European Foundation
for the Improvement of
Living and Working Conditions

Impact of the recession on age management policies

> résumé <

'Active ageing could turn the baby-boomers into part of the solution to the demographic challenge instead of being a problem. That is why Europe 2020 stresses the need to ensure that the elderly remain healthy and active for as long as possible.'

László Andor, EU Commissioner Employment, Social Affairs and Inclusion,
'Opportunities and challenges of demographic change in Europe', 13 July 2010

Introduction

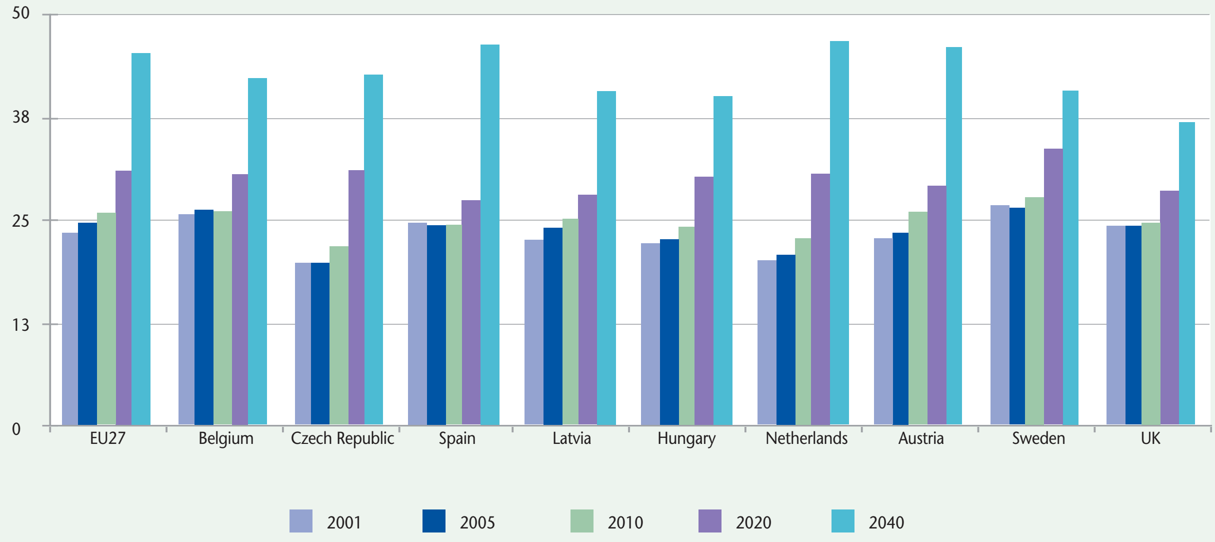
Focusing on older workers
Demographic issues continue to constitute a serious challenge to strong economic growth and the European social model. The current recession has aggravated these problems, pushing people out of the labour market and further increasing the dependency ratio.

Eurofound's research on 'Restructuring in recession and labour force participation' explored the age management practices of companies in light of restructuring undergone during the recession. The study looked at policy in relation to the retention of older workers (aged 50+) in employment at national and establishment levels in nine European Union (EU) Member States: Austria, Belgium, the Czech Republic, Hungary, Latvia, the Netherlands, Spain, Sweden and the United Kingdom. It first aimed to look at overall trends in the employment of older workers, the policy direction before the economic crisis of 2008, and developments in policy and practice after the crisis and their implications for the labour market participation of older workers. The focus on the crisis is important, because the second research aim was to establish how age management practices changed during and after the crisis at the level of individual establishments, as many establishments underwent restructuring measures. To understand the development of age management policy at establishment level, the study analysed developments in policy and practice in two establishments in each selected Member State.

The relevance of age management policy to European policymakers is clear. The old-age dependency ratio is rising across Europe. In 2040, those over the age of 65 will represent more than 45% of the working age population aged 15–64 in the EU27 (Figure 1). Population ageing will require more individuals across Europe to work to an older age to satisfy the demand for labour and to relieve pressure on social security and pension systems.

Increasing employment of older workers
Given these drivers, a general finding of this study is that policy moved away from encouraging early retirement in the pre-recession period and tended instead to emphasise various forms of 'downshifting' – reduced working time and gradual/phased retirement. The overall policy objective has been to target higher employment rates of older workers and is reflected in increasing employment rates for each five-year cohort of older workers over the period 2001–2010 (Figure 2). Nonetheless, as many individual establishment case examples in this project attest, early retirement remains in the toolkit of employers where restructuring job losses were considered essential during the recession. But where previous episodes of early retirement were associated with sharp declines in older-age employment rates, during the recession a more measured implementation can be inferred from the fact that employment rates of older workers were much more robust to the consequences of the crisis than those of younger or core-age workers. In a number of the countries covered, employment rates for those aged 60–64 are higher in 2011 than they were pre-crisis in 2008 (Austria, Belgium, Hungary, the Netherlands and Sweden) and among those case examples where establishment workforce age breakdowns were available pre- and post-crisis, there were as many where the share of older workers had increased as decreased.

Figure 1: Old-age dependency ratio in selected Member States 2001–2010(Q2) and projected to 2040



Source: Eurostat

Significant differences remain in the employment rates of older workers across Member States. For example, in Sweden over 60% in the age group 60–64 are in employment while in Belgium and Hungary the corresponding figure is below 20%. Cross-country variation in employment rates is greatest in the immediate pre-retirement age cohort (60–64 years of age) and the data in general show strong cross-country differentials in the rate at which workers from the age of 55 onwards withdraw from employment. In most countries, lower employment rates for older workers are a legacy of an earlier embrace of early retirement as a means of labour market adjustment.

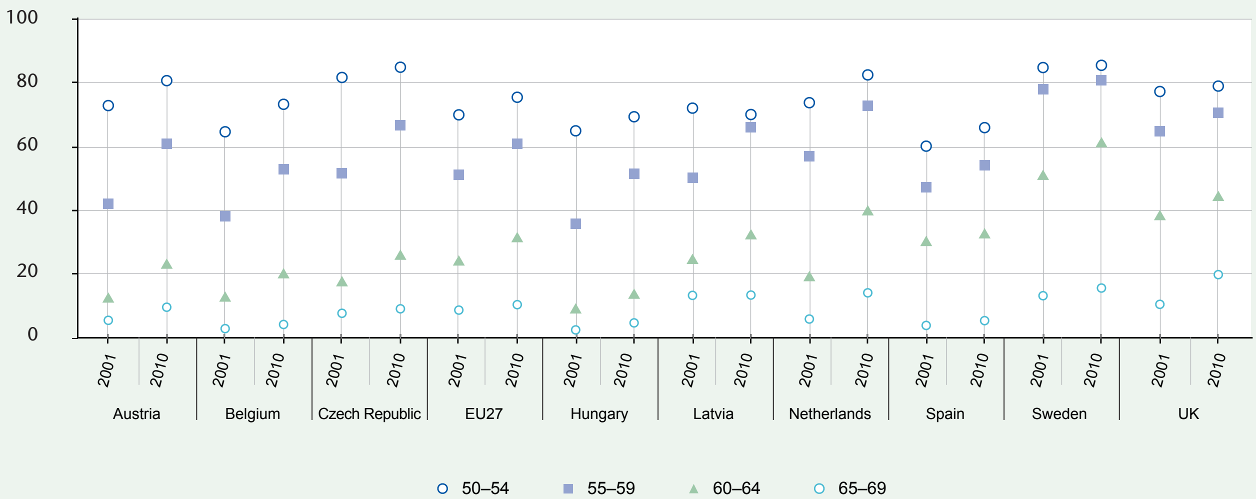
For instance, in the Czech Republic over 80% of those aged 50–54 are in employment, while the corresponding figure falls to 25% for those aged 60–64 (Figure 2). Gender also makes a difference, with the employment rates of older female workers being below that of older male workers, though in the group of Member States considered here this difference is less pronounced in the newer states of Latvia, Hungary and the Czech Republic. Finally, employment rates are higher for those with better qualifications regardless of age.

Overview of national policy developments

Variety of policy instruments prior to current crisis

The direction of policy is important in understanding the differences between Member States and between demographic groups within a state. The findings for the nine selected Member States before the economic and financial crisis of 2008–2009 reveal wide variation in the extent to which they implemented policies specifically targeting older workers, and the degree to which they supported older workers through broader employment policies open to all age groups. Corresponding to this, a variety of policy instruments appeared to be in use among Member States before the crisis (and in many cases continue to be in use) to support or maintain older workers in employment. These include more indirect measures that have wider objectives

Figure 2: Employment rates in selected Member States by age groups 50–69, 2001–2010(Q2)



Source: Eurostat

than just supporting older-aged workers in employment (for example, measures targeting wider groups and initiatives aimed at reducing social security and pension payments). Such measures include:

- pension system reform (for instance, changes to the benefits that pensioners receive and the pension contributions that employees and employers make);
- raising the statutory pension age (see table);
- reducing incentives for early retirement;
- sickness/disability benefit reform;
- anti-discrimination policy;
- incentives to promote lifelong learning and skills development in the workplace.

Then, there are a number of policies that have a direct age management focus, including:

- financial incentives to employers to keep older-aged workers in employment;
- financial incentives to employers to assist the reentry of older workers into the workforce;
- financial incentives to employees to stay in employment longer;
- gradual/phased/partial retirement schemes;
- options for flexible working for older workers;
- awareness and information campaigns to promote a change of attitude towards older workers including government-sponsored 'age management best practice' company prizes.

The use of these instruments in the period 2000–2008 varies across the Member States selected and reflects differences in the policy drivers such as different national priorities, reform trajectories and starting points in terms of pension and social security systems. For instance, the national reports on the Netherlands and the Czech Republic mention the issue of potential labour shortages and the sustainability of the social security system as policy drivers.

Table: Overview of statutory retirement age and suggested changes in selected Member States

Country	Men	Women	Proposed change	Comments
Austria	65	60	No	
Belgium	65	65	No	
Czech Republic	62	61	Yes	Retirement age will be increased to 63 years for men from 2016 and for women without children from 2019. Women with children will be able to retire between 59 and 62, depending on the number of children they have raised (currently, the retirement age for women is 57 to 61, depending on the number of children).
Hungary	62	62	Yes	Retirement age will increase to age 65 for men from 2018 and for women from 2020.
Latvia	62	62	Yes	A gradual increase in the state pension age up to 65 by 2021.
Netherlands	65	65	Yes	Agreement under discussion on raising the retirement age to 66 in 2020 and 67 in 2025.
Spain	65	65	Yes	To raise the retirement age in the period 2013–2027 from 65 to 67.
Sweden	61	61	No	The retirement age is flexible. State pensions can be claimed from age 61 – with built-in incentives in the pension system to postpone retirement.
United Kingdom	65	60	Yes	From 2018, women must be 65 to receive a pension, equal to men; in 2020, the pension age will then increase to 66 for both men and women. The previous Pension Act stipulates that the retirement age will rise to 67 between 2034 and 2036, and to 68 between 2044 and 2046. The default retirement age has been abolished.

Note: This table is a representation of statutory pension age. Effective pension age can be lower and higher depending on other ways to enter or delay retirement (for example, early retirement, partial retirement and working beyond retirement schemes).

Source: Author's compilation from national reports and from OECD data 2010, 2011

Policy reform in some Member States

Some Member States have taken a more comprehensive approach to supporting older workers than others, by beginning policy reforms at an earlier stage in the late 1990s and early 2000s.

In Sweden, a strong consensus exists among social partners that population ageing is a policy priority. Pension reforms in 1999 meant that the pension payable was linked to the difference between the age of retirement and the average unisex life expectancy over the previous five years. The reforms meant workers were able to retire at the age of 61. However, strong incentives exist for workers to remain in employment up to the age of 65 and beyond and these have been reinforced since 2006 by changes in the tax system that offer more favourable treatment for work-related income compared to pension income. At the same time, the age to which employees could remain in employment was increased to 67 years. Procedures for collective redundancies are based on the 'last in, first out' principles of the Swedish Labour Code. In 2006, a further set of measures focused directly on promoting old-age employment by increasing the working tax credit for older workers, reducing employer contributions for workers aged 65 and over, and seeking to reform the disability benefit to make it a less attractive option to leave the workforce. Also, employers could avail of supplementary tax breaks for employing workers aged 55 and over who had been unemployed as part of the 'new start jobs' programme.

Similarly, in the UK there was a growing recognition among social partners throughout the past decade of the need to encourage longer working lives. The UK focused particularly on reforms of wider regulatory structures influencing old-age employment such as raising the statutory retirement age in the Pension Act of 2007 and reassessing the requirements to receive incapacity benefit in 2008. In 2011, the government decided to eliminate the default retirement age. Other recent proposals included raising the state pension age to 68 by 2046 and eliminating stepwise the difference between female and male retirement ages by 2018. In addition, reorientation of the extensive private pension system over the past two decades towards a defined contributions model may have reduced the incentive for, and capacities of, employees to retire early.

Some Member States such as Hungary and the Czech Republic mostly focused on integrating younger workers into the labour force, with age management policies often at an earlier stage of development. In both countries, the use of early retirement remained prevalent and attitudes among employers and society in Hungary were considered not wholly supportive of old-age employment. In part, this is the legacy of the heavy emphasis on early retirement as a means of labour market adjustment during the transition to a market economy in the early 1990s. There are positive disincentives in the case of Hungary, for example, to remain in work as pension wealth actually declines after the age of 60.

Early and partial retirement

Other Member States focused on specific policy areas to support and encourage older workers, in particular on policies to manage and reform early retirement schemes. These reforms aimed at limiting the entitlements under early retirement and encouraging more gradual exits into retirement. The reasons were generally twofold: concern over the sustainability of the social security system and the related objective of increasing employment rates and pre-empting future labour shortages. Hungary tried to limit the use of early retirement schemes by closing some schemes and limiting government compensation in others. In Belgium, the government reformed the pre-pension benefit, raising the age of entitlement from 58 to 60 and the required years of economic activity from 20 to 30. In the Netherlands, the tax treatment of early retirement payments made early retirement schemes less attractive. Some reforms had a more moderate impact on managing gradual transitions. In Spain, the government tried to encourage the use of partial pension systems, whereby an older employee after the age of 60–64 could be transitioned into retirement and remain active for at least 25% of the time and be replaced for the remaining time by a new employee. This programme had a limited uptake as it was not de facto a way to manage the labour force as the number of employees in an organisation remained the same. Nonetheless, the Ford (Spain) case example illustrates that some companies considered this possibility sufficiently attractive.

Austria also placed a lot of emphasis on partial retirement with two options – a partial retirement scheme whereby working time continuously halves over the course of the scheme and a block model whereby the employee works full time in the early phase of the partial retirement scheme and then retires early in the second phase of the scheme. The scheme has become more restrictive with major reforms in 2004 and 2009 foreseeing an increase in the minimum eligible age for men (to rise from 55 to 60 by 2013) and women (to rise from 50 to 55 by 2013) though the stepwise increases in these minimum eligibility ages were temporarily suspended in 2009 as a result of the crisis. The popularity of the block model among employers and employees compared to the continuous model meant that the partial retirement scheme in effect functioned as an early retirement scheme. Reforms to the system in 2009 addressed this by offering higher levels of reimbursement to employers opting for the continuous model. The share of the partially retired on the block model subsequently halved.

Retention of older workers

In addition to reforming early retirement schemes, several Member States provided direct incentives to employers and employees to stay in employment. Belgium focused particularly on providing financial incentives to employers and employees to encourage the employment and retention of older workers. Furthermore, Belgium focused on activation policies for older workers such as the *cellules d'emploi*, which facilitate transition to other employment for workers who lose their job following restructuring. Such measures also confirm a wider cultural shift away from early retirement schemes as the previous strong association between restructuring and early retirement is broken. In Spain, some incentives are linked to social security payments. The employer's social security contributions are reduced by 50% for older employees starting at 60 years of age, increasing gradually by 10% until reaching 100% when the employee turns 65. Reflecting the seriousness of the youth unemployment in this Member State, versions of these incentives were applied to younger age categories during the crisis; for instance, measures originally intended to encourage employers to retain or employ older workers were made more applicable to other risk groups.

Skills development

Many Member States also placed emphasis on 'employability', which implies continuous skills development and training of workers to ensure they have adequate skills for employment. Several Member States such as Austria, Hungary and Latvia provided incentives to employees and employers to ensure lifelong learning. Campaigns focused on occupational health, informing employers on how to accommodate an ageing workforce and raising awareness among the workforce on the need to work longer. Another important aspect of age management initiatives is to see older workers as a distinct category in diversity policy. Member States such as Austria, Latvia, the Netherlands and Sweden see older workers as a distinct group in both targeting of initiatives and regulation. Given population ageing, Member States and companies increasingly consider an age-diverse workforce as inherently more sustainable.

Anti-discrimination and diversity policy

Anti-discrimination and diversity policy is a theme reported throughout the Member State contributions, driven in part by European regulations. In principle, this means that age cannot be a factor in human resources management decisions (recruitment and redundancies), though in some countries there are particular stipulations in the Labour Code that make it more difficult to make older-aged workers redundant. Both the Netherlands and Sweden have a 'last in, first out' provision in collective dismissals. In Latvia, the Labour Code stipulates that those five years from retirement should be a priority when deciding which employees to keep in employment during a collective redundancy. In countries where the default retirement age is to be eliminated, as in the UK, employers have voiced concerns about their vulnerability to age discrimination cases where older employees contest a redundancy. In Hungary, which has the lowest employment rates for older workers of the countries covered, age discrimination has been the subject of much recent research and appears to be as much a general public as an administrative concern.

Role of the social partners

The role of social partners in policy formulation varies. In some Member States, such as in the Czech Republic and Hungary, social partners fulfil largely an advisory function. As such, their influence is relatively limited in policy formulation. In other Member States such as Belgium and the Netherlands, the role of the social partners is central in designing specific policy responses in the overall framework decided on by government. For example, in the Netherlands, social partners have agreed to remove extra days of annual leave linked to seniority as one way of reducing the costs of employing older workers. Other examples of age-related social partner initiatives include the Austrian 'virtual consultancy' – *Arbeit und Alter* – which provides information on all age-related work and social insurance issues as well as a forum for exchange.

Recent policy initiatives across Member States

Trends in response to the crisis

Member States have responded to the current crisis in diverse ways across Europe, partially reflecting differences in the depth of the financial crisis and differences in the perceived need to accelerate reforms. There were some key trends visible after the crisis began.

- Early retirement reemerged as a tool to manage the labour force during the economic crisis. Though incentives and options for early retirement were reduced in many Member States, reflecting a policy shift away from its use, early retirement nonetheless offered employers an alternative to compulsory redundancies.
- Partial retirement schemes were reformed and became more extensive. Efforts were taken in some countries to ensure that partial retirement possibilities no longer represented a de facto form of early retirement.
- There is a trend to raise the pension age in many countries, be it plans in progress or under discussion. In Sweden, a concrete linkage between (increasing) average life expectancy and pension age is intended to future-proof the funding of the pension system; other countries (for example, the Netherlands) are considering similar possibilities.
- Related to the above, some Member States with defined benefit pension schemes have increased the required contributions from workers, mostly by extending the earnings-related period or cutting pension payments.
- There have been moves towards part-privatisation or the introduction of mixed, multitier public and private pension systems as well as towards defined contribution schemes where private pension provision is predominant (for example, the UK).

- Some Member States expanded or introduced tax and social security incentives for employers and employees to keep older workers in employment. In some countries, pension increments for deferring pension payments for those continuing in work were increased.

Policy change at country level

Some Member States such as Sweden and the UK had already put in place significant initiatives to provide for more sustainable age management practices before the crisis. As such, their age management policies did not significantly change. In the UK, the government launched a number of training initiatives for those unemployed over the age of 50.

Member States such as Austria, Belgium and the Netherlands modified existing policies following the financial crisis, to support older workers in working and/or retirement amid financial pressures. The Netherlands has agreed in principle to raise the statutory retirement age and extended incentives for training employees. Austria reformed the partial retirement option further to make it a genuine part-time work model for older workers. It introduced a number of mechanisms to: restrict government compensation to the employer; abolish obligations that an establishment had to hire a new worker to compensate for the early exit of an older worker; lower the eligibility threshold from 80% to 60% of regular work time, thus allowing more part-time workers to participate; and induce a shift from the highly used block model to the continuous model by offering greater income replacement rates to employers in the continuous model compared to the block model (90% versus 55%). Hungary, the Netherlands and the UK also rewarded those employees postponing retirement with additional pension accruals for each year worked beyond the retirement age (in the Netherlands, up to the age of 70).

In some Member States, general budgetary motives were the major determinant of changes in policy affecting older workers. In 2011, forced by the poor state of government finances, the Spanish government decided to raise the retirement age from 65 to 67 in the period 2013–2027. In addition, workers will have to contribute more to receive a basic pension. Finally, the minimum age for early retirement eligibility increased from 61 to 63, though in times of crisis those aged 61 could still apply. Partial retirement provisions were unchanged. In Latvia, the crisis resulted in a deep recession. The response was the introduction of a measure to limit the ability to draw a state pension and work at the same time (subsequently annulled upon legal challenge), the withdrawal of early retirement possibilities in 2011 and increased contributions to the basic pension. The two first measures specifically led to a sharp decrease (over 40%) in the numbers of working pensioners, reflecting older workers choosing to leave the labour force before the new measures became active and their uncertainties about possible future policy developments. Latvia also introduced a programme of subsidised work places through which a large share of pre-retirement workers (74%) found permanent employment within three months of participation.

Age management policies at company level

Focus of policies

Age management policies at the company level are affected by overall policy developments in the various countries. For instance, the focus on age management in Sweden is also reflected in the two case studies in Sweden, Kiruna Regional Administration and Vattenfall. Both have a dedicated and integrated age management policy focused on general training, skills development, information provision and flexible working. The aim is to develop skills and adaptability among older employees and maintain them in employment.

Skills development and knowledge transfer

Establishments in other Member States marked as having progressive approaches to age management do not necessarily have in place stand-alone age management, but at times instead share a focus on employability or ensuring that the skills of workers remain relevant throughout the life cycle of employment. Such organisations are concerned with employability throughout workers' lifetimes, across age groups. Older-aged workers are often a specific target group in employability programmes, where maintaining skills of older workers is important. Examples include Barco in Belgium, Abengoa in Spain, KPN and DHV in the Netherlands and the MOL Group in Hungary.

Several of these case studies also place importance on intergenerational knowledge transfer. This transfer can consist of: succession planning; involving older employees in establishment training; and recording of the, often tacit, knowledge accumulated during their career. Examples are the MOL Group in Hungary and Kiruna Regional Administration in Sweden. Involving older employees as training mentors in some cases was a response to the crisis as training budgets were reduced.

Flexible working and retirement options

Providing older workers with opportunities for flexible working arrangements is another theme in establishments' age management approaches. In the Netherlands, KPN and DHV offer flexible working arrangements (part time) to employees, including older workers. The age management aspect of this approach is that flexibility in working arrangements encourages older workers to stay in employment as it provides a smoother transition to retirement.

Partial or flexible retirement is another option to manage the transition from work to retirement, one increasingly favoured by policymakers and, as evidenced in the case examples, by employers. An example is the flexible retirement policy in use by

Cambridgeshire County Council in the UK. The policy provides eligible employees (aged 55 and over with a minimum of three months' membership of the pension scheme) with the right to request a permanent reduction in working hours (20% or more) or a transition to a role with downgraded duties/responsibilities, while at the same time availing of accumulated pension benefits. In the Ford manufacturing plant in Valencia, Spain, a majority of blue-collar workers aged 61 and over participate in the government-supported partial retirement scheme that allows older workers to reduce their working hours by up to 85%. Even though there is the obligation to employ one younger employee for each partially retired employee, the scheme remains cost-effective from an employer perspective given the significant seniority premiums enjoyed by older staff in the company. Borealis Agrolinz Melamine GmbH in Austria started using the partial retirement scheme more extensively during restructuring after the economic crisis of 2008, coinciding with the reforms to the scheme made by the Austrian government.

Needs of small businesses

The case studies also offer insights into age management policies in small businesses. The examples of Made in Inox in Belgium and Proniks in Latvia show that, given the specific skill set required in the business, the loss of even a single employee can be a substantial problem. These establishments also prefer older experienced employees who tend to have the often rare, specific expertise required to do the work. These employees typically have modest wage demands and have few objections to take up very specific and at times physically demanding jobs. As such, given the shortage of labour, the companies looked at in the case studies have a good business reason to invest in older employees and tailor the work to personal circumstances.

Other company measures

Employers may have stronger incentives to facilitate the exit of employees who have accrued significant seniority-related pay. In Ford Valencia, seniority-related pay can amount to 60% of basic salary. Seniority-related pay was also, however, indicated as a means of validating the contribution of and motivating older workers in the MOL Group in Hungary.

The case studies also reveal that the employment share of older-aged employees decreased during 2008–2010 in only a few of the companies covered despite many instances of recourse to early retirement. In Vattenfall in Sweden, notwithstanding its broad range of age management measures, early retirement accounted for 90% of restructuring job losses implemented during the period. The average retirement age however rose as a response to age management initiatives over the decade.

Impact of national policy

Finally, case studies in general did not cite national policy introduced in response to the crisis as particularly influential with regard to the development of the organisation's age management policy, though clearly in many cases companies took advantage of regulatory incentives in relation to early or gradual retirement and recruitment of older unemployed persons. In cases of more fundamental and lasting reform there was an impact. The partial retirement reform in Austria influenced the decision taken by Borealis to move from early retirement to partial retirement options while restructuring. There were also inadvertent impacts. The reform of the pension system in Latvia in 2009 affected Proniks negatively as it caused several older employees to leave the establishment voluntarily to qualify for better pension provision before the reforms took hold.

Conclusions

Countries and establishments consider and discuss age management in different ways. All countries have policies that perform this function in some way, but the comprehensiveness of policies varies. The trajectory of reform differs between countries as does the urgency to target initiatives at older workers. In some cases and especially during the recession, older workers were often not seen as priority groups. There was greater concern about the employability of younger workers. Given that the crisis affected younger workers disproportionately compared to other age groups, there were often good reasons to prioritise this group rather than older workers.

In relative terms, the economic crisis that began in 2008 did not have a negative impact on the employment rate of older workers. In the majority of the countries covered, employment rates increased for older workers while they decreased for all other age groups. In some case studies, such as BT in the UK, the proportion of older workers actually increased. In many Member States and establishments, the financial crisis did not result in fundamental changes to age management policies but there were minor adjustments to existing policies intended to incentivise later retirement. In countries where there was a significant deterioration of government finances, significant age-related policy reform did take place. However, this reform (for example, in Hungary, Latvia and Spain) did not focus explicitly on age management objectives as such, but clearly had a cost-cutting rationale. Organisations' increased use of partial retirement and continued use of early retirement schemes were instruments that served to reduce the labour input of older workers in terms of working hours or headcount. Nonetheless, these were only one of a variety of labour market adjustment measures employed and overall employment rates of older workers remained relatively stable.

At establishment level, changes in age management policy generally were more gradual – developing in response to longer-term trends in human resources and employment policies. Older workers are increasingly encouraged to work longer, until and in some cases beyond statutory retirement age. The incentives are various: arrangements for flexible working hours; financial incentives (to employers as well as employees); work organisation interventions such as capacity management assessments and role reassignments. The value of a mixed-age workforce is increasingly recognised and evident in efforts to ensure intergenerational cohesion and knowledge transfer within companies. These 'soft' changes are addressed in part to current company needs but are also a form of adaptation to a future where demographic ageing may result in potential labour and skills shortages and will result in an older workforce.

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Further information

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