age. Early retirement was thus far from being a good economic option for workers.

In contrast, in the framework of the Swiss social assistance system and the Swiss labor market, it is currently possible to find examples of financial incentives and public policies fostering (either directly or indirectly) the pulling of workers from the occupational sphere before state pension age. Put concretely, the following six factors can be categorized as pull determinants: AVS bridge, early retirement age in the second pension pillar, early retirement age in the third pension pillar, disability insurance, unemployment insurance, and complementary provisions of AVS. Each of these factors is explained in detail below.

During the mid-1990s, several large firms and administrations decided to finance early retirement for many of their aging workers by offering them what was called an “AVS bridge” (Roduit 1993). This AVS bridge consisted of an amount of money that compensated for the fact that people would not receive their AVS benefits in the time gap between early retirement and the state pension age. This amount sometimes also included the contributions to AVS until state retirement age. However, as AVS bridges were indeed very expensive for firms and pension funds, financing early retirement became less frequent during the early 2000s.

Moreover, nowadays, although the public AVS fund does not include any financial incentive to retire early, occupational and private funds both offer to take the accumulated savings not at the state pension age but from ages 58 and 60 respectively (OFS 2011a). Indeed, for several years now, although there are state proposals aiming to decrease early retirement trends through active aging policies (described below in the *stay determinants*), early retirement ages continue to be promoted systematically in occupational and private pension pillars.

Furthermore, disability insurance (*assurance-invalidité* or AI) and unemployment insurance (*assurance chômage* or AC) are two measures that aim to financially support workers while they regain their health or search for a new job. However, because these insurances protect the livelihood of disabled or unemployed individuals, they are sometimes seen as legitimate early retirement routes, particularly for middle- and low-income workers.

A last pull determinant are the complementary provisions (*prestation complémentaires*) associated with the AVS pension fund. These provisions are financial supplements that people can request of the public pension fund if their pensions do not suffice to assure a minimum standard of living in old age (OFS 2012a). Therefore, while this provision might not be characterized directly as a pull determinant, one can think specifically of those workers reflecting on the decision to either continue working beyond state pension age in order to accumulate enough savings or to stop working because they can qualify for this benefit. In such a scenario, the assumption is that workers would rather stop working.

Considering, conversely, factors pushing workers out of the Swiss labor market before the state pension age—or push determinants—it can be stated a priori that no public policies or market mechanisms produce this effect directly. This is because—as Buchholz and Hofäcker (2004) and Hofäcker (2010) suggest—unemployment among older workers produced by economic downturns or labor demand shocks is traditionally one of the main push determinant of withdrawals from the work sphere. However, the Swiss labor market is characterized by having a large older labor force and, as pointed out below, Swiss social assistance offers clear possibilities of training for older workers in order to promote lifelong working (OFS 2011b).

Nevertheless, one could highlight two aspects of the Swiss labor context that might be acting as push determinants. The first corresponds to a particular aspect of unemployment insurance. Given that 12 months of contributions is the minimum time for qualifying for the income offered by this insurance, one can imagine that all individuals excluded from unemployment income due to this criterion are compelled to leave the labor market before state pension age.

Indeed, as Tabin and Togni (2013) indicate, according to the ESPA survey (Enquête Suisse sur la Population Active) in 2009, there were 182,000 persons without a job, but only 154,000 people receiving unemployment insurance. This means that almost 30,000 individuals were completely excluded from this social assistance. The authors also suggest that in the year 2011, unemployment insurance diminished the maximum number of paid working days in case of unemployment. This could clearly lead to forced retirement for those workers who do not find jobs again.

Finally, another push determinant, not clearly identifiable as such, is certain negative stereotypes of older workers that apparently exist in different sectors of the Swiss labor market (Kuehni et al. 2013). These adverse stereotypes relate to their lower capability of adapting to new technology demands or to the faster timing of current jobs that could encourage firms to engage younger workers. The assumption is consequently that this symbolic image of older workers could serve as a push determinant.

In contrast, it is possible to observe aspects of the Swiss social assistance system and the labor market that aim to encourage workers to continue working beyond the state pension age. These aspects—that can be called *stay factors*—include: (1) financial benefits from the occupational pension fund, (2) the exemption AVS (*franchise AVS*), and (3) training policies for older workers.

First, within the framework of the occupational pension fund, there are two financial benefits that aim to keep workers active at least until the state pension age. The first benefit proposes that if the income of a worker decreases by more than one-half between age 58 and the state pension age, that worker can request the maintenance of her or his occupational pension fund at the last salary level before the decrease in income. Moreover, there is another benefit indicating that if workers want to continue accumulating savings in their occupational pension fund after state pension age, they can do so up to 5 years after that age (OFS 2012d).

Second, in order to encourage active aging, the AVS pillar includes an exemption from pension contributions for those deciding to continue working after the state pension age. Put descriptively, every person working after the state retirement age can have an exemption of 1,400 Swiss

francs per month (about \$1,500 or €1,350) in the income used to invest in the AVS pension fund. This means that a worker over the state pension age with an income equal to 3,000 Swiss francs may contribute to her or his AVS pension as if she or he is earning 1,600 Swiss francs (OFS 2012a).

Finally, another factor that might be considered as a stay determinant is the training that workers can receive in the framework of the AVS pension fund. This training policy aims to improve different intellectual and physical skills of older workers in order to keep them in the labor market (OFS 2012d). An underlying objective of this measure is to counter those beliefs about older workers that depict them as people who impede performance (Rosende and Schoeni 2012).

Besides stay factors, there is another kind of determinant by which the imposition of institutional constraints creates a sort of necessity for older workers to remain functional in the labor domain after state retirement age. Two of these determinants—which can be called need determinants—are: (1) the extended state pension age; and (2) the financial penalty for early retirement in the frame of the AVS pension fund.

First, although Switzerland has not raised the state pension age, as recently done in other European countries, Swiss law has already established an extended state pension age equal to 5 years beyond the current one: 69 for women and 70 for men. In other words, although it is still not mandatory, the Swiss retirement structure has imposed the legal option to continue working beyond the ordinary pension age for persons in need of higher retirement funds.

Furthermore, the AVS pension fund has a financial measure aimed directly at dissuading early retirement. This measure particularly concerns a financial penalty if retirement is taken before the state pension age. In the framework of the AVS pension pillar, it is possible to retire at most 2 years before the state pension age. However, a withdrawal one year before this age implies a reduction of 6.8 % over the accumulated AVS savings, whereas a withdrawal 2 years before means a 13.6 % reduction (OFS 2012e).

After reviewing the different procedures and mechanisms that can foster both early retirement and active aging in Switzerland, we shall now discuss the individuals who benefit or are penalized socially in the transition to retirement.

## 5 Workplace and Individual Characteristics as Determinants of the Retirement Transition

As shown above, on the macrolevel, both social assistance and the labor market offer several incentives and constraints for early and late retirement. However, this overall context does not imply that everyone faces such incentives or constraints in a socially homogeneous way. This is because several meso- and microlevel determinants can, to some extent, mediate the effect of macrodeterminants on retirement timings. As Hofäcker (2010) summarizes, whereas mesolevel determinants can refer to, for instance, various workplace conditions of individuals, microlevel determinants correspond to the personal characteristics of workers such as family, health, labor, wealth, or education. Let us now look at what Swiss literature has found regarding workplace and individual characteristics.

### 5.1 Workplace Characteristics as Determinants of the Retirement Transition

One relevant workplace characteristic is the industry sector. Dorn and Sousa-Poza (2004b) underline that whereas white-collar workers usually retire early in Switzerland because they have enough pension funds and also good health, blue-collar workers normally cannot retire before the state pension age because they lack sufficient wealth to cover the time gap between early retirement and the beginning of the AVS pension funds. Furthermore, a recent investigation shows that workers in the financial and insurance sector have the highest rate of early retirement (45.8 %), followed by the transportation and storage sector (34.7 %), civil servants (32.8 %), accommodation and restaurants (10.0 %), and finally agriculture and forestry occupations (6.9 %) (OFS 2012a). Looking for specific reasons for early retirement in different industry sectors, some research indicates that workers in the financial area are more likely to retire early because of mandatory company procedures. On the other hand, in the case of workers from agriculture and construction sectors, early retirement is commonly due to health disabilities (Dorn and Sousa-Poza 2004a, b).

Another workplace condition that impacts on the timing of the retirement transition is the work-time basis of workers; that is, whether they work in full- or part-time jobs. Swiss literature focusing on this specific topic indicates that working in a full-time job increases the chances of taking early retirement through the possibility of investing in significant pension funds. Conversely, part-time jobs are associated more with late withdrawals from the labor force because of insufficient pension savings for old age (Balthasar et al. 2003; Madero-Cabib et al. 2016).

Moreover, the retirement behavior of employees, civil servants, and self-employed workers is traditionally different in the Swiss labor market. On average, 32.8 % of civil servants retire early, whereas 44.2 % of the self-employed are still working after state retirement age (OFS 2012a). Some studies explain this difference by suggesting that early retirement in Switzerland is possible mainly for those individuals who have contributed to a pension fund over a significant period of time, especially in the framework of the second pillar that is devoted exclusively to employees and civil servants (Gaillard et al. 2003; Madero-Cabib and Kaeser 2016). This means that self-employed workers might be more likely to retire late because they are excluded from making simultaneous pension contributions in both public and occupational funds. However, alternatively, Gaillard et al. (2003) propose that the reason why the self-employed usually take retirement later than employees and civil servants in Switzerland is their personal predisposition to carry on being active in their own business beyond the ordinary age of retirement.

## 5.2 Individual Characteristics as Determinants of the Retirement Transition

As well as mesolevel or workplace characteristics, another kind of factor that can certainly influence the transition to retirement of workers is various microlevel or individual characteristics. Alongside the impact of gender on retirement aspects—already discussed above—studies highlight the influence of health status, financial status, and also the voluntariness to take retirement at any time.

Considering the health factor, although some variations according to activity sector have to be taken into consideration, in the majority of occupations people with health disabilities are more likely to retire early (Dorn and Sousa-Poza 2004a; Madero-Cabib et al. 2016). This refers not only to physical disabilities but also to psychological impediments. In fact, a strong correlation has been demonstrated between jobs producing poor psychological states and intentions to retire as early as possible (Siegrist et al. 2007). Nonetheless, it is worth mentioning that the effect of health on early retirement in Switzerland is mediated strongly by both occupational class and educational background. People belonging to higher occupational ranks such as professional or scientific occupations show more job satisfaction and more propensity to continue working despite ill health (Dorn and Sousa-Poza 2004a). Conversely, workers with low educational levels tend to retire early from the labor market for health reasons. This could be explained by their participation in jobs requiring much physical work (Dorn and Sousa-Poza 2004a). Alternative research even shows that occupational class annuls the effect of health status on early retirement in Switzerland (Gaillard et al. 2003). Specifically, Gaillard et al.'s (2003) study suggests that after controlling for occupational class, the effects of objective and subjective health of workers on early withdrawal are no longer statistically significant.

Moreover, the Swiss literature reveals a kind of consensus about the strong association between having a more affluent financial situation and early retirement. This is explained mainly due to the Swiss pension structure encouraging people with enough accumulated funds to retire earlier from the labor market (Cattacin 2006; Kuehni et al. 2013). Conversely, low-income workers must normally continue working, constrained by the need to have sufficient pension funds (Balthasar et al. 2003; Bütler et al. 2004). However, this has to be qualified by the fact that people with the highest incomes—that is, those at the very top of the income hierarchy—tend to continue working beyond the ordinary age of retirement. This has been described as the U-shaped effect of income on retirement timing (see, for instance, Hofäcker and Naumann 2015; Radl 2013).

Regarding the influence of the aforementioned individual and workplace determinants of the transition to retirement, one might think that the possibilities of deciding personally when to retire are very low in

Switzerland, or at least that this possibility is available only to a financially affluent social group. Indeed, although Dorn and Sousa-Poza (2004b) point to the fact that Switzerland presents a low rate of involuntary early retirement from an international perspective, the largest group of workers anticipating retirement are those leaving for health reasons (23.4 %), rather than for mandatory organizational reasons (13 %), due to attractive financial offers made by employers (11.4 %), due to high stress at the workplace (9 %), or for other reasons (7 %) (Balthasar et al. 2003). Similarly, another study indicates that it is especially rich men who can afford to leave the labor market early without further constraints in Switzerland (Bütler et al. 2004). These results make it clear that the voluntariness to, predisposition for, or affordability of, taking retirement at any time is clearly reserved for a socially privileged group of workers.

## 6 Conclusion and Further Research Topics

In advanced societies, the duration of labor careers is currently becoming a particularly controversial topic due to different pension reforms aiming to reverse early retirement trends and to delay for as long as possible the age at which people retire (Ebbinghaus and Hofäcker 2013; Reynolds et al. 2012). In this international framework, Switzerland is a country with institutional procedures that encourage both early departures from the labor market and also active aging. In this chapter, the discussion about current retirement timing trends took place in light of two seminal characteristics of the Swiss retirement context: the gendered labor–retirement scenario and the liberal character of the pension institution.

As described above, the two more relevant pension funds for the financial well-being of retirees, that is, the occupational and private pension plans, are intrinsically dependent on market positions. This means that they depend, first, on the continuity of careers that leads to the continuity of pension investments; and second, on the income level that allows access to—or no access to—these two pension funds. This liberal context has several detrimental consequences for the social security in retirement of those individuals facing a permanent risk of unemployment (Madero-Cabib and Kaeser 2016). As some research has shown, this specific risk is

highly correlated with gender (Kuehni et al. 2013; Le Feuvre et al. 2014; Madero-Cabib 2015; Rosende and Schoeni 2012).

Specifically, the timing of the retirement transition is associated strictly with family trajectories, and this leads to strong penalties for women. In descriptive terms, for those women who spent much time out of the labor force due to child care or housework, early retirement seems to be a very improbable option, and consequently they are more likely to retire later than the state pension age (Kuehni et al. 2013; Madero-Cabib et al. 2016). This means that the presence of male breadwinner orientations in the occupational and family domains produces disadvantages in retirement for those who are not primary breadwinners, i.e. mostly women. However, research indicates that the Swiss pension institution harms women in terms of not only retirement timing but also in pension income. Working mostly in part-time jobs, as women do, is a crucial disadvantage for their financial status in retirement, because people working part-time have fewer opportunities to pay into private pension pillars. Therefore, gender inequalities between men and women in old age also affect their material conditions (Kuehni et al. 2013; Rosende and Schoeni 2012)

One suggestion for reducing this socially unequal retirement scenario to some extent is to strengthen Swiss social policies that consider the development of earlier work–family phases simultaneously with social security in late life. This would mean thinking about new social policies that assure an ethical financial standard of living for those persons who—mainly due to periods of absence from the labor sphere—are excluded from the pension benefits provided by private offices and market insurance. Using the classification of welfare states from Esping-Andersen (1990), this is about creating state mechanisms designed to reduce the degree of commodification in Switzerland, and consequently assuring social security in old age independent of labor market participation in earlier life.

The increasing integration of women into the labor market as well as recognition of family care in pension rights are clearly positive solutions that have recently been integrated in Switzerland (CFQF 2011). However, other measures might be considered, such as new financially sustainable mechanisms to ensure that contributions to the public pen-

sion pillar represent a greater source of pension income for retirees. Also, as in other European countries (Horstmann et al. 2009), integrating unisex tariffs in the occupational and private pension funds might reduce gender inequalities in the financial benefits from these pension programs.

Finally, some proposals can be made for future research. Studies might, for instance, analyze the interaction effect between the macro, meso, and microdeterminants of the timing of the retirement transition. In other words, starting from the assumption about the intrinsic coupling between different operation levels of society (Luhmann 1997), it would be interesting to observe whether the effect of macrolevel incentives or constraints on early or late retirement is moderated by different workplace conditions as well as by individual characteristics of workers. Moreover, further research might study the effectiveness of active aging policies in Switzerland. To this end, it would be interesting not only to focus on the retirement transitions performed close to the formal state pension age but also to analyze alternative early retirement routes, for example women having family tasks who leave the labor market very early in life, or sick and unemployed older individuals who are forced to depart early from the labor force.

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# 13

## The Outdistanced Vanguard: Early Retirement Policy in Denmark as an Obstacle to Progress in Active Aging

Stefanie König and Julia Schilling

### 1 Introduction

Denmark is one of the few countries in the world that copes well with the challenge of providing its citizens with not only a flexible labor market but also socially adequate old age pensions that are fiscally sustainable (Guardiancich 2010). Back in 2005, the OECD already stated that in some respects, Denmark is better placed to meet the challenges of an aging population than many other OECD countries because its population aging is less rapid (OECD 2005). Moreover, for decades, the employment rates of Danes in their late 50s have been comparatively

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high. Like most other OECD countries, Denmark has even seen a rise in the proportion of employed older workers since the mid-1990s (OECD 2008). During this period, Denmark's social policy switched from an early retirement strategy to an activating strategy that, in combination with a simultaneous economic boom, has resulted in a steep fall in unemployment and an increase in overall employment. Nonetheless, a popular early retirement scheme still represents a major obstacle to higher economic activity among Danes in their 60s.

Political debates and conflicts over the pension system resulted in a system quite similar to the multipillar one advocated by the World Bank in 1994 (Green-Pedersen 2007). Fully funded occupational pensions as well as individual pension savings plans have been added as another layer on top of the residence-based and nonemployment-related state pension, and these have now spread to almost all parts of the labor market.

From a demographic perspective, Denmark, like most Western countries, is threatened by population aging, but to a comparatively lower degree. After having bottomed out at about 1.55 in the early 1980s, fertility rates increased to 1.88 in 2010. Although still below reproduction level, this value is clearly above the EU 27 average (OECD 2013b). Compared to the OECD average, life expectancy at the age of 65 is slightly lower in Denmark (OECD 2011). However, generally increased longevity further contributes to a growing share of people older than 65, and it is in Denmark's interest to make older workers stay employed as long as possible.

Several political reforms have included incentives to postpone retirement, but alongside this institutional framework, individual characteristics, workplace conditions, or the availability of specific human resource measures for older employees can also influence the decision to withdraw from the labor market.

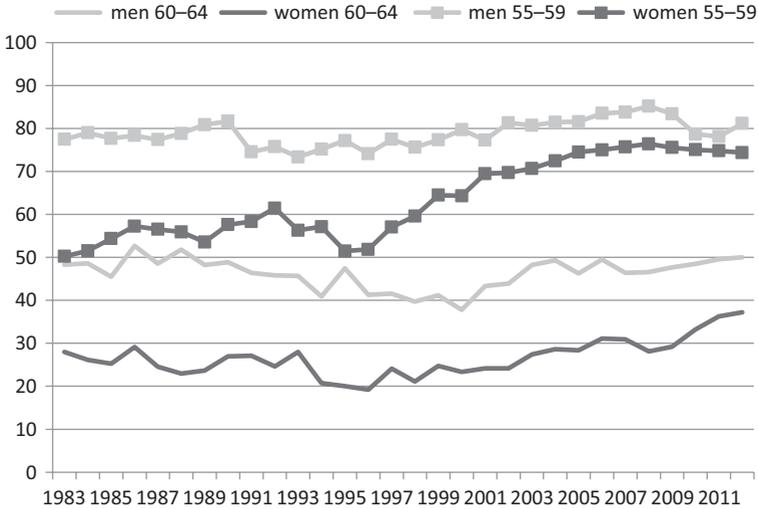
This chapter aims to illustrate the context in which retirement decisions are made in Denmark. This includes welfare settings, workplace conditions, and individual characteristics. However, we shall start off with a brief outline of main trends in the employment behavior of older Danes.

## 2 Trends in the Employment Rate of Older Workers in Denmark

With total employment rates of 75 % (men) and 70 % (women) in 2012, Denmark ranks among the top 10 OECD countries (OECD 2015). Regarding older workers, Denmark has been one of the countries with the highest employment rate for the 55–64 age group for many years. When the Stockholm target of a 50 % employment rate for this age group was set in 2001, Denmark had already been exceeding it for several years (Eurostat 2013). Since then, however, the rate has stagnated at around 60 % and therefore, in 2012, Denmark ranked behind other Nordic countries such as Iceland, Norway, and Sweden and has even been overtaken by Germany (Eurostat 2013).

A closer look at employment rates by age group and by gender reveals two important aspects: First, there is a remarkable drop in the employment rate for individuals who are older than 60 compared to those in their 50s. In 2012, the total employment rate for 55- to 59-year-olds was only slightly lower than that for 50- to 54-year-olds, with both close to 80 %. But the rate for 60- to 64-year-olds falls to 47 %, putting the overall employment rate for the 55–64 age group into perspective (Statistics Denmark 2015). Nonetheless, the employment rate for 55- to 59-year-olds was still the second highest in the EU in 2010 (Madsen 2012). Thus it is important to pay attention to the oldest age group (60–64), because a large proportion of Danes retire at these ages, that is, before reaching the legal pension age of 65. Compared to other European countries, however, the employment rate in this age group is still rather high, giving Denmark a top 10 position within the EU 27 countries in 2010. However, Denmark is far below the levels found in other Scandinavian countries (Eurostat 2012).

The second astonishing aspect regarding the employment of older workers in Denmark is found in early exit by gender (Fig. 13.1). In the 55- to 59-year-old age group, the gender gap in employment rates was significant until the late 1990s, but has since closed almost completely. However, looking at the 60+ age group, a clear gender difference remains, with women still having an almost 13 percentage points lower



**Fig. 13.1** Employment rate by gender and age group

Source: OECD (2013a)

employment rate than men in 2012. Apparently, women persistently tend to leave the labor market earlier than men.

Focusing on men alone, the respective employment rates have been quite stable for the last 30 years. In both age groups, rates decreased slightly and temporarily during the crisis-shaken 1990s, but the gap between men aged 55–59 and those aged 60–64 did not diminish throughout this period. Employment of older women, however, displays a significant increase within the observed period. Thanks to the expansion of public employment in recent decades, the female employment rate has risen continuously since the 1960s (Grunow 2006). Figure 13.1 confirms this development for older women as well. In contrast to the rather stable development of employment rates for older male workers, female employment rates have witnessed a significant increase since the mid-1990s—particularly in the 55–59 age group. About one-half (51 %) of this group of women was employed in 1995, growing to almost three-quarters (74 %) in 2012. Because the rate of women aged 60–64 grew less steeply, the gap between the employment rates of both groups has increased over time.

Since the millennium, both male and female employment within the 60–64 age group has risen noticeably, with the male rate reaching similar levels to the early 1980s and the female rate rising even beyond. However, compared to other countries (see comparative chapter), the increase is not exceptionally steep, especially for the male employment rate. It is important to note that the gender gap in this age group is rather large compared to the 55–59 age group in which women and men are almost at the same level. Until 2006, official statistics also provided employment rates for the 65–66 age group. For these individuals, the gender pattern is the same as for men and women between 60 and 64, with women displaying a 15 percentage point lower employment rate than men (Statistics Denmark 2015).

### 3 Institutional Determinants of Retirement Decisions

Denmark is usually assigned to the group of countries with social democratic welfare ideology whose main goals are decommmodification (market independence) and a high welfare standard for everyone through full employment (Esping-Andersen 1990). Nonetheless, since the late 1970s, a popular early retirement scheme has represented a major obstacle to higher economic activity among Danes in their 60s.

Since the 1950s, Denmark has experienced a transition from a mainly agriculture-based economy to a strongly service sector-based society. Simultaneously, the industrial sector showed only moderate growth. However, the most remarkable development in the employment structure was massive job creation in the service sector during the 1980s. By the mid-1990s, more than two-thirds of all employment was in the service sector, partly due to the considerable expansion of public services such as education, health, and child care (Ganßmann and Haas 2001; Madsen 1999). As mentioned above, the expansion of the Danish welfare state beginning in the 1960s also triggered the firm integration of women into the labor market (Grunow 2006). Since the mid-1980s, a relatively stable share of 70 % of all working-age female Danes has been employed

compared to about 80 % of males. This makes Denmark one of the countries with the highest employment rates of women in Europe (Statistics Denmark 2009; Eurostat 2015). The flip side of this astonishingly high labor market participation, however, is strong labor market segregation, with about one-half of all women working in the public sector compared to only one-fifth of Danish men (Statistics Denmark 2015). This public–private gender segregation further contributes to the persistence of a gender wage gap (Deding and Larsen 2008).

The Danish economy relies greatly on imports and economic relations with other countries. Therefore, it was hit hard by the oil crisis in the 1970s, and unemployment rose—growing to more than 10 % in the early 1980s. After a temporary decline, the rate rose again to over 12 % in the early 1990s. However, from the mid-1990s onward, the economy recovered and experienced an “employment miracle.” After a small relapse in the first years of the new millennium (related to the burst of the “dot-com bubble”), aggregate unemployment fell further to reach rates equivalent to full employment in 2008. But due to the financial crisis spreading over the world in that year, Danish unemployment has rapidly increased again (Statistics Denmark 2015).

As already mentioned, the Danish pension system consists of three pillars. The core of the first pillar, the *Folkepension*, has its roots in the nineteenth century. The current form was installed in 1964 and provides all persons reaching the legal retirement age and having lived in Denmark for at least 40 years with a full public old age pension irrespective of previous income and employment situation.<sup>1</sup> The *Folkepension* payment consists of a flat-rate basic amount plus a pension supplement, and it is indexed annually in line with overall earnings growth. The flat-rate basic amount is means tested against income from work (other pensions are not taken into account), whereas the pension supplement is tested against all sources of personal income (including occupational pensions) apart from *Folkepension*. In addition, the labor market supplementary pension (ATP) covers all employees with at least nine working hours a

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<sup>1</sup> For Danish citizens who have less than 40, but at least 3 residence years, benefits are reduced. Non-Danish citizens with less than 40 years must have lived in the country for 10 years including the last 5 years before retirement.

week, but contributions and benefits depend on the number of weekly working hours and the years before retirement and are also not connected to income level. A full ATP benefit after 40 years of employment leads to an average of 7 % replacement rate which can be seen as crucial for low-income workers. In periods of nonemployment such as parental leave or unemployment, the ATP contribution is continued with the financial support of public authorities or unemployment funds (Guardiancich 2010).

In addition to these public schemes, occupational pension plans in the second pillar of the pension system play an increasing role for Danish workers and pensioners. The privately managed and fully funded occupational pension schemes are based on collective agreements. In 2010, occupational pensions were provided to more than 90 % of Danish wage earners between ages 30 and 60 (Guardiancich 2010). In most cases, these pension contracts included an early retirement option from age 60 onward (Bingley et al. 2004). In recent years, occupational pensions that are closely earnings-related are gradually changing from a supplement to the backbone of the system (Andersen and Hatland 2014).

Finally, the third pillar consists of voluntary, supplementary private pension schemes managed by banks or insurance companies. Enrolment is comparatively high at about 1 million people, which is almost 20 % of the total population (Guardiancich 2010).

### 3.1 Pull Factors

Several factors influence retirement timing in the particular Danish institutional context. Pull factors refer to financial incentives that outweigh the individual benefit of remaining employed. In that sense, it is a rather economic set of explanations that focuses on the availability and generosity of schemes that allow withdrawal from the labor market before regular retirement age. Denmark offers some of these incentives, set up in times of high unemployment rates and aiming to facilitate early retirement, rejuvenate the labor market, and combat youth unemployment.

The most relevant programs for early retirement were the “voluntary early retirement pay” (VERP, in Danish *Efterløn*) and the “transitional

benefit program” (TBP, in Danish *Overgangsydelse*). VERP, established in 1979, offers full-time retirement for workers between age 60 and the legal retirement age on condition of a minimum number of years of membership in an unemployment insurance fund.<sup>2</sup> Also, the benefit amount corresponds to the rate of unemployment benefits. Over the years, the program gained increasingly broad popularity and was regarded as a major obstacle to greater economic activity of Danes in their 60s. Reforms making the scheme less attractive seem to have had success only after 2000 when unemployment fell significantly (Jørgensen 2009; Larsen 2005; Larsen and Pedersen 2013). In that context, Andersen and Hatland (2014) report that the number of VERP recipients decreased by about 35 % between 2007 and 2013; that is, the pull effects caused by VERP seem to have weakened.

TBP, in contrast, was introduced in 1992 as a program to bridge the time until VERP eligibility in the case of long-term unemployment. Starting in 1992 with a minimum age of 55, the entry age was lowered further to 50 in 1994. Because extensive usage put pressure on the state budget and the start of the economic boom relieved the labor market soon thereafter, the program was closed to new entrants in 1996—implying, however, that the last person left the program in 2006 (Jensen 2004).

Furthermore, disability pensions are an important exit possibility. In 1984, the disability pension was reformed to also allow disability grants for older workers between 50 and 60 years for other than medical reasons (Jensen 2004). Consequently, for individuals younger than 60 (particularly when they are women), disability benefit remains a major early exit pathway—especially for those who do not take advantage of VERP (Bingley et al. 2012; van Oorschot and Jensen 2009).

As mentioned earlier, occupational pensions are progressively replacing the old age public pension as the core of the Danish pension system. Consequently, workers with decent occupational pensions do not rely on the public pension, but can afford to retire earlier (through a combination of VERP and occupational pension). Thus, occupational pensions facilitate early exits, especially for high earners.

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<sup>2</sup>Although unemployment insurance is voluntary in Denmark, about 80 % of all employed persons are members and at 90 % (for low-wage earners), the replacement ratio for unemployment benefits is one of the highest in the world (Aagaard et al. 2004).

## 3.2 Push Factors

Push factors reflect circumstances that make it difficult for older workers to continue their careers, and are predominantly based on the demand for their labor and the existence of labor market barriers and difficulties.

Until very recently, the Danish labor market model was praised for its unique combination of flexibility and security that was often called “the golden triangle of flexicurity” (Madsen 2005). It was assumed that this would enable companies to adjust comparatively easily to structural changes on global markets. Connected to this, job mobility has been high in all age groups. In a comparison of the average tenure with the same employer in 1992 and 2000 in 16 OECD countries, Denmark ranked right behind the USA and the UK—both well-known for their “hire-and-fire” labor markets—and its average tenure even decreased between the two observation points (Auer and Cazes 2003).

A recent revision of OECD data, however, has revealed that Danish employment protection has been underrated for years, because of the failure to consider job protection arrangements resulting from, for example, collective bargaining practices (OECD 2013c). As Janssen (2013) states, the latter offer Danish workers robust levels of job protection and position the country exactly at OECD average with regard to overall employment protection legislation in 2013. He therefore concludes that the main component of the flexicurity model is not the possibility of easy firing but the public investment in active labor market policies (ALMP).

In contrast to many other countries, older workers in Denmark do not benefit from stricter employment protection than younger workers. Consequently, Denmark used to have a comparatively high percentage of early retired men who mentioned redundancy or dismissal as the main reason for leaving their last job (23.4 % in 1995 EU-LFS) (Jensen 2005). In the mid-1990s, however, Denmark was struck by an economic recession; and this increased the likelihood of push effects impacting strongly on older workers’ employment. Another partial explanation of this result might be that older workers have less training and retraining compared to younger workers (Jørgensen 1997). Consequently, they might be less likely to be transferred to another job in case of redundancy. Furthermore, it must be taken into account that when the survey was conducted, TBP

was available for older workers from age 50 onward who became unemployed. It can therefore be assumed that many of the dismissals were based on mutual agreements between employer and employee in order to relieve the labor market. Also, some of the retirees in the study might also have been thinking of VERP when they indicated that they retired due to unemployment, because VERP is administered under the unemployment scheme.<sup>3</sup>

These interpretations are supported by data from the ISSP 1997 that compared the voluntariness of early retirement in 19 countries. Early retirement due to push factors such as employment constraints is often defined as “involuntary.” The ISSP 1997 survey revealed that Denmark has the lowest percentage of involuntary exits (8.8 %) compared to other countries with 50 % and higher (Germany, Hungary, and Portugal). Other Scandinavian countries also show far higher (for example, Sweden: 37.5 %) or slightly higher percentages (for example, Norway: 13 %) (Dorn and Sousa-Poza 2010).

Along with the decrease in overall unemployment, employment rates of older workers increased from the mid-1990s until 2004. Push factors on the labor market level are therefore assumed to have declined during this period of low unemployment because, with the demand for labor increasing in the economic boom, older workers were also needed in the labor force. However, since the early 2000s, only the employment rate of older female workers has grown, and, in particular, that of women beyond age 60, whereas men’s rates have been stagnating (Statistics Denmark 2015).

### 3.3 Stay Factors and Active Aging since 1995

From the mid-1990s onward, a general trend toward active aging can be found throughout Europe and also in Denmark. This has resulted in different stay factors for retirement decisions. Two types of stay factor can be determined.

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<sup>3</sup>In SHARE, for example, the question on the reason(s) for retirement in the Danish language version includes *Efterløn* as an example of retirement due to redundancy.

First, *maintain factors* aim at a better integration of older workers into employment, that is, to increase individual willingness and ability to remain in the labor market. Several adaptations were made regarding the labor market integration of older workers in Denmark after the decline of overall unemployment starting in the mid-1990s. Slowly, older workers were encouraged to stay longer in the labor market instead of being either pushed out or pulled out by generous early retirement options.

On the one hand, the government tried to promote longer working lives by reforming the institutionalized early retirement pathways. In 1995, early retirement was made flexible by a part-time early retirement option. This increased possible working hours from 200 hours a year to 12 hours a week. In 1999, the early retirement scheme itself was made flexible to adapt to individual needs and to give incentives to postpone retirement. Work up to 30 hours was possible after 1999 (Jensen 2004). Generally, however, part-time early retirement has had rather low take-up rates (van Oorschot and Jensen 2009). Furthermore, incentives were implemented for older workers delaying their (early) retirement. For example, workers who are eligible to receive VERP but continue working up to 65 years receive a tax-free premium, whereas older workers who delay their old age pension will later receive higher pensions (Madsen 2012).

Apart from these changes related to the design of retirement pathways in Denmark, *maintain factors* also comprise measures to improve the employability of older workers, that is, lifelong learning structures and active labor market policies. Typically, these measures appear to be traditionally most widespread among Scandinavian countries, with Denmark recently ranking high even within this group. Participation in requalification in the 25–49 age group has extended considerably since the mid-1990s. With an increase from 22 % in 1996 to 35 % in 2012, Denmark has now succeeded in outperforming all other Nordic countries and Switzerland. In most other European countries, the respective proportion of persons in general or occupational education is only 20 % or lower (Eurostat 2015). In 2011, Denmark also held first place in public expenditure on ALMP as a percentage of GDP. Since 1986, the respective rate has increased continuously from 1 to 2.3 %, leaving continental European countries such as Germany (0.8 %) or France (0.9 %), but

also the Scandinavian neighbors Sweden (1.1 %) and Finland (1.0 %) far behind (OECD 2015). Since 2007, unemployed Danes aged 58 and 59 can no longer be exempted from general activation measures (OECD 2012).

Besides these activating maintain factors, there are also *need factors* that restrict early retirement options and thereby pose an—often financial—need to stay longer in employment. A first closure of an early retirement pathway was the abolition of TBP. This restricted exits before VERP, and older workers today need to stay longer than those who could make use of this program in the early 1990s. The next step was to increase the access age for old age pension and VERP. With regard to old age pensions, this change was decided in 2006 resulting in a gradual increase in the entitlement age from 65 back to 67 between 2024 and 2027. Since 2014, the age to receive VERP is gradually being raised from 60 to 64 years by 2023. The result will be that the duration of VERP is shortened from 5 to 3 years between 2018 and 2023 (Beskæftigelsesministeriet 2016). Compared to other countries, these changes appear to be relatively late, and they thereby delay Denmark's progress toward higher old age employment. However, effective retirement ages have been comparatively high in Denmark. Furthermore, especially the changes to later VERP accessibility are rather drastic, and it is very likely that they will effectively increase employment rates in the 60–64 age group.

## 4 Individual Characteristics as Determinants of Retirement Decisions

Alongside the institutional determinants of pathways into retirement, individual factors also play an important role in retirement decisions.

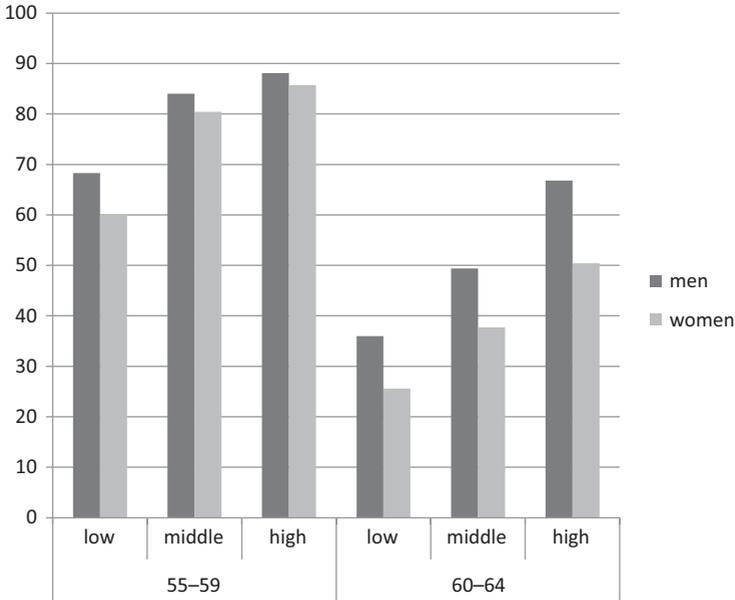
The illustrations of retirement behavior in Sect. 2 already suggest that determinants of retirement may differ by *gender*. Although women's employment rate in general is comparatively high in Denmark, older women withdraw from the labor market significantly earlier than older men (Fig. 13.1). This is, among others, ascribed to the higher take-up of VERP by women (Madsen 2012). Synchronization of spouses' retirement might also be part of the explanation. Larsen and Pedersen (2005)

further showed that men and women differed regarding the early retirement pathways taken from 1984 to 2000. Taking a look at the pension system in Denmark, women are disadvantaged in several ways. First, they are underrepresented in private pensions due to tax incentives (Andersen 2011). Additionally, occupational pension funds differ according to occupational fields. Because women are overrepresented in some fields, the pension system reinforces gender inequality from the labor market in addition to unequal wages. Last, the calculation of pension payments according to survival rates does not differentiate between men and women. Because women mostly live longer than men, they have to deal with a monetary disadvantage. Nonetheless, women with low earnings are well compensated by the first pillar with high minima and are the main beneficiaries (Andersen 2011).

Empirically, several studies have found a positive connection between *education* and age of retirement in Denmark (Hofäcker and Leth-Sørensen 2006; Schilling and Larsen 2011). Jensen's (2005) study showed that low levels of education can have an effect on early retirement, because members of this group can be found disproportionately often among disability pensioners (see also section on health). As Eurostat data show, level of education is positively related to employment rates of older workers, showing a rather constant trend in Denmark for the last two decades. However, it has to be kept in mind that the percentage of the older population (55–64 years) with tertiary education increased by about 10 percentage points to 28 % from 2000 to 2011. In comparison to the EU21 countries, this rate is exceeded only by Estonia, Finland, and the UK (OECD 2015).

Taking a more detailed look at education, age group, and gender, statistics for Denmark show that highly educated men in the 60–64 age group have employment rates close to those of low-educated men in the 55–59 age group at almost 70 % (Fig. 13.2). In contrast, the equivalent group of women is about 10 percentage points below the employment rate of the low-educated younger cohort, reaching only 50 %. Evidently, the gender gap for the older age group increases with higher education, whereas the opposite is the case for the younger age group.

A very dominant argument for individual retirement decisions is the financial situation. It is often argued that individuals need to be able to



**Fig. 13.2** Employment rate by education, age group, and gender in 2012  
 Source: Eurostat (2013), [lfsa\_ergaed]

afford retirement or they will be forced to work longer. A recent study using SHARE data on Denmark was unable to confirm a relationship between *income* and early retirement (Gerke and Lauridsen 2013). This was due partly to a high proportion of missing data on income-related variables. Bonsang et al. (2005) estimated that Denmark, together with Sweden, had the lowest income inequality among the population of over 50-year-olds. This indicates that low earners might have comparatively high pension benefits, whereas there might be a pension benefit ceiling for high earners. Therefore, the relationship between previous income and retirement timing might not be very strong in these countries. In Denmark, this can be related to the very generous *Folkepension* with a flat rate basic amount and a pension supplement.

Poor *health* is often found to influence the decision about early retirement positively (Christensen and Kallestrup-Lamb 2012; Gerke and Lauridsen 2013; Sell 2009). Especially blue-collar workers engaging in

hard physical labor are found to exit early due to poor health (Jensen and Kjeldgaard 2002). This is also related to the general predominance of this group of workers for early exit and retirement in Denmark (AK-Samvirke 2004). As the study by Brønnum-Hansen and Baadsgaard (2008) shows, not only is their general state of health worse, but improvement of health and life expectancy is also rather low in this labor market segment.

*Family* was also shown to be an important factor related to the decision to retire. The presence and number of grandchildren increase the likelihood to retire early as well as the presence of at least one natural parent (Gerke and Lauridsen 2013). Spouses also play a role in the retirement transition when couples choose to retire together (Hofäcker and Leth-Sørensen 2006). Due to age differences among couples, this typically leads to earlier retirement for women and potentially later retirement for men.

Furthermore, an individual's employment status is decisive for the tendency to retire. Older unemployed individuals are generally more likely to transit to inactivity than persons in employment. This is also the case in Denmark (Filges et al. 2012). It indicates that the unemployed are more likely to accept early retirement offers than employed individuals (Hofäcker 2010).

Regarding individual preferences for retirement, in 2004 about 42 % of employed individuals between 50 and 65 in Denmark wished to retire as early as possible. This is about equal with, for example, Germany and Sweden; higher than Belgium, the Netherlands, and Switzerland (around 30 %); and lower than France, Italy, and Spain (around 60 %) (Blanchet and Debrand 2008). However, among the countries discussed in this book, preferred retirement ages are still highest in Denmark for both men and women (see comparative chapter). One potential reason could be the long history of a rather high statutory retirement age of 67.

## 5 Workplace Characteristics as Determinants of Retirement Decisions

An examination of the workplace perspective reveals that human resource policies targeted at senior workers have been implemented on a rather individual level. Jørgensen (1997) compared the availability of senior

policy instruments in enterprises with more than 10 employees and emphasized that offering different measures was more common in the public sector compared to the private sector. Larsen (2006) found that around one-half of the 1,000 organizations she investigated made an effort to keep older workers over 60. One-quarter of these organizations reported implementing this “to a high degree.” These efforts consisted mainly of further training, but also included individual conversations, working time flexibility, or assigning less demanding tasks. However, others also referred to assigning *more* demanding tasks, job rotations within the organization, or reduced working time. Most of these methods were individual solutions rather than generally implemented rules. Last, her study highlighted that more comprehensive measures to retain older workers in an organization had a stronger effect on the actual delay in retirement timing (Larsen 2006). Van Oorschoot and Jensen (2009) compared Denmark and the Netherlands. Their study suggests that age discrimination by employers is stronger in the Netherlands, whereas the tendency to hire older workers is stronger in Denmark. Both results indicate low push factors in Denmark from a workplace perspective. Another comparative study by Bredgaard (2006) also confirmed that recruitment of older workers is relatively common in Denmark. Additionally, the share of firms that implemented senior policies is relatively high (55 %) compared to other countries such as Germany in which only 11 % of the workplaces offered such policies.

Alongside active policies and strategies for older employees, there are structural job or workplace characteristics that seem to determine retirement decisions. Lund and Villadsen (2005) found a clear difference between *socioeconomic positions* in the likelihood of transition to a voluntary early retirement pension: Blue- and white-collar workers had higher odds of transiting to early retirement pensions than executives/academics or middle managers. Furthermore, VERP in Denmark is not targeted at any specific labor market group but is seen more as a universal instrument. This leads to the assumption that *sectoral* differences regarding early retirement will be low, as shown by Hofäcker and Leth-Sørensen (2006) for the later cohort. Hofäcker and Leth-Sørensen (2006) as well as Schilling and Larsen (2011) found that individuals working in *small firms*

(less than 10 employees) are least likely to exit the labor market early. This might be attributed to the higher personnel turnover in smaller firms in which labor market flexibility might protect older workers from early retirement.

The study by Christiansen and Nielsen (2009) also suggests a gendered component for work characteristics as an influence on retirement timing. Their findings indicate that the relationship between working conditions and early retirement is stronger for women, especially in relation to psychosocial aspects and job satisfaction. On the other hand, Larsen (2008) found that job control increased the planned retirement age significantly for men but not for women. This gender difference was significant.

## 6 Conclusion

The aim of this chapter was to sketch the institutional, firm-level, and individual factors that shape the framework of retirement transitions in Denmark. As a starting point, we showed that Denmark has very high employment rates up to the age of 60 for both men and women. After the age of 60, however, there is a strong drop in employment that can largely be explained by the benefits of VERP, a generous early retirement pathway providing a prepension payment similar to unemployment benefit for workers older than 60. In comparison to other countries, particularly the other Scandinavian ones, employment rates for the over 60s are therefore rather low in Denmark and have not increased to a significant degree in recent years. In fact, they have been quite constant for men over the last 30 years. However, with the gradually raised VERP entry age up to 64 from 2014 to 2023, the respective drop in employment rates is expected to shift as well.

Additionally, the gender gap in employment is particularly high for the over 60s, indicating that women retire earlier than men. This trend has been changing only slightly in recent years, despite traditionally high female labor market participation and continuous increases in employment of older women in recent decades. From a labor market perspective, the strong tendency of Danish women to be employed in the public

sector might play a role in this. A further explanation on an individual level could be couples' joint retirement in which women adjust to their partner's often earlier retirement timing. Another strong individual characteristic influencing the timing of retirement is education. Again, gender plays a role in retirement timing. In particular, highly educated men from the older age group (60–64 years) attain comparatively high employment rates, whereas older women with higher education prefer a comparatively early exit from the labor force.

Since the late 1990s, the Danish economy has experienced a boom with comparatively low unemployment rates. Combined with high investments in ALMP, Denmark has provided and still provides favorable conditions for the employment of older workers. At the same time, early retirement pathways have been restricted or made less attractive in order to raise the employment rates of older workers even further. The pension reform of 2006 can be seen as radical, and it has impacted particularly on the lower-educated and the lower-paid segment of the labor force (Andersen 2011). Hence, future retirement cohorts might need to work longer due to the lack of options for earlier retirement, and this might be most severe for low earners. However, these groups are covered by the high minimum pension of the Danish universal scheme in the first pillar of the pension system, and this might protect them from decisions driven by financial need to stay even longer in the labor market. In conclusion, a rise in old age employment can be expected due to increased (early) retirement ages. Nonetheless, thanks to a rather protective pension system, decisions for longer work driven by financial need might not increase.

All in all, it has to be emphasized that Denmark holds several “top 10 positions” in areas relevant for successful active aging and sustainability as well as in the social adequacy of its pension system. We thus agree with Andersen and Hatland's (2014: 277) conclusion that “as regards sustainability, the Danish pension system is in an exceptionally good situation”; and that Denmark, together with the other Nordic countries, has comparatively less to fear as regards demographic change due to high fertility rates, net immigration, and reformed pension systems.

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# 14

## Sweden: Steeply Rising Older Workers' Employment Rates in a Late-Exit Country

Stefanie König and Gabriella Sjögren Lindquist

### 1 Introduction

Demographic aging is putting European pension systems under pressure. Low fertility rates and higher life expectations are leading to an aging society. Even though Sweden's fertility rates are relatively high in a European comparison with an average of 1.98 children per woman in 2010 (OECD 2014), up to the year 2000 Sweden was the European leader with an old age dependency ratio of 26.9. This ratio of over 65-year-olds as a percentage of the working age population is generally increasing and rose to 29.2 in Sweden in 2012. This makes it still the highest among the Nordic countries and fifth in Europe (Eurostat 2015). This development threatens the financing of old age pensions due to a smaller working population

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and more pensioners. Additionally, prolonged life expectancy means that most pensioners will draw pensions for a longer time.

## 2 The Development of the Employment Rate of Older Workers in Sweden

One way to counteract the threat of population aging on the financing of old age pensions is to increase the proportion of older workers and prolong working lives. However, along with other Scandinavian countries, Sweden already has a long tradition of being an active society with high overall and in particular female employment rates as well as a high employment rate for older workers.

Historically, the trend in men's and women's employment rates proceeded in opposite directions until the recession of the 1990s. Between the 1960s and the beginning of the 1990s, the employment rate of women aged 16–64 increased from 50 to 80 %. At the same time, men's employment decreased slightly from 90 to 85 %.

Women's labor force participation started to rise as a function of a permanent labor shortage in the 1950s and 1960s. This shortage was met mainly by immigrant labor, but policymakers and trade unions became aware of the costs of labor force immigration and wanted to turn to female labor instead. Until 1970, married couples were taxed jointly, which meant that the marginal tax on women's wages became very high. In 1971, individual taxation was introduced. This made it much more profitable for women to work, and female labor force participation increased. Other institutional changes that helped women to enter the labor market were the rapid expansion of highly subsidized child care and the reform of parental leave benefits (Sundström 2003).

Besides this increase in the female employment rate, Sweden underwent major industrial restructuring after the first oil crisis in the mid-1970s. The steel, iron, mining, textile, and shipping industries were the most affected, and employment fell by 10 % in the industrial sector. At the same time, the public sector expanded and gave jobs to many workers who had otherwise been unemployed (Sjögren Lindquist 2006). In all,

this led to the men's employment rate decreasing only slightly, whereas that of women continued to grow even after the oil crises.

During the 1990s recession, women's employment rate fell to 70 % and has been on a persistent level between 70 and 75 % ever since. The male employment rate dropped from 85 to 73 %. Since then, it has recovered slightly, and has remained steady around 75–78 % during the 2000s.

Turning to older workers, it becomes apparent that the employment rate of both men and women aged 55–59 years is closely linked to the employment rate for all ages (16–64 years). Since the 1990s recession, the employment rate of this age group has actually been slightly higher than the employment rate for all ages. According to labor law, worker protection increases by tenure, because the order of layoffs is “last in, first out.” Up till July 2007, the tenure of workers who had turned 45 years of age counted twice when forming the order of layoffs. This special age rule, in combination with the circumstance that older workers generally have longer tenure than younger workers, protected older workers from being laid off during the 1990s recession and explains why workers aged 55–59 years have a higher employment rate than the average worker (Sjögren Lindquist and Wadensjö 2009).

Examining the oldest age group, we see that in the early 1960s, men aged 60–64 years had a very high employment rate of 83 %. The employment rate for men in this age group also fell during the 1960s, but dropped more strongly compared to men of other age groups during the recessions after the oil crises in the 1970s and the recession of the 1990s. The oldest age group should have been protected by the last in, first out principle. However, there was, and still is, an opportunity for local unions and employers to make agreements on putting the “last in, first out” principle aside when forming layoff orders. This became a common solution when firms had to lay off workers. Older workers were offered severance pay to top up unemployment insurance to accept the layoff. At this time, disability pensions could be granted for labor market reasons alone (with no medical reasons) from age 60.<sup>1</sup> After 450 days with unemployment insurance, an older worker could apply for a disability pension on labor market grounds. These institutions combined formed

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<sup>1</sup> Before 1974, the age limit was 63 years.

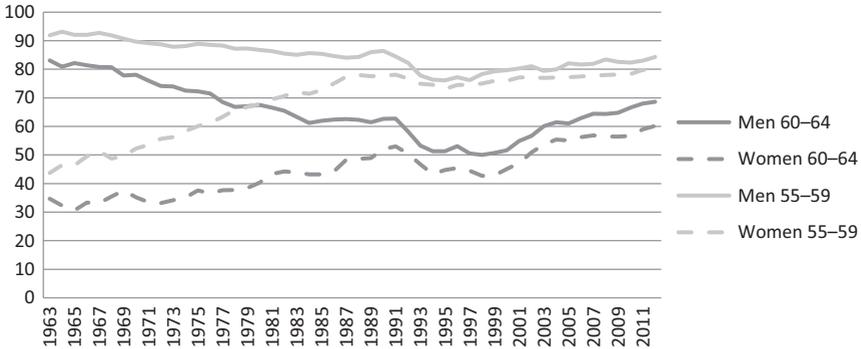
what were called “58.3 pensions”: a worker who had turned 58 years and 3 months and was laid off, received unemployment insurance until age 60 and was then granted a disability pension (Wadensjö 2002; Wadensjö and Sjögren 2000). In October 1991, disability pensions for labor market reasons alone were abolished; but until 1997, they could be granted for a combination of labor market reasons and medical reasons. Since then, medical rules have also become stricter and the number of newly granted disability pensions has greatly decreased. However, the number receiving a disability pension is still large.

For women aged 60–64 years, the situation differed from that of their male peers up until the recession of the 1990s. The public sector, which employed a lot of women, expanded until the early 1990s, and this led to women being less affected by the 1970s recession than men. However, the crisis in public finances in the 1990s forced the government to cut the public sector, and it shrank from employing 42 % of all employees in 1993 to 34 % in the year 2000 (Sjögren Lindquist 2006). The downsizing of the public sector primarily affected the employment rate of the oldest age group of working women. Also in the public sector, unions and employers agreed on sidestepping the “last in, first out” principle to lay off older workers.

In 1993, the employment rate was equal for both men and women aged 16–64 years (72 %). Since then, it has increased by around five percentage points for men, but remained at approximately the same level as during the 1990s recession for women. However, there have been both age and educational differences in the development of the employment rate since the recession of the 1990s.

For both men and women, there was a large difference in the employment rate of around 30 percentage points between the two age groups 55–59 and 60–64 years at the beginning of the 1990s (see Fig. 14.1). This difference started to shrink in the 2000s (along with the introduction of the new public old age pension system, see “stay factors” below) and is now approximately 15 percentage points for men and 20 percentage points for women.

In an international comparison, employment rates for older workers are very high in Sweden. In 2012, the employment rate for the 55–64 age group ranked third among all OECD countries after Iceland and New Zealand at 73.1 %. This high average rate is accounted for by the high



**Fig. 14.1** Employment rate of workers aged 55–64 years  
 Source: OECD (2014). Dataset: LFS—Sex and Age Indicators (Dataset Level Metadata)

female employment rate that even ranks first for the 55–59 age group at 79.7 % (OECD 2015).

### 3 Institutional Determinant Contexts of Retirement Decisions

Sweden has undergone major industrial and occupational restructuring since the first oil crisis. For example, employment in the manufacturing sector fell by 43 % and in the agricultural sector by over 60 % during this period. Between 1970 and 1993, public sector employment rose by 40 % but then fell by 20 % during the 1990s recession. Production processes have changed over the last three decades and now require more highly skilled blue- and white-collar workers than 30 years ago. The share of homemakers has fallen from 22 to 3 %. This change is due mainly to an increase in women's labor force participation (Sjögren Lindquist 2006).

#### 3.1 Push Factors

In the 1970s and the first part of the 1980s, older workers employed in the agriculture, forestry, and fishing industries, the construction industry,

the public sector, and the transport, postal services, and telecommunications industries faced a higher risk of exiting employment than older workers in other industries. The highest risks of unemployment were faced by older workers in the low skilled occupations (unskilled blue-collar workers in both goods and services) or with the lowest education (Sjögren Lindquist 2006).

In the 1990s recession, men with higher education were less affected by the recession than men with lower education. In 1996 and 1997, when the recession hit bottom, men with tertiary education aged 55–59 had an employment rate of almost 90 % whereas men with primary education in the same age group had an employment rate of just above 70 %. Examining the oldest male age group (60–64 years) reveals that the employment rate for the low educated decreased to around 45 % in the recession, whereas the employment rate of men with secondary education in the same age group was almost 10 percentage points higher. This can be understood against the background of the Swedish pension system. Disability pensions are a major pathway for early retirement. Workers with a lower education have a higher probability of leaving the labor market with a disability pension. This can explain a large part of the difference in employment rate by educational attainment. As many as 35 % of low-educated males and females aged 60–64 years received a full disability pension between 1990 and 1997 when disability pensions could still be granted for a combination of medical and labor market reasons. For the university educated, the proportion receiving a full disability was 12–14 % for men and 10–14 % for women during the 1990s (Sjögren Lindquist 2013). During the 2000s, the number of newly granted disability pensions decreased, but the share receiving a disability pension is still large at around 30 % of all 64-year-old women and around 25 % of all men of the same age (Sjögren Lindquist and Wadensjö 2009).

Requalification of older low-educated workers could have been an option during the times of the restructuring of the economy, because the educational system was and still is open to adults at the level of compulsory school, upper secondary school, and university. However, the Swedish occupational structure is not closely linked to the educational system, and there are no defined occupational tracks that would further improve the opportunities for older workers to make a career change

(Sjögren Lindquist 2006). Nonetheless, requalification was not used for older workers (55+) in the 1990s recession (Wadensjö and Sjögren 2000). Instead of requalification, older workers were pushed out of the labor market despite the favorable requalification conditions in Sweden. Thus, even in countries with a social democratic goal of an active society and full employment, older workers tended to be pushed out of the labor force in times of recession.

## 3.2 Pull Factors

During the last 30 years, several reforms of the Swedish social security system have been carried out to encourage older workers to leave employment and the labor force before retirement age. As mentioned above, disability pensions could be granted on labor market grounds combined with medical reasons between 1970 and 1997, and on labor market reasons alone between 1972 and 1991. During the second half of 1997, the unemployed who had turned 60 but not 65 and had been unemployed for over a year could apply for permanent unemployment insurance up to retirement with no obligation to search for a job. This passive labor market program could be seen as a temporary reintroduction of disability pensions granted for labor market reasons. In conclusion, disability insurance is the most important pathway out of the labor market, but it has lost importance since the early 1990s. Unemployment and sickness insurance have gained in importance for the age group between 55 and 59, whereas occupational insurances have gained in importance for 60- to 64-year-olds who wish to exit the labor market permanently (Jönsson et al. 2012).

During the 1970s to the 1990s, the unemployed could requalify for unemployment benefits by entering labor market programs. This resulted in the unemployed being able to switch between periods of unemployment benefits and periods of active labor market programs for years. Unemployment insurance also had special rules for older unemployed in terms of longer passive benefit periods between the end of the 1960s and 2000 (Sjögren Lindquist 2011). Another special program (*tillfällig avgångsersättning*) was open from July to December 1997 in which

unemployed workers between 60 and 64 years of age could apply for early retirement. This program was open to applications for only 6 months, but was very popular, especially among high educated workers.

Approximately 90 % of all employees are covered by collectively bargained agreements between unions and employer organizations. These agreements offer supplementary compensations and occupational pensions to facilitate and give incentives for older workers to exit the labor market early (Sjögren Lindquist and Wadensjö 2011). Occupational pensions are among the most common reasons for early exits in Sweden (OECD 2003). In a European comparison, the coverage of over 90 % for occupational pensions is highest in Sweden together with the Netherlands (Social Protection Committee 2008). On average, occupational pensions account for around 20 % of the total pension income.

### 3.3 Stay Factors

In the late 1990s, the government had to cut the budget and started to downsize social insurance. The trend in the 2000s has been to close exit paths out of the labor market for older workers. New stricter rules for granting disability pensions and requalifying for unemployment insurance have been introduced. Also the special age rules regarding the length of the benefit period in unemployment insurance have been abolished. Sickness benefit used to be open-ended, but in 2008 new rules including a limit to the number of days on sickness benefits were introduced (Sjögren Lindquist and Wadensjö 2009). All these reforms aimed to keep older workers in the workforce, and they can be categorized clearly as *need factors*. Those who left the labor market via these pathways before might be forced involuntarily to stay in the labor market longer or accept lower replacement rates. Because the lower educated were the main recipients of disability pensions, these restrictions might hit this labor market group particularly hard. The Swedish pension system offers a minimum old age pension that can be drawn at age 65. This means that those in employment who rely on the minimum pension need to work at least until 65 and do not have the means to retire earlier.

However, reforms of the pension system also provided *maintain factors*, giving financial incentives to stay longer. The new public old age pension system was set up at the beginning of the 2000s. To clarify the changes between the old and the new pension system, a short comparative description is necessary.

In the old pension system, the statutory retirement age was 65. Pensions could be drawn earlier from age 61 with a reduction, and postponed to age 70 with a bonus. Thus, incentives were given to postpone withdrawal but not necessarily to continue working (OECD 2003). Early retirement (before the age of 65) was financed mostly through disability or occupational pensions. In 2000, only 5 % drew public pensions to retire early. This old pension system was a defined-benefit system, and pensions were calculated on the 15 years of highest earnings out of 30 years. Therefore, low incentives were given to continue working after 30 years of contributions, because it would not result in higher pensions for all individuals who had already had their 15 highest income years. This must be understood against the background of Swedish age–earnings profiles. In contrast to, for example, France, earnings in Sweden do not increase in a lifelong perspective but tend to remain rather stable after taking gains in experience into account (OECD 2003).

In the new system, there is no statutory pension age. Pensions can be drawn from age 61 and the later they are drawn, the higher the pension benefit.<sup>2</sup> Hence, in contrast to many other European countries in which the statutory retirement age has been raised within the last decade, Sweden has endorsed a flexible retirement age. The new pension system is a defined contribution instead of a defined-benefit system, and pensions are based on all earnings during working life. Hence, the new system has introduced an aspect of marketization into the old age public pension with benefits depending on lifetime contributions and being adjusted to economic–demographic developments (Ebbinghaus 2015). In an international comparison, the returns to replacement rates for every additional year worked after 61 are highest in Sweden for average earners (OECD 2003). Thus, the new system is designed to give older workers

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<sup>2</sup>The pension is adjusted according to actuarial calculations, and there is no bonus for workers who extend their working life.

comparatively generous incentives to maintain them in the labor market. Even though there are no specific programs for maintaining older workers, the Swedish labor market offers broad activating measures. In 2011, more than 64,000 men and women aged 61–65 years were participating in an unemployment agency program designed to get them back into employment (Sjögren Lindquist and Wadensjö 2013). The same number during the times of the former old age pension system was insignificantly small with most older workers having left the labor market via early retirement options by that age.

Workers are covered by labor law up to the age of 67. This means that workers older than 67 can be laid off without a “just cause.” This age limit was set at 67 years when the labor law was introduced in 1974, cut to 65 between 1982 and 1991, and then raised again to 67. However, before 2003, this age limit could be lowered in agreements between unions and employer organizations. In practice, this meant that the age limit was still at 65 also between 1991 and 2003. Since 2003, it is prohibited by law for social partners to make such agreements.

A combination of the new pension system and the increase of the upper age limit of labor law coverage has led to an increase in the share of workers who postpone their pension withdrawal after age 65 from 5 to 18 % between 2003 and 2011 (see Table 14.1).

However, the flexibility of the new pension system with no retirement age has also led to almost every third older person who retires being younger than 65 years of age compared to only 13 % in 2003. One explanation for this increase in workers retiring earlier could be that the eligibility rules for disability pension became much stricter in 2008, and older workers who would have received a disability pension according to the old rules were now turning to old age pensions. Thus, some of those

**Table 14.1** Withdrawals of old age pensions, percentage of each cohort

Age	2003	2005	2007	2008	2009	2010	2011 (May)
61–64 years	13	17	22	28	28	28	31
65 years	82	71	64	59	57	54	51
65 years + <sup>a</sup>	5	12	14	13	15	18	18

Source: Pensionsmyndigheten (2013)

<sup>a</sup>Includes one month after the day of the 65th birthday and time thereafter

who left the labor market via a disability pension during the old system still had the opportunity to retire before 65 but with lower replacement rates. The average age for old age pension withdrawal decreased slightly from 64.8 to 64.6 years between 2003 and 2011 (Pensionsmyndigheten 2013). However, a look at the effective retirement age instead of the age at pension withdrawal reveals an opposite trend. According to OECD data, the effective retirement age in Sweden was 66.3 years for men and 64.4 years for women in 2011, with an increasing tendency since 2004 following implementation of the reformed old age pension system. This age is the second highest for men in Europe behind Iceland and third highest for women behind Turkey and Iceland (OECD 2013b).

## 4 Individual Characteristics as Determinants of Retirement Decisions

As already mentioned, education plays an important role in determining retirement decisions. Workers with a higher education tend to work longer than those with a lower education. Those with a higher education usually have different jobs that are often physically less demanding and mentally more stimulating. Also workers with a higher education withdraw from the labor market later than workers with a lower education. For example, the average retirement age for workers born in 1939 was 61.7 years for workers with primary education, 62.9 years for workers with 3 years of high school education, 63.5 years for workers with at least 3 years of university education and 65 years for those with a PhD (Pensionsmyndigheten 2011). In 2011, 28 % of those aged 55–64 had a tertiary education, which is high in a European comparison. Looking at trends in educational attainment, tertiary education increased by almost two percentage points between 2000 and 2011 for those aged 55–64 years—a change that is rather low compared to other EU countries. The lower educated in this age group, however, had a comparatively strong decrease of almost five percentage points during this time period (OECD 2013c). Since 2003, men aged 60–64 years with tertiary education have had the same employment rate as men aged 55–59 years with only

primary education. Highly educated women over 60 have even markedly higher rates than low-educated women between 55 and 59 since 2003. Hence, highly educated men and women between 60 and 64 have reached employment rates of over 75 % in Sweden.

In many countries, women have lower labor market participation than men and retire earlier. This is true also for Sweden, even though the gender gap is comparatively low. In 2010, women started to draw their pensions at an average age of 62.6 years compared to 63.7 years for men (Pensionsmyndigheten 2011). However, looking at multivariate empirical results, women retire even later than men after controlling for late life career characteristics such as income. One explanation can be women's compensation for interrupted careers due to child care (Sjögren Lindquist 2011). Another factor that might play a role is the prescribed age of 65 for receiving minimum pensions that cannot be drawn earlier. Of all retired women today, 67 % receive minimum pensions whereas this is the case for only 20 % of retired men.

In Sweden, immigrants retire later than nonimmigrants (Pensionsmyndigheten 2012; Sjögren Lindquist 2011). This could also be an effect of the requirement age of 65 for minimum pensions but also that immigrants want to raise their usually low pensions because they have only had a few years of work in Sweden.

There is also a relationship between income and the retirement decision. Workers with really low income have a tendency to work longer (Klevmarken 2010), whereas high-income workers with income above the ceiling in the pension system want to retire early (Riksförsäkringsverket 2001). This might be connected to high occupational pensions that allow high-income workers to leave the labor market early, whereas low-income workers need to work at least until 65 to reach eligibility for minimum pensions or even continue beyond 65 to increase their pension income.

The retirement pattern usually differs between workers with different civil status. In Sweden, married or cohabiting couples leave the labor market earlier than single people (Klevmarken 2010) and also decide jointly on their retirement date (Hallberg and Eklöf 2010).

Generally throughout the world, workers with health problems leave the labor market earlier than those with better health. This is also true in Sweden, because workers who report bad health also draw their old age

pension earlier than those who report good health (Riksförsäkringsverket 2001; Pensionsmyndigheten 2012).

In a study conducted by the Swedish Pension Agency (Pensionsmyndigheten 2012), individuals between 61 and 70 years of age were asked what had been the most important factor that pulled or pushed them into retirement. The most important factors were “want more leisure” (51 %), “this has been the plan for a long time” (48 %), and “want more time for family and friends” (47 %). These reasons can be seen as representing a rather voluntary decision to retire. Health and stressful working conditions on the other hand were important reasons for only 25 %. The least important factors were “to get more time to care for sick relatives” (82 % stated that this had nothing to do with their decision to leave the labor market), “I feel pressure to leave my work place to give younger the opportunity” (72 %), “I plan to retire jointly with my spouse” (70 %), and “I plan to retire jointly with my friends” (69 %).

Regarding preferences for retirement timing, results from the Panel Survey of Aging and the Elderly suggest that only a small minority (7 %) of older workers wish to continue working after 65. About one-half of the respondents would prefer to retire between the ages of 60 and 64, whereas 40 % cited the former statutory retirement age of 65 (Stattin 2006).

## 5 Workplace Characteristics as Determinants of Retirement Decisions

In Sweden as in many countries, the self-employed retire later than employees (Klevmarken 2010; Sjögren Lindquist 2011; Sjögren Lindquist and Wadensjö 2009). There could be many reasons for this: For example, older workers might want flexibility in working hours and job tasks and being self-employed gives this flexibility. The self-employed may also be happier with their working life and have better health than employees and hence stay longer in the labor market. Andersson Joon (2008) shows that the Swedish self-employed in general are happier with working life and have better health than employees. A third reason may

be that employers discriminate against older workers, and one option for older workers who want to stay in the labor market is to become self-employed. In Sweden, there is evidence on age discrimination in the hiring process. Ahmed et al. (2012) sent out fictional job applications from a 31-year-old and a 46-year-old man to firms hiring in the restaurant and sales industries. The younger applicant received three times as many invitations to conduct a job interview as the older applicant in the restaurant business and four times more in the sales business. One commonly mentioned reason for this discrimination is the often higher wages for older workers. However, as described above, this should not be a big issue in Sweden because earnings are relatively equal across age groups. For instance, the seniority wage system in the state sector was terminated already in 1983 (OECD 2003). However, there are still nonwage aspects that make older workers less attractive for employers. Occupational pensions for white-collar workers still follow the defined-benefit system. This is also the case for the state sector when income is above the social security ceiling. Thus, for these groups, premiums paid by the employer increase with age (OECD 2013a), providing a disincentive to hire older workers. Besides age discrimination in hiring practices, perceived discrimination at the workplace was found in a survey by the National Institute for Working Life (Torgén et al. 2001): 30 % of the 45–64 age group report age discrimination.

One main factor why workers retire early are the occupational pension plans (Riksförsäkringsverket 2001; Pensionsmyndigheten 2011, 2012). The occupational pension plans for white-collar workers in the private sector and for public employees offer “buyouts” in the form of special occupational early retirement plans.<sup>3</sup> More than 90 % of all employees are covered by these occupational pension plans. The level of compensation is negotiable but mostly around 65 %. There is a higher probability that workers who are highly educated, single people, workers born in Sweden, and workers in bad health (measured by the number of sick days) will leave the labor market with an occupational early retirement offer. Also the local unemployment rate has a positive effect on the probability

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<sup>3</sup> However, if occupational pensions are withdrawn before age 65, there is a lifelong actuarial adjustment to account for the longer payout period.

of leaving the labor market with an occupational early retirement offer (Hallberg and Eklöf 2010; Hallberg 2011a). A company's combined wage and pension costs also affect the probability of an employee retiring early with an occupational early retirement offer. An increase in the firm's costs has a positive effect on the transition out of the labor market via an occupational pension. Large firms use occupational early retirement offers to a greater extent than smaller ones (Hallberg 2011b).

The working environment also has an effect on the retirement decision. Workers who report that they have physically demanding jobs and no flexibility in their working hours retire earlier than others. Workers working in a well-functioning organization, who have the possibility of deciding how to organize their job tasks, or who have good coworker relationships retire later (Pensionsmyndigheten 2012; Riksförsäkringsverket 2001). Dissatisfaction with working hours lowers the timing of preferred retirement, especially when fewer working hours are desired and when dissatisfaction is long-term. On the other hand, a change in working hours resulting in a higher satisfaction increases the preferred retirement age. Additionally, those who wish to retire late (after 65 years) mentioned positive work-related experiences as a reason to prolong their working life (Stattin 2009). In conclusion, a positive work environment can prolong working lives whereas a hostile environment can push toward earlier retirement. Looking at this relationship over time, the Swedish study by Tählin (2011) provides interesting insights: Whereas a rather high percentage of workers with low job quality left the labor market between ages 50 and 60 in the 1980s, this percentage was considerably smaller in the 1990s, and is even smaller today. Taking poor health as a third factor into account, his study shows that the differences over time are not as great as those for job quality. This means that individuals in poor health still leave the labor market earlier nowadays. These results might be explained by the Swedish pension reforms. Whereas it was possible to leave the labor market earlier for labor market reasons, this pathway became restricted in the 1990s when early labor market exit was granted only for health reasons.

Part-time workers leave earlier than full-time workers, and workers with atypical employment (employees with short-term contracts or employed by the hour) retire earlier than those with permanent contracts

(Pensionsmyndigheten 2011). Among 55- to 59-year-old workers, the percentage of part-time workers is quite similar to that in younger cohorts. For the older age group, 60–64 years, however, part-time employment is around eight percentage points higher, with 13.7 % of men and 21.3 % of women working less than 30 hours a week in 2012 (OECD 2015). This might be a hangover from the so-called partial pension when older workers between 61 and 64 could reduce their working hours and receive partial pensions with high replacement rates. These partial pensions were introduced in 1976 and were very popular, amounting to a take-up rate of 24 % of eligible workers in 1992 after the “58.3 pensions” were abolished (Delsen 1996). This partial pension program was, however, very costly and was therefore replaced in the new pension system. But even today, it is possible to claim a part of one’s pension and reduce working hours accordingly. Thereby, an opportunity is offered to stay at work with reduced hours instead of leaving the labor market and taking up a full-time pension (Lachowska et al. 2008). This has made retirement even more flexible.

Last, regarding on-the-job training, 19 % of 55- to 64-year-olds had received some sort of training within the last month in 2011. The ratio to the younger age group was 0.74. This is quite high compared to the average of 0.57 in other OECD countries (OECD 2013c).

## 6 Conclusion

Along with the rising female employment rate and rising educational attainment, employment rates for older workers are increasing. Sweden has very high employment rates for all age groups and both men and women. The female employment rate for ages 55–59 is the highest level among all European countries. Nonetheless, the financing of old age pensions is threatened by a high old age dependency ratio in Sweden. This is the highest for Scandinavian countries and the fifth highest in Europe. The effective retirement age has risen to 66.3 years for men and 64.4 years for women after pension reforms accompanied by the abolition of a statutory pension age and the switch to a more flexible retirement age. As in most countries, women retire earlier than men, but

gender differences in employment rates have decreased steadily and are now relatively small. Along with the reformed old age pension system, switching from a defined-benefit to a defined-contribution system has increased the employment rates of the oldest age group (60–64 years) and decreased the differences compared to the employment rate of the younger cohort.

Disability pensions are the most important pathway out of the labor market for all age groups. Nevertheless, access to disability pensions has become more restricted over time. In 1991, the possibility of receiving this type of pension for labor market reasons alone was abolished. Nonetheless, until 1997, disability pensions could be granted for a combination of labor market and medical reasons. Since then, the medical rules have also become stricter and the number of newly granted disability pensions has declined greatly. Thus, early retirement pathways were restricted and many workers who retired early via disability pensions before the 1990s might have to stay longer today or leave via occupational early retirement offers. Especially after the age of 60, occupational pensions have gained in importance for an “early” exit. This type of pension has a very high coverage rate of 90 % of all workers and accounts for around 20 % of the total pension income. On a firm level, firm size plays a role regarding occupational pensions: Large firms use occupational early retirement offers to a larger extent than smaller ones. On the individual level, there is a higher probability for single people, workers born in Sweden, workers in poor health, and workers with a high education to leave the labor market with an occupational early retirement offer. It can be assumed that occupational pensions are not sufficient for lower-income groups. Thus, whereas occupational pensions might be an option for high earners to choose to retire early voluntarily, low earners might need to stay longer in the labor market. This might also be mirrored by the need factors regarding the restrictions of disability pensions that used to be a major pathway for early retirement of lower-educated workers. In the reformed pension system, this group might need to work longer, leave the labor market with reduced replacement rates, or even stay until 65 just to reach the eligible age for minimum pensions.

In contrast to the relation between higher education and early retirement through an occupational pension, higher education is generally

related to later retirement timing. Thus, men and women between 60 and 64 with tertiary education have as high or even higher employment rates than lower-educated persons from the younger cohort. On-the-job training for older workers in relation to younger ones is quite high when Sweden is compared to other European countries. This can be seen as an active aging measure to facilitate longer working careers and keep older workers in the labor market.

All in all, Sweden can be seen as a very active and activating society regarding older workers, with a quite flexible retirement system that promotes retirement timing as an individual choice. The pension system provides good financial incentives to stay longer in the labor market, and the lifelong learning logic additionally facilitates workability among older workers. Nevertheless, there might be some need factors for certain groups (for example women, migrants, low earners) to stay longer in the labor market in order to increase their pension income and compensate for shorter careers or in order to reach the age to receive a minimum pension at 65.

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# 15

## The Increasing Heterogeneity of Retirement in the USA: Interactions Between State, Firm, and Individual Determinants of Later-Life Labor Force Withdrawal

David F. Warner

### 1 Introduction

Relative to other developed countries, population aging in the USA is much less severe (see Chap. 2). In 2012, only 13.4 % of the US population was over the age of 65 (US Bureau of the Census 2013). The comparative advantage of the US stems from relatively high levels of fertility and immigration. Even as population aging has accelerated in recent years, the US 65+ population is projected to peak at approximately 21 %—well below that of most developed countries (Jacobsen et al. 2011).

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Despite this favorable relative standing, the implications of population aging for the long-term solvency of the US Social Security<sup>1</sup> program have been perennial concerns. These concerns were evident in the 1983 reforms that initiated a gradual increase in the full eligibility age for a retired-worker pension from 65 to 67 beginning in 2000 along with other incentives to maintain paid work. Consistent with the general welfare retrenchment of the era, these reforms increased the actuarial fairness of the program and reduced benefit levels (Ebbinghaus and Hofäcker 2013). However, the delayed implementation of these reforms could not alter several aspects of the US economic and policy environment—in which retirement income support is a tripartite scheme of public retired-worker benefits, employer-sponsored pensions, and individual savings (Hoskins 2010)—that had already initiated declines in older adults' labor force participation. Widespread eligibility for defined-benefit employer-sponsored pensions, employers' use of lump sum early retirement incentives as a means to shed excess labor during economic restructuring, and the availability of Social Security early retirement benefits at age 62 meant that the USA experienced an early retirement régime similar to that in other developed countries. Certainly, the particulars of the US liberal market economy (Hall and Soskice 2001) did not lead to as precipitous a decline in older workers' labor force participation rates (LFPRs),<sup>2</sup> and, with the abolition of a mandatory retirement age,<sup>3</sup> there was greater age variability in labor force participation in the USA compared to other countries (see Chap. 2 for an overview). Nevertheless, retirement was solidified as a leisure entitlement (Costa 1998) due to a confluence of historical circumstances; and—though

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<sup>1</sup>The term “Social Security” in the USA is the common name for the Old Age, Survivors, and Disability Insurance program that has its origins in the 1935 Social Security Act. This usage is different from other countries in which “social security” refers to the totality of social insurance provisions.

<sup>2</sup>Throughout the chapter, I reference labor force participation rates (LFPRs). The LFPR is the ratio of persons in the labor force (employed or unemployed and looking for work) to the total civilian population. Given the relatively high turnover rates in the USA, tracking persons in the labor force, but not strictly “employed,” is standard.

<sup>3</sup>The 1978 amendment to the Age Discrimination and Employment Act expanded the prohibition on age discrimination up to age 70, effectively abolishing mandatory retirement at the common age of 65. Subsequent amendments explicitly outlawed mandatory retirement at any age except for a few select classes (for example, commercial airline pilots, firefighters, law enforcement).

the specific institutional arrangements that initiated it have largely been dismantled—high rates of early labor force withdrawal remain even as the LFPRs of older workers have increased. Indeed, the heterogeneity of retirement timing has been increasing since the mid-1990s (Warner et al. 2010).

To understand the complexity of the US retirement life course (Warner et al. 2010), in this chapter I review—in an admittedly brief fashion—the prior literature on the determinants of late-life labor force withdrawal,<sup>4</sup> differentiating between *macrolevel* state economic and old-age policies, *mesolevel* firm or workplace attributes and provisions, and *microlevel* household and individual characteristics. This differentiation is useful for understanding the multifaceted context of US older workers' labor force behavior, but it is in some ways arbitrary, given well-established interactions between these levels. The state regulates several determinants at the meso- and microlevels and thus has created an overall policy environment that increasingly individualizes the risks of, and has created uncertainty about, old-age income security (Blossfeld et al. 2006; Shuey and O'Rand 2004). Before commencing with this review, however, I discuss the LFPR trends among US older workers—with particular attention to key age groups since the late 1970s—to provide the necessary comparative context. I conclude by arguing that the increased heterogeneity of late-life work behavior resulting from increased old-age income support individualization and uncertainty is anchored by the continued early retirement of some groups of workers. As a result, absent further institutional changes, early retirement will remain a nontrivial phenomenon in the USA going forward.

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<sup>4</sup>I describe exiting behavior in terms of labor force withdrawal to denote the multiple pathways by which older workers exit (for example retirement, work disability, and unemployment) and to acknowledge that even when workers describe their exits as “retirement” or receive Social Security retired-worker benefits, this may not reflect voluntary separation. The complexity of late-life labor force withdrawal in the USA is evident in the fact that retirement may be defined by labor force behavior, public or private pension receipt, or self-identification as “retired”—and the correspondence of these definitions varies across individuals (Ekerdt and DeViney 1990).

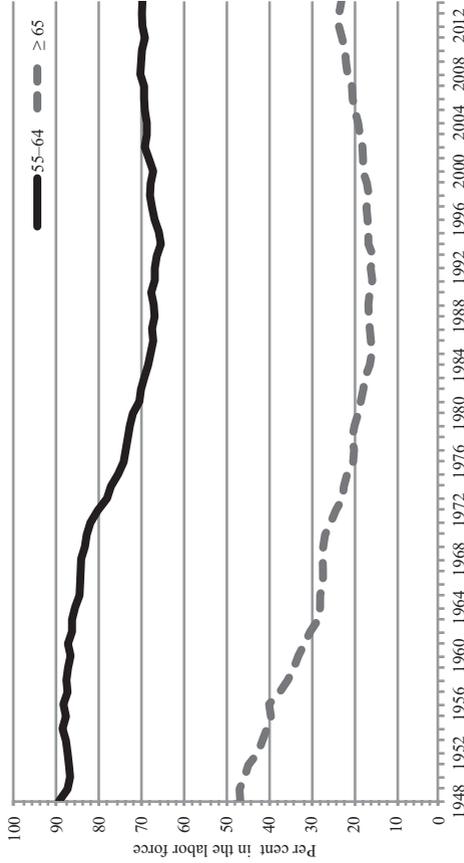
## 2 Changes in the Labor Force Participation Rate of Older Workers in the USA

It was not until the mid-twentieth century—when older workers gained access to sufficient nonwage income with the growth of employer-sponsored defined-benefit (DB) pension plans, the automatic adjustment of Social Security benefits, and the wage indexing of earnings histories—that retirement emerged as a normative phase of the life course in the USA. These institutional factors, reinforced by mandatory retirement ages, thus fostered shared understandings of appropriate behavior (Hall and Soskice 2001:13) and solidified retirement as a leisure entitlement (Costa 1998).

### 2.1 Long-Term Trends in the LFPR and the Changing Retirement Institution

The LFPR of men aged 65+ permanently dropped below 50 % in the 1940s, declining at a rate of slightly less than 1 % per year until the early 1980s. After this, it leveled off at about 16.7 % through 2000 (see Fig. 15.1). In contrast to the gradual decline among men aged 65+, the LFPR of men aged 55–64 was relatively stable through the mid-twentieth century. Around 87 % of men aged 55–64 were in the labor force through 1960; but in the middle of the ensuing decade, their LFPR began to decline, and this decline accelerated in the 1970s. Between 1970 and the late 1980s, the LFPR of men aged 55–64 had declined by about one-fifth and remained more or less at this level throughout the mid-1990s, with just 67–68 % of men aged 55–64 in the labor force. Beginning in the late 1990s, during a period of economic expansion, the LFPR of men both aged 55–64 and 65+ began to increase. The gains for men aged 55–64 were modest, with their LFPR in the early 2010s at about 70 %—a gain of 3–4 percentage points since the lows of the mid-1990s.

Changes in women's LFPR are difficult to assess given the countervailing cohort-based influences of the increase in female labor force participation with the decline of the breadwinner–homemaker family and the movement toward earlier labor force withdrawal during much of the



**Fig. 15.1** Labor force participation rates of men age 55–64 and age 65 and over in the USA, 1948–2014  
Source: The Current Population Survey (CPS), a monthly survey of households conducted by the US Bureau of Census for the Bureau of Labor Statistics. Retrieved June 15, 2015 from <http://www.bls.gov>

twentieth century. These are thus not presented. Overall, it appears nonetheless that, whereas the LFPR of older women has consistently been lower than that of similarly aged men, changes in the LFPRs of women have largely echoed those observed among men. More recent trends in older women's LFPRs, in fact, look quite similar to those of men because cohort changes in women's labor force participation are largely complete.

## 2.2 The Expansion of Early Retirement after 1970

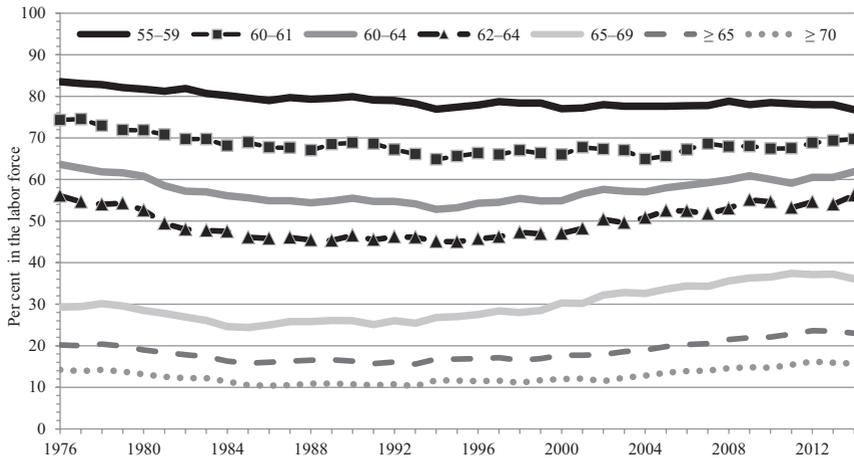
The movement of those aged 55–64 out of the labor force from the 1970s through the mid-1990s resulted from the historical confluence of several factors interacting in complex ways over time (see Hardy 2011, for a review). The emergence of early retirement, however, was driven principally by the behavior of employers (Han and Moen 1999) that was reinforced by the changes to the Social Security program. Three factors were key to shifting normative expectations about the appropriate age to withdraw from the labor force and ushering in an era of early retirement: (1) Wide availability of, and eligibility for, employer-sponsored DB plans (often accompanied by retiree health insurance) created a firm-level early retirement mechanism by providing a guaranteed lifetime annuity—as early as age 55—based on some period of service and earnings received (Seburn 1991). (2) Firms responded to the need to reduce their costs due to technological innovation and global competition in the 1970s and 1980s (Ebbinghaus and Hofäcker 2013) by offering older workers voluntary early retirement incentives (ERIs)—in the form of salary and service tenure credits toward employer-sponsored DB plans or one-time, “lump sum” payments—to induce early retirement in their workforces (Hardy 2011). (3) Amendments to the Social Security program established an early retirement age (ERA) for receipt of retired-worker benefits as early as age 62, which were actuarially reduced for each month of receipt prior to the full (or “normal”) retirement age (FRA) of 65. Although the ERA emerged as an important form of long-term unemployment<sup>5</sup> coverage for older workers during the course of industrial restructuring

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<sup>5</sup>Unemployment provisions in the USA are comparatively quite weak, with graduated benefits typically ending after 26 weeks.

(National Commission on Social Security 1981) and allowed workers in poor health to bypass the claims qualifications procedures of the Social Security Disability Insurance<sup>6</sup> program (Burkhauser et al. 1996), early benefits were an entitlement that could be claimed for any reason. Thus, the ERA had the effect of making earlier labor force withdrawal attractive for *all* workers.

Figure 15.2 disaggregates the LFPRs of men aged 55–64 between 1976 and 2014 to show the importance of age 62, reduced-benefit eligibility for institutionalizing early retirement.<sup>7</sup> Again, as explained above, comparable figures for women are not presented, but the cohort-adjusted pattern for women is similar to that for men. Overall, three patterns are clear: (1) across all age groups, LFPRs generally declined through the



**Fig. 15.2** Labor force participation rates of men in the USA by detailed Social Security relevant age groups, 1976–2014

Source: The Current Population Survey (CPS), a monthly survey of households conducted by the US Bureau of Census for the Bureau of Labor Statistics. Retrieved June 15, 2015 from <http://www.bls.gov>

<sup>6</sup> Social Security Disability Insurance (SSDI) benefits are available to those unable to work because of certified medical conditions expected to last at least one year. Beneficiaries have to wait 5 months after certification as disabled before SSDI benefits begin. In most cases, beneficiaries can also receive Medicare after 24 months of SSDI coverage.

<sup>7</sup> The age-disaggregated LFPRs for persons aged 55–64 are not available prior to 1976.

mid-1990s; (2) differences between age groups in LFPRs are linked to Social Security benefit eligibility at 62 and 65; and (3) the declines in LFPRs through the mid-1990s were greatest for those who had achieved the ERA of 62.

Specifically, we see that, whereas the LFPR of men aged 60–64 was substantially lower than those of men in their late 50s across the period, much (although not all) of this difference was being driven by the dramatic drop in participation rates among men aged 62–64—which averaged less than 50 % through the mid-1990s. Men who had achieved the ERA experienced a 20 % decline in their LFPR between 1976 and 1995. To be sure, the LFPRs of men aged 55–59 and 60–61 also declined during this period (about 8 and 13 %, respectively), but these changes were not nearly as large as those associated with ERA eligibility. The declines in labor force participation of these younger men were, in part, a function of employer-sponsored pension provisions and one-time ERIs, as noted above. However, the withdrawal of men younger than age 62 without employer-sponsored pensions but with limited personal savings was also possible, because the ERA shortened the length of time such resources would have to last before early retired-worker benefits began (workers who exit at age 61 or younger overwhelmingly claim Social Security benefits in the month they turn 62; Coile et al. 2002).

### 2.3 Increased Heterogeneity Since the Mid-1990s

The decline in the LFPR for most age groups ended in the mid-1990s, and they have been increasing since shortly thereafter (see Fig. 15.1). Today, the LFPR for men aged 55–64 is at about 70 %—a level last observed in the early 1980s; the LFPR for men aged 65+ is 23.5 %, which is a level of labor force attachment last observed in the early 1970s. These changes have led some to declare that the trend toward early retirement is over (Friedberg 2007).

A closer examination reveals that, whereas the LFPRs on either side of the age 65 benchmark have risen, there is growing variability, because these increases have been smaller for workers younger than age 65 (see

Fig. 15.2). Relative to its nadir in the mid-1990s, the LFPR of men aged 55–59 has increased less than 1.5 % and has remained at about 78 % since 2000. Of course, the LFPR for this group did not decline nearly as much as other age groups in the first place. Likewise, the LFPR of men approaching the ERA (age 60–61) has increased only 7 % relative to the low of the mid-1990s. Gains in the LFPR of men ages 62–64 have been more modest, with 54 % of men in the labor force—up from 45 % in 1995 (a 20 % change). The relative percentage increase in the LFPR of men aged 65+ has been more than double that of men aged 62–64, with the greatest relative increase in the LFPR of men aged 70 and older. Since the mid-1990s, the LFPR of workers at least age 70 has increased by 54 % so that nearly one in six (1/6) men are now in the labor force. Slightly more than one in three (1/3) men aged 65–69 are now in the labor force—up 46 % from the mid-1990s. Although not presented, the same general age patterning of changes in the LFPR of older women is also evident, even as the relative increases have been more substantial given cohort replacement processes. Nevertheless, older women’s LFPRs remain below men’s for all age groups.

The overall consequence of these differing rates of change is that there has been growing heterogeneity in the labor force behavior of older workers since the mid-1990s (Warner et al. 2010). Although obscured by the LFPRs, it is important to note that the growing heterogeneity includes increases in reentry behavior, especially to part-time work (Kail and Warner 2013), and shifts to “bridge” jobs following retirement from the career job without an initial exit (Cahill et al. 2015). The uneven rise and thus increasing heterogeneity in LFPRs across age groups of older workers since the mid-1990s reflect several important changes including modifications to the Social Security program that incentivize continued paid work after age 65 and penalize uptake of early retired-worker benefits; shifts away from employer-sponsored DB and toward defined-contribution (DC) pension plans; alterations to the occupational structure with the growth of the service and decline of the manufacturing sectors; and changes in population composition with rising educational attainment, changes in marital status, and increases in women’s paid work.

### 3 The Determinants of Heterogeneous Labor Force Withdrawal in the USA

Complex interactions between state-level policies and firm-level provisions continue to shape the labor force behavior of US older workers. As a liberal market economy (Esping-Andersen 1999), the US occupational structure is extremely open, and workers can return to education, requalify for new careers, and change employers and occupations at any age. Characteristically, older workers display comparatively high rates of job mobility, labor force exits, and reentry to paid employment (Kail and Warner 2013; Warner and Hofmeister 2006; Warner et al. 2010). As the homogenizing qualities of the mid-twentieth century retirement institution have eroded, the increasing heterogeneity in late-life work behavior results not just from the greater interaction between macrolevel (state) economic and old-age policies and mesolevel (firm) attributes and provisions, but the specific micro-level (household and individual) characteristics that shape—within a cultural context of shared understandings of retirement as a leisure entitlement (Costa 1998)—workers’ response to these state- and firm-level factors.

#### 3.1 Macrolevel: State Economic and Old-Age Policies

Following the framework outlined in Chap. 1, I organize these determinants into push factors, pull factors, and retention factors—differentiating between those retention factors designed to actively “maintain” older workers in the labor force and those that force older adults to remain out of “need” (see also Ebbinghaus and Hofäcker 2013). That the USA is a liberal market economy with limited welfare provisions (Esping-Andersen 1999) makes it tempting to assume that “push” factors dominate in determining older adults’ late-life work. However, Social Security policy continues to provide incentives that “pull” workers out of the labor force.

### 3.1.1 Push Factors

Like other age groups, older workers are vulnerable to involuntary job loss during general economic recessions or when specific industries experience labor demand shocks. Yet, despite the open US occupational structure and prohibitions against age discrimination (see note 3), displaced older workers experience barriers to reemployment, especially in occupations with steep earnings profiles or that require advanced technological skills (Hirsch et al. 2000). The difficulty in being rehired is compounded by the fact that the welfare state offerings for unemployment are comparatively marginal (see note 5), and this pushes displaced older workers out of the labor force once they become eligible for reduced Social Security retired-worker benefits at age 62. For example, there was a temporary increase in early benefit elections during the most recent economic downturn (Johnson et al. 2013) as workers from the 1948–53 birth cohorts experienced an increase in involuntary job separation (Cahill et al. 2015). Job displacement is likely to continue to be associated with premature labor force exit given difficulties in rehiring and access to Social Security early retired-worker benefits.

### 3.1.2 Pull Factors

Despite reforms to its provisions, the Social Security program continues to incentivize labor force withdrawal—for at least some groups of workers—by providing comparatively generous benefits. Most importantly, the continued entitlement to reduced retired-worker benefits at the ERA of 62 presents a significant financial incentive for early exit. Whereas other developed countries have closed or significantly reduced their early exit pathways (Ebbinghaus and Hofäcker 2013), there is little indication that the USA will modify the early eligibility provisions—even though simulations suggest were the ERA to be increased, nearly 60 % of age 62 claimants would shift to later ages (Gustman and Steinmeier 2005). Whereas the ERA was originally a youth unemployment reduction strategy, it has become entrenched as a *de facto* form of long-term unemployment insurance for older workers and a more accessible form of disability

insurance (National Commission on Social Security 1981). Early retirement is also especially enticing for workers with low lifetime earnings due to the progressive benefit formula. Consequently, low-wage workers, who have few other sources of retirement income and for whom continued paid work offers few extrinsic or intrinsic rewards, appear to view delaying benefit receipt as a “loss” (despite actuarial fairness) and claim benefits at the earliest age possible (Coile et al. 2002; Gustman and Steinmeier 2005). Indeed, nearly one-half of all benefits claims from more recent cohorts have occurred at age 62 (Johnson et al. 2013), despite the current ongoing increase in the FRA and the accompanying increased permanent actuarial reduction for early retired-worker benefits (see below).

An additional pull factor is that Social Security provides relatively generous spousal and survivor benefits. Almost from inception, the Social Security program has offered benefits to spouses, survivors, and dependents of covered workers. Unlike many developed countries, however, increases in female labor force participation and rising divorce rates have not altered these entitlements (Hoskins 2010). Spouses of retired workers are dual-entitled to a minimum benefit equal to 50 % of the covered worker’s benefit.<sup>8</sup> Widow(er)s are entitled to minimum benefit equal to 100 % of the deceased covered worker’s benefit. Contrary to provisions in many developed countries, divorce does not sever the spousal benefit provision so long as the couple were married at least 10 years and spousal benefits may be paid to any number of qualifying (former) spouses without counting against the retired worker’s family maximum benefit. Similarly, remarriage after age 60 does not sever spousal entitlement based on a former spouse’s earnings record (Hoskins 2010). Although the law is gender neutral, spousal benefit claims are made overwhelmingly by women. The ability for (former) spouses to qualify for Social Security benefits thus serves as an incentive for labor force withdrawal independent of one’s own estimated benefit amount. It is important to note, however, that although the dual-entitlement provisions remain, they will become less important for future cohorts of older workers.

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<sup>8</sup>A married or surviving spouse entitled to both a worker’s benefit and a dependent’s benefit (that is, “dual entitled”) receives his or her worker’s benefit plus the amount, if any, by which the spousal (survivor) benefit exceeds the worker’s benefit. A married person cannot receive both the full 50 % spousal (100 % survivor) benefit and his or her own covered worker benefit.

Rising women's LFPRs and greater pay equity mean fewer women will qualify for any additional spousal benefit and instead will receive their higher covered worker benefit. High rates of marital instability also mean that regardless of their own benefit amount, fewer women will be dual-entitled because they will not have had a qualifying marriage of at least 10 years (Harrington et al. 2006).

### 3.1.3 Retention Factors

It is fair to say that the USA has, thus far, made very limited attempts toward development of state-sponsored active “retention” policies specifically aimed at maintaining or increasing the LFPRs of older workers (Ebbinghaus and Hofäcker 2013). Workers of all ages acquire skills and update qualifications through on-the-job-training, given the decentralized and unregulated educational system that facilitates longer labor force attachment among older adults—although not necessarily with the same employer, because job mobility is fairly common and has increased for more recent cohorts (Warner and Hofmeister 2006). The older worker retention policies that do exist tend to be passive consequences of alterations to the Social Security program whose primary motivation has been to address solvency issues (Hoskins 2010).

Three modifications to the Social Security program have shifted the financial incentives of the program ostensibly toward retention of older workers, especially after age 65. Two reforms can be classified as positive efforts to maintain older workers in the labor force longer. First, in 2000, the retirement earnings test (RET) was fully repealed for workers over the FRA, removing the financial disincentive to paid work among benefit recipients that had been an original feature of the 1935 Social Security Act.<sup>9</sup> Second, the elimination of the RET was reinforced by explicit financial incentives for delaying benefit receipt beyond the FRA. The delayed retirement credit (DRC) rewards delays in receiving Social Security retired-worker benefits by raising future benefits. Although first enacted in 1972, the DRC was amended between 1990 and 2008 to become

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<sup>9</sup> See <http://www.ssa.gov/history/ret.html> for a description of the RET.

increasingly generous, with the annual credit rising gradually from 3 %. Workers who delay benefit receipt now receive an actuarial fair 8 % DRC for each year beyond the FRA that benefits are not claimed up to age 70.

A third change to the Social Security program is, at least on its face, impelling the need to remain in the labor force because the financial disincentive for early retirement at age 62 has been increasing along with the gradual increase in the FRA from 65 to 67 beginning in the year 2000.<sup>10</sup> This increase in the FRA, legislated in 1983, was motivated primarily by the improving life expectancy of older workers and concerns about the solvency of the Social Security program, rather than a desire to increase the LFPR of older workers per se. Because the ERA of 62 was left in place, the penalty for early retirement is being actuarially adjusted in concert with the increasing FRA. The gradual nature of the increase has created cohort differences in the FRA and the ERA reduction: Those born before 1938 achieved full eligibility at age 65 and received a 20 % permanent reduction for the election of benefits at age 62, whereas those born after 1960 will achieve full eligibility at age 67 and receive a 30 % permanent reduction for the election of benefits at age 62. The RET also remains in place for those between the ERA and FRA to disincentivize claiming early benefits while continuing to engage in paid work. However, the fact that Medicare eligibility remains fixed at age 65, as discussed below, undercuts some of the need to remain in the labor force with the increasing FRA (French and Bailey Jones 2011).

Although the full impact of these changes to Social Security is not yet entirely clear, the increased LFPRs since the mid-1990s suggest that workers have been somewhat responsive to the revised incentive structure of the retired-worker benefit provisions. Blau and Goodstein (2010) estimate that somewhere between 25 % and 50 % of the rise in men's LFPR since the 1980s can be explained by the increase in the FRA and the more generous credit for delaying benefits claims after the FRA; and these changes are especially important for explaining the

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<sup>10</sup> The FRA increase is occurring in two stages. The first began in 2000, with the FRA increasing from 65 to 66 in yearly 2-month increments for the 1938–43 birth cohorts. The FRA remains 66 for the 1944–54 birth cohorts. The second stage will begin in 2017 when the FRA will increase from 66 to 67 in yearly 2-month increments for the 1955–60 birth cohorts.

rise in LFPRs among men aged 65–69. Consistent with this finding, the peak claiming age for retired-worker benefits among the 1938–43 birth cohorts has occurred 2 months later each year, corresponding perfectly to the increases in FRA (Johnson et al. 2013). The rate of early benefit claims at 62 has also declined alongside an increase in the permanent actuarial reductions, with 5 % fewer claims among those in the 1943–44 birth cohorts (a 25 % reduction) compared to those in the 1937 and earlier birth cohorts (a 20 % reduction). Of course, as the penalty for receipt of ERA retired-worker benefits has increased, the substitution of early retirement benefits as a less onerous form of disability insurance has decreased slightly, and more persons have applied for and are receiving Social Security disabled-worker benefits (Duggan et al. 2007). Nevertheless, as discussed above, the uptake of reduced retired-worker benefits at 62 continues and remains substantial (Johnson et al. 2013).

### 3.2 Mesolevel Determinants: Firm Attributes and Provisions

Firm-level attributes and provisions remain important determinants of the timing of labor force withdrawal. Compared to older workers in the professional services and public sectors, workers in the private sector—particularly the transformative and extractive industries—have greater risks of retirement and work disability. Workers in unionized firms face increased risks of retirement, as do workers in large firms who are also more likely to become work-disabled (Warner and Hofmeister 2006). The increased risk of early withdrawal associated with these firm attributes reflects in part that these industries, larger firms, and unions are more likely to provide the once traditional fringe benefits—DB pensions and retiree health insurance—associated with early retirement (Han and Moen 1999; Wiatrowski 2012). Declines in the availability of employer-sponsored DB plans and retiree health insurance, combined with the rise of employer-sponsored DC plans and other various human resource management policies, have contributed to the increased heterogeneity in labor force behavior among older workers.

### 3.2.1 Employer-Sponsored Pensions

The changing mix of employer-sponsored pensions has resulted in greater potential for heterogeneous retirement timing. More than 80 % of full-time workers in large firms were covered under DB plans in the late 1970s; but by the late 2000s, only about 18 % of private industry workers were covered by DB plans (Wiatrowski 2012). Over this same period, the number of workers enrolled in voluntary DC plans increased from 16 % to about 40 % (Dushi et al. 2011). The shift in employer-sponsored pension types occurred in part because the firm-retention mechanisms of DB plans, which offered a guaranteed retirement income in exchange for long-term employment contracts, became less advantageous in the globalizing economy. DC plans—which are employer-sponsored tax-deferred market investment accounts held by individual workers, and thus portable across employers—allow firms to respond to market conditions more quickly and limit long-term financial obligations to retirees. However, because receipt of an annuitized pension provided is not tied to a specific age (the way many DB plans were) and the level of the annuity depends on the market performance of funds, DC plans shift the risk of adequate retirement income security toward individuals (Shuey and O’Rand 2004) and lead to greater variability in the timing of labor force withdrawal. Indeed, workers eligible for DC plans expect to retire later and actually do exit later—by about 2 years on average—than those with DB plans (Friedberg 2007; Mermin et al. 2007). Given the availability of reduced retired-worked benefits at the ERA, it is not surprising that workers who do not have access to any form of employer-sponsored pension retire earlier (Raymo et al. 2011).

### 3.2.2 Retiree Health Insurance

Unlike other developed nations, health insurance in the USA is largely provided as an employer-sponsored benefit until eligibility for the federal Medicare program at age 65. As such, access to health insurance from a former employer (or from a spouse’s employer) is a powerful disincentive to continued labor force participation for older workers (French and

Bailey Jones 2011; Rogowski and Karoly 2000). Workers who will not have retiree health insurance are more likely to expect to work full-time past age 62 (Mermin et al. 2007) and actually are more likely to take a bridge job after leaving a career job (Cahill et al. 2015). Not surprisingly, the availability of retiree health insurance has the greatest effect on inducing the labor force withdrawal of workers age 62–64 (Nyce et al. 2013) who have achieved the Social Security ERA but are not yet eligible for Medicare. As retiree health insurance tends to be offered in tandem with employer-sponsored pension (especially DB) plans (Rogowski and Karoly 2000), access to health insurance coverage before Medicare eligibility has been declining, and just 18 % of private sector workers in 2011 had such coverage (Fronstin and Adams 2012). Declines in the prevalence of retiree health benefits will likely contribute to growing heterogeneity in retirement timing, although the availability of health insurance outside of employer-sponsored plans as a result of the 2010 Patient Protection and Affordable Care Act may decrease the importance of retiree health insurance on future retirement behavior (Johnson 2011).

### 3.2.3 Other Human Resource Management Policies

Two additional firm practices, which are used differentially across industries and classes of workers, are important for the growing heterogeneity in retirement timing: use of ERIs and the availability of phased retirement.

Less prevalent than at the height of industrial restructuring, firms continue to use special, one-time ERIs to reduce their workforces. ERIs take multiple forms, including lump-sum payments, paid retirement furlough, or credits toward DB plans. Workers offered ERIs have increased risks of retirement (Hayward et al. 1998), although uptake of these incentives varies. Workers in poor health with low salaries, greater preferences for leisure, and DB plans are more likely to take ERIs, as are older workers and those who feel that ERIs will not be offered again (Kim and Feldman 1998; Strandholm et al. 2013). Workers who view their economic futures as more stable, either because they feel they have adequate retirement income support or because they are confident that they could find another job, are also more likely to take ERIs (Strandholm et al. 2013).

In contrast to the motives behind ERIs, phased retirement (reduction in hours on same job) and other types of flexible work arrangements aim to maintain workers longer. Use of such arrangements is growing, but remains far less common than bridge jobs for extending working life (Cahill et al. 2015). Opportunities for phased retirement are greater among white-collar workers—whose jobs require specific training but little supervision and are difficult to fill (Hutchens 2010). Few employers have established formal phased retirement arrangements for older workers, due to the legal restrictions on partial pension distribution when employed for the plan sponsor and the inability to offer benefits (such as health insurance) to part-time older workers unless those same benefits are available to workers of all ages (and this is uncommon) (see Johnson 2011, for a review of these issues). Indeed, there are very limited opportunities for phased retirement for workers with DB plans, those who belong to a union and thus whose workplace policies are subject to collective bargaining agreements, or those whose firms do not have regular part-time workers (Hutchens 2010).

It is important to point out that, even net of the fringe benefits and policies described above, industry, firm size, and unionization—which are correlated with one another—continue to be associated with early withdrawal in many cases, indicative of normative retirement behavior anchored by the orderly careers that, though perhaps not still characteristic of these workers, developed in specific industries or sectors with relatively uniform worker profiles and continue to be a source of shared understanding (Hall and Soskice 2001; Han and Moen 1999).

### **3.3 Microlevel Determinants: Household and Individual Characteristics**

As outlined above, retirement—and late-life labor force behavior more generally—has become less tightly coupled with the now asynchronous institutional schedules of Social Security and employer-sponsored pensions (Warner et al. 2010); this has created greater opportunities for the household and individual characteristics of workers to affect the timing of labor force withdrawal and leads to the more heterogeneous behavior observed. At a very basic level, late-life work behavior differs by the

demographic characteristics of age, gender, and race/ethnicity. Age is highly salient given the structure of Social Security eligibility with workers more likely to exit as they approach both the ERA and the FRA (Warner et al. 2010), and workers in their 50s more likely to move directly to another employer following retirement (Cahill et al. 2015) or to return to the labor force relatively quickly after exiting (Kail and Warner 2013). Men exit the labor force at older ages than women, are slightly more likely to do so via work disability, and—because of the preceding two facts—are less likely to reenter following exit (Warner and Hofmeister 2006). Racial/ethnic minorities are more likely than Whites to exit the labor force via work disability rather than retirement (Brown and Warner 2008); once out of the labor force non-White men are more likely to reenter, whereas non-White women are less likely to reenter (Warner and Hofmeister 2006). As briefly summarized below, many of these basic demographic differences, however, reflect disparities in socioeconomic status, labor force attachment, health status, and family context.<sup>11</sup> The composition of the population is changing with respect to these factors, and this has the potential to alter late-life labor force withdrawal further.

### 3.3.1 Socioeconomic Status

Socioeconomic status shapes older workers' behavior in competing ways, because higher status reflects both a greater orientation toward paid work and greater access to the resources that permit exit from the labor force. More educated workers retire at later ages (Raymo et al. 2011) and are more likely to reenter the labor force (Han and Moen 1999). Less educated workers, by contrast, face increased risks of work disability and are less likely to reenter the labor force. These educational differences map onto occupational differences, whereby workers in jobs characterized by substantive complexity and a lack of physical demands are less likely to exit the labor force early via either retirement or work disability (Hayward et al. 1989). Highly educated workers also tend to have household earnings that reduce the risk of exiting altogether. Yet, such workers—due to higher

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<sup>11</sup> Much of the following draws on findings presented in Warner and Hofmeister (2006);, though, to avoid repetitiveness, citations are limited.

wages across working life—have accumulated more assets and retirement-specific savings (that is, individual retirement accounts, IRAs) that are associated with earlier retirement exits, lower risks of work disability, and lower rates of reentry (Raymo et al. 2011; Warner and Hofmeister 2006). Rising levels of education suggest further increases in LFPRs, though the shift toward more individualized income security provisions means that exiting behavior will continue to fluctuate in response to market performance (Shuey and O’Rand 2004) and thus could become more heterogeneous.

### 3.3.2 Labor Market Attachment

A worker’s labor force history, representing the outcome of decisions made in response to both economic conditions and family demands, has important implications for the ability to exit the labor force, because job tenure is linked to earnings profiles, qualification for and benefit levels from employer-sponsored pensions, and general economic resources. Both men and women with stable work histories retire earlier than those who have discontinuous work histories (Han and Moen 1999), and women with more stable job histories are less likely to exit via work disability. Workers with more stable work histories are also more likely to reenter the labor force. Other indicators of labor force attachment also affect late-life work behavior. The self-employed, full-time workers, and those who have not previously exited the labor force have lower risks of retirement and work disability (Hayward et al. 1998; Raymo et al. 2011). Those who worked full-time at their last job or have previously returned to paid work are more likely to reenter the labor force (again). Workers who find their jobs less satisfying are more likely to exit (Kubicek et al. 2010). Growing job mobility and the rise of a contingent, part-time workforce may lead to greater heterogeneity in exit timing going forward.

### 3.3.3 Health Status

Despite the fact that the overall health of the working-age population continues to improve, health status remains a powerful determinant of labor force participation among older adults in the USA. Workers in

poor health exit the labor force at younger ages, both via retirement and work disability, and are more likely to claim Social Security retired-worker benefits at age 62 (Burkhauser et al. 1996). Workers in poor and worsening health are also less likely to change employers and remain in the labor force following retirement from the primary career (Cahill et al. 2015). Further improvements in population health should facilitate longer labor force tenure and lower rates of early exit, though the extent to which either better health feeds into the leisure entitlement of retirement or gains in health remain unequally distributed across key groups could mean increased heterogeneity in exit timing.

### 3.4 Family Context

Late-life work behavior also depends on a worker's family situation—especially whether one is married. The importance of marital status for labor force behavior reflects the spousal entitlement provisions of Social Security and many employer-sponsored benefits. Especially important is the spousal benefit provision of most firm-sponsored health plans. Given that such spousal benefits are claimed overwhelmingly by women, marital status differences in late-life work behavior are gendered (Raymo et al. 2011; Warner and Hofmeister 2006). Compared to married women, divorced, widowed, and never married women are less likely to retire and more likely to reenter. By contrast, divorced men and widowers are more likely to retire than are their married counterparts; and divorced men also have elevated rates of reentry. This opposing pattern occurs because married men have the highest levels of labor force participation and married women the lowest.

Spousal and marital characteristics are also important for older workers' labor force behavior. Given joint retirement preferences, both men and women are more likely to retire if their spouse is retired. Correspondingly, workers with employed spouses are less likely to take ERIs (Kim and Feldman 1998; Strandholm et al. 2013). However, joint retirement preferences appear to be based on a desire for shared leisure, because married older workers are less likely to retire if they report low marital satisfaction (Kubicek et al. 2010). Having a disabled spouse also increases the

likelihood of continued employment, although older women are more likely to change jobs under such circumstances (perhaps due to caregiving demands). Having dependent children in the household reduces the likelihood of labor force exits and increases the likelihood of reentry due to financial demands.

Rising female LFPRs mean that married women will increasingly enter later life with substantial work experience and this could diminish marital status differences. Such increases in older married women's labor force participation may also further prolong the working lives of older men due to joint retirement preferences (Blau and Goodstein 2010). At the same time, increases in marital instability across the mid-twentieth century mean that more workers are entering later life unmarried—and without the requisite 10-year marriage for Social Security spousal and survivors benefits eligibility (Harrington et al. 2006)—and this could lead to further heterogeneity in exiting behavior.

## 4 Conclusion

Although the demographic pressures of population aging were (and continue) to be far less severe than in most developed countries, the USA was among the first to reform its public pension system—in the midst of the “rush” toward early retirement. The 1983 Social Security amendments legislated a gradual increase in the “normal” eligibility age for retired-worker benefits from 65 to 67 commencing in the year 2000. With delayed implementation, though, early retirement remained entrenched due to the continued support of the behavior of firms. Since the mid-1990s, however, the LFPRs of older workers have improved principally because the employer-sponsored provisions that facilitated early retirement (that is, DB pensions, retiree health insurance) have been dismantled, though further modification to the Social Security program to disincentivize early retirement and incentivize continued paid work after the FRA also had an effect (Blau and Goodstein 2010).

Despite these average increases, we must recognize that there has also been increasing heterogeneity in older workers' retirement timing (Warner et al. 2010). Part of this growing heterogeneity is a consequence

of the increased individualization of, and uncertainty about, old-age income supports (Blossfeld et al. 2006; Shuey and O’Rand 2004) and changes in the educational, occupational, and marital status composition of the older worker population. The loss of the synchronized institutional supports that created relatively homogeneous retirement behavior in the mid- and late-twentieth century has also opened up the opportunity for household and individual characteristics to have a greater effect on older workers’ labor force decisions both directly and through their interaction with state- and firm-level policies. Indeed, socioeconomic status and recourses, employer-sponsored benefit provisions, labor force attachment, health status, and family context have complex effects on labor force withdrawal behavior and thus there is growing potential for heterogeneity in retirement timing.

Yet, this increasing heterogeneity is also a function of the fact that, unlike many European countries that have recently reformed their public pension systems and closed or greatly reduced early exit pathways (Ebbinghaus and Hofäcker 2013), the USA retains an entitlement to reduced retired-worker benefits at age 62. With continued relatively low levels of labor force participation for workers aged 55–61 and nearly one-half of workers claiming Social Security benefits at age 62 (Johnson et al. 2013), early retirement thus remains an important feature of the US retirement life course even in the face of increasing permanent actuarial reductions. Whereas the era of individualized retirement (Hardy 2011) leads us to expect increased variability in later-life work behavior, it is precisely because of this individualized risk that those workers who have not accumulated sufficient assets, who are in poor health, and who see little reward—monetary or otherwise—to continued employment grounded in shared understandings of retirement as an earned right to leisure, opt for the certainty of a less financially generous early retirement and exit the labor force. This creates a retirement régime with widely dissimilar elements at the population level—delayed and variable exiting behavior juxtaposed alongside substantial levels of relatively homogeneous early exit behavior. Absent further institutional changes, therefore, we should expect a nontrivial amount of early retirement to persist and anchor the growing heterogeneity of labor force withdrawal timing in the USA.

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# 16

## Retirement Transitions Under Changing Institutional Conditions: Towards Increasing Inequalities? Comparing Evidence from 13 Countries

Moritz Hess, Stefanie König, and Dirk Hofäcker

### 1 Introduction

Increasing life expectancy and decreasing fertility rates have led to population aging in Europe, North America, and parts of Asia. This aging of societies is expected to affect national labor markets and increase the costs of health and long-term care (D’Addio et al. 2010; Harper 2015). Against this background, the financial sustainability of pension systems seems to be increasingly at risk because more beneficiaries are facing fewer contributors—meaning a parallel increase in costs and decrease in revenues.

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Against the background of these demographic developments, and after a long history of promoting early retirement, policymakers have now renounced their idea of creating jobs for younger workers by sending older ones into retirement. Numerous countries have substantially reformed their pension policies, and the new policies of active aging aim to extend working life. This book has analyzed the new institutional and workplace settings generated by this policy shift and how they are shaping the retirement transition of older workers. The analyses demonstrate how both the results of reforms and the concrete changes undertaken throughout the policy shift vary significantly between countries (Ebbinghaus and Hofäcker 2013; Naegele and Walker 2007): Whereas changes have been particularly pronounced in those conservative Central European countries that extensively fostered a policy of early retirement in the past, they might be less discernible in social democratic and liberal countries that continue to be characterized by high employment rates even among older workers.

At present, with changes to institutional settings influencing individual retirement transitions, workplace contexts appear to have changed as well. On the one hand, this can be traced back to general changes in career patterns that have become even more fragmented, less stable, and less secure. On the other hand, employers in various sectors of the economy are now facing a shortage of skilled labor and thus increasingly trying to keep older workers in their companies. We expected that these changes to the welfare state and the labor market (macrolevel) along with the changes to the workplace surroundings (mesolevel) would interact in affecting older workers' employment and retirement patterns (microlevel). Therefore, our analyses paid particular attention to the interplay of these three levels.

To analyze the changing institutional and workplace determinants of retirement, we proposed a new and innovative typology going beyond the "classical" *push* and *pull* factors (Ebbinghaus 2006; Radl 2013) by introducing the idea of *need* and *maintain* factors as described in the first chapter of this book (see Hofäcker and Radl).

*Push* factors refer to institutional determinants that effectively force older workers into retirement, one example being high unemployment rates. *Pull* factors summarize all contexts that offer older work-

ers financially attractive early retirement pathways. Triggered by the discussion around the new credo of late retirement and the EU 2020 aim of 75 % of 20- to 64-year-olds in employment, the additional idea of stay factors was introduced into previous institutional analyses (e.g. Blossfeld et al. 2006, 2011; Ebbinghaus and Hofäcker 2013). These factors describe determinants of the welfare state and the workplace that foster later retirement. Going beyond these earlier approaches, we suggested further distinguishing stay factors into maintain and need factors. *Maintain* factors are determinants that *support* older employees in the last phase of their career. Examples might be training programs to increase workers' employability and public subsidies for companies hiring older workers. Both could foster voluntary late retirement. *Need* factors, in contrast, are institutional and workplace contexts that might pressure older workers into involuntarily delaying their retirement. One major need factor is, for example, the financial obligation to remain employed in order to accumulate enough pension claims for a sufficient retirement income. This new typology of retirement determinants was used to investigate the shift in institutional and workplace contexts of retirement and how different groups of workers adapt to these changes in 11 European countries, Japan, and the United States.

The 13 countries analyzed in this book were selected to provide a most comprehensive perspective on different retirement contexts and their dynamics over time. When collating the evidence from the single country studies, it became clear that all country cases under study reveal a clear trend toward later retirement. This appears to be induced by policy initiatives throughout the "active aging" period, including reforms of the pension systems and labor market policies. Nonetheless, there are also clear international variations in the concrete design of these reforms.

## 2 Main Country Findings

Despite the unique conditions in each and every country, it is possible to group some countries with regard to different features of the active aging paradigm. The first actual group consists of the liberal

countries (USA, UK, Switzerland, and Japan) and Scandinavian countries (Denmark and Sweden). These are countries that had stopped using early retirement policies extensively by the 1990s and in which employment rates continued to be high in the active aging period. Yet, some countries in this group can be regarded as intermediate cases: Japan, for example, is exceptional in its trend toward late retirement, as reflected in extremely high employment rates among older workers (see Chap. 11, in this volume). Denmark, on the other hand, shares a number of similarities with persistent late exit countries in terms of the currently high support for older workers' employment. Yet, unlike Sweden and liberal countries, there are simultaneously elements of early retirement policies that make Denmark a particular case. The second group of countries consists of Spain, Italy, Estonia, the Czech Republic, and Austria—countries that had low employment rates of older workers in the 1990s that continued to remain persistently low over the following two decades. Particularly in Austria, the policy of early retirement is persistent. Estonia, on the other hand, had a less strong emphasis on early retirement, but the institutional context and comparatively poor health conditions prevent older workers from successfully staying in the labor market. Germany and the Netherlands form the third group and are the two countries displaying the clearest change in retirement and labor market policies resulting in a steep increase in the employment rate of older workers. These three groups—persistent late retirement, persistent early retirement, and reversal toward late retirement—reflect general ideal types that we shall delineate in more detail below when describing the results of our 13-country comparison.

In the following, we shall use the schematic classification developed above and outline the findings for each single country that may be associated with the different clusters. In doing so, we shall shortly discuss both the general design and developmental trends in public institutions and workplace conditions. At the same time, we shall delineate how these differential context conditions have impacted on older workers' employment both in general as well as in specific major social subgroups (e.g. according to gender and human capital factors).

## 2.1 Persistent Late Retirement Countries

Persistent late retirement countries never implemented far-reaching early retirement structures and, hence, older workers' employment rates in these countries were and still are comparably high. However, two sub-groups have achieved high employment rather differently.

In the USA, UK, Switzerland, and Japan, labor markets tend to be regulated only weakly with welfare provisions often ensuring only basic income because pension replacement rates are low. At the same time—with the exception of Japan—explicit active aging policies are often virtually absent (see Chap. 2, in this volume).

- The **USA** (see Chap. 15, in this volume) is considered to be the “classical” liberal welfare state in which a rather rudimentary welfare state provides only an existential minimum of social security with any additional welfare needing to be gained on the market. Yet, in the field of pension policies, the USA partly deviates from this credo of the liberal welfare state by offering several early retirement opportunities that led to a decrease in the employment rate of older workers between the 1970s and 1990s. Nonetheless, compared to European countries, this decline was rather small. The USA was then one of the first countries to abolish the policy of early retirement. In a similar fashion, workplace factors reflect the liberal approach. Firm policies such as phased retirement options and health care programs are highly fragmented and differ extremely across industries and companies. The availability and extent of occupational pensions are one important factor determining older workers' retirement decisions, because only those with sufficient access to such additional old age income can afford to retire permanently. Similarly, as the state provides only minimum public health care, access to health insurance from the (former) employer is an important driver of retirement timing in the United States.
- The **UK** (see Chap. 10, in this volume) never extensively used state-subsidized early retirement programs as a tool of labor market policy and, hence, has historically been among those countries with the highest average retirement ages and higher employment rates among older

people compared to the EU average. Its Beveridge-type public pension system provides only low replacement rates. The low level of employment regulation makes older workers' employment more vulnerable to job loss or temporary unemployment; yet, at the same time, this flexible labor market also makes it much easier than in many other European countries for older workers to find a new job and to work past the official retirement age. Since the beginning of the 1990s, a positive economic development and a shortage of skilled labor have led to an even further increase in the already high employment rate of older people. Policymakers in the UK have tried to reinforce this trend by fighting ageism (Employment Equality Age Regulations Act in 2006) and by abolishing the mandatory retirement age in 2010, thereby allowing workers to remain in employment if they wished and their employers agreed. However, the older workforce is not a homogeneous group in the UK, and the coverage rate of occupational pensions, which are comparably important due to the low replacement rates of the public pension system, differ significantly between sectors and companies. In addition, certain occupational pension systems—in particular in the public sector—did offer early retirement options to their workers resulting in a lower average retirement age for civil servants.

- **Switzerland**—although located in the center of Europe—is characterized by a rather liberal welfare state design (see Chap. 12, in this volume). The Swiss pension system is based on highly liberal principles given the comparatively low generosity of the public pension pillar as well as the high importance of additional investments in private and occupational pension pillars for the pension income of retirees. The coverage rate of the important occupational pensions differs significantly between industries and occupations, and this leads to strong sectoral variation in future pension income. Unlike other liberal welfare states, a traditional division of labor still persists and is actively promoted by a tax system that penalizes dual-income households. This results in what are often fragmented female employment trajectories. The consequences are significantly lower pension entitlements for women.

Like the liberal countries, the Scandinavian countries featured in our volume also display rather high employment rates among older workers. Yet, the institutional, respectively workplace-based approaches to generating these labor market outcomes differ significantly. Compared to the liberal countries, both Sweden and Denmark have used early retirement more extensively throughout recent decades—particularly in reaction to economic crises. At the same time, however, both countries pursued a policy of actively supporting older workers with training measures and active on-the-job aging measures to maintain them in employment.

- **Sweden** (see Chap. 14, in this volume) serves as a good example for such a strategy of actively maintaining older workers through a combination of public and company schemes. Older workers in Sweden have one of the highest participation rates in training measures and on-the-job education. Even though the level of integration of older workers had been very high, phases of earlier retirement—particularly following the crisis in the early 1990s—can be observed that were driven by the partial introduction of early retirement pathways that were gradually taken back as the economy recovered. Nowadays, the official retirement age is flexible, starting at 61 with rising pension entitlements for each year worked longer. Yet, both the design of the public pension system as well as the broad coverage of occupational pensions included incentives for late retirement. In combination, these factors lead to a high employment rate of older workers—notably both men and women. However, even in this role model country for active aging, need factors arise due to severe early retirement restrictions and the marketization of pension benefits. Restrictions in eligibility for disability pensions affect the lower educated in particular, who previously had been their main beneficiaries. Calculating pension benefits based on lifetime earnings and not only on the best 15 years (as was the case in the old pension system) might affect women in particular.
- **Denmark** (see Chap. 13, in this volume) remains an intermediate case between the extremes of late and early exit. Early exits in the early 1990s can be related to the financial crisis and an overall peak in unemployment that created a push factor for older workers. Overall, however, pull factors are rather prominent in Denmark. Unlike

Sweden, active aging measures such as comprehensive training for older workers are still accompanied by a generous universal early retirement scheme that inhibits any steep rise in old age employment. Even though overall employment rates in Denmark are still moderately high by European standards, it is particularly the employment rate for the oldest workers (60 years and older) that is clearly lower than that in Sweden due to the voluntary early retirement program (VERP). Since VERP is not targeted at any specific labor market group, workplace characteristics such as the specific industry do not play an important role in retirement transitions. Reforms are on the agenda and have been partially implemented since 2014, but will be able to influence retirement behavior only after a major time lag.

- Within the group of persistent late-exit counties, Japan (see Chap. 11, in this volume) represents a particular case. It features a very high employment rate of (male) older workers, yet—in contrast to, for example, Scandinavian countries—it lacks a coordinated policy of “active aging.” Instead, it is driven more by an implicit agreement between employers, trade unions, and the state to postpone the average retirement age. As the oldest society in the world, Japan was confronted with the problem of the public pension system’s financial sustainability earlier than other countries. In combination with the importance of work in Japanese culture, this resulted in a policy of extending working life already in the 1970s, notably a time when many European countries experienced the climax of early retirement policies. Instead, the government and the large Japanese corporations work together to achieve high employment rates until the official retirement age. Even after reaching formal retirement ages, firms often rehire pensioners under more flexible contracts. In addition, the Japanese government extensively funds Silver Human Resource Centers that offer training and learning programs to older workers. It is thus a peculiar mix of coordinated action between public policies and firms in regulating regular employment, a liberal-type system of reemployment after formal retirement, and a generous investment in older workers’ skills and competencies that can be held responsible for the outstandingly high employment of seniors in Japan. Yet, despite its persistent success even in times of economic crisis, it is questionable

whether Japan can serve as a benchmarking case, given that it depends heavily on strong Japanese work ethics and a unique and historically grown type of industrial relations.

## 2.2 Persistent Early Exit Countries

- The second group of countries encompasses those with a more continuous early exit, even though for varying reasons. Particularly in a number of Central and Southern European countries, early retirement policies were used extensively and older workers' employment rates declined significantly from the 1970s onward. They have yet to recover substantially although reform efforts have been undertaken.
- In **Austria**, which earlier research (Guger 1998) had identified as a classical “early exit” regime, reform efforts aiming at prolonging working life have remained modest—both in public and company policies (see Chap. 9, in this volume). Pension system reforms have been undertaken, but will become effective only in the distant future and, even then, their effectiveness is disputable. One illustrative example is the abolishment of early retirement pathways: Although the early retirement age for public pensions was raised from 60 to 62, new early loopholes were created with the so-called “corridor pension” and the block model of the part-time early retirement scheme. Companies in Austria have only recently recognized the need for age management measures, and many employers still believe in the stereotype of the unproductive and inflexible older worker. This can be explained in part by the Austrian seniority wage principle that promotes a perception of older workers as being too expensive. Given the institutional and workplace contexts, retirement via early retirement options is still very common for men in Austria. Women often leave the labor market even before becoming eligible for the early retirement options in order to care for parents and grandchildren due to the lack of institutionalized old age and child care in the Austrian conservative welfare state. How this costly model—currently entailing only modest social inequalities—can be maintained as demographic aging proceeds remains an open question.

- As the second-fastest aging country in Europe, **Italy** (see Chap. 5, in this volume) is particularly experiencing the financial pressure that the growing number of retirees is imposing on the pension system. The strain has been intensified by a long-term policy of early retirement since the 1970s. Older workers' employment rate shrunk, although the decline was not as strong as in continental welfare state countries (such as Germany or the Netherlands). Reforms of the pension system starting in 1992 resulted in a trend inversion and led to a steady increase in the employment rate; however, this was mainly for those under the age of 60, whereas the employment rates of workers in their 60s remained virtually unchanged. The more recent shift to a contribution-based pension system in 1995 put pressure on the individual, especially on those with precarious working careers. Pension benefits might not be sufficient, leading to need-driven prolonged working lives for men and women. Whereas in previous decades, women could rely at least in part on the pension benefits of the male breadwinner, they nowadays increasingly need to retire later to increase the household income. One particular feature of retirement transitions in Italy is the regional difference between the north and south. Due to structural variations in the labor market, people in north and central regions can retire at an earlier age than those in the south.
- Developments in **Spain** (see Chap. 6, in this volume) followed less aggressive pension reforms compared to Italy. Whereas the Spanish pension system never provided strong pull incentives for early retirement, older workers' employment in Spain is very sensitive to push factors. From the mid-1970s onward, labor market restructuring combined with special agreements for early retirement led to a decline in the employment rate of older workers. Beginning in the 1990s, several reforms addressed later retirement and, indeed, succeeded in delaying the effective average retirement age. This positive development lasted until 2008 when the economic and financial crisis hit the Spanish economy resulting in very high unemployment. In reaction, many older workers used disability pensions to avoid unemployment and consequently their employment rate decreased again. Men and lower-educated workers were affected most by the crisis and were most likely to be pushed out of the labor force.

Trends in the two Eastern European countries analyzed in this book differ from the aforementioned group of countries with regard to the reasons for the persistent early exit trend and most recent developments. Reliable data on employment trends are available only since 1990 and the change from planned to free-market economies. Since then, older workers' employment rates have been quite unstable and characterized by short-term increases and decreases.

- In **Estonia** (see Chap. 3, in this volume), the extreme shift from a planned to a free-market economy and new competition from global markets caused strong economic and financial problems. To avoid long-term unemployment among older workers, early retirement schemes were introduced and, consequently, the employment rate of older workers fell steeply until the mid-1990s. At the same time, the newly emerging Estonian welfare state shows similarities to the liberal countries that offer only little support to older workers. In combination with low pension replacement rates and relative earnings of older workers, this causes insecurity and high social inequality amongst older workers, of whom a substantial proportion are at risk of old age material deprivation. The insider–outsider logic of the Estonian labor market and low support for lifelong learning constrain reentrance to the labor market at older ages. Whereas older workers are encouraged to postpone retirement and might need to do so for financial reasons, they receive little support and face strong constraints to staying successfully in the labor market.
- One major obstacle for longer working lives in the **Czech Republic** is the continuous risk of unemployment in old age—partly due to employer discrimination on the mesolevel (see Chap. 4, in this volume). Older workers are often the first target in the case of large-scale dismissals at the workplace. Thus, involuntary early exit still remains a great risk for older workers. Most recent reforms to prolong working lives combined with favorable working conditions have improved the employment opportunities for older workers and increased voluntary prolonged work in older ages. However, preferred retirement ages indicate that the presence of involuntarily continued work is also quite strong. Certain groups of older workers (lower educated, lower-income

groups, and women) need to continue working for financial reasons. Furthermore, due to the high level of redistribution of pension benefits, high earners might also choose to continue work for financial reasons, because their income losses will be comparatively higher than those of low earners.

## 2.3 Reversal Toward Late Retirement

Both the Netherlands and Germany represent “path departure” countries that have moved from early to late retirement. This policy shift has resulted in rapid increases in the employment rate of older workers.

- In previous research, **Germany** (see Chap. 7, in this volume) was considered to be a prototypical early retirement country (e.g., Blossfeld et al. 2006). Older workers—particularly low-skilled blue-collar workers in the production sector—used different options to retire well before the official retirement age. These early retirement exits were often enabled via unemployment and disability insurance that was frequently complemented by additional financial compensations from employers who wanted to shed expensive older workers. Since the turn of the millennium, however, several pension system and labor market reforms have been implemented: essentially a rise in the statutory retirement age and the closing of early retirement options. In addition, employers increasingly perceive older workers as a source of experienced labor and implement human resource measures targeted to meet their needs. As a result of these changes on both the institutional and workplace levels, the employment rate of older workers has increased steeply. However, this successful reversal from early to late retirement is blurred by recent findings on new social inequalities in the reasons for employment participation—particularly between high-skilled older workers who have the skills to work longer and their low-skilled peers who feel increasing financial pressure to retire late.
- A similar development to that in Germany can be observed in **the Netherlands** (see Chap. 8, in this volume). Until the early 1990s, older workers’ employment rates dropped rapidly due to an extensive

policy of early retirement, so that at the bottom of the trough in the early 1990s, only 40 % of men and 20 % of women aged 55–64 were actively employed. In the following years, policymakers made early retirement via the public pension systems and disability benefits increasingly less attractive financially and, similar to Germany, agreed on a stepwise increase in the official retirement age from 65 to 67. Furthermore, in the future, the official retirement age will be linked to average life expectancy. These pension system and labor market reforms reversed the previous early exit trend; and since the mid-1990s, the employment rate has risen to 70 % for men and 50 % for women. As in Germany, the shift on the institutional level is accompanied by a change in companies' human resource strategies toward older workers from supporting early retirement policy until the late 1990s to investing in age-aware human resource measures from the late 1990s onward. Unique in the Netherlands is the relevance of part-time work that partly explains the comparably high employment rate of women, but is also increasingly common among older men.

### 3 Discussion and Outlook

What can we learn from these results? From the perspective of aging research, our findings suggest that classical explanations of the work or retirement decisions of older workers need to be extended by reconsidering the data from the theoretical perspective outlined in Chap. 1 (Hofäcker and Radl). It seems evident that the “classical” push and pull determinants of retirement behavior—that have served as the main explanations of the early exit trend since the 1980s—are no longer sufficient to explain the trends in older workers' employment and particularly the recent trend reversal. We find that it is maintain and need factors that are increasingly influencing retirement decisions. These additional explanatory factors are unique ones that go beyond the mere taking back of pull incentives or the removal of push factors. Examples of this development are the rising number of training programs for older workers on both national and company levels (maintain factors) or the increasing privatization of pension systems (need factors). These institutional

contexts increasingly determine when and under what terms older workers are able to withdraw from the labor market. Put differently, whereas the main dividing line in the “early exit era” was that between those being forced involuntarily into retirement and those remaining in employment, a new antagonism seems to be emerging between those involuntarily having to continue employment and those who are offered more choice in their retirement decision.

Taken together, even though increases in older workers’ employment vary significantly between countries, it seems that the major pension system and labor market reforms throughout the last 15 years in Europe, Japan, and the USA have been effective in meeting their goal of delaying retirement. Although not all European countries will achieve the EU 2020 goal of an employment rate of 75 % among those between 20 and 64 years, older workers’ employment rates are on the rise in Europe. The non-EU countries analyzed in this book—the USA, Switzerland, and Japan—are characterized by high employment rates. This is a positive and politically desirable development. Later retirement transitions mean higher taxes revenues and longer contributions to the pension system. Hence, they financially relieve the welfare state in general—and the pension system in particular—thereby ensuring their long-term sustainability.

However, it seems as if not all older workers are benefiting from this trend. Vulnerable labor market groups such as the low-skilled, unemployed, long-term sick, and migrants are struggling to meet the requirements of the new active aging policy. To ensure a sufficient level of pension income, they have to delay their retirement and often involuntarily prolong their working life. At the same time, they are threatened by unemployment due to a lower employability; and if they have a job, their working conditions are mostly unfavorable. Whereas this problem was to some extent already common in the liberal welfare states before the onset of active aging policies, it is a new development in Central, Eastern, and Southern European countries. Here, the pension reforms have increased monetary pressures on low-income workers to work longer. High-skilled workers with good wages, in contrast, seem to profit strongly from the idea of active aging. Because employers—at least in some countries and industries—are relying on their qualified labor, they are less often pushed into unwanted early retirement and they are benefiting from the new

human resource measures. It thus seems as if in all European countries, Japan, and the USA, we are observing a (re)emergence of social inequality in the transition from work to retirement. Furthermore, our findings suggest that the increase in social inequalities might be even stronger in those countries that have experienced a stronger reversal toward later retirement.

Besides employability, gender is a second important determinant of retirement behavior. With some variation between countries, the employment rates of female older workers have been catching up with those of men, but they are still lower. Especially in Southern and Central European countries, women still do most of the housework, (grand)parenting, and nursing. At the same time, active aging reforms—particularly individualizing reforms in current pension systems and the privatization of old age income—are putting women under increasing pressure to participate equally in employment in order to ensure a decent standard of living in old age. Under the influence of active aging, women are thus confronted increasingly with a “double burden” that future reforms will need to address.

What societal and political implications can be drawn from this? First, policymakers, trade unions, and employers must recognize the inequalities that the credo of extended working life might cause and keep them in mind when planning new reforms of the welfare state or changes to workplace settings. At the country level, the distinction between new and relevant need and maintain factors might be a useful tool when trying to increase employment while simultaneously solving the problem of emerging social inequality in retirement transitions. Until now, most reforms have particularly strengthened need factors and, hence, increased monetary pressure to prolong working life. However, maintain factors—such as training measures and government grants to top up the wages of low-skilled older workers—might help to mitigate the problems facing low-skilled workers at the end of their careers. When implementing such maintain factors, policymakers should cooperate with employers and trade unions, because many important determinants are to be found at the company level. Our findings show that company-level support is particularly advanced in countries in which public policies also actively support late career employment. This suggests that public policies may

need to act as an “ignition spark” in steering this joint investment in older workers. In implementing these measures, special attention needs to be paid to achieve a socially even spread: For example, age management measures should be offered not only to high-skilled experts but also to their lower-skilled peers. Only in this respect may the generally welcome increase in older workers’ employment go along without accompanying shifts in the structure of social inequalities in aging societies.

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