



Janvier 2006

LES ÉTUDES DE LA FONDATION

Demographic Changes in Europe

Dealing with an Aging Workforce

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EXECUTIVE SUMMARY

Europe is facing unprecedented demographic change, characterized by a rapidly aging population. At the core of the demographic change are consistently low birthrates (the EU average is of 1.5 children per woman, compared to approximately 2.5 in 1960), increased longevity (today, both sexes live 5 to 10 years longer than in 1960), combined with the results of the baby-boom era. These dynamics have very profound implications on a socio-economic level: examples are increased public spending (due to increased costs for sustaining proper Health Care and Pension Schemes), threatening prospects of scarce labor supply (due to the reduction of the active population) and potentially even very different expense patterns on a macro-economic level (the great number of retirees will start spending the pensions they have accumulated during their working lives).

Consequently, a new approach towards managing our populations and our work force in particular is required to tackle the demographic problems. In this respect, it will be crucial to increase the labor participation of the seniors: this intervention is regarded as being particularly important because it would have a direct positive impact on the financial sustainability of pension schemes and on Production Capacity. However, senior labor participation figures are disappointingly low in some countries (e.g. 37% in France compared to 70% in Sweden); in the countries such as France, both the public authorities and the private sector alike nurture obvious misconceptions regarding the role of the seniors in our economy. Public authorities have indeed often believed that the aging of our population will be a historical opportunity to finally deal with unemployment, and they have thus actually stimulated early retirement. As for the private sector, they too often believe that seniors are less productive (and more expensive) than their younger counterparts, and they have thus implemented HR policies that are unfavorable to senior employment.

These policies need to change and some have already understood this quite well: public authorities in a number of countries have chosen to increase senior employability and have been able to launch the necessary reforms (sometimes as far back as 15 years ago).

Four types of reform have been identified across Europe (*see also the box below*):

- Regulatory reforms
- Financial interventions
- Psychological change
- Improved working conditions

Moreover, past experiences tell us that these different types of reform must be implemented simultaneously if they are to be effective: indeed, it is highly unlikely that administrative reforms will have any significant impact if the attitudes of people towards senior employment do not change (and vice versa). So it is a mix of these reforms that must be aimed for and public authorities in Europe will have to decide for themselves which type of reform needs extra emphasis in their situation (depending on the local social, economic and institutional context). It is only after such a set of measures will have been implemented that we will start being able to successfully face the demographic challenge: it is thus time to act without further delay.

1: Regulatory reforms

Abolishing early retirement - abolish favorable tax treatment for voluntary early retirement schemes (Netherlands), launch new propositions to postpone the official retirement age in both public and private sectors (from 65 to 67 in Germany and from 60 to 65 for State pensions in the United Kingdom), raise contribution thresholds for entitlement to full pensions (from 37 ½ to 40 years in France), reduce pension benefits for each year of early retirement (by 6 to 8% in Spain) or finally encourage the participation in privately funded pension schemes through tax deductions and financial contributions (Germany and Spain).

Restricting hidden workforce exits - restructure the public disability schemes (Netherlands), by toughening conditions for entry in the plans and making the audits stricter (25% of audited people were stripped of their benefits and were forced to return to the labor market), re-instate job-search requirements for unemployed seniors in order to receive unemployment benefits (Netherlands).

Eradicating all discriminatory policies - introduce a law banning all discriminatory policies, especially aimed at age discrimination. A practical example of the implementation of this law is the fact that job advertisements cannot feature any age indication anymore (Netherlands).

Creating flexible contract regulations - in France, a new type of fixed-term contract has been introduced for workers over the age of 57. These new contracts can be offered without any further restrictions and have a duration of 18 months, with the possibility of renewing the contract once.

Facilitating the accumulation of employment and pension - eliminate any existing barriers for accumulating pension benefits and salary payments after the official retirement age (Sweden).

2: Financial incentives

Introducing financial incentives for senior workers - increase the amount of accrued pension benefits when postponing retirement (up to an extra 40% for those seniors who retire after 65 in Finland, and up to 52% in Sweden), offer tax credits to older workers that remain in activity (Netherlands) or finally offer extra financial payments to senior workers (United Kingdom).

Introducing financial incentives for employers - exempt employers from disability insurance payments for workers aged 55 and above when these same workers are being hired (Netherlands), give employers a reduction of 50% or more on social security contributions for permanent contracts with workers over the age of 60 (Spain), fully exempt employers from social security contributions when hired seniors are over 65 (Spain and Netherlands) and finally extend these rights to include not only employers in the traditional sense, but also self-employed individuals (Spain).

3: Psychological change

Changing societal attitudes - launch a National promotional campaign (television and radio) to promote the role of seniors in society (Finland), create NGO's to secure the promotion (and subsequent revalorization) of the role of seniors in the long term (United Kingdom and Netherlands)

Changing employers' attitudes - launch promotional campaigns which are especially aimed at employers (being the ones to make employment decisions); these programs consist of teaching the employers about the benefits of senior employment in a detailed way (Sweden, Netherlands and United Kingdom).

4: Improved working conditions

Stimulating life-long learning - create multiple education and learning programs on different levels to make life-long learning possible (e.g. primary and secondary degrees for adults, language courses, vocational training for career changes) (Sweden), eliminate maximum ages to participate in such programs (Finland).

Reorganizing the workplace - create a national institute for working conditions to research and develop better practices (Sweden) and introduce programs for the reorganization of workplace environments which clearly stress out employer responsibilities in this domain (Sweden).

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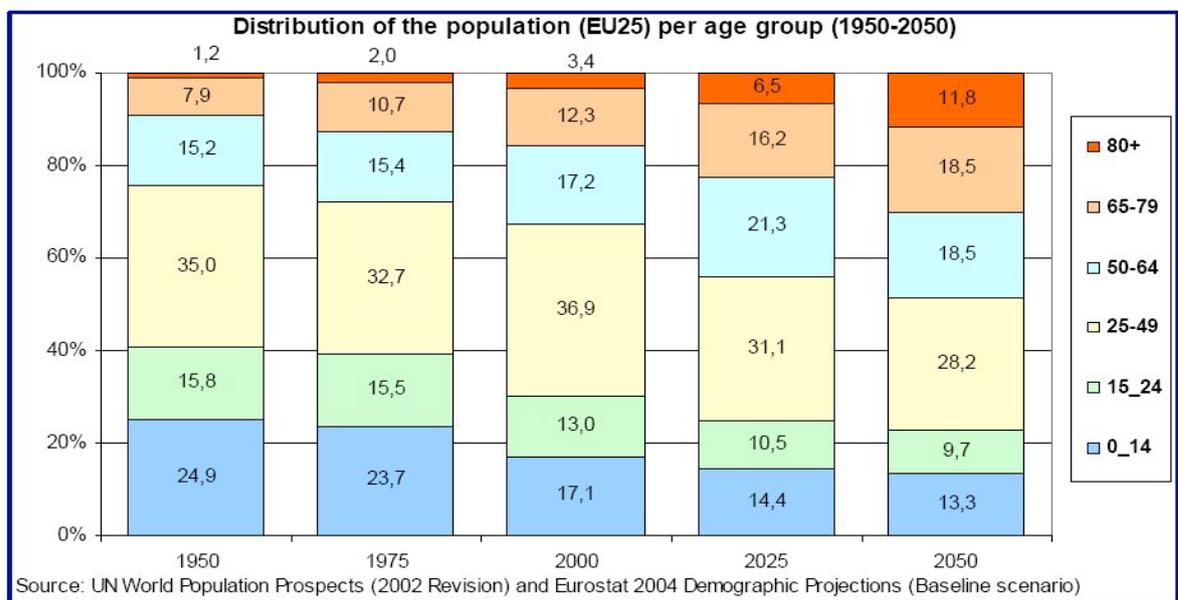
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CHAPTER 1: EUROPE AND DEMOGRAPHIC CHANGE

The current chapter will present some general facts and figures based on studies by the EU and the OECD, among others. The basic premise is to offer a general introduction to the demographic challenge Europe is facing and to consequently familiarize the reader with the issues at hand.

1.1. Facts and figures

Europe is facing unprecedented demographic change, characterized by a rapidly aging population. In short, Europe's demographic dynamics can be summarized with the following numbers: within the 2005-2050 period, the EU will see its 65+ population increase from 17% to 30%, and the -24 population decrease from 30% to 23%. While there were 5 people aged between 15 and 64 for every person over 65 in 1970, that same ratio is predicted to be 2.5 to 1 in 2030. Even more dramatic will be the increase in very old persons (80+): there are 18.8 million people over the age of 80 today, compared to an estimated number of 34.7 million by 2030 (EC, 2005). The recent enlargement of the EU from 15 to 25 Member States has moreover not been able to resolve the problem, as the demographic trends of the new entrants are equally preoccupying.



According to a report by the European Commission (2005), the demographic changes can be attributed to three basic trends:

The continuing increase in longevity: the life expectancy of Europe's population rises as a result of better health care and increased overall quality of life. This trend is expected to continue and it is furthermore predicted that the gap between male and female life

expectancy will diminish; the latest EU longevity numbers indicate a life expectancy of 74.9 and 81.3 for the male and female populations respectively (Eurostat).

The continuously low birthrates: without wanting to take a stand on the underlying causes, the fact is that the current generations have fewer children than previous ones. Not counting the rare exceptions, fertility in all European countries is below the population replacement level. In fact, fertility rates have been falling since the mid-1960s and the overall EU rate is of only 1.47 children per woman.

The high fertility rates just after WWII: the so-called baby-boom which, depending on the countries, lasted to the mid 1960s reinforces the first two trends and contributes to an especially strong flux of seniors in the decades to come.

As a consequence of these trends, the balance between generations is rapidly changing and will reshape our future society and economy.

1.2. Pointing country examples

Presented below are a number of small country files, showing the demographic changes in some country-specific cases. As reviewing each and every one of the 25 Member States would have outreached the scope of this paper, the choice was made to only include a number of pointing examples. The countries mentioned below have been particularly affected by the demographic changes (and/or have pushed through interesting reforms) and as such represent interesting case studies: these specific cases will also be used as the basis for further discussion in the remainder of this paper. Before moving into the individual country files, a table is presented showing the latest birthrates and longevity numbers for all countries under review; it shows that although longevity figures are more or less similar from one country to another, there exists a significant divergence in terms of birthrates.

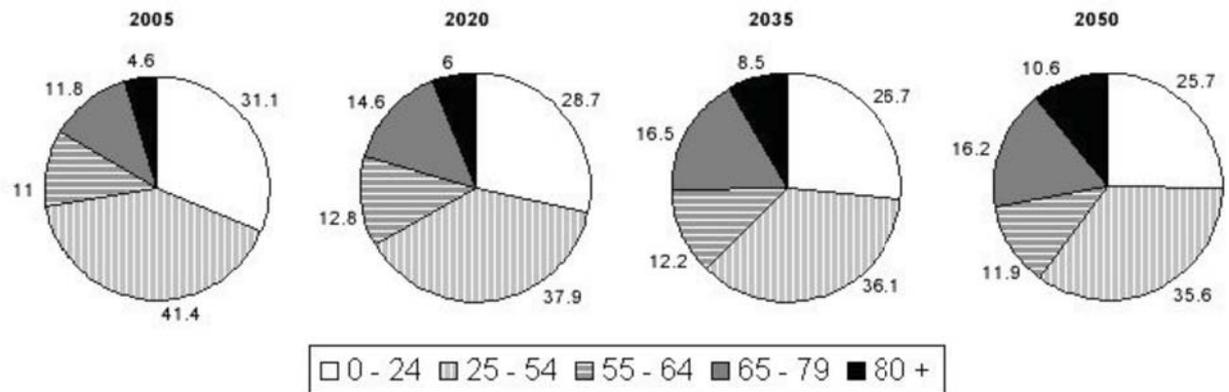
	Estimated longevity by birth (male/female)	Birthrate
France	76.7 / 83.8	1.9
Germany	75.7 / 81.4	1.37
Italy	76.8 / 82.5	1.33
Spain	77.2 / 83.8	1.32
United Kingdom	76.2 / 80.7	1.74
Sweden	78.4 / 82.7	1.75
Netherlands	76.4 / 81.1	1.73
Finland	75.3 / 82.3	1.8

Table 1: Latest longevity and birthrate figures (source: Eurostat)

France

France has the highest birthrate of the countries under review in this paper, although the share of the youngest generation (-24) as a part of the total population will still significantly decrease in the decades to come. Most noticeably, the share of the senior population (65+) will be much larger: from 16.4% today, to 26.8% in 2050.

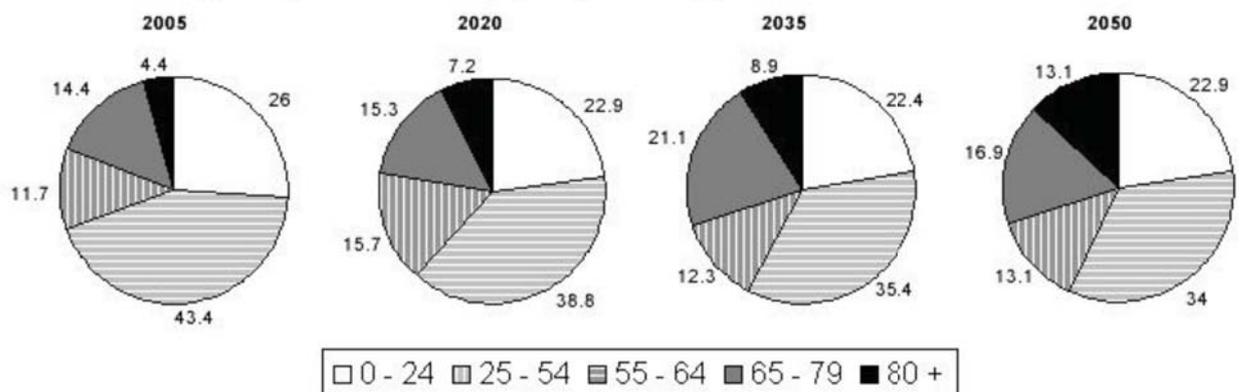
France - Population by age, in percentages (source: U.S. Census Bureau)



Germany

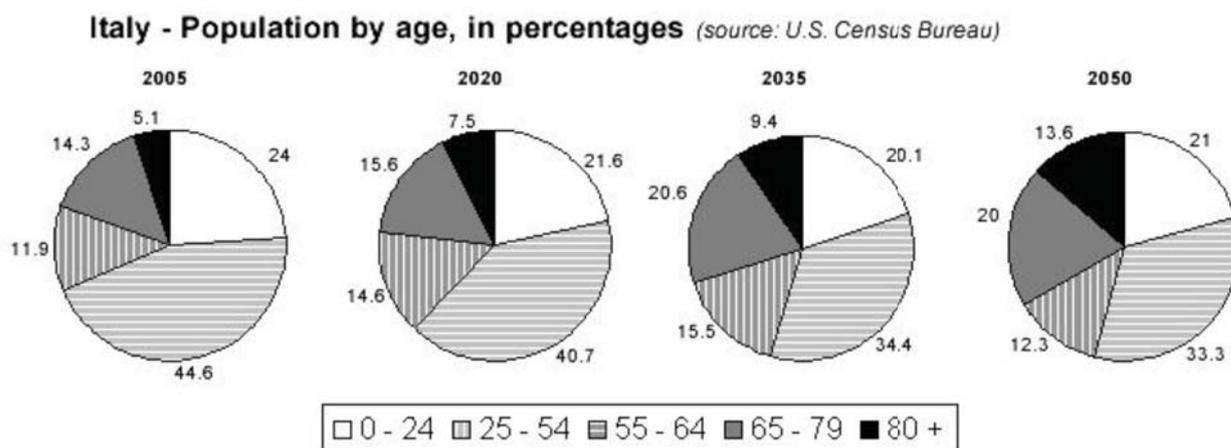
Germany will be particularly affected by the demographic changes, as the current population is already relatively old and the German birthrates are among the lowest in Europe. In the next 30 years, Germany will see the part of its older population (65+) increase from 18.8 to 30%, and the part of its 25-54 age group decrease from 43.4 to 35.4%.

Germany - Population by age, in percentages (source: U.S. Census Bureau)



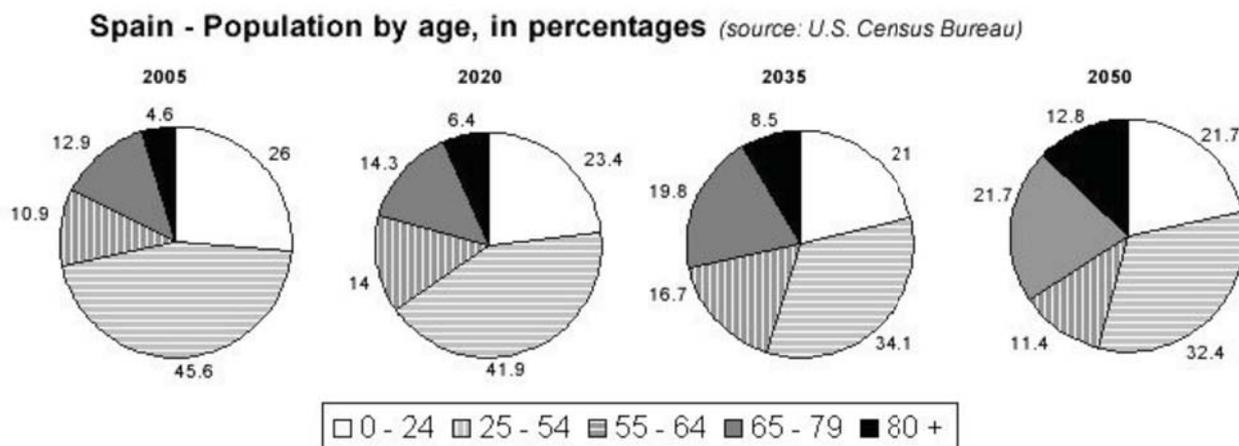
Italy

Italy, like Germany, has one of the lowest birthrates in Europe and has an equally old population. As a consequence, Italy will also be particularly affected by the demographic change: the share of the 25-54 age group will decrease with more than 10%-points in the next 30 years, and the share of the 65+ population will increase with 10.6%-points over that same period.



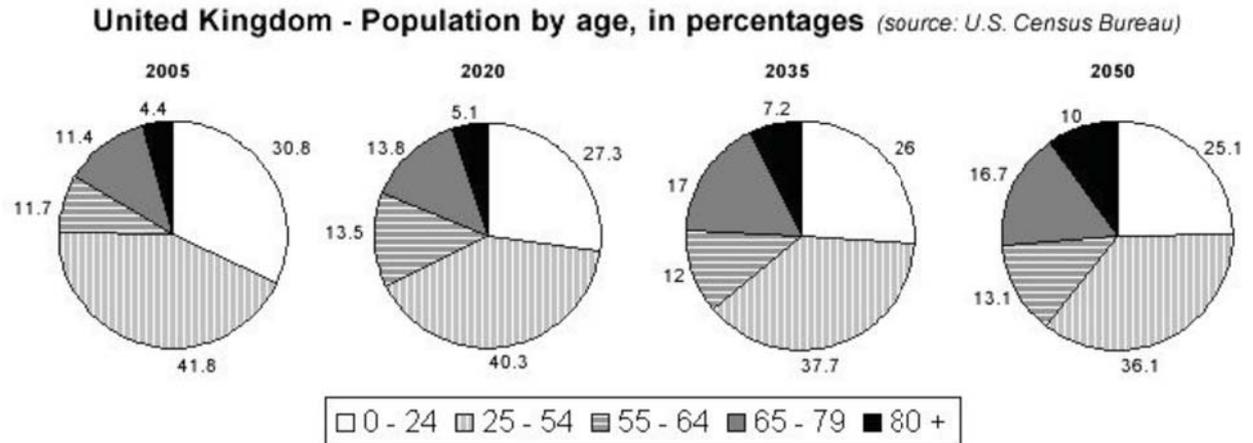
Spain

Spain has the lowest birthrate of the countries under review and is also facing a particularly big challenge in the decades to come, although their current population is slightly younger than those of Germany and Italy. Nevertheless, the share of the senior population (65+) will constitute a massive 34.5% of the total Spanish population in 2050. In fact, this age group will be bigger than the 25-54 age group by that time.



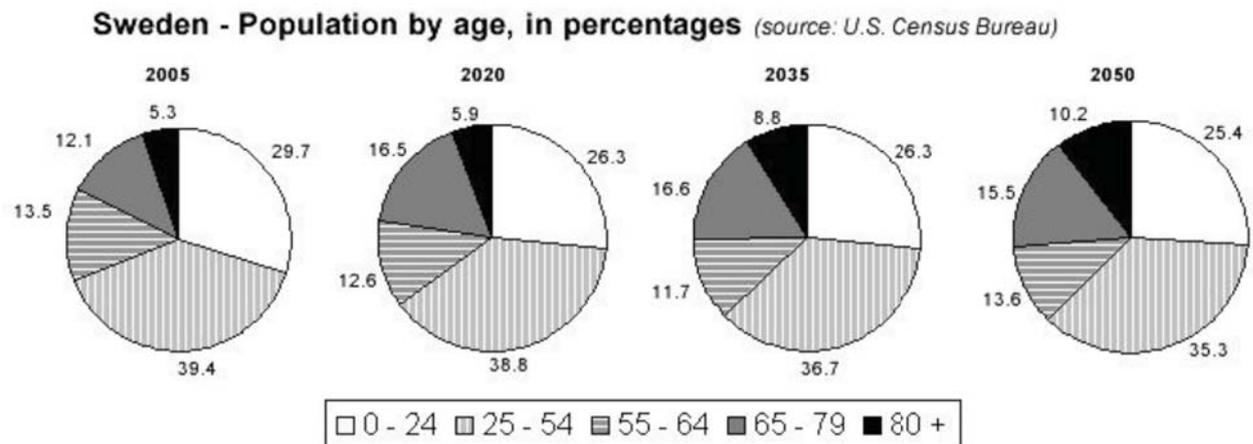
The United Kingdom

The United Kingdom has relatively high birthrates and today's population is quite young. In fact, the United Kingdom has the largest share of -24 year olds, after France. In 2050, the share of the 65+ population will be 26.7% and the share of the 0-54 population will be the third largest (after France and the Netherlands). Even though the latter places the United Kingdom in a relatively good position compared to other European countries, it is clear from the chart that aging is also a clear trend in the UK.



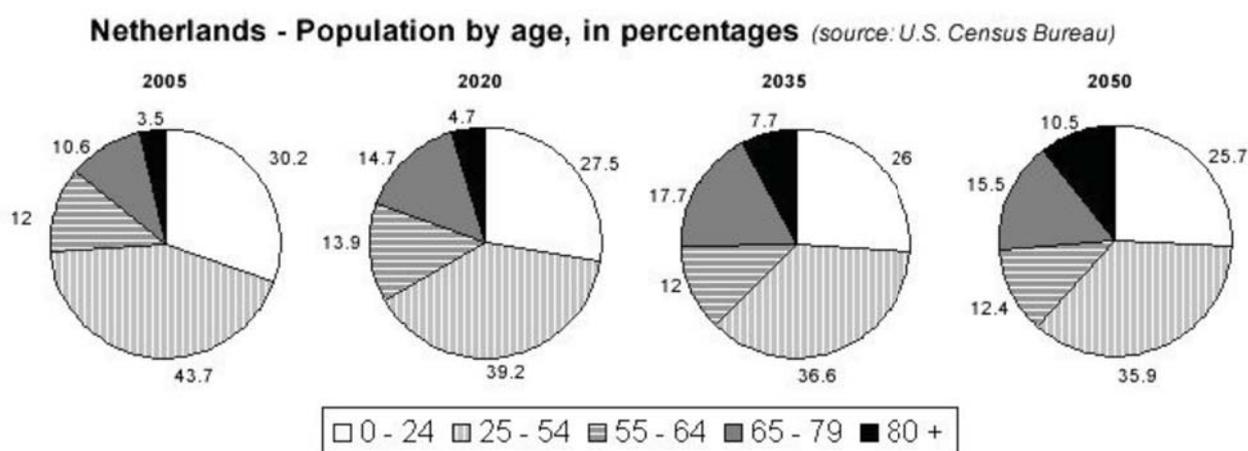
Sweden

Sweden has the third highest birthrate of the countries under review, after France and Finland. Sweden is in fact one of the countries where the aging of the population will be less severe: with the share of the 65+ age group being 25.7% in 2050, Sweden will have the youngest population of the countries under review by that time. Still, it is evident from the figures that Sweden will also face significant demographic change.



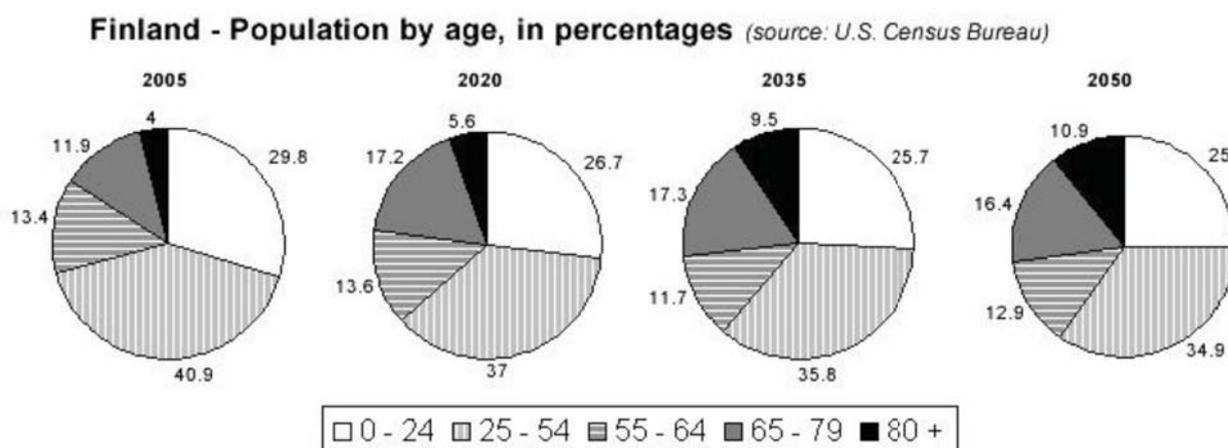
The Netherlands

Like the United Kingdom and Sweden, the Netherlands are less affected by the demographic change than some other European countries. The 65+ population will only constitute 26% of the total population by 2050, which is a much lower figure than in many countries under review. Still, the 65+ population only represents 14.1% of the total population today, so aging will actually be very significant from that perspective.



Finland

Finland has a relatively high birthrate, but will face rapid aging in the next 15 years. The share of the 65+ population will increase from 15.6% today, to 22.8% in 2020. As such, Finland will be in a better position than other countries in the long term, although they will still have to face the challenge of a rapidly aging population in the short term.



1.3. Overview

As a final note to this chapter, a table has been inserted below: it shows how the respective weights of the most relevant age groups will change over the next couple of decades (compared to the situation in 2005). The demographic trends can again be easily observed from this table, as is the magnitude of the changes. Indeed, Finland's 65+ population will increase by 43% over the next 15 years and Germany's working age population will decrease by 13% over the next 30 years. Spain will have seen its 65+ population increase with a staggering 97% by 2050, and numerous other examples could be mentioned.

	Variations in the 0-24 group			Variations in the 25-64 group			Variations in the 65+ group		
	2020	2035	2050	2020	2035	2050	2020	2035	2050
France	-8%	-14%	-17%	-1%	-6%	-8%	+26%	+52%	+63%
Germany	-12%	-14%	-12%	-1%	-13%	-15%	+20%	+60%	+60%
Italy	-10%	-16%	-13%	-2%	-12%	-19%	+19%	+55%	+73%
Spain	-10%	-19%	-17%	-1%	-10%	-22%	+18%	+62%	+97%
UK	-11%	-16%	-19%	+1%	-7%	-8%	+20%	+53%	+63%
Sweden	-11%	-11%	-14%	-3%	-9%	-8%	+29%	+46%	+48%
Netherlands	-9%	-14%	-15%	-5%	-13%	-13%	+38%	+80%	+84%
Finland	-10%	-14%	-16%	-7%	-13%	-12%	+43%	+69%	+72%

Table 2: Percentage change in the share of age groups compared to the situation in 2005

CHAPTER 2: SOCIO-ECONOMIC IMPACT OF THE DEMOGRAPHIC CHANGES

This chapter will offer some general observations regarding the way the demographic changes described in chapter 1 affect Europe's social-economic landscape. The primary goal is to try to answer to the following question: how do the changes described in chapter 1 affect the way we organize (or should organize) our society and our economy in particular?

It will be argued that the socio-economic implications of the demographic changes are significant and a number of issues will be explored in more depth to legitimate this point of view.

2.1. General observations

Chapter 1 clearly laid out the magnitude of the demographic change Europe is facing. The structure of society in general is changing radically, with a very different future intergenerational balance. The EC Green paper (2005a) points these trends out very well: there are more 'older workers' (55-64), elderly people (65-79) and very elderly people (80+) on the one hand, and fewer children, young people and adults of working age on the other. From the early 2020s onward, Europe's aggregate population will decrease and the working-age population will shrink as the labor force withdrawal rate of the seniors will exceed the entrance rates of the young generation (Rix, 2005). It is obvious that these changes will have a huge socio-economic impact: some potentially positive, most unfortunately negative. Moreover, the exact consequences of the changes can be more accurately predicted in some domains than in others. Indeed, it is far more difficult to predict the exact effect an aging population will have on a social level as it is to predict the effects from an economic perspective.

It is however evident that the demographic changes are creating a new society and these changes are set to speed up from 2010 onwards: ever fewer young people and young adults, ever more older workers, pensioners and very elderly people. As a consequence, we will have to come to new ways of intergenerational interaction and cooperation. Our societies will have to invent new ways of exploiting the potential of the young and elder (EC, 2005a):

Young people will become a scarce resource and need to be cherished - it is important to acknowledge that reaching the various stages of life has become more complex and that young people are experiencing certain life events at a later age than previous generations (e.g. graduation, first job, and first child). Finding ways to bridge these stages more effectively is a major challenge.

Older citizens will become of abundant resource of both skills and experience - given the sheer magnitude of the future number of elder people in our societies, the elder workers

(54-65) and the elder beyond that age (65+) become a crucial resource that remains as of now often unexploited; finding new ways to capitalize their skills will be a key challenge, especially since the elder of tomorrow will be more active and in better health if current trends continue.

To a certain extent, it can be said that our seniors will also be better off, having been more likely to build up a full pension and will have more savings than their predecessors. Furthermore, the elder may wish to continue working after the retirement age (either in full employment, part-time work or voluntary work). Some of the seniors will also want to help their children and grandchildren in a number of ways, for example through baby-sitting or financial donations. As for the very elder (80+), they will constitute an ever-growing group due to better health care. The proportion of people living alone, particularly women, will increase due to the difference in length of survival between the sexes. Next to the social aspect of living alone, the pension benefits for women are significantly less generous than for men (due to the fact that women have shorter careers and earn less during their working lives); all of this constitutes a challenge for the future.

Dealing with these changes will require the contribution of all citizens: new forms of solidarity must be developed between the generations, based on mutual support and the transfer of skills and experience. In regard to the care of the very elder for example, it is likely that the families will not be able to secure proper care on their own. Perhaps families must therefore be supported to a greater extent through social services and through solidarity and care within local communities (EC, 2005a). Paraphrasing the EC green paper on demographic change (2005a), it is now clear that Europe's challenge will be to find a new solidarity between the generations.

2.2. Economic impact

Even though it was previously argued that the exact socio-economic impact of the demographic changes is hard to predict, some of the economic consequences of aging are obvious. Unfortunately, it is concern that is the predominant feeling in this respect, not rejoice. Indeed, the predicted economic consequences of the demographic changes have given rise to a feeling of growing concern among public authorities in Europe. Two elements are often referred to as being the cause for this concern: a decreasing active population on the one hand and increasing public expenditure on the other (Jacquet, 2005):

A shrinking labor force impedes future potential growth - it can be argued that in view of the aging population, Europe faces the challenge of being able to stimulate economic growth. At the basis of this potential for growth is the need to maintain sufficient Production Capacity, which depends on multiple factors: the number of jobs, labor productivity, hours worked, labor participation and finally unemployment rates. Now, it is not difficult to see that a shrinking labor force (one of the consequences of aging) will thus have to be compensated by either an increase in labor productivity, hours worked and labor participation on the one hand or a decrease of unemployment rates on the other. But this is exactly what constitutes a major problem in many European countries: some have high rates of structural unemployment, low labor participation (for the young, the elder and the women alike) and short working weeks. As for labor productivity, this is an

element that is not straightforward to improve and the feasibility of improvement will be strongly dependant on context-specific factors.

Furthermore, an additional impediment for future economic growth can be identified by looking at the difficulty of sustaining the Income per Capita. Indeed, if there are no obvious productivity gains and the shrinkage of the labor force will persevere, the income per head of the population will decrease. The rationale is very easy to understand: it is the active population that produces economic wealth, and the subsequent redistribution of this same wealth among the entire population will determine the Income per Capita (IPC). Consequently, when the total amount of produced wealth decreases because the active population is shrinking, the amount of wealth to be redistributed will equally decrease; hence, the IPC will fall. The latter can have severe consequences on a macroeconomic level: with decreasing IPC, the level of total demand in the economy will also decrease and this is a clear impediment for economic growth.

It is clear that the just described prospects are a great challenge for Europe, especially since current growth figures are not reassuring to begin with. In 2004, employment growth in the EU was again quite limited (at 0.6%), only slightly up compared to the previous year's level (0.3%), and has now been low for three years in a row. When you compare these European employment figures to the ones from the U.S. (at 1.1% in 2004), it is not difficult to see that these trends endanger Europe's competitiveness. In fact, the European Commission argues that the weak labour market performance in Europe over recent years is an important element in explaining the slow progress towards the Lisbon objectives¹ (European Commission, 2005b).

An aging population engenders increased public expenditures - the first cause for this increase is that a higher number of pensioners will require a larger cost allocation to the State pension systems. Secondly, an older population also results in higher costs for sustaining proper health care.

Indeed, if current trends continue, sustaining the current pension schemes will be very difficult. One of the major challenges in Europe is to reform the common pay-as-you-go schemes²: increasing life expectancy will mean that either the monthly payments need to increase or that the level of redistributed pensions needs to be decreased if nothing is done. Moreover (and contrary to common belief), problems of increased public expenditure could also arise in countries with capitalized (or funded) pension schemes³ are the norm. Indeed, if the increased life expectancy had not been calculated for in the accumulation of wealth, pensioners within this scheme will have to redistribute their capital among a larger number of years; this will equally decrease pensioners' quality of life, just as with pay-as-you-go schemes. Hence, government will thus have to increase their expenditures in order to sustain minimum levels in terms of quality of life for their citizens.

Secondly, it is clear that older persons require relatively more health care than their younger counterparts for obvious medical reasons. Similarly, public expenditures will thus

¹ The Lisbon objectives state that Europe should be the most competitive and dynamic knowledge-based economy in the world by 2010.

² A pay-as-you-go system means that the pension benefits of the current retirees are financed by the payroll tax payments of the current working population. This model is very common in continental Europe and might have worked well in the past, as there were relatively few retirees for relatively many workers; this has obviously changed today.

³ A capitalized system means that today's pensioners live off a capital that they have themselves accumulated during their working lives and have subsequently invested (either individually or collectively) to secure their pensions. This model is predominant in Anglo-Saxon countries, Sweden and The Netherlands.

have to increase to sustain minimum levels of Health Care when the percentage of older percents as part of the total population increases.

The two just-described economic implications are the ones that are often heard and have been the recurrent object of many studies; the ways in which these dynamics will affect our economies are known to all. However, there a number of other (less known) consequences of aging that merit some elaboration as well. During an international colloquium organized by the Fondation in March 2005, one of the speakers had a number of other interesting thoughts concerning some additional economic consequences of aging. This speaker, Patrick Artus of the *IXIS Corporate & Investment Bank*, argued that a number of other economic effects could be identified as the result of an aging population as well:

Additional economic effects in a closed economy – to present this line of thought, it is a necessary first step to distinguish two different periods in the aging process in this respect: *before* the actual aging of the population has taken place and the moment *thereafter*.

Before the actual aging of the population has occurred, the great number of future pensioners will increase their savings in order to secure their pensions. Consequently, this will lead to the accumulation of capital and subsequently increased levels of investments (financial or other); this will on the other hand lead to decreasing returns on investment (partly because the prices of assets have gone up or because the high levels of investment forces investors to take part in less profitable projects). Moreover, if savings are up, consumption and demand in general is likely to be down (and offer will thus increase). These evolutions of offer and demand will lead to a fall in inflation and possibly also to lower salaries. These dynamics can be summarized by the following graph:

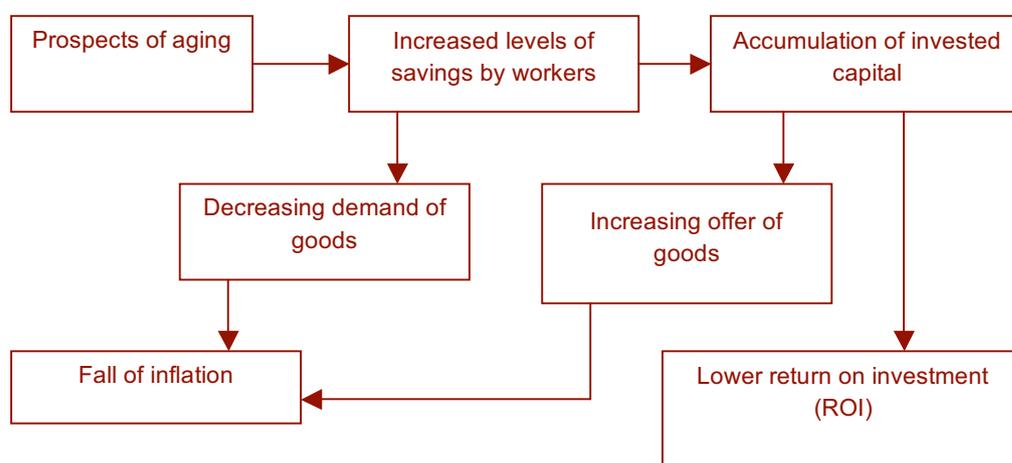


Fig. 1: Economic mechanisms of aging in a closed economy before aging occurs (source: P. Artus, IXIS)

After aging has occurred (roughly after 2005 in Europe), the population in retirement becomes large in comparison to the working age population. In this situation, there is a return to a higher demand of goods as the pensioners start to spend their savings. The latter can lead to a return of inflation and higher salaries. Meanwhile, the prospects of increased longevity will lead to the situation where the levels of invested capital are still

high; hence the returns on investment will continue to be weak. These dynamics can be summarized by the following graph:

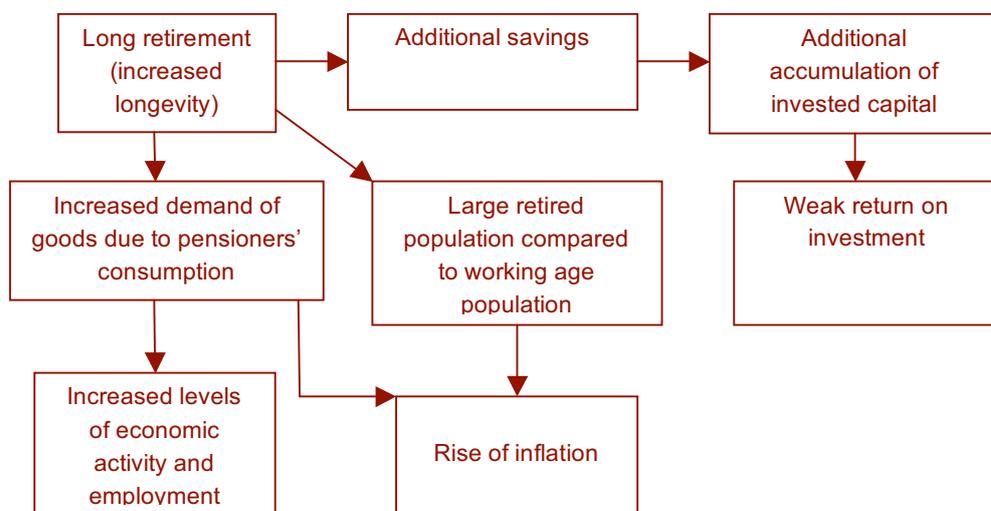


Fig 2: Economic mechanisms of aging in a closed economy after aging occurred (source: P. Artus, IXIS)

Additional economic effects in an open economy - the main point here is to say that aging does not have the same effect from one country to another. It has just been explained that the period before aging engenders increased savings and higher investment of assets; hence, such a situation is likely to occur in countries facing aging. In countries where aging has already occurred, you however see more spending from the part of the pensioners although the current workers continue to save for their own retirement. As a consequence, it is expected (at least in theory) that countries where aging is not a problem (developing countries) and countries where aging has already occurred (Japan) have lower saving rates than countries where aging still has to occur (Europe and the US). Consequently, you would expect a high mobility of international capital flows to be observed, leaving countries where savings are up (and have thus weak ROI) to countries where there are more investment opportunities (due to smaller accumulation of invested capital). These dynamics can be summarized by the following graph:

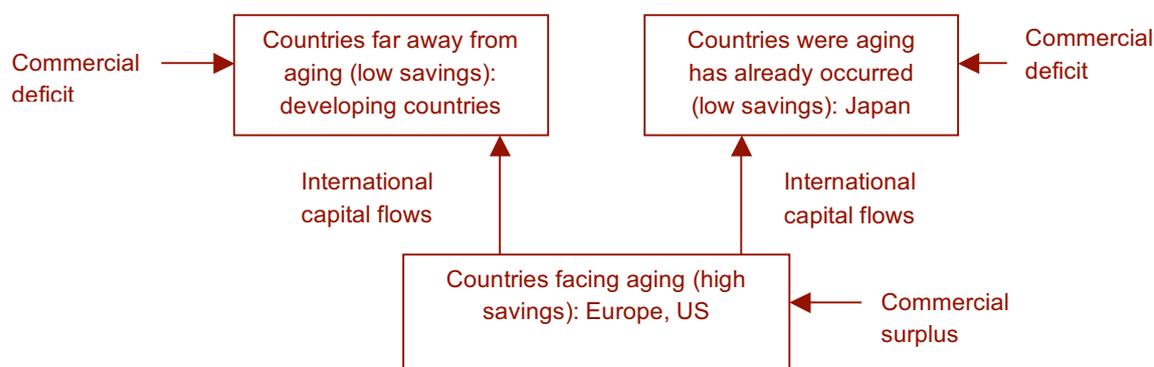


Fig. 3: International capital flows due to aging (source: P. Artus, IXIS)

As a final point, it must be noted that the economic consequences described by Patrick Artus have not been proven empirically. It is thus hard to say if demand and economic activity truly are going to increase in Europe over the next couple of years, once the pensioners will start to spend their savings. The propositions by Artus do however exemplify the complexity of the consequences of aging and should force us to explore the boundaries outside of the common themes (such as pension reforms and health care). In other words, Artus' propositions indicate that their might be more ambiguous (and perhaps even positive) consequences of aging, next to the imminent problems of sustaining the current pension, health and social service systems.

2.3. Reforms are needed

As a conclusion to this chapter, it can be said that not all of the socio-economic implications of the demographic changes are known to us today, which is especially true for the social implications. Some of the future economic implications are however all too clear to us and this is why adapting to these trends has become a political priority in many European countries. Indeed, it has been proven that the sustainment of pension, health and social service systems *in their present form* will be increasingly difficult and even impossible: reforms are thus needed.

A number of potential reforms are often referred to in order to deal with the problem (Jacquet, 2005):

Increase birthrates: it is by increasing birthrates that the intergenerational balance can be partially restored and that a critical mass of the population can be secured.

Immigration: bringing in workers from abroad can be a partial solution to labor shortage, especially when this is done in a selective way (i.e. only bring in people with specific skills that match market needs).

Increase labor participation: increasing the labor participation figures of the young, the elder and the women offer obvious paths for improvement. By increasing these figures, today's unexploited human capital can be capitalized and this will significantly contribute to successfully dealing with the demographic change from an economical perspective.

In view of these potential reforms, the *Fondation pour l'innovation politique* has focused its research on aging and the employability of seniors in particular. The choice for this approach can be attributed to a number of factors:

Firstly, the main reason for having chosen to focus ourselves on senior employability is that we believe that its socio-economic impact is of special importance in terms of its scale and scope, and thus needed further exploration. Secondly, aging is furthermore an acute problem (i.e. because of eminent problems in sustaining Health Care and Pension schemes) and direct results in this field are thus needed; increasing the labor participation of the seniors is believed to be a measure that can offer direct results. Indeed, the effectiveness of reforms aimed at increasing birthrates are not certain and can only be observed in the long term either way. As for immigration, this is believed to be a radical measure that (at best) offers positive short term results but often engenders many difficulties in the long term (the way many European countries are struggling with their immigrant populations is exemplary). Finally, increasing senior employability is also particularly interesting as it is a

challenge for which solutions are available. Indeed, case-studies are available for a number of European countries that have already succeeded in coping with at least a part of the demographic challenge through increasing the labor participation of their seniors. As such, looking at these case studies will offer us the possibility of looking at real world examples in order to analyze tangible results.

Having explained the special importance of aging and senior employability, the next chapter will offer a more in-depth analysis of these issues.

CHAPTER 3: SENIOR EMPLOYABILITY AS A RESPONSE

Having tunneled our analysis of the demographic changes by stressing the particular importance of aging and senior employability, the time has now come to have a closer look at this particular part of the demographic challenge.

The present chapter consists of two sections. The first will offer an in-depth analysis of aging and senior employability: what are some general conceptions (and as we will show misconceptions) concerning aging in society and aging in the workforce in particular? The second section will then subsequently try to explore the ways in which public and private parties alike have tried to address the challenge of increasing senior employability.

3.1. Aging and society

European society as we know it today is not very keen on seniors. Compared to societies in the past, the modern European society has imposed youth as an ideal and as a necessity. In other words, being or staying young has become an impetus for success. This phenomenon could perhaps be linked to the fact that our society is continuously changing: the globalisation has boosted the exchange of ideas and practices and we are living in a truly dynamic world. It can be argued that these trends match the dynamic and playful attitude inherently associated with youth; in other words, it is perfectly understandable (and very good for that matter) that we now strongly value dynamic profiles.

That being said, today's society has at the same time made aging a form of illness that needs to be contained as long as possible; now this is however a trend that does not make any sense. Apart from the fact that it is not at all clear that seniors cannot be as dynamic as young people, it is simply ludicrous to regard them as being ill. Most noticeably, the specific skills that come with age (such as experience and wisdom) have nowadays partly lost their value in society and the latter is not a good prospect for the future; this approach needs to be challenged. Either way, why is it that we continuously think in terms of win-lose approaches (i.e., promote youthful attitudes to the detriment of senior wisdom) instead of emphasizing the possible win-win situations (i.e. promote both dynamism and wisdom)?

Hence, firstly acknowledging all that seniors have to offer and subsequently exploiting their competences will necessitate a profound change of attitude within modern society. The aim should be to come to a new form of Age Management, in which the different stages of life will be accepted and valued as such.

3.2. Aging and the workforce

In almost all European countries, the labor force participation rates for seniors have fallen significantly over the last couple of decades, as more and more seniors have left their active lives at early ages. Indeed, many of today's public policies and workplace practices discourage older people from carrying on working (e.g. through generous early-retirement systems and HR policies unfavorable to senior workers). The variation in these participation rates is furthermore very significant from one country to another: the

employment of the 55-64 year-olds ranges from below 40 percent for France, Austria, Belgium and Italy, for approximately 70 percent for Sweden (EC, 2003). The latter seems to indicate that some countries have put into place policies that actually stimulate low labor participation of their senior population.

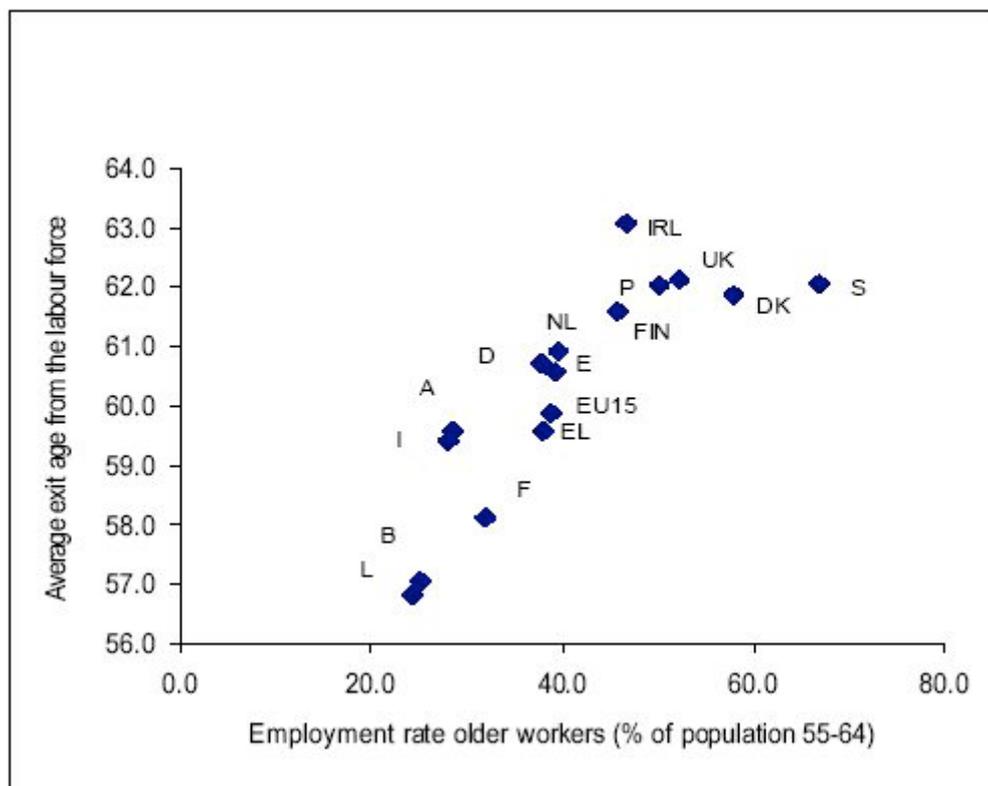


Fig. 4: Labor participation of seniors in Europe (EC staff working paper, 2003)

The question now is how such low employment figures can be explained. It has been mentioned above that both public policies and workplace practices (i.e. HR policies of firms) have played their part in this. The following sub sections will explore these issues.

3.2.1. Role of the public policies

In Europe, remaining on the job is not sufficiently rewarding for senior workers. As a result, the elder prefer to retire or take advantage of other pathways to exit the labor market. In the past, early retirement policies had initially been launched by public authorities as a way to “make room for younger workers”. Indeed, it was believed that the retirement of a senior worker would leave a job vacant that would subsequently be taken in by a younger worker; as such, this would have constituted a solution to structural unemployment. We have however been unable to observe such a phenomenon since the unemployment rates of the young have remained particularly high in countries where early retirement policies had been implemented. Unfortunately, many people still think that low labor participation of the seniors will help us resolve a number of issues, instead of aggravating the situation. These thoughts are wrong and even dangerous, as they constitute obvious misconceptions. Stated below are two such statements, reviewed in some more depth:

“The more pensioners, the lesser unemployment” - it is often said that the shrinking active population will be a grand opportunity for us to finally deal with unemployment. The argument behind this thought has already been briefly summarized above and consists of saying that the jobs left vacant by seniors will be taken in by people who are currently unemployed (and if possible preferably by the young unemployed). It is because of this belief that public authorities started to actively stimulate early departures in previous decades through generous pension schemes and tax deductions. Moreover, other pathways to premature labor market exits have been stimulated (or at least tolerated) as well. Two well known examples of these are the disability and unemployment benefits. Indeed, disability benefits have often been granted with very lenient selection criteria; the result is that senior workers who are perfectly capable of working from a physical point of view have been paid with public funds to remain inactive. As for the unemployment benefits, many governments have actually abolished compulsory job-search requirements for their seniors; hence, unemployment benefits were granted freely, without urging the currently unemployed to look for a new job in any way.

It must be said that many public authorities in Europe have started to restrict the possibilities for such early retirement in recent years. That said, some people strangely enough still proclaim them even though we very well know to what kind of situation these policies have led us towards. It is the direct result of these naïve policies that the active labor force has been restricted to the 25-55 year olds; the elder were simply cut off. Moreover, they have led to a situation in which the sustainment of the pension schemes is simply not possible anymore, due to the sheer magnitude of the required cost allocation which has been necessary to finance early retirement. It is thus obvious that saying that the demographic changes will constitute a natural solution to unemployment and that current pension schemes can be maintained is not tenable.

“Higher labor participation will lead to higher unemployment”⁴ - an effective way of falsifying this statement would be to simply say the following: productivity is not the enemy of employment. It is not because more people offer their services (a logical result from increased labor participation), that more people need to be unemployed. In fact, we have seen a very striking example of this in France when 35.000 French citizens were being brought back from Algeria in the 1960s. Many believed at that time that we would see an increase in unemployment figures in the South of France (where most settled down), although it became clear 5 years later that no such trend could be identified (Hunt, 1992). In other words, there is no sound foundation for a statement saying that increasing the labor participation will lead to higher unemployment.

Indeed, it has been a while now that we have understood that a higher labor participation of women does not automatically lead to higher unemployment among men. Why do we think that such a line of thought does not apply to the seniors as well?

Despite of the fact that it has now been proven that early retirement schemes have perverse effects, there are still incentives for seniors to retire early. Indeed, many seniors do still retire before the statutory retirement age or withdraw from the labor force through other means (i.e. disability benefits or unemployment benefits combined with exemptions from job-search requirements). The latter obviously needs to change.

⁴ This thought is related to the one that has been discussed first, although it takes an opposite approach.

3.2.2. Role of the workplace practices

Many of today's HR policies are not favorable towards senior employment. As the basis of the latter is the fact that seniors suffer from a negative appreciation from the part of their bosses. In general, it can be said that employers (and even co-workers for that matter) too often assimilate senior workers with an inflexible, unmotivated attitude and a loss of productivity. Moreover, senior workers are often regarded as being simply too old to learn new things and thus incapable to cope with the changing world around them, as if they would lack the sufficient cognitive abilities. In short, the elder of today are the victim of stigmatization and of unfair negative associations with unproven shortcomings.

A number of pervasive myths concerning our senior workers and the demographic challenge in general still prohibit an active stand from the private sector. Three recurrent thoughts held by employers, that for the moment still prohibit enhanced senior employment, are mentioned below:

“Seniors are less productive than younger workers” – especially important in this respect are employers' fears that the senior workers are not able to cope with the continuous change (e.g. in technology), supposedly because it is 'not their world'. Recent economic literature however refutes this belief and the studies are in fact far more positive in regard to the seniors' capabilities (Jacquet, 2005). These studies show that except for jobs in which physically intensive activities must be performed, it is likely that the productivity of workers is not so much caused by age per se but by other factors. One of the crucial elements in this respect seems to be continuous learning by employees. Indeed, it is not the age of the individual worker that counts but the age of the knowledge that individual possesses: given the high speed of change in today's society and economy, understanding the latter is vital. So, offering your employees life-long learning opportunities is what is going to affect the productivity of your labor force, not age.

Moreover, employers often argue that seniors are more expensive than younger workers because there is a wide-spread practice in many countries of basing salary on seniority. The latter is however not necessarily irrational because the extra pay can sometimes be well deserved (and profitable for both employee and employer); examples are the price you have to pay for the accumulation of experiences and skills, and perhaps even loyalty to the firm. It is however clear that work place practices that commend automatic raises to be given to workers, simply because they gained an extra year in age, are not effective: meritocracy should be the basis of any salary payments, not seniority.

“Productivity gains will be the solution to the demographic challenge” – it is often believed that productivity gains (for example through enhanced technology) will be the solution to deal with a shrinking labor force. Although this is certainly true for some situations (e.g. in situations where less human labor is required due to automation of the processes), productivity gains are far from obvious to achieve in many situations. Moreover, it cannot be denied that the loss of skills and competences (i.e. 'brain drain') due to the fact that experienced workers leave the workforce creates a problem. In fact, it can even be argued that such a brain drain will lead to a decreasing productivity, as the companies will lose much know-how and thus efficiency within their operations.

“Outsourcing will be the solution to the demographic challenge” – many employers believe that the demographic changes will not lead to a shrinking supply of labor, as they claim they will be able to evade this situation by outsourcing some of their activities to other

countries. Without wanting to engage in a discussion regarding the pros and cons of outsourcing, it must however be said that the outsourcing strategy is not tenable in the long run. Indeed, it is questionable if such a strategy is sustainable now that we know that aging is a challenge all European countries face (and even much of the world): as scarce labor supply is a challenge that everyone will face, it can therefore not be said that we will just be able to find labor capacity elsewhere.

It is as a consequence of these wrongful thoughts that so few companies have adjusted their HR policies to the coming demographic changes. Indeed, much remains to be done. Considering the prospects of labor shortage that the private sector will face, it is in fact striking to see how little the private parties have done to tackle the demographic problem. In a survey conducted by the Fondation in 2004⁵, merely 20% of the interviewed companies took an active stand towards the changing demographics of their workforce. Equally disturbing is the fact that it typically were only big multinational corporations that took an active stand; SME's did not. Taking that the latter group roughly employs 60% of the working population in France and an even greater share in some other European countries, it is not difficult to see that this constitutes a major problem.

Unfortunately, the case of the private sector (and the SME's in particular) may very well reflect the way in which the demographic challenges are perceived by the broader public: nonexistent, or at least of no real concern. The latter stresses the need for a profound cultural change if we are to win the demographic challenge in the future. It can only be through effective communication that these attitudes can change; inform the companies of the demographic changes, teach them how these trends will affect their business and offer them guidance in how to react. Again, much remains to be done.

3.2.3. Slow overall response

Taken the respective attitudes of the public and private sector alike, there has been no commonly shared feeling of urgency to deal with senior employment (or at least not until recently). Some countries have however been more proactive than others and the same can be said for a number of companies in the private sector; reviewing these case studies obviously constitutes an interesting learning opportunity.

⁵ 'Comment les entreprises se préparent-elles au choc démographique ?' (van den Brande et al., 2004)

3.3. Facing the challenge: public and private initiatives

The current section will be aimed at identifying a number of initiatives that have been undertaken to tackle the problem of the aging population. We will explore this domain using different case studies, taking two broad approaches.

- The first approach will consist of looking at country-studies; i.e. we will explore the ways in which public authorities in European Member States have tried to counteract the demographic challenges imposed on them. This section will of course feature some best-practice initiatives that will act as a basis for learning, although we will not hesitate to equally explore some countries that have in fact been very slow in addressing the challenge of aging (France being one of them).
- The second approach will consist of looking at company-studies; i.e. we will explore the ways in which private companies have reacted to the upcoming changes in their workforce. Looking at private initiatives is imperative, as companies need to acknowledge that an aging workforce is not merely a macro-economic problem that only exists on paper and in the minds of academics and politicians. It is crucial that companies understand that the demographic changes will affect their day-to-day operations: they need to be aware that their HR policies must undoubtedly be altered if they want to remain successful in the future. As such, describing the way in which private parties have responded to the demographic challenge is just as vital as describing how public authorities have tried to do so.

3.3.1. Country studies

Below are a number of country files that describe for each country individually what the current conditions are for senior employment, next to describing how these countries have addressed the aging-issue.

France

France's mediocre performances in terms of employment and employability are known to many. International comparisons (see for example the studies by the OECD) consistently show that France has great difficulty in exploiting the full potential of their workforce. Especially noteworthy in this respect are the high levels of structural unemployment (around 10%), the disappointingly low labor participation of the young (- 24) and the elder (55-64) and the substantial tax regime.

Moreover, the situation will worsen from 2007 onward if no action is undertaken. The active population, after having continuously increased by 100-150 thousand workers per year over the last 50 years, will start to decrease in 2007 by 30 thousand per year. The situation after 2015 will be even more dramatic: the active population will then start to decrease with the staggering number of 80 thousand per year. Such a substantial shrinkage of the labor force will seriously affect the potential of French economic growth in the future (OECD estimates indicate a BIP growth of only 1,5% in 2015). Today, the labor participation in France of the 55-64 year-olds is of 37.3%, which is in fact the second lowest participation rate of the countries under review in this paper (Eurostat).

Despite of the apparent problems (and contrary to rational expectations), the societal response to the demographic challenge has been slow and of little importance overall:

Public authorities have been passive - public authorities have been preoccupied dealing with other sensitive issues (health care, the 35-hour labor week, public spending); as a result, public interventions in the domain of employability across generations have unfortunately been limited in terms of scale and scope.

No consensus between social partners - the effectiveness of the dialogue between employers and employees has been limited and seems to be based on an archaic approach towards societal negotiations. The parties are very reluctant to give way on their positions, as the latter are based on ideology instead of pragmatics. Consequently, the spirit with which these negotiations are engaged is one of antagonism, resulting in defensive relations between the negotiating parties. As a result, necessary reforms like the flexibilization of labor regulations are not implemented because of the absence of a constructive social dialogue.

Slow response from the private sector - the companies themselves do not seem to be fully aware of the way in which the demographic changes are likely to affect their operations. Even though they are endangered by scarce labor supply due to the shrinking active population, companies continue to rely on HR policies that discourage employment of the young and older generations. In other words, the private sector has done very little to counteract the demographic dynamics.

Despite of the slow reaction, one must admit that some reforms have already been launched; the OECD (2005a) describes a number of such reforms in their report. For example, the French government has restricted the access to publicly funded early retirement schemes since the mid-1990s. And a decisive step to encourage workers to stay on the job for a longer period of time was taken with the 2003 pension reform, which raised the contribution threshold for entitlement to a full pension (from 37.5 to 40 years). That same 2003 reform furthermore introduced a bonus for those seniors who are willing to work beyond the statutory retirement age. Next to the changes in pension reforms, the age of access to unemployment benefits until full pension entitlement was raised from 55 to 57 and a half (for jobless people with at least 25 years of work history). However, recipients were exempted from job-search requirements and this led to a sharp rise of senior unemployed. In fact, with publicly funded early retirement options no longer available, unemployment without job-search requirements has become just another way to exit the labor market prematurely (OECD, 2005a). A last reform that has been recently implemented (October 2005) relates to the flexibilization of labor market regulations, and consisted of introducing new fixed-term contract for seniors over the age of 57. These new contracts offer the possibility to hire seniors for a fixed period of time (18 months, with the possibility of extending the contract with another 18 months at the end of the first term); such contracts can today be offered without the restrictions that normally apply in France when using fixed-term contracts.

Concluding, we can say that France has begun to respond but is far from being there yet: further action is needed to secure France's future economic prosperity. The Fondation has given itself the role of standing at the forefront of the debate that should lead to such

further action ever since its creation in early 2004. In fact, the new type of fixed-term contracts for seniors is one of a total of 10 propositions for reform that the Fondation had published earlier this year (see Attachment 1 for the full list). The fact that this proposition for reform was actually implemented may be a sign that the very rigid and static institutional framework in France is showing a number of breaches; in other words, people now finally seem to understand that reforms are needed to adapt to the changing world around us. The Fondation will pursue its quest to detect such opportunities and will continue to serve France by trying to come up with further propositions.

Germany

The challenge facing Germany is one of the most daunting. Germany's population is among the oldest in Europe, its welfare state is among the largest and most expensive and the unions are among the most reform-resistant. Nevertheless, Germany has begun to wake up to the demographic challenge over the past few years; it has re-examined protective labor market regulation and, most important, it has started to reform its pension system. The latter was a necessity, as most seniors are almost entirely dependent on pay-as-you-go State pensions that cannot be sustained in view of its aging population (Jackson, 2003). Today, merely 41.8% of the German seniors have remained in the workforce (which is only a 4% increase compared to the senior participation rate in 1995) and the country is far behind some of the better performing countries in Europe (Eurostat).

Pension Reform - in the spring of 2001, Germany passed a major reform that scales back the future public pension benefits while encouraging privately funded alternatives. The so-called Riester reform (Walter Riester was the labor minister in the first Schroeder government), backed up by both left and right wing parties, represents an important symbolic break with the past. Indeed, it had been a cornerstone of Germany's social contract since WWII to say that government benefits alone would always be sufficient to maintain the living standards of people in retirement. This promise has now been refuted and the reforms mean that current workers will have to provide for at least a part of their retirement themselves.

The Riester reform gives all employees the option of contributing to a variety of personal pension plans administered by insurers, banks, and other financial service providers. In 2002, the maximum contribution was equivalent to 1 percent of a worker's payroll and is due to rise to 4 percent by 2008. To encourage participation, the public authorities subsidize the pensions; depending on the arrangement, this is done through tax deductions or a financial contribution. Alternatively, employees can take advantage of the Riester incentives by having their employers contribute 4 percent of their pay to an approved occupational pension plan.

Some experts however claim that the Riester reform promises more than it can deliver. It was based on favourable macroeconomic projections and the new funded system is still relatively small and voluntary, while the old pay-as-you-go system remains nearly as large and unsustainable as before (Jackson, 2003).

Labor market reforms - Germany has passed through a number of reforms in the 2002-2004 period under the names Hartz I to Hartz IV. This legislation was aimed at increasing labor market participation of working-age people and also tries to bring back to activity those who are currently unemployed. The commission who has been responsible for designing

these reform was presided by Peter Hartz (hence the name), who was equally the HR Director of Volkswagen at that time.

The Hartz propositions aim at a reform of the Federal Employment Services into a modern and more flexible services company (including Job Centers), make requirements to register as an unemployed more stringent, promote self-employment, improve young people's opportunities in the labor market and merge unemployment benefit and social welfare to form the new unemployment benefit II (Hartz IV). However sensible this may sound, many experts however agree that the Hartz reforms do little to address the core problems: the lavish government benefits that inflate labor costs and protective labor laws that make it difficult for employers to respond to market signals still exist (Jackson, 2003). Moreover, the labor market reforms have not been successful, as it is useless to stimulate supply as long as demand is weak. While speaking at the Fondation's colloquium in March, Patrick Artus claimed that the latter is currently happening in Germany with the Hartz IV plan: consumption and residential housing are falling, real per capita wages are decreasing and unemployment is rising (160 000 more unemployed in February 2005).

Either way, it can be said that successfully facing the demographic challenge will require action on more fronts: not just more flexible labor regulations, but things as various as better lifelong learning to better working conditions. Moreover, a successful implementation of the Hart plans might also have been prohibited by social opposition: we have seen that the Hartz IV plan has given rise to mass demonstrations. At the core of this seems to be the fact that the social partners have played no significant role in designing the reforms (the government policies were indeed directly derived from the propositions of the Hartz commission). In other words, Germany is not quite there yet and further efforts are required. Propositions for reform by the new Merkel government instated in October of this year, show that there is at least the will to do so: one of the new government's propositions is to change the statutory retirement age from 65 to 67. For the moment, it however remains unclear if such a bill will pass the vote.

Italy

As is clear from the first chapter, Italy is particularly affected by the demographic change due to an especially low birthrate and a relatively old population. These demographic trends will put increased strain on public expenditures that are already high by the standard of other European countries. This trend is exacerbated by the fact that the Italian pension system is already particularly expensive, and still encourages early withdrawal from the labour market. Consequently, older workers in Italy tend to exit the labour market earlier than in most other European countries (OECD, 2004a).

The negative consequences of such policies are easy to observe: today, the labor participation of the seniors is of 30.5%. This figure is the lowest among the countries presently under review and is equally among the worst performing European countries in general. More worrying, no significant increase in the senior participation rates can be observed in the last 10 years (Eurostat). The OECD (2004a) does describe a number of pension reforms in their recent paper on Italy, which were designed by the government in order to improve these disappointing figures:

Pension reforms – a new pension system was installed following subsequent reforms in the 1990s (1992, 1995 and 1997). Without changing its pay-as-you-go character, the new system

will make public pensions more neutral vis-à-vis retirement decisions (i.e. the system will stop actually stimulating early-retirement). The new pension system provides for a link between pensions and contributions; in short, this will mean that flexibility in retirement age does still exist but that retiring early means a smaller pension and retiring later a larger one.

Although these pension reforms represent important steps toward ensuring the financial sustainability of the system in the long run, there are major problems in the short term. Most notably in this respect is the very long transition period for the reforms: the full effects of the reforms will only be felt in 2035. The paper by the OECD concludes by saying that, in the absence of further reforms, early retirement is likely to remain a common practice for some time to come.

In short, Italy has a long road ahead if they want to successfully face the demographic challenge that awaits them. The government's current objective is to increase senior employment through further pension measures, now under discussion. Moreover, the recent changes in orientation towards their labor market policies seem to be steps in the right direction: this new orientation leans towards a more flexible labor market, more focus on activation policies (for unemployment) and finally policies for lifelong learning schemes (OECD, 2004a).

Spain

For the last ten years, Spain has often been presented as an example of economic success, particularly in regard to reducing unemployment (reduced from 20 to 10% within that period). Some however argue that the Spanish economy has already seen its best days, partly because Spain is also a country that will be particularly affected by the demographic changes. An important element in this respect, is that today's senior participation rate in Spain is of just 41.3% (Eurostat). Hence, senior labor participation will have to be increased. In recent years, important measures have been adopted by the Spanish government to attain this goal (OECD, 2003a). Today, there is a clear recognition that subsidizing early retirement can be a counter-productive way of solving unemployment and that obstructions to senior employability must be removed. The most important Spanish reforms are the following:

Introduction of flexible retirement - in early 2002, the government introduced a system of so-called "flexible retirement" that had been negotiated with the social partners. This flexible retirement policy was launched to replace a variety of pre-retirement schemes and also served to simplify the previous pension system.

Today, Spanish workers are still able to retire before the statutory retirement age (under the condition they have had a minimum contribution period of 30 years), as they have the possibility to leave the workforce between the age of 61 and 65. The current system now does however penalize early retirement on the one hand and stimulates late retirement on the other. Indeed, pension benefits are reduced by 6 to 8% for each year of early retirement (i.e. at age 61, pension benefits would be between 24 and 32% lower than the 'full' pension at age 65). On the other hand, pension benefits increase by 2% for each year of work after age 65 (for individuals with a minimum contribution period of 35 years). Additionally, financial incentives to combine part-time work with the receipt of a partial pension have been introduced. The main purpose here is to facilitate progressive transitions from work

to retirement instead of abrupt exits of the workforce. Finally, private pension schemes have been made more attractive due to tax benefits and this is also expected to raise incentives to stay on the job longer.

Stimulate demand for senior employment – the Spanish public authorities have also allocated some efforts to promoting senior employment to the private sector. Most notably, employers now receive a reduction of 50% or more on the social security contributions for permanent contracts with workers over the age of 60. In cases where companies employ senior workers over the age of 65 (with a minimum contribution period of 35 years), these contributions are even entirely suppressed. These policies do furthermore not only apply to employers in the traditional sense, but also to self-employed individuals.

The OECD states that further improvement is however possible in a number of domains: invalidity benefits have been granted too easily, life-long learning policies are not widespread and finally propositions to reform unemployment benefits have been repealed by the government in view of increasing union opposition and public unpopularity (OECD, 2003a).

The United Kingdom

The United Kingdom has been far from passive in addressing the challenge of senior employability when compared to many other European countries. The government has sought to eliminate disincentives to stay on the job longer, which were embedded in the pension system. Moreover, public authorities have sought to change employer attitudes through a number of campaigns like *Age Positive*. In terms of active labour market policies, *New Deal 50 plus* has proven to be an effective measure that is furthermore unique in its form; the government is also supporting training through the Employer Training Pilots and various lifelong learning programmes are available to help all workers, including older ones (OECD, 2004b). Today, the labor participation rate of the seniors is of 56.2% (Eurostat), which makes the United Kingdom one of the best performing countries in Europe.

Pension system reform – since the early 2000's, the United Kingdom has made a number of significant decisions in order to attain higher senior employment figures by increasing the official retirement age. The State Pension age for women will rise progressively from 60 to 65 in the 2010-2020 period, and the age for entitlement to the Pension Credit is also due to rise within that same period. Moreover, the normal retirement age for civil workers will increase for new entrants from 60 to 65 as of 2006⁶ and the earliest age at which people can access private pension benefits is due to rise from 50 to 55 (OECD, 2004b).

Change employers' attitudes - *Age Positive* (launched in 1999) is the government's campaign to promote the business benefits of an age diverse workforce to employers. The goal is to encourage employers to make decisions about recruitment, training and retention that are free of age discrimination; publications, research, press, events, awards initiatives and the promotion of best practices are used to get the message across. *Age Positive*

⁶ Recent developments in the UK (in October of 2005) have however altered this reform. The initial reform was renegotiated after strong union resistance, although a higher retirement age will still be applicable to new staff.

furthermore works in active collaboration with the private sector (especially SME's) to help employers prepare for legislation in 2006 that outlaws age discrimination in employment. Another government initiative, the *Code of Practice on Age Diversity in Employment*, was launched in 1999 and offers guidance on age diversity in the workforce. This voluntary guidance for employers sets good practice standards for non-ageist approaches to recruitment, training and development, retention and retirement. An evaluation of the code's effectiveness has shown that the use of age in selection has halved from 27% to 13% since the code was published (agepositive.gov.uk).

Labor market programs - *New Deal 50+* (introduced in 2000) is a volunteer program available for individuals aged 50 or above and are in receipt or have been receiving a number of benefits (either Income Support, Jobseeker's Allowance, Incapacity Benefit, Severe Disablement Allowance or Pension Credit) for the last six months.

The entrants to the program have their own personal advisor at their local *Job Centre*. These advisors offer a broad range of support: they draw up individual action plans, help look and apply for suitable jobs, help in preparing resumes and letters of application, organise possible training opportunities and offer other initiatives to upgrade overall employability of the job seekers. Moreover, when members of the program work more than 16 hours a week, they can apply for the *Working Tax Credit*; an extra amount is available for people on *New Deal 50 plus* and is paid for your first 52 weeks in employment (www.newdeal.gov.uk).

A last important remark must be made: the government has not been acting alone in achieving the above. Non-governmental organizations such as *Age Concern*, the *Employers Forum on Age* and the *Third Age Employment Network* have made valuable contributions in increasing senior employability. Moreover, trade unions (through the Union Learning Fund) have also been involved in helping to promote training more generally. This collaboration between social partners seems to have been an important element in obtaining such good results in the United Kingdom (OECD, 2004b).

Sweden

With 17.4% of its population aged 65 or above, Sweden is currently one of the oldest countries within the EU. However, Sweden also has the highest labor participation rate for senior workers (54-65), with approximately 70% of them still being in employment. There are a number of causes for this, ranging from reforms of the pension system to a focus on education and good working conditions.

Pension system reform - Sweden drastically reformed its pension system during the 1990s. The initiator of these reforms was a severe economic crisis in the early 1990s, which urged the public authorities to take action: particularly affected by an aging population (and thus with soaring pension cost), reforming their pension system was thus crucial. Effective in 1999, the new pension system reforms were designed to make prolonging one's working life more rewarding financially.

Prior to these reforms, Swedes were eligible for full pensions after 30 years of employment and these pensions could be drawn as early as age 60 (despite of the fact that the statutory retirement age was 65). Today, the new system still offers the possibility of retiring as early as age 61 but workers have far more incentives to delay that moment (till age 67 or more).

The retirement age is now flexible from age 61 and further, with one of the highest returns for each additional year of work out of all OECD members: for example, when workers delay their retirement to age 70, they can see their pension benefits increase by 32 to 52%. It is moreover possible to combine earnings and pension from age 61; workers can collect $\frac{1}{4}$, $\frac{1}{2}$ or $\frac{3}{4}$ of their pensions while being in employment, depending on the arrangements. In turn, there are no restrictions at all when workers are 65 or over. A novelty is furthermore that benefits are indexed to life expectancy: with an increasing life expectancy, the latter means that Swedes will have to work longer or increase their savings for the same benefits (Rix, 2005).

Improve working conditions - Sweden has acknowledged that increasing the labor participation of the seniors requires some efforts and that good working conditions are a condition sine qua non. Thinking about how to optimize these working conditions is thus a necessary first step. Sweden has made a number of steps in the right direction: the working conditions seem to be better in Sweden than in other European countries. According to the *Third European Survey on Working Conditions* (published in 2000), senior workers in Sweden report the second lowest figure of unpleasant working conditions, just behind The Netherlands (OECD, 2003b).

A number of actors can be identified as being the cause for the stimulating figures: the government's *11 point program for better health in working life*, introduced in 2001, is one of these. This program focuses on measures for a better working environment and clearer employer responsibility as well as measures for an early return to working life after illness (OECD, 2003b). Furthermore, Sweden has founded the National Institute for Working Life in 1995, which has as task to improve the organization of the working environment through research and development.

Focus on life-long learning - another important factor for the high participation rates of the seniors is the fact that there is much emphasis in Sweden on life-long learning. The first such programs came into being in 1968 and today, Sweden spends more money on these programs than any other country in the world. As a consequence, there are many opportunities for adult learning in Sweden. The public system includes municipal adult learning courses (offering both basic and upper secondary learning), Swedish language courses (aimed at educating the immigrant population) and the National School for Adults. Furthermore, programs for labor market training have been introduced; these programs are used as an instrument for labor market policy and are primarily intended as basic vocational education or further training for the unemployed (OECD, 2003b).

Age	Days of training per worker
25-49	5.0
50-54	4.2
55-59	3.8
60-64	2.9
Total	4.3
Private sector	3.7
Public sector	5.7

Table 3: Average number of training per worker in Sweden in 2000 (OECD, 2003b)

The Netherlands

The aging of the population is less severe in the Netherlands compared to most of the other European countries, which is partly due to the positive contribution of international migration. Nevertheless, the proportion of persons aged 65+ as a part of the working-age population is projected to almost double in the following decades. If behavior on the labor market does not change, there is a risk that the labor force will stop growing, or even decline slightly; the serious consequences this may engender have already been discussed. As a result, the Dutch public authorities have made it a priority of increasing the labor participation rates of the senior workers (55 and above). The Netherlands have done well. Labor force participation rates of seniors have risen: between 1995 and 2003, the Netherlands recorded a 10 percentage point increase in employment rates for men aged 50 and above⁷. Today, the latest Eurostat figures indicate a labor participation rate for seniors to be 45.2%.

These improvements were the result from a number of reforms that included restricting early retirement schemes, the reform of the disability insurance scheme, the re-instatement of job-search requirements for older unemployed people and finally efforts aimed at encouraging employers to hire and retain older workers (OECD, 2005b).

Progressive abolition of early retirement schemes - one major obstacle for high participation rates has been the Netherlands' widespread culture of early retirement arrangements which allow workers to leave the labor force well before 65. From the second half of the 1990s onwards, policy has begun to respond and the focus has been on pension reforms that have been designed to restrict early retirement options on the one hand and offer rewards for longer work lives on the other. Consequently, the voluntary early retirement schemes do not get favorable tax treatment anymore and the Dutch people will have to pay for early retirement themselves; on the other hand however, older workers now do receive tax credits for staying on the job for a longer period of time (Rix, 2005). In other words, retiring early will lead to a reduced pension and retiring late to a larger pension.

The reform of the disability insurance scheme - one of the most important pathways for early retirement until very recently has been the disability benefits: a million people qualify for disability programs in The Netherlands. In 2002, the country experienced a political transformation carried out in agreement with the social partners: the conditions for entry in these plans have been toughened. The Netherlands thus went from 100,000 entries in the program in 2000 to 60,000 in 2004. To attain this goal, the government restructured the public medical disability insurance plans: on the one hand, employers who abused of the system were penalized; on the other hand, entry into the plan was limited to employees who were on the job in their current position for at least two years. For those with less than two-year seniority, the employers are the ones who must directly and fully finance disability benefits, which is a strong incentive to retain the employees in question. The

⁷ It must be noted that these improvements have been from a rather low base and there is indeed a clear basis for further improvement. In 2003, the employment rate of seniors in The Netherlands was the 13th lowest among 30 OECD countries and well below the OECD countries with the best performances (OECD, 2005b).

Netherlands also introduced stricter audits: as a consequence, 25% of the people audited were stripped of their benefits and were forced to return to the labor market⁸.

The re-instatement of job-search requirements for older unemployed people – as of January 2004, work search requirements have been reintroduced for unemployed people over the age of 57½; they must now apply for jobs (Rix, 2005). Furthermore, it might not always be possible to find a new job which is equivalent in terms of salary to the previous one; to encourage older unemployed people in these situations to look for a job at a lower wage, the government intends to base the unemployment benefit in cases of multiple unemployment spells on the previous (higher) salary under a number of conditions. This rule will apply to persons aged 55 or above at the date of dismissal, and there is no time limit for duration. Moreover, if a senior worker accepts a part time job during the ten years that precede normal retirement, pension rights are accrued by the pension fund as if the person held a full-time job (this rule only applies when the part-time job is at least 50% of a full-time job) (OECD, 2005b)

Encouraging employers to hire and retain older workers - a number of different paths were used to attain this goal, ranging from legislative reforms, financial incentives and efforts aimed at influencing employers' perceptions of senior workers. In terms of legislative reforms, a new law was introduced in 2004 banning all age discrimination in the workplace. An example of financial incentives for employers to hire and retain senior workers is the rule that employers need not pay disability insurance for workers aged 55 and over if older workers are being hired. At the same time however, employers who dismiss older workers are required to pay part of their unemployment benefit (Rix, 2005). Finally, an attempt to change employers' perceptions was initiated by launching the *High-Level Task Force on Older People and Employment* in 2001 and the Action Group *Grey at Work* in 2004. These two platforms were established in close collaboration with the private sector and were aimed at creating awareness for the benefits of senior employment: these platforms have proven to be an effective way to spread good practices.

Finland

Finland is the fastest-aging developed country and is therefore a particularly interesting case study. More than 55.4% of Finnish employees are over 40. If the average retirement age remains unchanged, the country's workforce of 2.3 million is set to shrink by 40% over the next 15 years. Hence, the prospects of unsustainable pension costs and a shortage of labor supply threaten to severely crimp Finland's fast-paced GDP growth (Business Week, 2005). Finland is thus facing an enormous problem and has started to respond. Not only has Finland begun dealing with this problem several years ago, but economists are even pointing to Finland's approach as an example of how to do things right. Indeed, today's senior labor participation is 50.9%, which makes Finland one of the best students in class. But it is especially the growth in labor participation that is particularly noteworthy: today's participation rate represents a staggering 16.5% increase compared to the situation in 1995 (Eurostat). What have they done to achieve this?

⁸ Source: professor van Ewijk, Vice-President of the CPB, during his speech at the international colloquium organized by the Fondation in March 2005.

In Finland, a 4 year National Program for the activation of older workers was launched in 1998. The primary concern was to keep the seniors in employment in order to safeguard their skills: it was the aim to achieve this by improving employers' perceptions of senior workers on the one hand and by adapting the organization of labor to the seniors' needs on the other (Jacquet, 2005).

Change employers' attitudes - in an attempt to change the (negative) attitude of employers towards senior workers, a National promotional campaign was launched in 1998 (and only ended in 2002). The slogan of this campaign was "Experience is a National Asset" and TV and radio spots linked better health with staying on the job longer and refuted the myth that older workers are inherently less productive. The goal was clearly to create a positive image of older workers and develop a national consensus on the benefits of staying in activity for a longer period of time (Business Week, 2005).

Next to the National promotional campaign, Policymakers furthermore designed seminars to educate the private sector about aging workers. The Finnish Institute of Occupational Health instructed top managers and HR divisions on the looming threat of Finland's shrinking workforce and what actions the companies need to take. The seminars were tailored to each company's needs and interests and proposed a number of detailed plans of action (e.g. how to implement routine counselling to increase employee health, life-long learning programs and how to best manage and subsequently transfer seniors' skills).

Better working conditions - to improve the working conditions of the seniors, a number of different paths were used. Examples are initiatives to promote physical exercise among senior employees and initiatives aimed at life-long learning. The formerly existing maximum age for employee education programs (54 years old) was abolished and public aid for life-long learning programs has been enhanced.

Legislative reforms - in parallel to these campaigns, the Finnish authorities also launched a number of legislative reforms. Most noticeable in this respect was the reform of the early-retirement packages: the latter are now only attainable for workers that are aged 60 or above (compared to 55 previously). A recent reform (January 2005) had the government use carrots, not sticks: this reform offers increased pension benefits of up to 40% for those seniors who work till the age of 65 or above (Business Week, 2005).

Concluding, it can be said that Finland has certainly made some good steps in the right direction by engaging in a number of effective reforms. Now we all know that designing reforms is one thing, but actually implementing them is a different matter all together. What has been the key to the Finnish success?

There seems to be a common agreement among experts that one of the main factors for the successful implementation of the Finnish reforms is that all social parties have been an integral part of putting the reforms into place. Indeed, Finland has a real culture of reaching consensus among social partners and it is exactly this that has played a major role in their success story. In other words, one of the important lessons the Finnish case has to offer is that all parties must be involved: public authorities, employer organizations and labor unions alike.

3.3.2. Company studies

The present sub section will consist of giving examples of successful private initiatives that have been identified across Europe. As such, the presented case studies will enable us to get an insight in how such proactive companies have dealt with senior employability. However, as stimulating and perhaps even reassuring these case studies might be, it must be repeated that such proactive companies are unfortunately not representative for the private sector in general.

So, presented below are a number of case studies that present some of the best practices in Europe. It is however important to note that this list is in no way exhaustive (or non-debatable for that matter); the list simply contains some case studies of companies that were identified by experts as being national champions in their respective countries⁹.

Renault (France)

Renault quite early faced the challenge of an aging work force (i.e. in the 1990s), due to the fact that the automobile industry employed a great number of older workers. To counteract these trends, Renault engaged in an ambitious program that was meant to both increase productivity gains (to compensate for the senior departures) and to keep their seniors in activity by rethinking the work conditions. Today, Renault's has put into place important HR policies that have increased senior employability:

Better work place conditions - in order to efficiently design and organize their workplace conditions in such a demanding industry, Renault has developed its own method for ergonomic analysis. At the end of the 1980s, Renault developed an evaluation system which categorizes assembly line work-posts according to their difficulty. Four criteria are used within the analysis: physical effort, physiologic position, variety and complexity in procedures; each individual work post is then subsequently scored from 1 to 5 and possible improvements are made. As the result of these efforts, all posts on the assembly lines can today be manned by workers over the age of 60.

Continuous learning - important training opportunities are available for all employees, including the seniors. So-called *training accounts* have been introduced, which offers the employees the possibility to 'save' training days. 40 hours are given each year, and if employees do not fully 'consume' these hours in a particular year, they can still do so in subsequent years. As a result of these efforts, 75% of the employees receive training each year and all Renault employees have at least a CAP degree (the French CAP is two-year vocational training degree).

Source: interview with Mr. Michaux, HR Manager for Renault (2004)

Uitzendbureau 65plus (The Netherlands)

Uitzendbureau 65plus is a staffing agency, acting as an intermediate between workers aged 65 or over and employers offering paid employment. This organisation has 10 offices throughout the Netherlands and has a staffing force of 5000 senior workers offering a large variety of services.

Uitzendbureau 65plus promotes itself as offering the services of a experienced and skilled labor force. Moreover, the staffing agency says hiring the senior workers saves employing companies more than 23% of labor costs. The reason for the latter is that employers are not required to pay social benefit contributions when employing temporary staff beyond 65 years of age (65plus.nl).

(Source: www.40pluswerk.nl)

⁹ The expertise from a number of organizations or platforms was used to constitute the list. Examples are TNO (The Netherlands), Age Positive (UK) and EMCC (EU), among others.

Deutsche Bank (Germany)

To address the demographic challenge and to assure the company's future competitiveness, Deutsche Bank developed a diversity strategy; its aim is to exploit the differences of the workforce in terms of age, gender, culture; religion, sexual orientation, lifestyle and physical ability.

In regard to their age policies in particular, the challenge that Deutsche Bank set itself was to enhance employability by letting the working conditions being flexible enough to be adaptable to all employees in all life-cycles. In other words, a real Age Management has been put into place. According to Deutsche Bank, there are three specific reasons for active Age Management:

- Demographic change: as the number of staff declines in proportion to the entire workforce, the importance of policies aimed at retaining seniors increases¹.
- Customer needs: the variety in age structure of the bank's clients and their respective needs calls for an equally diverse workforce within the Bank.
- Knowledge Management: the bank feels that the more 'advanced and experienced professionals' hold particular skills that need to be transferred to the younger workers. As such, keeping the older workers in activity is a sound policy for knowledge transfer.

There are a number of interesting examples within their Age Management program:

Experience sharing model - In the experience sharing model, project teams make use of the personal knowledge and experience of an older employee. The advanced professional acts as a mentor.

Intergenerational team model - The intergenerational team model promotes the cooperation between younger and more experienced employees within one project team. Both generations learn from each other by taking turns at being teacher and learner.

Know-how tandem model - Know-how tandems are typically two employees, one 'younger' and one 'experienced', working together. Both teach and learn, with the emphasis on the younger learning from the more experienced.

Specific models for the ageing workforce - Activities specific to the ageing workforce have also been initiated, for example, the 'X% job'. This job is about building up knowledge and experience in fields outside of one's own function within a previously defined timeframe (X%). In this case, the advanced professional is the learner.

(Source: www.emcc.eurofound.eu.int)

Thales Group (France)

During the 1990s, the Thales Group expanded significantly and they decided to restructure their operations in order to increase efficiency. As a result of these changes, many valuable senior managers were however becoming redundant; instead of firing these managers, Thales decided to keep these people to prevent a 'brain drain' of highly qualified senior managers. Consequently, the company created an in-house consulting unit, called *Missions & Conseil* in 1999.

At the core of *Missions & Conseil* is an 18-month programme to guide managers towards new jobs within the group. During this time, employees expand their capabilities by working as consultants under the supervision of an experienced tutor/mentor while also receiving special training and coaching. As newly-formed consultants, they have the opportunity to work with staff from many different units. Not only is this a great way to bring fresh ideas into the respective units by exploiting the skills and experience of the *Mission & Conseil* consultants, the programme is also aimed at making such cooperation so successful that both sides want to make it permanent. Indeed, the senior workers from *Mission & Conseil* often find their new jobs within the Thales Group in this way. Concluding, it can be said that this innovative program has provided the Thales group with a resource of loyal managers with proven skills and experience within the Group. If it was not for *Mission & Conseil*, these valuable resources would have been lost to the company.

(Source: www.emcc.eurofound.eu.int)

Voestalpine AG (Austria)

The Austrian company Voestalpine AG transformed itself during the 1990s from a traditional heavy steel manufacturer towards a high-tech processing corporation producing more than steel. In view of the demographic changes, they too have now recognised the importance of employing sufficient knowledgeable and experienced workers across all age groups. In order to face demographic challenge, the group is keen to both retain its experienced workers and become one of the most attractive employers in its domain. As a result, Voestalpine created the LIFE programme.

LIFE's main objective is to create an attractive work environment at Voestalpine for all generations by enabling a change in values. A number of paths have been chosen to achieve this goal: improving the compatibility of family life and career, initiating new modes of working and attributing a high priority to health issues. Today, LIFE has become an integral part of Voestalpine's corporate strategy, supported by both top management and the work councils.

Some of the elements of the LIFE Program are the following:

Preventive Health Care - The aim is to keep older workers fit so that they are able to stay on the job longer. Confidential physical check-ups, free medical services and a free subscription to a fitness club for all staff have become part of the employee packages.

Optimal working conditions - To optimise the efficiency of older workers, Voestalpine tried to identify ideal working time models for the different age groups. Consequently, a pilot project reducing night shift work for older employees started in 2004. Moreover, some studies indicate that workers over 50 operate better in a workplace with a slightly higher temperature; an attempt is now underway to adapt temperatures to the needs of the various age groups.

Knowledge management - One of Voestalpine's experiments that has already been observed within other companies is the introduction of 'young/old' tandems; older employees share their experience with younger colleagues, while the younger employees train the older colleagues in such things as electronic data processing (EDP) and other IT practices.

(Source: www.emcc.eurofound.eu.int)

Barclays (The United Kingdom)

Barclays is a financial services group engaged in banking and investment management. As a member of the *Employers Forum on Age*, they are actively involved in the latter's activities and awareness raising initiatives. Barclays has an Age Diversity agenda, which aims to recognise the opportunities of aging instead of only looking at the potential problems.

Today, Barclays employs more people over the age of 50 than under the age of 21 and the number of people over the age of 55 in the organisation has increased by nearly 400 in the last 2 years. Moreover, 61% of employees who reached their normal retirement age of 60 have continued to work for Barclays. Some of Barclays' initiatives in terms of Age Management are listed below.

Recruitment - Barclays reviewed recruitment policy has filtered out any possibility for age discrimination; there are no mentions of age in the HR policies. Among other things, the latter has stimulated people over the age of 60 to apply for roles and Barclays' call centres (having a legacy of being a very young working environment) have seen the average age of their workers rise.

Improved working conditions - Barclays offers career breaks and flexible working hours to all staff, attracting older workers as well as those with children or other commitments.

Reviewed retirement schemes - although the normal retirement age continues to be 60, staff have the option to request to work until the age of 65. Moreover, Barclays has introduced a new pension scheme called *afterwork* that offers staff extra benefits as long as they remain in employment.

Marketing campaigns - Barclays developed pages within the Barclays intranet site to promote and raise awareness of age diversity. The latter was part of an attempt to change staff attitude towards senior workers, which also included a number of training sessions on the subject of aging. Apart from this 'internal' marketing, Barclays also promoted senior employability to the 'external world', by developing recruitment adverts around the theme '*No Age Barriers*'.

(Source: www.agepositive.gov.uk)

Akzo Nobel (The Netherlands)

The approach Akzo Nobel has taken within their HR policies is one that can be described as a life-cycle approach. They acknowledge that employees have different needs and preferences according to their respective ages, and the HR policies that have been put into place try to respond to these. As such, Akzo Nobel's HR policies do not only respond to the well-being of their seniors, but they acknowledge that there is a need to have preventive policies: today's younger workers are their senior workers of tomorrow. Some of the Akzo Nobel's initiatives are listed below:

Performance evaluation meetings - Akzo Nobel has introduced evaluation meetings at least once a year during which employee and manager discuss the employee's performances.

Career development meetings - during these regular meetings, employees and their managers can communicate their thoughts on how to move on to take the employee's career to the next level.

Function rotations - Akzo Nobel's employees are regularly offered a different function within the group to prevent people from being bored or unmotivated.

Health check-ups - there are company-paid check-ups that start at the age of 40 and take place every five years.

Age specific vacation - there exist special arrangements that offer a number of extra leave days to seniors, on top of their regular amount of days off.

Ergonomic adjustments - ergonomic adjustment are made within the work environment to match individual needs, which has especially been beneficial to workers of assembly lines. Moreover, there are physiotherapists present three times a week to treat any small injuries or pains.

Senior-specific programs - Akzo Nobel has organised seminars to teach their managers about senior employment and make them more conscious of its implications.

(Source: www.40pluswerk.nl)

CHAPTER 4: TOWARDS INCREASED SENIOR EMPLOYABILITY

The final chapter of this paper presents a framework for analyzing the different pathways that lead to increased senior employability. To this goal, the different reforms and interventions that have been previously described in this paper are categorized into a number of typologies. Four such typologies have been identified: regulatory reforms, financial interventions, psychological change and finally improved working conditions.

4.1. Regulatory reforms

At the core of regulatory reforms should be the aim to design an effective playing field, i.e. a field free of any restrictions prohibiting senior employment. Such a field can in fact be regarded as a condition *sine qua non*. Five types of regulatory reforms have been identified when reviewing the case studies:

Abolishing early retirement - at the core of these initiatives is the objective to postpone exit ages and increase individual contributions through pension system reforms. A number of ways to achieve this have been reviewed: abolishing favorable tax treatment for voluntary early retirement schemes (the Netherlands), launching new propositions to postpone the official retirement age (from 65 to 67 in Germany and from 60 to 65 for State pensions in the United Kingdom), raising contribution thresholds for entitlement to full pensions (from 37 ½ to 40 years in France), reducing pension benefits for each year of early retirement (by 6 to 8% in Spain) or finally encourage the participation in privately funded pension schemes through tax deductions and financial contributions (Germany and Spain).

Two of these options need further commentary: this is the case for encouraging privately funded pension schemes and also for raising the retirement ages in *both* the public and private sector.

Firstly, it is now obvious that early retirement cannot and should not be financed by public pension schemes, due to the financial unsustainability of such schemes and because of scarce labor supply in the future. The latter does nevertheless not mean that flexible arrangements of working hours for seniors should be banned altogether. In fact, giving the seniors the chance to manage their own careers (including the choice of decreasing some of their workloads in the very last years or even after the statutory retirement age) might prove to be a good tool to actually maintain them in employment. However, such choices regarding their career are made on a personal basis, which equally means that financing these choices needs to be done on a personal basis too. In other words, it is fine to leave seniors the responsibility of managing their own careers, but they should also be made financially accountable for the choices they make. Encouraging the use of privately funded pension schemes will lead to a situation where seniors will indeed have more freedom of action but will at the same time be financially accountable for their choices; the latter needs to be stimulated.

The second commentary relates to the fact that some countries apply different rules of retirement for their public and private sectors: in these countries, the statutory retirement age in the public sector is lower than that same statutory retirement age in the private

sector. How can it be legitimized that civil workers have the right to retire years before workers from the private sector? Are they entitled to some sort of special treatment, simply because they work for the government? The answer is no. There should not be any difference in retirement ages between the public and the private sector; any divergence between the two needs to be corrected and these corrections need to be on the up-side. This is a simple matter of solidarity, equality and common sense.

Finally, it should be remembered that it is not an ideological or political discourse that is at the basis of these pension reforms, but sheer rationality. Exemplary for this fact is the German situation: it is the Schroeder government (i.e. a social-democrat government) that has cut back social benefits and has thus restrained the welfare state. Indeed, it is interesting to see that such pension reforms were launched by a social-democrat government and were agreed upon by all in the political arena: the latter clearly stresses that pension reform is not driven by ideology but by necessity.

Restricting hidden workforce exits - we have seen that lenient disability schemes and generous unemployment benefits can act as hidden pathways that lead to premature exits from the workforce. Therefore, it is a necessity to firstly restructure the public disability schemes if we are to increase the labor participation of our seniors. We have seen how the latter can be achieved when reviewing the case of the Netherlands: there, the conditions for entry in disability plans have been toughened, the audits are stricter (25% of audited people were stripped of their benefits and were forced to return to the labor market) and employers are now the ones who must directly and fully finance disability benefits in certain circumstances (which is a strong incentive to retain the employees in question).

Secondly, unemployment schemes need to be altered as well. Some of the current practices are just too irrational to begin with: we have seen how in some countries unemployment benefits are granted freely to seniors, without any job-search requirements. Again, the Netherlands have set a good example here by re-instating these job-search requirements for people over the age of 57 ½: their initiative needs to be followed.

Eradicating all discriminatory policies - introducing a law banning all discriminatory policies is also an important requirement towards higher senior employment. It is clear that when senior workers experience age discrimination at work (either directly or indirectly), this constitutes a major burden on both a psychological and administrative level; even the most motivated senior is then in danger of losing his drive towards prolonging his career. An elementary first step towards banning age discrimination in the workplace should thus be the installment of an anti-discrimination law. An example is the law that has recently been introduced in the Netherlands: this law simply bans all forms of age discrimination unless there are objective justifications for making a distinction (e.g. in the case of positive discrimination). A practical example of the implementation of this law is the fact that job advertisements cannot feature any age indication anymore.

Creating flexible contract regulations - the aim of creating more flexible contract regulations is to enable a rapid return to activity for those seniors who are currently unemployed. Indeed, stringent contract regulations can prohibit such rapid returns: we know that employers are sometimes reluctant to recruit elderly, female or younger workers (supposedly because of increased chances of prolonged illness, maternity and absenteeism respectively). In view of the latter, it thus seems sensible to relieve the employers of some of their fears (like being attached to a contract with an ill senior that cannot be terminated)

by offering contracts with more lenient lay-off procedures. Such contracts will of course also be an answer to the game of offer and demand of labor inherently associated with labor markets; it is no news that these trends can only be adhered to with flexible contract regulations.

Flexible contracts do moreover not necessarily mean that the social security of the employees in question is in danger: Northern-European examples have clearly emphasized that labor market flexibility and social security are not mutually exclusive (e.g. see the well known Danish concept of 'flexicurity').

An example of government initiatives towards more flexible contracts (specifically aimed at senior workers) has been observed in France: a new type of fixed-term contract has been introduced for workers over the age of 57. These new contracts offer the possibility to hire seniors for a fixed period of time (18 months, with the possibility of extending the contract with another 18 months at the end of the first term); such contracts can today be offered without the restrictions that normally apply in France when using fixed-term contracts.

Facilitating the accumulation of employment and pension - making sure that there are no restrictions for accumulating pension benefits and salary payments after the statutory retirement age will increase senior participation. The reason is as easy as it is effective: any salary payment (from either full or partial employment) that will come in addition to regular pension benefits will represent a substantial increase in monthly income for retirees, hereby acting as a strong financial incentive to prolong their active career.

Sweden is a country that has well understood these dynamics; there exist no barriers for accumulating pension benefits and salary payments after age 65 (the official retirement age), and it is even possible to combine earnings and a partial pension from age 61 (workers can collect $\frac{1}{4}$, $\frac{1}{2}$ or $\frac{3}{4}$ of their pensions, depending on the arrangements).

4.2. Financial incentives

The aim of financial incentives is to provide the actors with carrots in order to stimulate senior labor participation. These carrots should not only be aimed at the senior workers, but also at their employers.

Introducing financial incentives for senior workers - the primary objective is to make sure that prolonging one's working life will become more financially rewarding to seniors. Indeed, we cannot expect senior workers to stay on the job if it is simply not worthwhile for them to do so.

The majority of financial incentives offered to senior workers seem to be embedded in the pension systems; the Finnish pension system for example offers increased pension benefits of up to 40% for these seniors who work till the age of 65 or above. The champion in these types of financial incentives is Sweden: they are indeed the country that offers one of the highest returns out of all OECD members for each additional year of work after 61. In Sweden, pension benefits can increase to up to 52% when seniors retire at age 70. Yet another type of financial incentive that is linked to the pension system has already been separately discussed in the previous section (because of its presumed importance): this is possibility of accumulating salary payments with pension benefits. Alternatively, the Netherlands offer tax credits to older workers that stay on the job for a longer period of

time and the United Kingdom offer extra payments (in the forms of Working Tax Credit) to people on New Deal 50+.

Introducing financial incentives for employers - the primary objective here is to encourage employers to hire and retain senior workers. The latter is crucial, as it is useless to increase the supply of labor through higher senior participation if there are no jobs for them; there obviously needs to be a demand for such labor as well. In other words, stimulating that demand through financial incentives seems like a logical step.

Again, we have seen a number of interesting examples of how this can be done: exempt employers from disability insurance payments for workers aged 55 and above when these same workers are being hired (the Netherlands), give employers a reduction of 50% or more on social security contributions for permanent contracts with workers over the age of 60 (Spain), fully exempt employers from social security contributions when hired seniors are over 65 (Spain and the Netherlands) and finally extend these rights to include not only employers in the traditional sense, but also self-employed individuals (Spain).

4.3. Psychological change

While discussing possible interventions to increase the levels of senior employment, we run the risk of overemphasizing the regulatory and pecuniary reforms to the detriment of the much needed psychological change. Indeed, laws and financial incentives alone will not be able to allow the elder to reach higher levels of employment. In fact, it is just as much a psychological question (see the earlier discussion of the negative perceptions regarding senior workers) as the societal attitude towards our older citizens needs dramatic improvement. Hence, what should be an integral part of any attempt towards better employability of senior workers are interventions aimed at achieving a change of attitude (or culture) from the part of the employers and employees alike. The crucial question then becomes: what would this changed attitude look like?

In view of this discussion, it is interesting to look at what a senior member of the Fondation had to say regarding this subject during a conference in March of this year; Professor Jean-Didier Vincent¹⁰ had very wise words for the audience that day. During his speech, Professor Vincent explained that things are very clear from a biological point of view: there are no absolute or precise criteria for determining the age at which we become old. In fact, the age at which we become old is moving in the same direction as life expectancy, and that direction is forward. Paraphrasing the professor, we can say that we live longer, but we stay younger for a longer period of time too. Physical and especially cognitive abilities do not necessarily diminish before the age of 80, and we should thus stop seeing our senior workers as an impediment. We should however start seeing them as a source of knowledge, wisdom and experiences: all of these qualities need to be exploited and (above all) transferred to younger generations and this can only be achieved when seniors stay active. As such, keeping our seniors in employment is not so much a political choice to reduce pension costs, as it is a necessity for any successful business model. Understanding this will be key to achieving the much needed cultural change.

¹⁰ Professor Jean-Didier Vincent is a Director of the *Fondation pour l'innovation politique* and a Member of the French *Académie des Sciences*.

The main question that remains to be answered at this point is how to achieve such a change of attitude. Again, we have seen a number of very informative examples proposing two broad axes of intervention: the first consists of a national promotional campaign aimed at the entire population, the second targets employers more specifically.

Changing societal attitudes - the main objective here is to change people's attitudes by launching promotional campaigns on a national scale. Many countries in Europe have already seen similar efforts in fields as diverse as sexuality (e.g. promoting safe sex), health (e.g. warning people for smoking and drinking) or public safety (e.g. discouraging reckless driving). In a similar line of thought, national campaigns should be launched to promote senior employment. Such campaigns will then hopefully be able to change people's attitudes regarding our seniors and will in effect not only target the senior workers' bosses, but also their colleagues and even themselves. Moreover, such national campaigns should also be followed-up by the work of NGO's that continue to promote senior employment; it with the help of these (smaller scale) projects that senior employment will remain under public attention.

The best known and arguably most successful example of a national campaign has been the Finnish campaign. TV and Radio aired many spots linking better health with staying on the job longer and refuting the myth that older workers are inherently less productive. The goal was clearly to create a positive image of older workers and to develop a national consensus on the benefits of staying in activity for a longer period of time. As for the NGO's, we have also seen a number of good examples: *Age Concern* (UK), the *Third Age Employment Network* (UK), and *Grey at work* (the Netherlands).

Changing employers' attitudes - next to the large national campaigns, it has been proven effective to equally design promotional campaigns that are specifically targeted at employers. In marketing terms, the employers simply represent a very important target population: after all, they are the ones who need to be convinced of the value of senior employment and subsequently need to hire and retain older workers. Because of this, they thus represent an important target population and need to be the object of special attention in promotional campaigns. Moreover, it is also important to change their attitudes by communicating *with* them on a more personal basis and not just through promotional campaigns. Indeed, it will require some sustained efforts to completely and thoroughly educate the employers regarding their senior workforce in order to subsequently change their attitudes. This more personal approach can for example consist of organizing lectures and seminars, but also by establishing platforms or action groups that bring together the public authorities and the private sector.

There are a number of best practices that have been identified when reviewing the case studies. Finnish policymakers designed seminars to educate the private sector about aging workers, next to launching their national campaign. Furthermore, the Finnish Institute of Occupational Health instructed top managers and HR divisions on the looming threat of Finland's shrinking workforce and what actions the companies needed to take. The United Kingdom has launched their 'Age Positive' campaign and the Netherlands their 'High-Level Task Force on Older People and Employment'. These platforms were established in close collaboration with the private sector and were equally aimed at creating awareness for the benefits of senior employment.

4.4. Improved working conditions

The major objective when rethinking the working conditions is to create HR policies that are favorable to senior employment. And even though the private sector should be the main actor in the field of HR policies, public authorities have a role to play in creating awareness in a first stage, and diffusing best practices thereafter. Moreover, they should take the role of setting the example for the private sector by implementing best practices in their own organizations (i.e. for public sector employees). This role is particularly important, as we have seen in previous sections that much remains to be done in terms of good HR practices: few companies have taken an active stand towards their aging workforce, which is especially true for the SME's. It should however be reminded that public authorities are not the sole actor in promoting best practices: we have seen that NGO's and employer organizations can play a very important role as well. Examples of such non-governmental initiatives are the *Employers Forum on Age* (UK), *Age Concern* (UK), and *Grey at work* (the Netherlands)

Two major elements of initiatives towards better working conditions have been identified: stimulating life-long learning and rethinking the working environment.

Stimulating life-long learning - it was argued before that it is not so much the age of senior workers themselves that determines employability, but the age of the knowledge they possess. In other words, seniors can be just as productive and up-to-date as younger workers, but their knowledge and skills will need to be refreshed on a regular basis; therefore, life-long learning programs are an absolute necessity for keeping seniors in employment. The installment of such programs is also a clear signal towards senior workers, showing that they are not regarded as obsolete but are in fact still much valued. Indeed, knowing that your boss is willing to invest in you will be a tremendous boost for someone's intrinsic motivation. As we now know that an important part of the necessary action towards increased senior employability takes place on a psychological level, investing in such life-long learning programs becomes crucial. Again, it is not a surprise to see that those countries who have been stimulating such practices are now the ones with the highest senior labor participation rates.

In Finland for example, the formerly existing maximum age for employee education programs (age 54) was abolished and public aid for learning programs has been enhanced; Finland saw their senior labor participation rate increase by 16.5% in the last 10 years. But the most noticeable example is of course Sweden, who has a senior participation rate of 70% which is partly due to their strong emphasis on life-long learning. Sweden in fact spends more money on these programs than any other country in the world and there are many opportunities for adult learning as a consequence: the public system includes municipal adult learning courses (offering both basic and upper secondary learning), Swedish language courses (aimed at educating the immigrant population) and the National School for Adults. Furthermore, programs for labor market training have been introduced; these programs are used as an instrument for labor market policy and are primarily intended as basic vocational education or further training for the unemployed. All of these are clear examples of initiatives that need to be recommended and diffused to other European countries. On a slightly more critical note however, we have also seen that the Swedish private sector offers less training per employee (3.7 days of education per year) than the public sector (5.7 days of education per year). This again shows that even with very high labor participation rates, there is always room for improvement.

Reorganizing the workplace - the second main element of renewed working conditions is reorganizing the physical workplace. The importance of such measures is of course more acute in the industries that are physically demanding to employees, although this is not always true. HR policies related to ergonomics, like the stimulation of physical exercise, are for example useful for employees in all types of industries. Moreover, the awareness should be created that the physical workplace is not only something that is of relevance for the older workers, but for younger workers too. After all, it is today's younger worker that will be tomorrow's older worker and prevention is better than curing.

Just as in the case of life-long learning, public authorities have a role to play in the promotion and diffusion of best practices in this domain. Sweden has for example created a *National Institute for Working Life*, with as task to improve the organization of the working environment through research and development; the Swedish government's *11 point program for better health in working life* has furthermore helped in stressing clearer employer responsibilities. We have also seen a number of very interesting company studies, through which we now know that some companies have been proactive in designing better working environments for their workforce; Renault is a clear and good example.

4.5. Conclusion

The present chapter identified a number of typologies along which the reforms presented in chapter 3 can be described. The strength of coming to such a typology lies in the fact that it offers a useful framework that can act as a basis for analysis when designing future reforms. Indeed, it could for example be possible to distinguish a number of patterns in which successful reforms are typically implemented; copying such a pattern will then enable us to design coherent reforms as a direct consequence.

Even if it is impossible to come to some sort of universal rules for designing reforms, a plausible conclusion that can be drawn at this point is the following: it can be argued that for interventions to be truly successful you need to have a mix of different reforms. In other words, it needs to be acknowledged that it is not sufficient to solely focus on one type of reform (e.g. regulatory reforms) and disregard the other reforms altogether.

In Europe, public authorities have focused their interventions on changing the regulatory framework in their respective countries; the main objective having been to come to an effective playing field by reducing the barriers to senior employability. However, creating such a playing field is not enough. Indeed, such a playing field only lowers the hurdles to senior employment, but senior workers will still need positive stimulation to start *jumping over* the hurdles. In other words, while some of the regulatory reforms might be regarded as sticks, it needs to be acknowledged that carrots are needed too. Examples of what these carrots could look like have been given (see the financial incentives), and such measures will have to be implemented. However, what is true for sticks is also true for carrots: they are again not enough. Indeed, carrots and sticks will constitute stimulation by means of extrinsic motivation (which is of course a good start), but further action is absolutely necessary. We have seen in previous sections of this paper that the *attitude* of people towards the senior population creates an immense obstacle (and arguably the biggest obstacle). So, even if we are to offer money through financial incentives or to create the perfect conditions through regulatory reforms, people also need to be *internally* motivated to increase senior employment. Consequently, we need to come to a stage in which people

value the seniors for the wealth of skills and competences they have to offer. We need to value their special place in society and in the workplace. The latter can only be achieved through a change of attitude: throw away the negative perceptions and start embracing them as a National Asset. Finally, if we proclaim that seniors can be just as dynamic (physically and mentally) as their younger counterparts, we do however need to make sure that they are given the opportunities to actually stay young too. The latter is not achieved by simply taking a life elixir, but through reasonable efforts instead. It is achieved by designing sound HR policies, specifically aimed to help our seniors to continue their active careers in an effective way. If we want our workers to actively participate in our economy, we should make sure that employers provide them with the necessary instruments to do so; we have seen to how such tools can look like by exploring the company case studies in chapter 3. Making sure that employers take the responsibility of implementing such measures is a final necessary measure to increase senior employability.

So, it is a mix of the above interventions that will lead to higher senior labor participation. Having said that, the real challenge will of course be to find the right *balance* of reforms that will allow us to reach those higher levels of senior employability and hopefully ensure economic growth as a direct consequence. In a general way, it can only be said this balance is likely to be different in each specific country, due to the differences in social and institutional contexts. So in each individual case, decisions will have to be made concerning which type of reform needs special emphasis. Moreover, it will be important to regularly evaluate the effectiveness of implemented reforms; the latter is something that is often neglected. After these evaluations, some reforms might prove to be more effective than others: this needs to be accepted and subsequent measures then need to be taken to improve the then present situation.

As a last point, it needs to be said that the effectiveness of any attempt towards reform is linked to the economic and political context. In some countries, the prospects of a rapidly shrinking labor force have been a determining argument for the successful launch of reforms (see the case of Finland). Moreover, the collaboration between social partners is also a key factor for success, as is the help of NGO's (see the examples of the Netherlands, Sweden, Finland and the United Kingdom). The reason for the latter is simple: designing reforms is one thing, but successfully implementing them is another ball game altogether. Indeed, all relevant parties need to support the designed reforms and need to feel a shared sense of responsibility (or a sense of ownership); if not, the implementation of reforms is due to lead to defensive positions, antagonism and subsequent failure. In other words, all parties must be involved: public authorities, employer organizations and labor unions alike.

Concluding, we can say that the path towards increased senior employability may not always be an easy one. We do however know that it is a path that can be successfully challenged, once a coherent set of measures will have been implemented. Moreover, it is now clear that the future returns of increased senior employability are certain to largely exceed any prior investments. In other words, the time has come to take action without any further delay.

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ATTACHMENT 1

10 propositions towards higher senior employment (the list was based on the proceedings of the international colloquium organized by the Fondation in March 2005: “The Labor Force of the Future: Demographic Change, Economic Activity and Growth”).

Stimulate higher senior labor participation

1. Examine the potential abolishment of the Delalande contribution (this contribution ordains an employer to pay a fee if he terminates a contract with an employee that is over 50 years of age).
2. Only exempt seniors from job search requirements after the age of 60, and reevaluate such exemptions altogether in 2008.
3. Seniors who have been unemployed for more than 6 months can accept a job that is less well paid than their previous employment; the difference (up to a maximum of 20%) will be paid by public funds. Such an arrangement is only applicable to seniors who have exceeded the effective retirement age (currently at 58 in France).
4. Launch a promotional campaign, emphasizing the competences of senior workers.
5. Introduce the subject of improved working conditions into the negotiations with the social partners.
6. Create a special fixed-term contract for seniors that would enable more flexible work arrangements; employers would be more willing to recruit seniors under these conditions.

Stimulate prolonged careers

8. Employees who have reached the statutory retirement age and wish to remain in activity should have two options. Either they pursue the current system and benefit from the extra financial payments included in the Fillon Law (2003), or they can choose to be exempted from pension payments. In the last case, they do not receive increased pension rights but an amount that is equivalent to the pension payments is added to their regular salary.
9. Abolish the legal obligation to *permanently cut off all professional relations with the employer* (article L. 161-22 of the Social Security Code) in order to accumulate pension benefits and salary payments.

Facilitate the return to employment after retirement

10. Facilitate the accumulation of pension benefits and salary payments, both in the private and public sector. In such a scheme, the retirees do not receive accrued pension rights, although they will continue to pay their pension payments (this latter will contribute to keeping the pay-as-you go system financially sustainable).