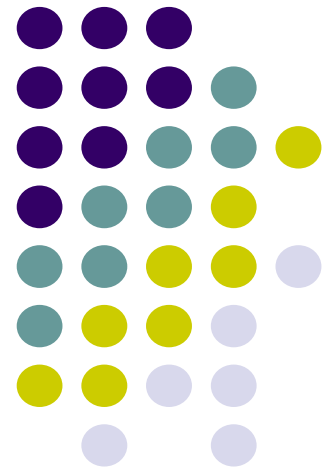


# Welfare States and Active Ageing

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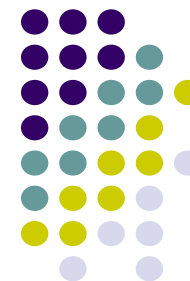
Karen Anderson  
Leiden University





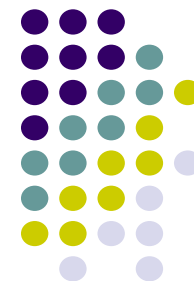
# **How does the institutional structure of welfare states influence early retirement?**

- 1. How does the institutional design of a welfare state/pension system influence the labor market participation of older workers?**
- 2. Why are some countries better at introducing “active” welfare state reforms than others?**



# What is Active Ageing?

- Policies that promote active ageing include:
  - Training programs for unemployed older workers
  - Flexible employment for older workers
  - Wage policies that promote the employment of older workers
  - Employment policies that do not discriminate by age
  - Social insurance policies that provide incentives for older workers to remain employed



# Who wants active ageing?

- EU: promoting active ageing is a key goal.
  - Stockholm Council March 2001:  $\geq 50\%$  of those aged 55-64 should be employed by 2010.  
1997: 36.3%!
  - Barcelona Council 2002: increase efforts to keep those aged 55-64 employed.
- The OECD actively advocates policies for reducing early retirement.



- **National Governments advocate active ageing, at least in principle, because of rising pension and health care expenditures.**
  - If older workers remain employed, retirement costs decrease and tax revenues increase, assuming that the labor market is stable or expanding.



## WELFARE STATES AND THE LABOR MARKET PARTICIPATION OF OLDER WORKERS

**Pathways**: public and private exit routes for older workers to leave the labor market.

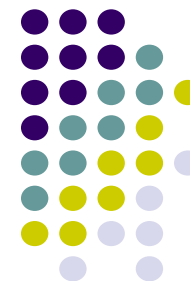
- public and private insurance programs provide an alternative to employment income. **Examples**: disability pensions, unemployment insurance, early retirement, etc.

# PUSH and PULL



**Push:** factors that “push” workers out of employment

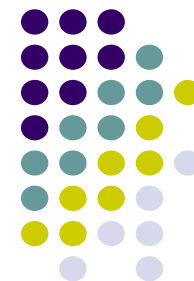
- the state of the economy or sector
- firms' dismissal policies
- regulations governing the labor market like seniority wages, employment security etc.



# PULL

**Pull**: factors that “pull” workers out of employment, i.e. the attractiveness of alternatives to paid employment,

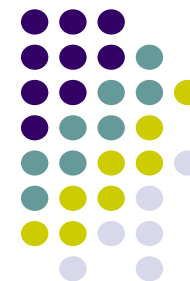
- compensation available from public and private/occupational insurances. The accessibility and generosity of different types of benefits influence the exit decisions of individual workers.



# The welfare state as a set of "pull" factors?

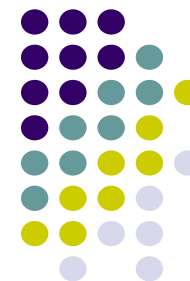
## A typology of welfare regimes (Esping-Andersen)

- Liberal welfare regimes (**USA, UK**) -means-tested benefits, modest social insurance, private and occupational alternatives to state welfare.
- Corporatist/conservative (**D, F, I**) -publicly provided social insurance programs reinforce status and income differentials.
- Social democratic (**S, N, DK, SF**) -dominance of universal, state-financed benefits and services and a minimal role for private or market alternatives to state welfare.



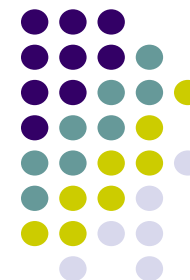
## Different welfare regimes show different patterns of early exit

- **conservative** and **social democratic** welfare regimes offer multiple pathways for early exit.
- **Pull** is weak in the **liberal** welfare state; effective retirement age is higher in the **liberal** AND **social democratic** welfare regimes.
- Labor market participation (LMP) of **all** workers, including **older** ones, is also higher in the **social democratic** welfare states (S, DK, N, SF) because of the important of the “work line”  
→ employment/activation comes before a cash benefit.



## Trends in Early Exit

- very high early exit in the conservative welfare regimes (France, Germany, Belgium, NL, although the NL has improved). "welfare without work."
- comparatively low (but recently increasing) levels of early exit in the Social Democratic regimes. "The struggle to maintain the work line."
- relatively low early exit in the liberal regimes



# What have governments done to reduce early exit?

Look at three examples:

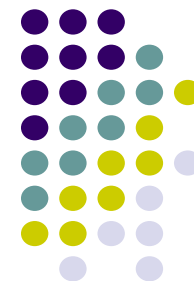
## 1. Germany:

-high early exit; painful reforms; limited success

## 2. Sweden

-moderate early exit; moderately successful reforms

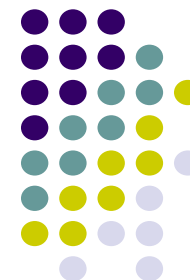
## 3. The Netherlands -high early exit; moderately successful reforms



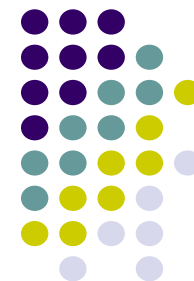
## **“Pull” factors and the exit decision**

### **Typical Pathways:**

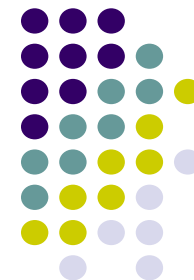
- 1. special rules for unemployment insurance for older workers;**
- 2. disability pensions (or sickness insurance) for older workers: older workers receive a disability pension for "labor market reasons." Netherlands (until late 1990s) and Sweden (until 1991).**



**3. special early retirement schemes:** the state or social partners special early retirement schemes that allowed older workers to draw a pre-retirement pension until the regular retirement age. goal was to create jobs for younger workers. France, Belgium, the Netherlands and Germany



4. **standard pension taken at an earlier age with reduced benefit.**
5. **partial pensions and gradual retirement:** Germany and Sweden have/had partial pensions (Sweden until 2005);
  - some systems allow people to combine work with pension income

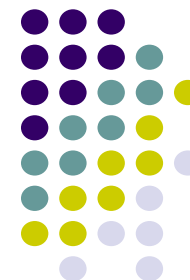


- These exit pathways have been used to varying degrees in different countries, depending on **push** factors.
- And nearly all OECD countries have tried to close down these pathways or limit their attractiveness.

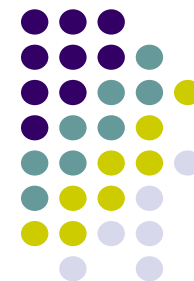


## Reform Strategies

1. limit or phase out disability pensions for older workers
  - make eligibility stricter by tightening medical criteria and requiring re-qualification after a specific period.
2. limit unemployment insurance for older workers
3. transform pay as you go public schemes into privately negotiated funded schemes, or increase the role of funded occupational schemes relative to public ones.

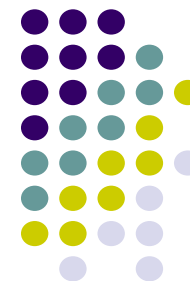


- 4. Strengthen the “actuarial fairness” of pension schemes.**
- 5. increase retirement age; allow people to work beyond retirement age in return for a higher pension.**
- 6. allow more flexible retirement by permitting retirees to combine employment income with the receipt of a pension**



# Germany: painful reforms; limited success

- 1997: 38.2% of those aged 55-64 were employed.
- Effective retirement age is about 60



# Germany: Exit Routes in 2003

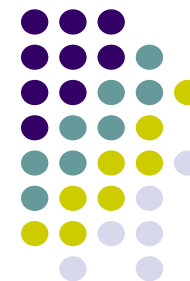
## 1. Special rules for unemployed older workers:

Workers  $\geq 54$  receive benefits (67/60% of last net pay) for 32 months (6-32 months for those under 54).

Unemployment assistance (53/57% of last net pay) paid until retirement but was subject to means tests.

2. Statutory early retirement: Retirement starting at age 60 for those unemployed for at least 52 weeks during last 18 months. Beginning 1997-2001, penalties for retirement between 60 and 65.

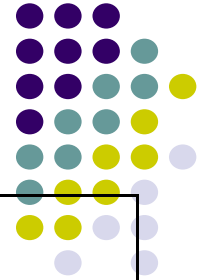
3. Partial retirement(Altersteilzeit): Workers  $\geq 58$  can work part time and combine work with pension



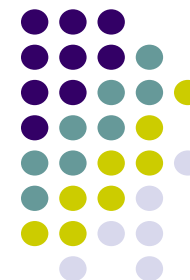
# German Reforms:

- **Pension Reform**: 2001 and 2004
  - 2001: Reductions in replacement rate from about 70% of average net wages to about 67% by 2010.
  - 2004: introduction of the ‘sustainability factor’ that reduces pensions if the old age dependency ration increases.
  - Penalties for early retirement (1989; 2004)

# German Reforms 2004/5

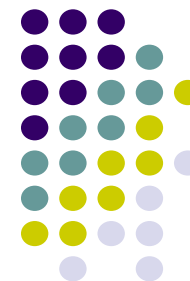


	old rules	Hartz IV
unemployment benefit I (67/60% of last net pay)*	workers $\geq 55$ receive benefits for <b>32 months</b> ; workers $\leq 55$ receive 6-32 months of benefits depending on age	workers $\geq 55$ get benefits for <b>18 months</b> , workers $\leq 55$ receive benefits for 12 months
unemployment assistance	-57/53%* of last net wage - <b>no time limit</b> -weak work requirements	abolished
Social assistance	weak work requirements	abolished
unemployment benefit II	did not exist	- <b>€345/331</b> plus housing costs; no time limit -claimants must accept all job offers if not less than 30% of customary local wages



# Effects of the German Reforms

- Unemployment still high (>10% and still rising)
- Early exit still high
- Public dissatisfaction with the Social Democratic-Green government.
  - New elections called for September 2005 after the Social Democrats lost heavily in the federal state of North Rhine Westphalia



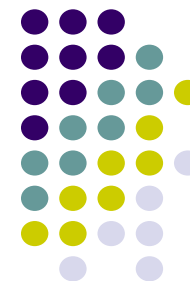
# Success Stories?: Sweden and the Netherlands

- **Both Sweden and the Netherlands have closed off early exit pathways and increased work incentives for older workers**



## Sweden

- Until recently, Sweden had a high level of LMP of older workers, but the rate has been decreasing since the 1970s and the recession of the early 1990s increased the pressure coming from "push" factors.

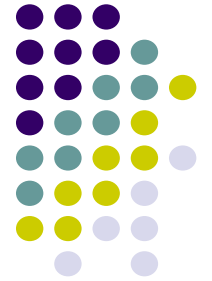


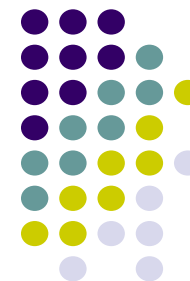
# The main exit pathways in Sweden

(until recently)

1. disability pension for labor market reasons
2. partial pension
3. early ATP pension (possible from age 60) with reduced benefits. Not many people used this pathway until the 1990s.

4. combination of **unemployment insurance** (easier for older workers) and other social insurance programs. As in the Netherlands, firms often offered extra benefits for those retiring early, and/or collective agreements provided additional benefits.





# Reforms in Sweden

1. Elimination of disability pension
2. New income-related pension system that includes basic security (1994/98)
  - Flexible retirement age
  - career income determines benefits
3. Elimination of partial pension



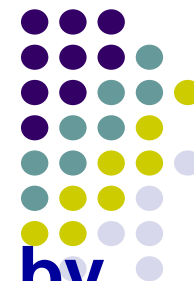
## Netherlands

**Massive early exit.** Today only about one fourth of men 60-64 work, but the numbers are improving.

**PULL FACTORS/PATHWAYS (until recently):**

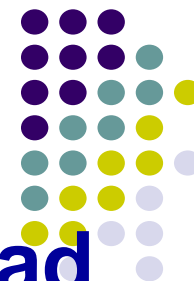
-1967 labor market reasons could be used for eligibility for disability pensions

-older workers got (more or less) unlimited unemployment compensation ----if older than 57.5 did not have to actively seek work



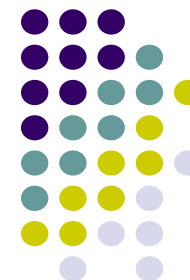
## Pull Factors/Pathways

- 1977 VUT (early retirement schemes negotiated by employers and unions) were introduced. Costs were tax deductible
- VUT is widely seen as a failure since it did not reduce youth unemployment, and the last few governments (supported\* by unions and employers) have pushed for replacing the VUT with funded pre-pensions. VUT was pay as you go and tax subsidized, so the costs were spread across society or the sector.



## Netherlands: Pull Factors/pathways

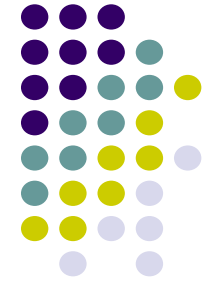
- **"social plans" were used by firms who had to lay off people; usually included some combination of social insurance and occupational insurance. A typical pattern was for an older worker to be offered a bonus for early retirement and then s/he could draw VUT or unemployment insurance until the regular retirement age AND the firm would continue to pay his/her occupational pension contribution so that he/she would still get a full pension.**



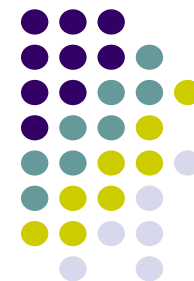
## Why Unions and Employers (and sometimes the *state*) cooperate in these early exit strategies

- These programs help firms (economic restructuring) and individuals at the micro level. The state has an interest in lower levels of unemployment
- However, these strategies have negative macro effects: labor force participation decreases, so tax revenues decrease. Costs are also transferred to the entire sector or the entire economy. This leads to higher social insurance contributions and lower levels of employment as labor gets more expensive.

## Reforms in the Netherlands



- mid 1980s cuts in social insurance to try to stem the flow of older workers out of employment.
- In the WAO (disability) the level of benefits was cut from 80 to 70% and eligibility was tightened.
- 1992-1995 system of incentives (differentiated premiums) for employers was introduced that tries to get them to reduce number of workers going on disability pension.



# The “levensloopregeling” or “lifespan arrangements”

- Lifespan arrangements are individual ‘leave accounts’ for accumulating paid leave for a variety of purposes: child care, education, or early retirement.
- 3 years of leave may be accumulated (with special rules for older workers)
- Takes effect January 1, 2006
- Existing pre-pension rights may be transferred to the new lifespan arrangements.



- The new lifespan arrangements replace existing tax breaks for early retirement schemes negotiated as part of collective agreements.
- **individualization** of risks and costs
- firms can still offer early retirement options, but there are no tax breaks!
- costs of early retirement are now more transparent and fully funded.



# **POLITICAL AND INSTITUTIONAL CONDITIONS FOR ADOPTING REFORMS THAT CONTRIBUTE TO ACTIVE AGEING/PENSION SYSTEM SUSTAINABILITY**

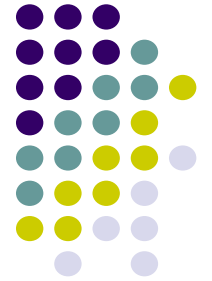
## **Why policy change is difficult**

- Welfare states and specific programs create their constituencies and supporters.
- Voters punish politicians who try to cut benefits

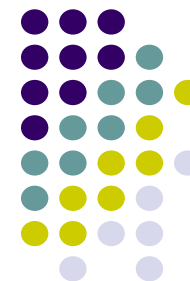
- **incorporation of social partners**; but unions and employers have to be willing to compromise. In the Swedish pension reform, unions and employers were consulted by excluded. It is fair to say that the unions quietly supported the reform. Dutch unions and employers have (more or less) cooperated in many of the changes that I discussed, although Dutch unions forced the government to change some of its proposals (levensloopregeling).



- **cross party alliance in support of reform** (Sweden; NL and Germany to some extent). **Broad coalition** in favor of reform ensures that reform will endure, i.e. will last beyond the next election. This is especially important in pension schemes since pension schemes influence people's long-term planning about where their retirement income will come from. Economic actors also need stable "rules of the game" concerning the pension system.

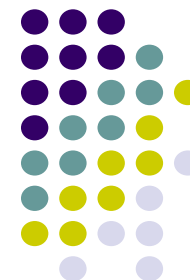


# Policy Considerations for promoting active ageing



## Reducing Early Exit

- Cuts in one program can lead to ***cost shifting*** to other social programs. Pension problems offloaded onto unemployment, social assistance. This has occurred in both Sweden and the Netherlands.
- the importance of "push." Stagnant labor market offering few vacancies (Germany); strict employment protection laws (Germany, NL, Sweden)



- different pathways should be **synchronized** (age of eligibility; benefit levels). Closing one pathway is fruitless if other pathways are still available
- pay attention to how gradual/partial retirement sometimes leads to potentially lower pension benefits and encourages full, rather than gradual exit (i.e. final salary formulas, etc)

- Social partners often subvert the goals of public policy changes by introducing changes into occupational schemes that “repair” lower benefit levels in public schemes.

