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Population Ageing and its Challenges to Social Policies

Older Workers in the Labour Market and Social Policies

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Older workers in the labour market and social policies¹

1. Introduction

Europe is currently debating policies to boost economic growth and to strengthen solidarity and social cohesion under increasing impacts of globalisation and technological change. Adjustments to rising dynamics and competitiveness of ongoing international integration processes as well as management of change are especially challenging due to the unique demographic situation of the continent. The new demography of Europe, resulted from the second demographic transition becoming the all-European phenomenon, leads not only to the rapid ageing of the population and the labour force. Only in Europe the working age population is predicted to decline in the coming decades. That decrease will be experienced by most countries in the years 2005-2015 already and will culminate in the period 2025-2035.

Changes in the size and age structure of the working-age population are accompanied by a decline in the labour market participation of significant population groups, in particular older male workers. The clear trend towards lower labour force participation of persons aged 55 and more has been observed in European countries with developed market economies over many years. During the last decade similar changes took place in 'transition' countries of central and eastern Europe. Therefore, the economic and social consequences of the labour force decline and ageing, along with the population ageing are increasingly studied and debated.

A serious concern relates to the financial viability of public pension systems. These are predominantly funded on a pay-as-you-go basis, so the rising imbalance between the number of contributors to these systems and their beneficiaries will have significant implications for funding arrangements. The different interventions, in place in raising number of countries in the 1990s, which seek to stimulate the labour force participation of older workers illustrate the importance attached by governments to reversing the trend towards earlier retirement. And since the second half of the 1990s some signs of reversing that downward trend occurred in the old members of the EU. That could reflect pension and other labour market reforms that were implemented in a number countries.

Challenges faced by pension systems are usually considered in terms of the ageing of the population and labour force, labour market related factors, and changes in family structures. The ageing of the population and labour force is mostly exposed in public perception of issues related to pension systems. Certainly the change in family structures receives much less attention while in recent years labour market developments seem to be more and more reflected in studies and policy recommendations. The labour market has become highly dynamic and unstable. Technological progress provokes rapid and unstable changes in the demand for labour. Quantity mismatch between labour supply and labour demand is increasingly replaced by quality mismatch. Labour supply adjustments to these demand-oriented changes result, *inter alia*, in high and persistent unemployment of several groups of population, and in changing work patterns (more temporary jobs, part-time work, etc.). The low labour force participation of older workers can be attributed not only to the population's increased living standards and incentives embedded in social security systems. Under the increasingly dynamic and competitive labour market, economic skill

¹ The paper refers to a great extent to my work on "Older workers in the labour market and retirement policies" for the European Population Committee, published in Population Studies no.40.

obsolescence of older workforce and its inadequate flexibility might be considered as an important factor of its withdrawal from the labour market.

The adaptability to labour market developments, imposed by globalisation and technological change under predicted demographic changes in Europe, is becoming a highly recognised issue in policy priorities formulated by relevant international institutions (e.g. Council of Europe, Strategy for Social Cohesion, 2004; Social Policy in the EU 2004, 2004; Employment Report 2004, 2004; Economic Commission, 2004; Economic Commission, 2005). Among key policy objectives needed to be achieved for the European Union to become more dynamic and competitive economy those related to supply of labour and its quality have been highlighted by the European Employment Taskforce: improving adaptability of workers, attracting more people in employment and making work a real option for all, investing more and more effectively in human capital (Kok, 2004).

The paper focuses on the changes in economic activity of older workers and their determinants related to the labour market and institutional factors. Mostly supply effects are considered (the size and age composition of the labour force, old-age pensions and other non-employment related schemes).

The paper starts with a brief overview of changes in the working-age population (15-64 years), which constitutes the potential labour force. Its size and ageing (raising number and share of persons aged 55-64 years) are carefully studied across countries. An evaluation of future trends refers to the UN population projections of 2002 (medium variant for the years 2003-2050). The descriptive analysis aims to present general trends and country differences as regards changes in the labour force and acceleration in the ageing of the labour force.

Then there is an examination of trends towards lower labour force participation of persons aged 55 and more. This has been observed in European countries with developed market economies for many years now. During the last decade similar changes took place in the transition countries of central and eastern Europe. The downward trend in economic activity of older workers appears to have come to a halt in the old EU members in the 1990s. In seeking to explain these trends, some results of recent empirical studies in that field are referred to.

Older workers oriented policies have been dominated by pension and welfare reforms to date. The more comprehensive approaches to prolong stay in the labour market, which include not only measures to remove disincentives for workers to work longer and to discourage early retirement but also those stimulating lifelong learning, improving working conditions, encouraging employers to retain and retrain older workers have been voiced by many researchers in the field. That view is reflected in the Lisbon strategy also. Its recommendations, revised in 2005, are presented along with ongoing old-age pension system reforms.

In the last part the citizen's opinions on retirement policy is presented by making use of selected results from the international project "Population Policy Acceptance Study – The Viewpoint of Citizens and Policy Actors Regarding the Management of Population Related Change (DIALOG)" (EC project, HPSE-CT-2002-00153). That project offers an unique opportunity to look at attitudes towards retirement and suggested policy measures from the individual perspective. Moreover, people's opinions about transition to retirement are confronted with experts' views since within the

DIALOG project experts' opinions on population policy scenarios have been studied by the Delphi method².

Changes in the working age population and age structures are analysed for the Council of Europe countries as well as for the European Union members (EU-25) plus Norway and Switzerland (EU-25+2). The basic country coverage includes the EU-25. Despite steadily improved labour market statistics in post-socialist countries, including the implementation of labour force surveys, there are still some obstacles to finding comparable data for all European countries, especially to study changes over time. Therefore, the scope of data on demographic trends is slightly different from that of data on labour market participation and pension reforms.

The data used in the paper come from: the International Labour Organization (ILO), Eurostat, Organisation for Economic Co-operation and Development (OECD), Population Division of United Nations.

2. Demographics of the labour market

In 1950 the population of Europe was at the level of 547 million and accounted for 21.7% of the world population while in 2003 the figures were 726 million and 11.5% respectively. According to the recent UN projections of 2002 (medium variant) one can expect that Europe's population will decline to 632 million in 2050 and 7% of the world population. The population decline is predicted for the new EU members (except for Malta and Cyprus) and for a majority of the EU15 members (excluding Netherlands, France, Norway, United Kingdom, Ireland, Luxemburg). In general, the strongest population decline is projected for Bulgaria, Estonia, Latvia, the Russian Federation, Ukraine, Georgia (by 25% to 50%), and Italy, Hungary, Slovenia, Switzerland, the Czech Republic, Poland (by 15% to 22%).

Parallel to that changes in the age structure manifested by a declining share of the youngest and a continuous increase of the older persons are predicted to be more intensive than expected according to previous predictions. The share of young persons (aged 0-14 years) being at 26.2% in 1950 declined to 17.5% in 2000 and is expected to drop to 14.7% in 2050. The share of persons aged 65 years and more increased from 8.2% in 1950 to 14.7% in 2000 and will reach 27.9% in 2050. However, another distinctive feature of the age structure change in Europe is the predicted decline in the number of the working age population. Persons aged 15-64 years accounted for nearly 65.6% in 1950 and 67.8 in 2000 while that percentage is expected to drop to 57.4% in 2050. Population projections show that only Europe will face with such decline.

The decline in the size of the working age population is accompanied by the increasing number and share of persons aged 55-64 years. Along with changes in the labour market participation of significant population groups and the population ageing they receive more and more attention in debates on European development perspectives. And despite regional differences differences in the pace of change, the phenomenon itself is becoming widespread. The discussion presented below focuses on both main direction of changes and their regional diversity across Europe with a special attention given to the groups of the EU 25+2 countries.

² I would like to thank Charlotte Höhn, co-ordinator of the DIALOG project, for a possibility to use some preliminary results of the project.

2.1. Situation at the beginning of the XXI century³

In 2000 the working-age population in Europe accounted for nearly 68% of the total population (the highest value among continents). Its growth in the EU15+2 countries slowed down in the second half of the 1990s while in 'transition' countries that population has continuously been growing. As a result the share of the working-age population was slightly lower in the first group than in the second group of countries (67% vs. 69%).

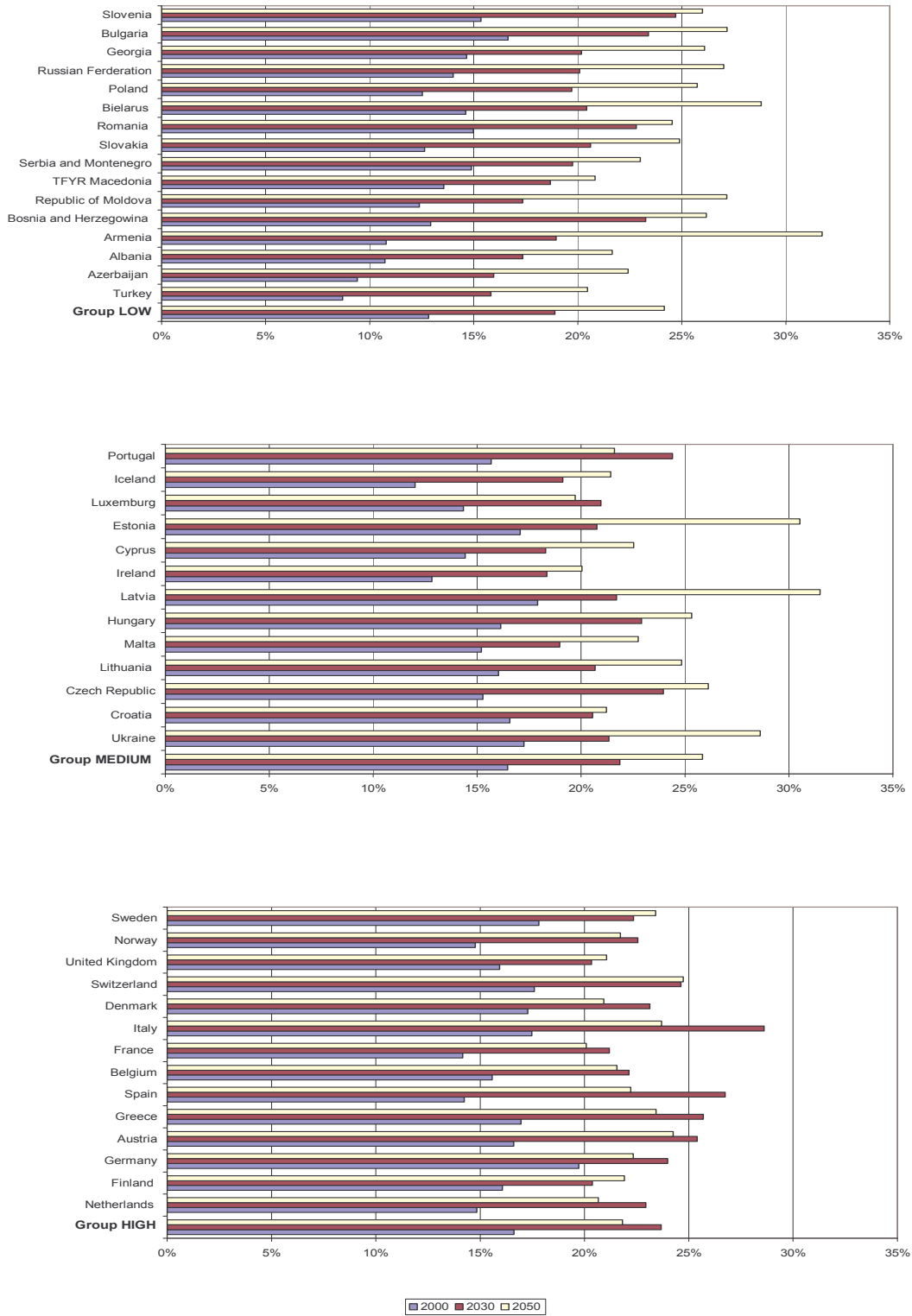
All European countries are experiencing an increase in the share both of people older than 64 and of those aged 55-64, i.e. the population and labour force ageing. Due to previous changes in fertility, mortality, and migration, especially if they occurred during the second demographic transition, there are visible regional differences in advancement of both types of ageing: in 2000 the share of people aged 55-64 in the working-age population ranged from 9% (Turkey) to 20% (Germany) while the percentage of persons aged 65 and more ranged from nearly 6% (Turkey) to 18% (Italy).

Regional differences in population ageing are discussed in depth by Schoenmaeckers (2005). Following his clustering of the member states of the Council of Europe Figure 1 presents differences in the workforce ageing across three groups of countries: LOW, MIDDLE and HIGH⁴. The LOW group is the most heterogeneous in terms of the labour force ageing: the percentage of persons aged 55-64 varies between 9% and 17%, for the MIDDLE and HIGH groups the ranges are 12%-17% and 14%-20% respectively.

³ For an evaluation of the situation at the beginning of the XXI century the UN estimates have been used.

⁴ The grouping was based on the relative importance of the number of 'oldest old' (Schoenmaeckers, 2005, 13).

Figure 1. The percentage of persons aged 55-64 in the working-age population (15-64 years), UN projections, medium variant



Source: own calculations based on UN projections (UN, 2003)

Among the EU countries the lowest values of that indicator are in Ireland, Slovakia and Poland (13%) while the highest in Germany (20%). The working-age population is older in the EU15 - the

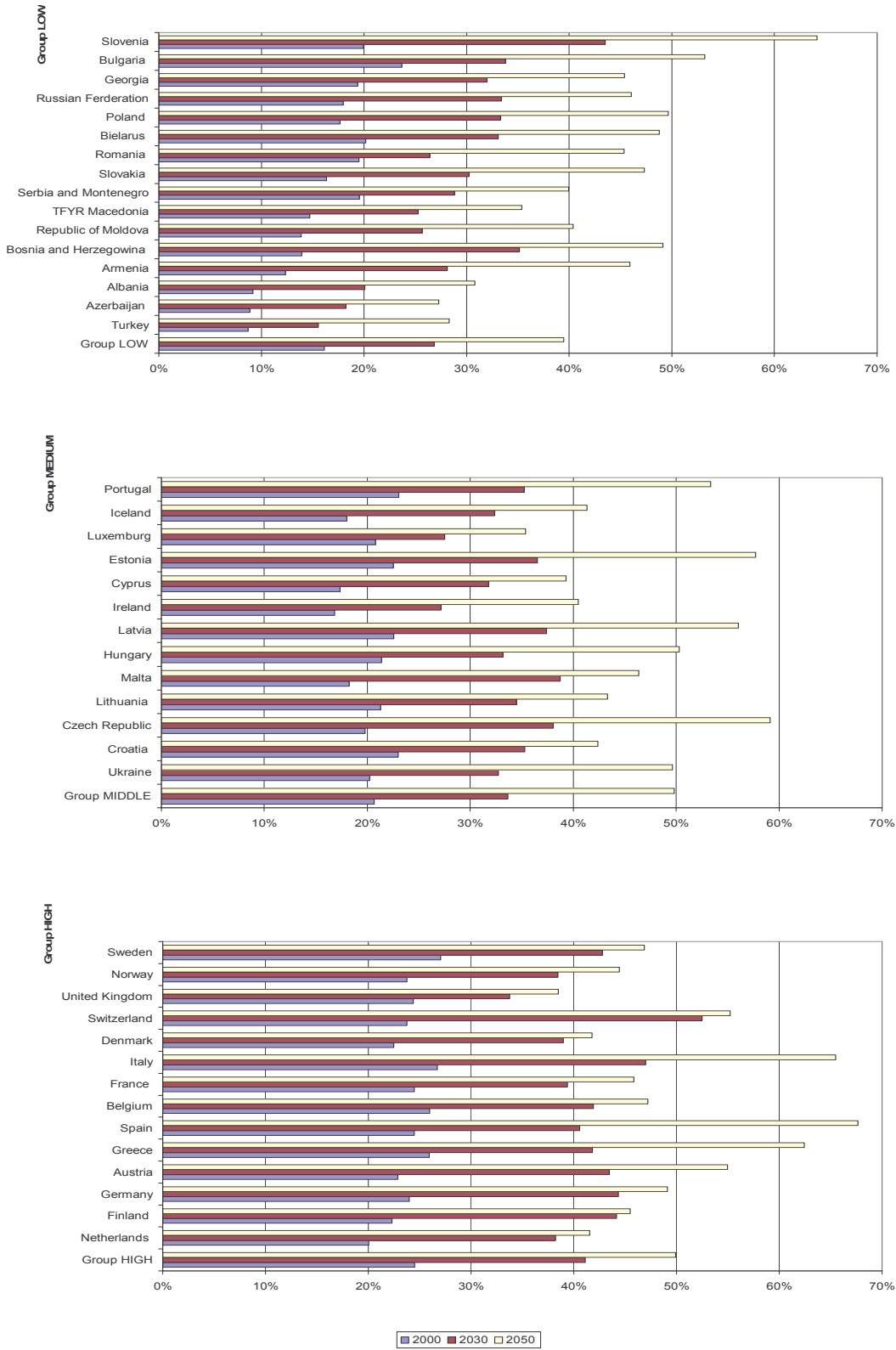
share of people aged 55-64 accounts for 13% - 20% of the working-age population. In the new members that indicator ranges between 13% and 18% (Latvia).

As regards of the population ageing, the LOW group is also the most heterogenous: in 2000 the percentage of persons aged 65 and more ranged from nearly 6% (Turkey) to 16% (Bulgaria). That indicator for the MIDDLE group varies between 11% (Ireland) and 16% (Portugal, Croatia) and for the HIGH group the range is 14% (Netherlands) and 18% (Italy).

There is also a distinction between the old and new EU member countries in terms of ageing advancement: in the former the share of the elderly ranges from 11% (Slovakia) to 15% (Latvia), while in majority of the latter that percentage varies between 15% and 18% .

The proportion between the working-age population and those in the non-working-age group reflects the pressure put upon the potential labour force. Because of declining fertility, persons aged up to 14 contribute less and less to that pressure. However, the elderly are increasingly exerting more pressure on the potential labour force. Furthermore, regional differences in the rise in the number of elderly persons (aged 65 and over), as well as in changes of the working-age population, mean that the elderly dependency ratio is strongly diversified across regions and countries.

Figure 2. Elderly dependency ratio, UN projections, medium variant



Source: own calculations based on UN projections (UN, 2003)

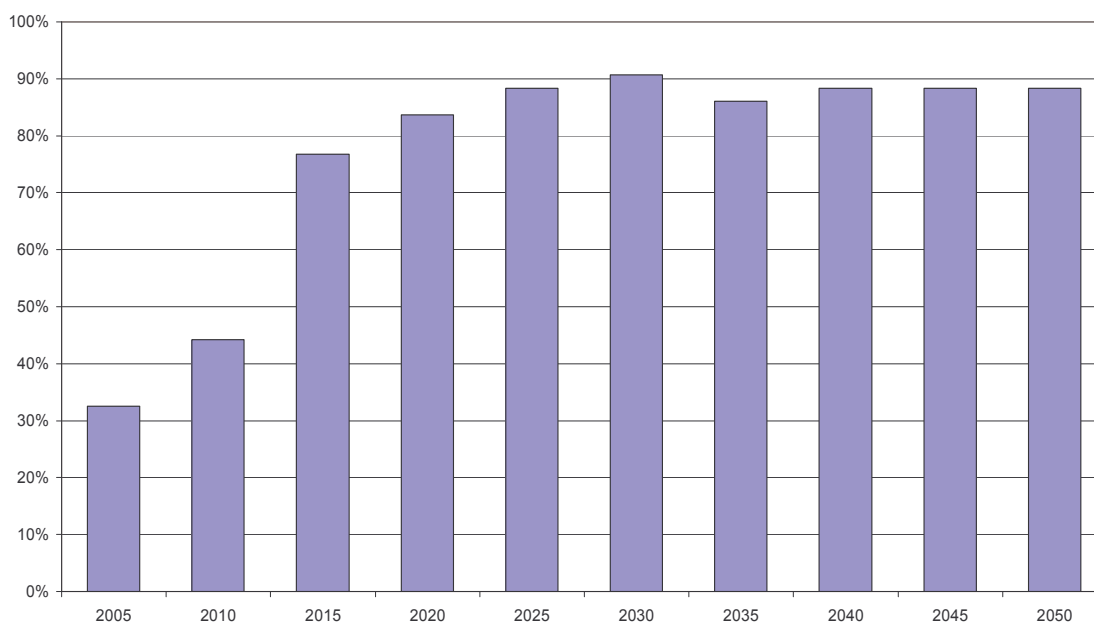
The Council of Europe members are strongly diversified in the number of the elderly persons per 100 working-age people: from 9 persons in Turkey, Azerbaijan and Albania to 27 persons in Italy and Sweden. Again the LOW group is the most heterogenous (from 9 persons to 24 persons in Bulgaria), the range for the MIDDLE group is from 17 (Ireland, Cyprus) to 23 persons (Portugal, Croatia) and for the HIGH group from 20 (Netherlands) to 27 persons (Italy, Sweden).

The elderly dependency ratio is visibly lower in the new EU members: from 16 persons in Slovakia to 23 persons Estonia and Latvia while the majority of the older members have values of 20-27 persons, (Ireland with the value of 17 persons is an exception). Generally, southern and north-western parts of Europe have the highest values of the elderly dependency ratio.

2.2. Projected changes in the working age population

According to recent UN population projections (the 2002 revision, medium variant) the total working age population of the Council of Europe members is expected to rise slightly till 2010 (by 1% in each five-year period). However, already in 2005 one-third of the Council of Europe members will experience a decline of the working-age population (by no more than 3%). That decline is becoming a widespread phenomenon in Europe. In 2015 the number of countries with the declining working-age population will account for 77% of the total number Council members while in 2025 for 88% (Figure 3). In 2025 the working age population will be lower by 4% than in 2000, five years later by 8%. The continued decline shared by nearly 90% of the countries after 2030 is projected to lead to the working age population in 2050 lower by 20% than in 2000. The decline in the working age population is predicted for Europe only.

Figure 3. Percentage of countries with declining the working age-population, Council of Europe countries, UN projections, medium variant

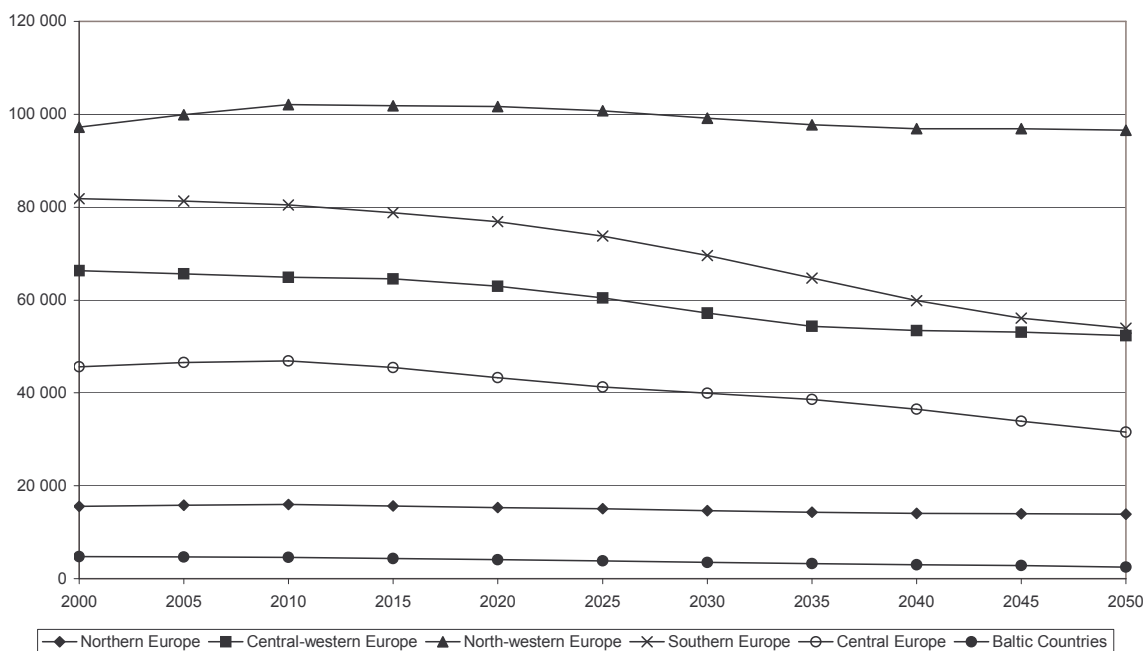


Source: own calculations based on UN projections (UN, 2003)

In the EU15+2 countries, stabilisation around the level of 260 million in the years 2000-2010 will be followed by a decline of 4 million (1%) in 2010-2015. In ‘transition’ countries, after a slight increase (of around 2%), the workforce is set to drop by 1.3 million (3%) in 2010-2015. The changes in the first decade regarding the labour force increase will be most prevalent in Slovakia and Poland, and to a less extent in the Czech Republic. In other countries the onset of the labour force decline is expected either in the years 2000-2005 (Hungary, Latvia, Lithuania and Estonia) or in the period 2005-2010 (Slovenia).

Northern and north-western countries are set to see the workforce increase slowly, while Germany, Switzerland, Italy, Greece, Portugal are already confronted with a decline in this 2000-2005 period. In 2015 only Ireland, Norway, Cyprus and Luxemburg will not experience a decline in labour force, and in 2030 only Ireland will still be an exception.

Figure 4. Working age population (15 - 64 years) by regions of the EU25, UN projections-medium variant, 2000-2050 [in thous.]



Source: own calculations based on UN projections (UN, 2003)

Within a thirty year period the working age population of the EU25+2 will decline by nearly 27.4 million, that is by 9% as compared to 2000. A continuation of that trend will lead to the working-age population in 2050 being 19% lower than in 2000.

The foreseen drop in the working age population is differentiated across countries and regions. The shrinking labour force is expected to be more marked in ‘transition’ countries, since the working-age population in that region will be lower in 2030 and 2050 than in 2000 by 14% and 32% respectively. These indices for the EU15+2 countries are 8% and 17%.

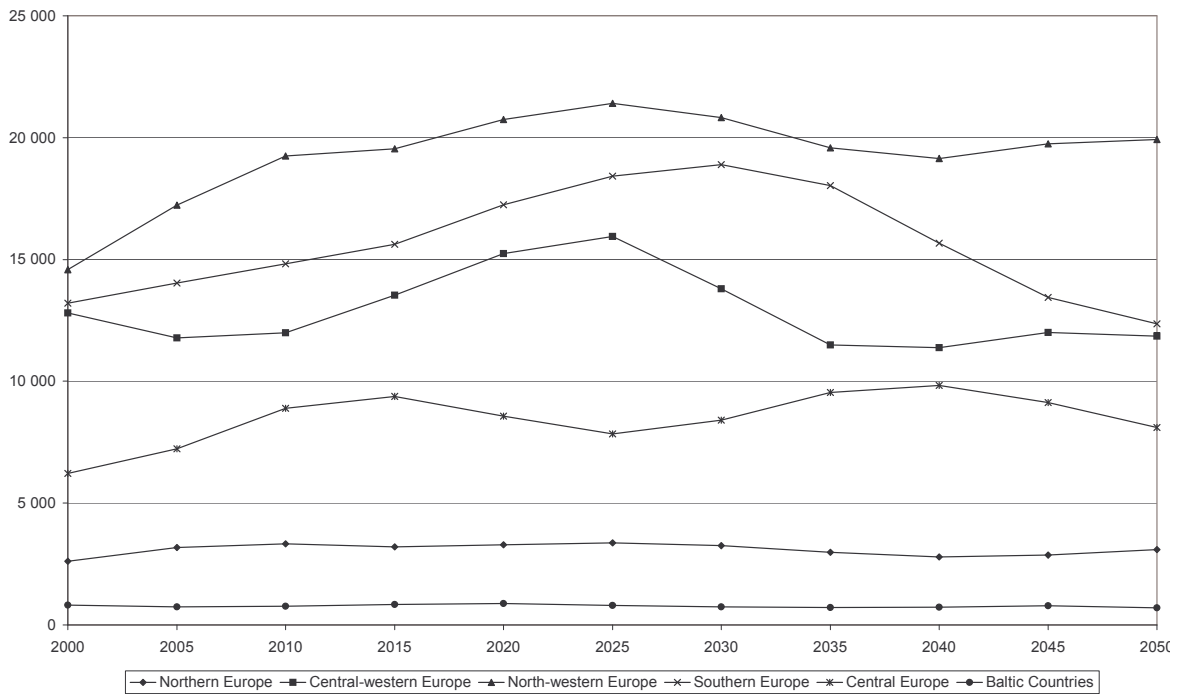
Up until 2030, Bulgaria, Estonia, Latvia, Lithuania, Switzerland, Italy and Slovenia will see their labour supplies decline by at least 20% as compared to 2000. France will maintain the 2000 level, while Norway and UK will experience an increase (by 3% and 5% respectively). Overall, the Baltic

countries, central western Europe and southern Europe will be most seriously affected by the decline in the working-age population (by at least 14%).

On the other hand, the size of the population of those aged 55-64 is expected to rise until 2025 by 35% as compared to 2000, and most significantly in the years 2000-2020. However, both groups of the EU countries differ in terms of the course their changes will take. In the EU15+2 countries the highest increase is set for the years 2015-2020. That population will, in 2025, reach the level of 59.15 million, that is 37% higher than in 2000. Later on, the reversed trend will start and the size of the population in 2050 is only by 9% higher as compared to 2000. ‘Transition’ countries will experience more irregular changes in terms of timing and direction: the rapid increase between 2005 and 2010, the continued rise until 2015 to 10 million people, that is 45% more than in 2000, the decline during the next decade, followed in 2025-2040 by another rise. Then in the last decade the number of persons aged 55-64 will drop again. In 2040 that population will be 50% higher than in 2000. In 2050 it is expected to be 25% higher than in 2000.

Looking at both groups of the EU 25+2 countries one can find considerable cross-region and cross-country differences. In central western and north-western Europe the population aged 55-64 years will see upward growth until 2025, and in southern Europe, until 2030. In central Europe this increase will cease by 2015.

Figure 5. Population 55 - 64 years by regions of the EU25, UN projections -medium variant, 2000-2050 [in thous.]



Source: own calculations based on UN projections (UN, 2003)

Furthermore, the intensity of changes is markedly differentiated across countries. Until 2025, north-western and southern countries will be confronted with the most radical changes in the size of the older working population (the rise by 47% and 40% respectively). For central Europe the

coming ten years will be key in that respect due to a rapid rise in the supply of older workers (by 51% between 2000 and 2015).

The changes described above are crucial for the timing of labour force ageing (see Figure 1). The process will intensify in southern and north-western countries, especially until 2010. In 2030, the share of persons aged 55-64 will range between 24% (Portugal) and 29% (Italy) while for the second group of countries it will range between 20% (UK) and 23% (Netherlands). In Germany, Austria and Switzerland the share will be 24-25%. In 'transition' countries it will range between 20% for Poland and 25% for Slovenia.

In general, labour force ageing will markedly intensify in the HIGH group – the ageing indicator will be in 2030 between 21% (France) and 29% (Italy), however its acceleration in remaining groups is also significant (see Table 1). According to UN projections, from 2030 onwards the labour force ageing is expected to slowdown in the HIGH group and to continue in other groups of countries, especially in the former socialist countries.

Table 1. Labour force ageing in HIGH, MIDDLE and LOW groups of countries, 2000-2050

Groups of countries	Range of the percentage of persons aged 55-64 years		
	2000	2030	2050
HIGH	9 - 17	21 - 29	20 - 25
MIDDLE	12 - 17	18 - 24	20 - 32
LOW	14 - 20	16 - 25	20 - 32

Source: own calculations based on UN projections (UN, 2003a)

The size of the population aged 65 and more is going to grow continuously in all countries from 112.3 million people in 2000 to 172.2 million in 2030 (by 53% as compared to 2000) and 197.9 million in 2050 (by 76% as compared to 2000). That rise is accompanied by a significant decline in the working age population, therefore elderly dependency ratios are expected to increase rapidly in all Council of Europe countries. They are becoming more heterogeneous in terms of their values, also the group heterogeneity is on the rise (Table 2).

Table 2. Elderly dependency ratios in HIGH, MIDDLE and LOW groups of countries, 2000-2050

Groups of countries	The number of person aged 65 and more per 100 of persons aged 15-64		
	2000	2030	2050
HIGH	20 - 27	34 - 52	38 - 68
MIDDLE	17 - 23	27 - 38	35 - 59
LOW	9 - 24	16 - 43	27 - 64

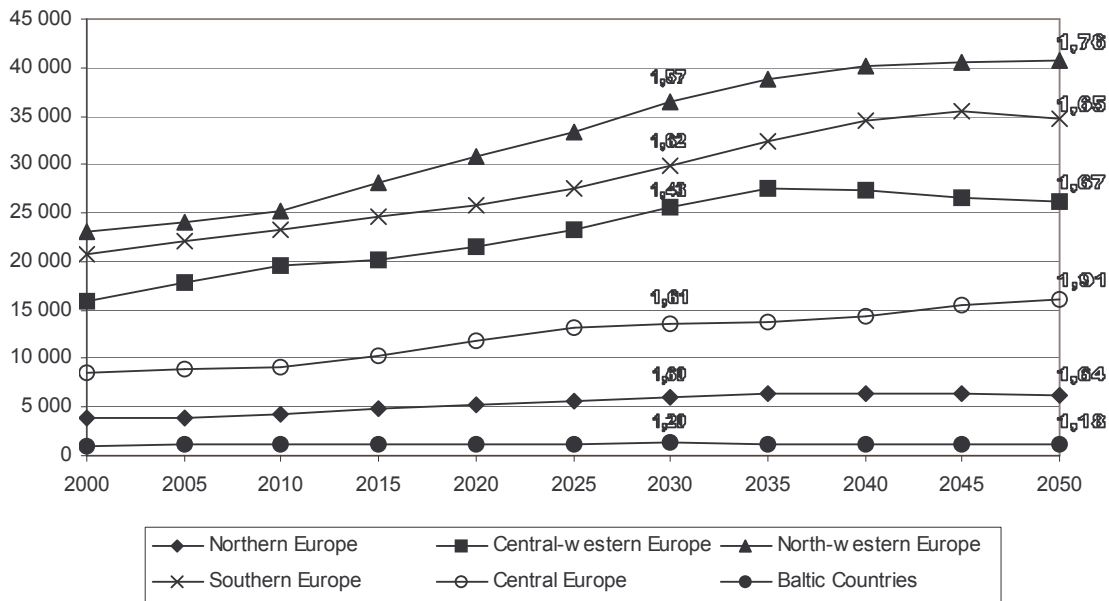
Source: own calculations based on UN projections (UN, 2003a)

When looking at various countries one can notice that in 2030 Switzerland is set to be a leader (53 old persons per 100 of working-age people), followed by Italy, Germany, and Finland (44-47 persons). Only Turkey and Azerbaijan are predicted to have elderly dependency ratios below 20 persons. Twenty years later the lowest values are expected also for Turkey and Azerbaijan (28 and 28 persons), while the highest will be in Spain (68), Italy (65), Slovenia (64) and Greece (62).

In the EU25+2 countries the elderly population will increase from 73.2 million people to 104.2 million in 2030 (by 54% as compared to 2000) and 125.6 million in 2050 (by 71% as compared to 2000). There is a marked difference between both groups of the EU countries in terms of timing and intensity of changes. Till 2030 the rise for the UE15+2 countries is more regular in (nearly by 8% for each five-year period) while in ‘transition’ countries the growth will accelerate after 2010 (by at least 10% for each five-year period up to 2025). That group of countries will experience the elderly population increased by 56% in 2030 and by 83% in 2050 while these indices are respectively 54% and 70% for the EU15+2.

The highest dynamics of change till 2030 is predicted for southern Europe (by 62%), central Europe (by 61%), northern countries (by 60%) and north-western countries (by 57%). In the long-run the strongest increase of the elderly population will be in central Europe (by 91%), followed by north-western countries (76%).

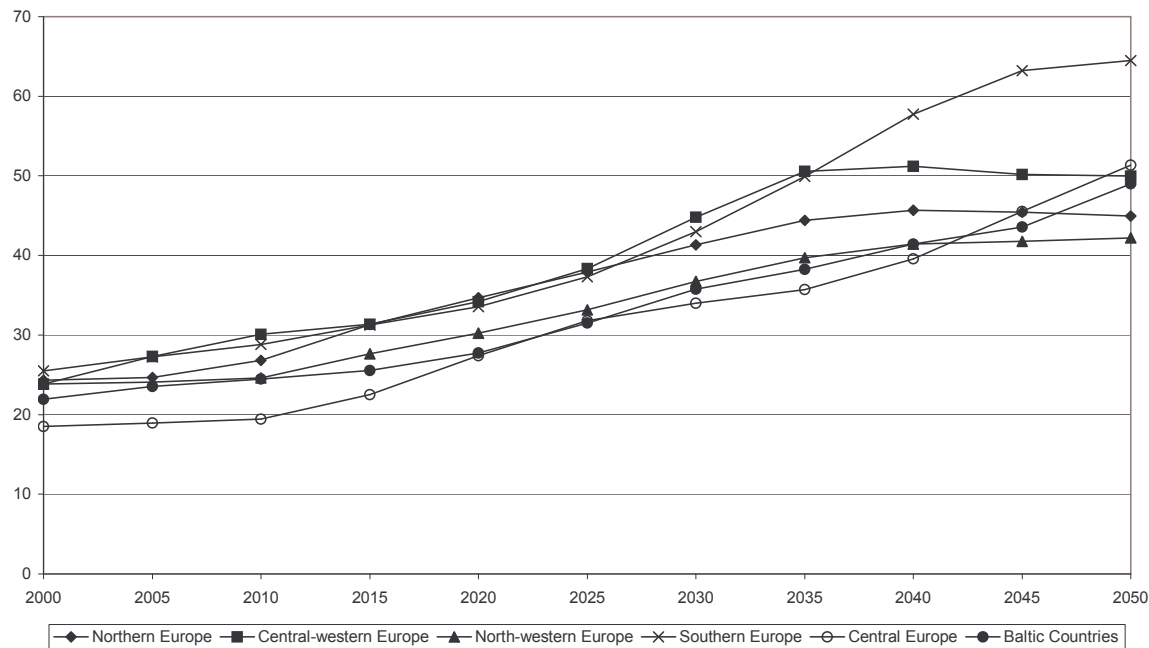
Figure 6. Population aged 65 year and more by regions of the EU25, UN projections - medium variant, 2000-2050 [thous.]



Indices for the years 2030 and 2050 refer to changes between 2000-2030 and 2000-2050 respectively. Source: own calculations based on UN projections (UN, 2003)

Since both the rise in the elderly population and the labour force decline are more pronounced in the EU25+2 countries, the up-ward trend in dependency ratios is also stronger, especially till 2030 (Figure 7). The rapid increase of dependency ratios is expected for all regions between 2015 and 2025, later on changes are diversified across regions. The most intensive rise will be for southern countries till 2045, similarly the values for central Europe will grow continuously. For other regions the upward trend will stop after 2035.

Figure 7. Elderly dependency ratio by regions of the EU25, UN projections- medium variant, 2000-2050



Source: own calculations based on UN projections (UN, 2003)

2.3. Possible effects of the projected changes in the age composition

Predicted changes in the age composition show unfavourable shifts between the working-age population and the elderly population. Taking additionally into account the fact that effective dependency ratios, based on the relation between inactive and active populations, are considerably higher than measures currently discussed, and coupling that with labour force participation trends, which contribute to a worsening of effective ratios, concerns about the financial viability of public pension systems are deeply justified⁵.

Moreover, shrinking working-age population and its ageing are expected to have widespread effects on the labour market and the economy. Firstly, the decreasing size of the working-age population may contribute to a decline in the labour force (employed and unemployed persons). If the current trends in the participation rates are to continue (baseline scenario), the labour force of the European Union will decline after 2010, and by 2050 the number of active people observed in 1985 might be reached (Statistics in focus, theme 1-2/ 2001, 1). Despite regional differences in the timing and intensity of a decline, as well as differences in labour force participation, Europe will face a widespread labour force decline.⁶

⁵ A decomposition of long-term projections in spending on old-age pensions to 2050 for 22 OECD countries due to demographic change, change in labour force participation and unemployment and changes in the generosity of the pension system (which includes both changes in the share of those aged 55 and over receiving benefits and in the average pension benefit), shows that the demographic effect is the key factor driving pension spending over the period while impacts of the three other factors are visibly lower (Casey *et al*, 2003).

⁶ Labour force projections prepared recently for the OECD area from 2000 to 2050 also illustrate the labour force decline in majority of European countries (Burniaux *et al*, 2004).

One can argue that the declining labour force might be counteracted by diminishing under-utilisation of labour, which is widespread across Europe. It seems, however, that labour force decline, coupled with its ageing, can result in labour force shortages and skill mismatches (especially in some regions and sectors of the economy), a slowdown of technological progress, as well as reduction in mobility and flexibility of the labour force. On the demand side, the increasing dynamics is observed, that is rapid technological change, profound shifts in work patterns (temporary jobs, part-time jobs, fragmentation of work and timing of work). The changing nature of employment from a structured work-life and work-environment to a self-managed, more flexible and personal career, might create some difficulties for older workers. Therefore, there is cause for concern about the capabilities of labour supply, especially of older persons, to adapt to new requirements. Keeping in mind advances in population ageing and increasing old-age dependency ratios, as well as existing financial arrangements for pension systems, it can be concluded that on the whole Europe is confronted with a significant challenge to adjust labour market policies and social security systems to these changes.

3. Changes in the labour force participation rates of persons aged 55 and over

3.1. Overall trends in economic activity of the population

Changes in economic activity are analysed over recent three decades. They can be illustrated by the age-sex-specific labour force participation rates (LFPR). Available data on ‘transition’ countries for the years up to 1990 cannot be directly compared with data for the 1990s. Therefore, the long-term trends in LFPRs are only analysed for the EU old members plus Norway and Switzerland while for ‘transition’ countries the last decade can be considered.

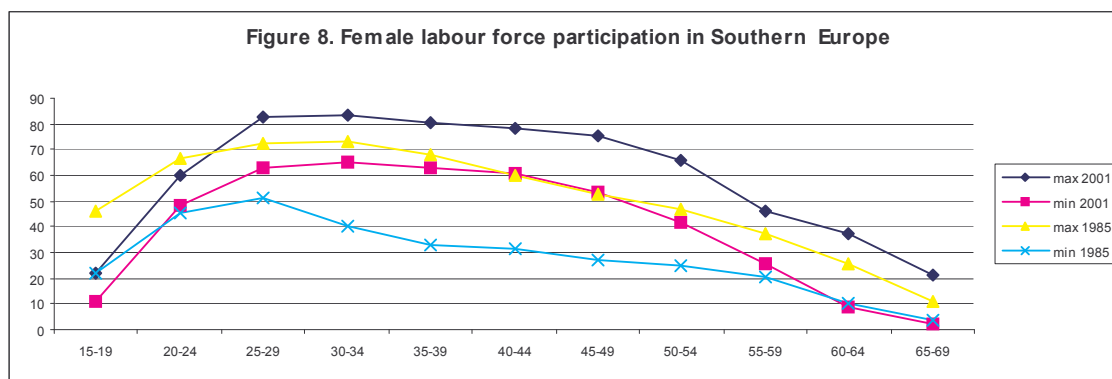
Major changes in economic activity can be summarised as follows (Kotowska, 2003; Burniaux *et al.*, 2004):

- recent three decades brought up remarkable changes in the labour market: an increase of women in employment, declining economic activity of males, the youngest persons as well as older workers. The later entrance in the labour market and early exit affect the individual time spent in employment. It has been shortening despite the rising life duration;
- cross-country differences in economic activity can be attributed to differences in the labour market participation of women, youths and older workers while the economic activity of males aged 25-54 shows an universal pattern⁷;
- males, especially for the age 55-64, reveal a general decrease in economic activity. The rates for males aged 25-54 being around the 90% level are homogenous across countries. Country differences increase within the age. These changes cannot be associated only with economic cycles (for example an increase in the 1970s and a decline in the 1980s);
- on the contrary, the economic activity of females has been continuously rising for those aged 25-54, especially aged 25-44. For the remaining age groups the changes did not show such a uniform picture. In a majority of countries the increase can also be observed for females at age 55-59 while the rates of females aged 60-64 declined. The activity of females aged 65 and more

⁷ As it has been shown by Burniaux *et al.*, (2004) for the OECD countries participation rates of prime-age males vary little across countries while those of older workers reveal largest disparities followed by youths (15-24 years old) and prime-age women (Burniaux *et al.*, 2004, 86-87).

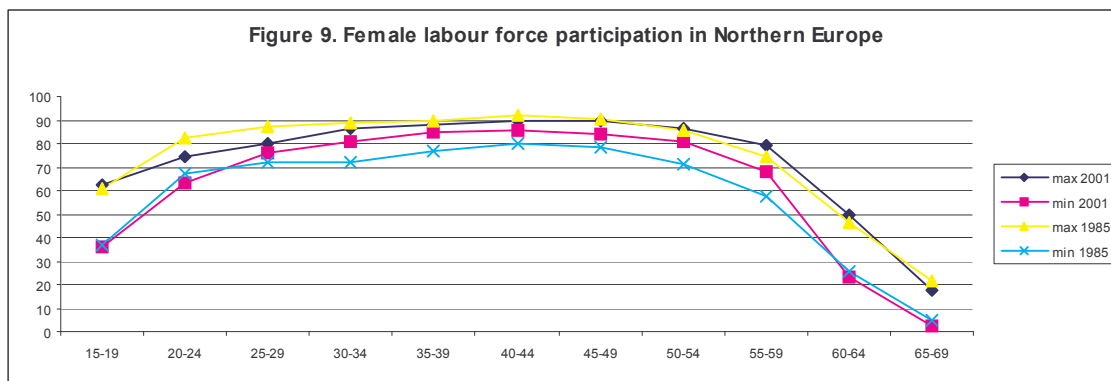
- was low and declined. Increasing participation of women has been the largest component of the rise of the aggregate economic activity rates over the past decades;
- the female LFPRs are considerably differentiated across countries. In 1970 the lowest rates for age 25-44 were found in Italy, Greece, Belgium while the highest ones in Denmark, Austria and Sweden. The differences still existed in the beginning of the XXI century, but at the significantly higher level of economic activity: Italy and Greece are still at the bottom of the ranking list, while Scandinavian countries and France are at the top;
 - the general downward trend in the LFPRs of persons aged 55 and more is also markedly differentiated by countries. Despite the fact that in most countries the standard age of retirement for males, being at least 65 years in the 1970s (Greece and Italy are exceptions), was relatively stable over time, in 1990 economic activity rates of males aged 55-59 ranged from 54% (Luxemburg) to 84% (Sweden, Denmark) and those of males aged 60-64 from 14% (Austria) to 64% (Norway, Sweden). In 2003 the range for economic activity rates of males aged 55-59 remained as in 1990 while for males aged 60-64 the lowest values shifted to 18-19% (Austria, France) (ILO data⁸).

Figures 8 and 9 demonstrate both changes in the female economic activity and age patterns of female labour force participation. Shifts in age patterns between 1985 and 2001 are defined by maximum and minimum values of the LFPRs. Figure 8 presents countries with low participation (Italy, Greece, Spain and Portugal). An impact of breaks in paid work after starting family, being a distinctive feature of that pattern of economic activity, has disappeared. However, still the highest values of the participation rates are for women aged 25-34. The participation rates in countries with high economic activity of women (Sweden, Norway, Finland, Denmark) have increased as well, countries have become more homogenous. However, the maximal rates for women aged 20-29 are visibly lower in 2001 than in 1985 and those of women aged 30-49 also have dropped slightly but they oscillate around 90%.



Source: Based on labour force participation data in: Sączuk K. (2004), Labour force participation scenarios for 27 European countries, CEFMR Working Paper 5/2004, Warsaw

⁸ <http://laborsta.ilo.org/> - extracted in January 2005.



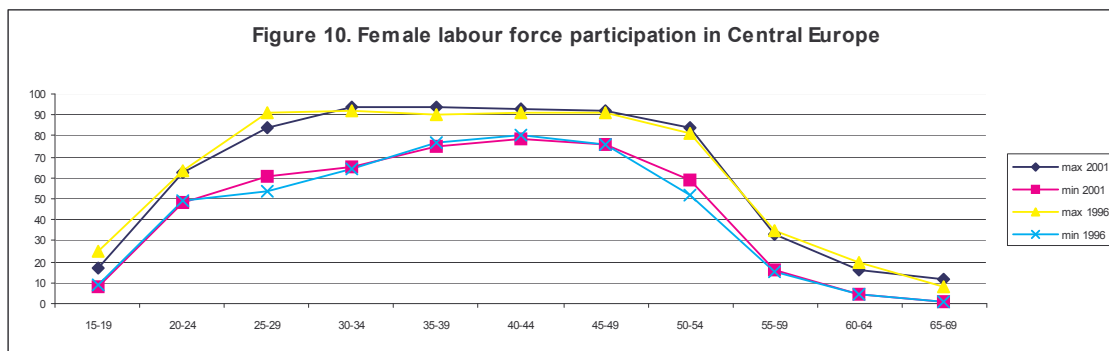
Source: Based on labour force participation data in: Sączuk K. (2004), Labour force participation scenarios for 27 European countries, CEFMR Working Paper 5/2004, Warsaw

Centrally planned economies had, by European standards, a high economic activity for both males and females. These countries were almost uniform in terms of LFPRs of males and slightly differentiated in terms of females' rates⁹. Labour market participation changed drastically in the 1990s. In most of these countries economic reforms brought a sharp contraction in output and employment accompanied by a rise in unemployment. Despite the recovery, which started in around 1993, employment has continued to decline or stagnate. The LFPRs, available from labour force surveys¹⁰, fell in all countries, most visibly in Bulgaria, Hungary and Poland. However, as compared to the EU-15 participation rates in 1996, in most transition countries they were still higher than the EU average (67.4% for persons aged 15-64). Lower rates were found for Bulgaria and Poland (Central European countries' employment and labour market review, 1999). Slowing economic growth at the end of the 1990s was accompanied by further employment decline while its acceleration was not reflected in a rise of employment. In 2003 the Slovak Republic had the activity rate above the EU level (76.7% vs. 70%) only, Baltic countries and the Czech Republic kept the economic activity close to the EU level and the other 'transition' countries were well below the EU level (the lowest rate 63.9% was in Poland).

To illustrate the age pattern of female activity in 'transition' countries, different from both patterns presented already, the age-specific activity rates of females in five countries of Central Europe (the Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia) are shown by Figure 10. Unfortunately, comparable data could be found from 1996 on. The participation patterns of females reflect cross-country discrepancies in starting work and family which became more difficult than before 1990. The largest differences between maximum and minimum rates persist for age 25-34 while the rates of women aged 55-59 are below those found for both southern and northern co

⁹ In fact, that measure can be compared with employment rates for the developed market economies, given the full-employment principle and a lack of open unemployment before the 1990s.

¹⁰ The national labour force surveys were introduced in transition countries in the first half of 1990s, according to international recommendations on definitions and methods. They have become the main source of data on labour market developments. A selection of transition countries forming part of that study has been based on the availability of comparative labour market data. Among ten countries selected, Hungary was the first country, with the survey established in 1991, and Latvia and Estonia were the last ones with the surveys starting in 1995.



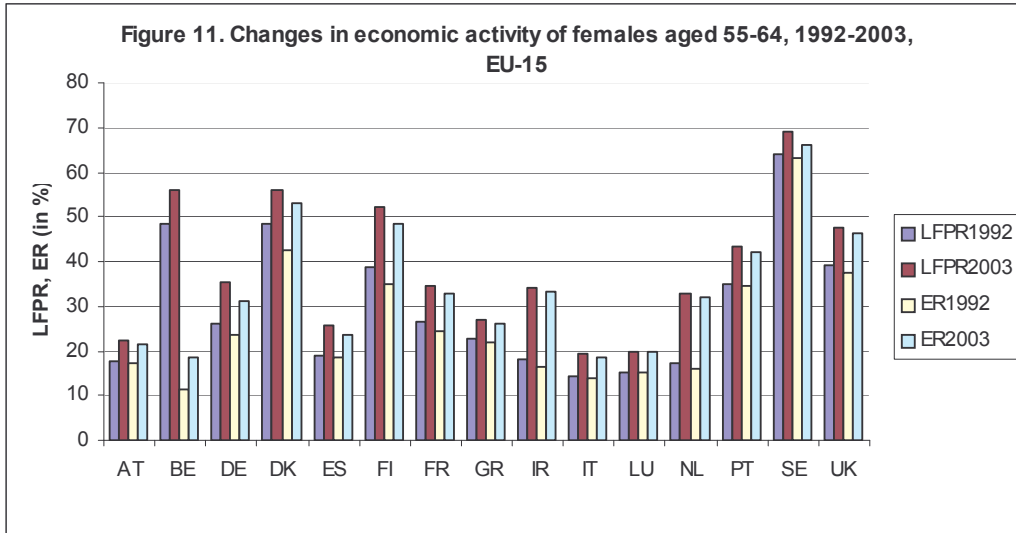
Source: Based on labour force participation data in: Saczuk K. (2004), Labour force participation scenarios for 27 European countries, CEFMR Working Paper 5/2004, Warsaw

To deal with rising unemployment governments of ‘transition’ countries liberalised disability and early retirement provisions. As a result, economic activity of persons aged 55-64 dropped considerably. The relatively rapid changes of employment of older workers in ‘transition’ countries led to the employment rate of males being considerably lower when compared to the developed economies. However, it should be noted that the standard age of retirement is, for both males and females, lower than in the EU-15 countries – on average 60 years for males and 57 for females. It is important to remember also, that in the EU-15 countries the trend of the labour market participation of older workers results mainly from declining economic activity of males, while in transition countries declines in both male and female participation contributed to the observed change.

3.2. Changes in the labour force participation of persons aged 55 –64 in the years 1992-2003

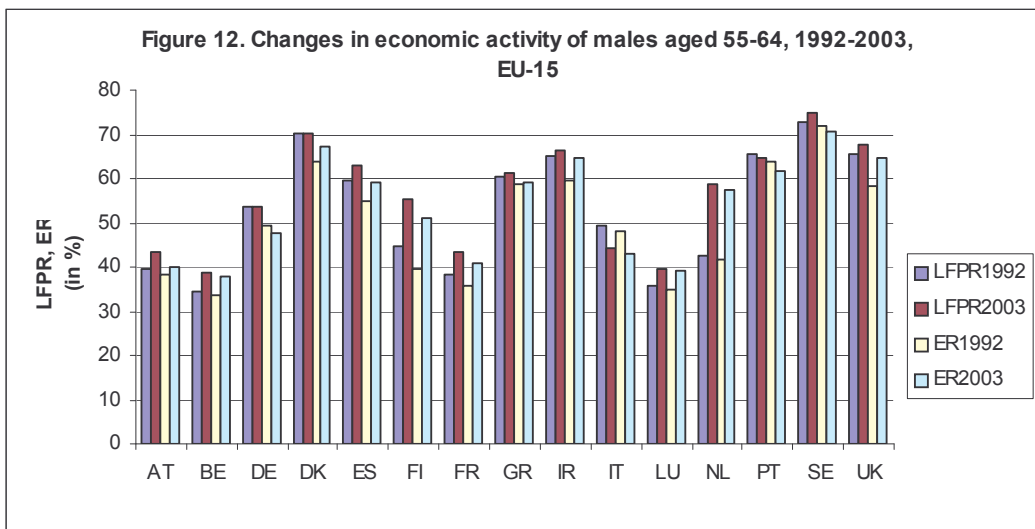
The general downward trend in economic activity of persons aged 55 and more is a subject of concern, all the more so when referring to foreseen shrinking of labour force, its ongoing ageing as well as the population ageing. There are some signs that tendency has been stopped at the EU-15 level at the end of 1990s. However, when looking across countries at changes for both males and females over the recent decade the picture becomes more diversified.

In 1992 the lowest activity rates of males aged 55-64 did not exceed 40% (Austria, Belgium, France, Luxemburg), the highest ones ranged between 66-73% (Denmark, Portugal, Sweden, UK). The upward trend started in the Netherlands in 1996, later on in Ireland and Finland, and gradually more and more countries joined that trend. In 2003 all the EU-15 members experienced a rise in the LFPRs of older male workers. When referring to employment rates, in 1992 also Belgium, France, and Luxemburg had the lowest rates (less than 36%) while Sweden was the leader with the rate of 72%, followed by Denmark and Portugal (64%) and UK (58%). The clear upward tendency concerned firstly Finland (since 1995), the Netherlands and UK (since 1996) and since 2000 that change was becoming widespread across other countries. As a result the economic activity of older males in majority of the EU-15 members was higher in 2003 than in 1992 (in terms of both indicators), except for Italy and Portugal (both rates lower then in 1992) and Sweden (employment rates lower than in 1992) (see Figure 11).



Source: Employment in Europe 2004, Recent trends and Prospects, European Commission, Employment and Social Affairs, Brussels.

Contrary to males, economic activity of females aged 55-64 at the EU-15 level revealed a steady rise over the years 1992-2003. However, across countries changes were not uniform. A regular increase of economic activity concerned Ireland and the Netherlands only, in other countries the onset of rise could be dated in subsequent years of the second half of 1990s. Since 2002 relevant rates are increasing in all countries. In 2003 labour market participation of older females in all EU-15 members was higher than in 1992 (in terms of both indicators). The rise was stronger than for older males. But despite that activity indicators remain low (around 20%) in Austria, Belgium, Italy, and Luxemburg. Sweden again is located at the top of the ranking list with the rates exceeding 65%, followed by Denmark with rates ranged between 53-56% (see Figure 12).

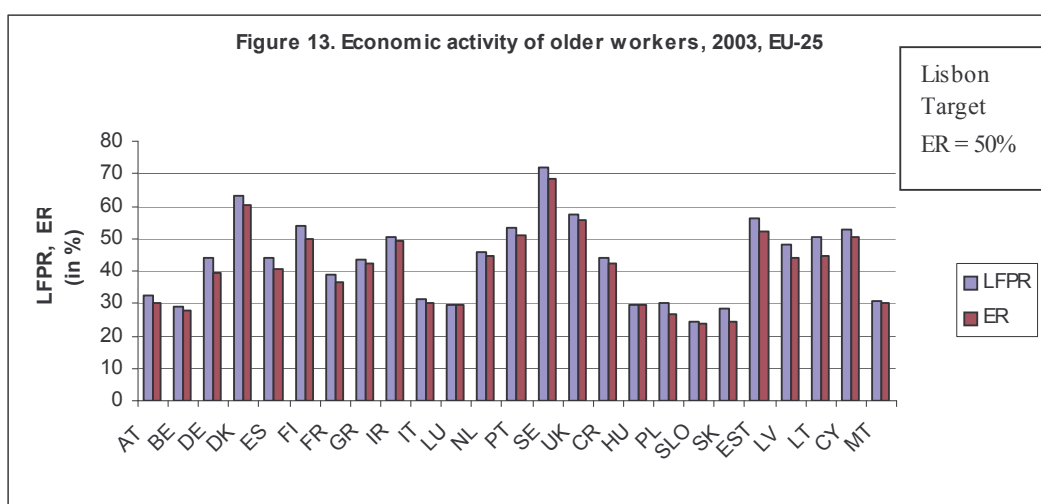


Source: Employment in Europe 2004, Recent trends and Prospects, European Commission, Employment and Social Affairs, Brussels.

Comparable labour force participation data for eight of new member states cover the second half of the 1990s¹¹. Over the years 1996-2003 declines in economic activity of older males prevailed, however, recent years show signs of halting that tendency. Only Hungary showed the clear upward trend but from the extremely low level (29% in 1996). However, in Hungary, Poland and Slovenia the activity rates of males were below 40% in 2003, in other countries ranged between 48% (Slovakia) and 64% (Estonia).

Signs of improvement in very recent years are also visible among older women in the new member states but their economic activity is extremely low. Only in Baltic countries the rates ranged between 42% and 50% in 2003. In Slovenia and Slovakia the LFPRs did not exceed 15% while in Hungary, the Czech Republic and Poland ranged 22-30% .

Figure 13 illustrates cross-country differences in aggregate activity and employment rates of those aged 55-64 in 2003. The employment rate for older workers stood at just over 40% in 2003. The lowest rate was that for Slovenia (under 24%) while Austria, Belgium, Hungary, Italy, Luxembourg, Malta, Poland, and the Slovak Republic had the rates approaching 30%. Employment rates close to the Lisbon target set at 50% were in Finland, Ireland, the Netherlands, Portugal, Latvia, Lithuania and Cyprus. Only Sweden, Denmark, UK and Estonia were far ahead of that level.



Source: Employment in Europe 2004, Recent trends and prospects, European Commission, Employment and Social Affairs, Brussels.

Summing up, over the past decades falling participation of older workers contributed markedly to the aggregate participation rate. However, since the second half of the 1990s signs of reversing that downward trend occurred. Decomposition of changes in the aggregate participation rate to contributions of demographic changes and group-specific shifts in participation for OECD countries over the period 1975-1990 and 1990-2000 showed that negative contributions of older workers activity rates declined in the years 1990-2000 as compared to the years 1975-1990 (Burniaux *et al.*, 2004, 9-10). That could reflect pension and other labour market reforms implemented in a number of the EU countries (see also Scherer, 2001).

¹¹ For Malta and Cyprus such data are available since 2000.

3.3. Possible determinants of declining economic activity of persons aged 55 and over

The declining labour force participation of older workers is most commonly attributed to three main factors: increased living standards of the population, incentives embedded in social security systems, and labour market structures (for example Blöndal and Scarpetta, 1998, 1999; Gruber and Wise, 1999; Disney and Whitehouse, 1999a, 1999c; OECD, 1995a, 1995b; Scherer, 2001; Casey *et al.*, 2003, Duval 2003). The intensity of changes across age groups is affected by the different standard age of retirement by countries as well.

In empirical studies on changes in economic activity of older workers labour market related effects and institutional factors are highlighted as the main determinants. Usually, both the demand effects (structure of the economy, high and persistent unemployment, technological progress) and the supply effects (the size and age composition of the labour force, old-age pensions and other non-employment related benefits) are analysed. The studies refer almost entirely to the OECD countries excluding ‘transition’ countries.

The main findings of comparative studies on retirement decisions of male workers for OECD countries, directly referred to here, can be summarised as follows (Blöndal and Scarpetta, 1998; Casey *et al.*, 2003; Duval, 2003)¹²:

- there is a close correlation between the average effective retirement age and continued work;
- pension wealth accrual and unemployment-related benefits have a strong impact on decisions to retire;
- the availability of generous non-employment benefits seems to be a prerequisite for labour market variables to influence activity rates of older workers;
- implicit tax rates on continued work embedded in old-age pension systems and other social transfer programmes, widely dispersed across OECD countries, affect retirement decision of older male workers;
- the labour market variables play a significant role in explaining cross-country and time variations in the economic activity of older men: the increase in the prime-age unemployment rate influences the drop in the labour force participation rate, changes in the size and the age composition of the working-age population seem to exert strong pressure for early withdrawal on older male workers;
- incentives to retire vary across age groups. For the age of 55-59 years they result from a number of social transfer programmes, which have been used in fact as early retirement schemes. For the 60-64 and 65+ age groups eligibility ages also appear to have a specific impact;
- institutional factors like different bargaining systems (the level of centralisation/co-ordination of wage negotiations) and the degree of unionisation (the share of trade union members) play direct and indirect roles: for example high levels of unionisation have favoured early withdrawals by promoting early retirement schemes at the firm and/or sectoral level, and the stronger effect of changes in the labour supply on participation rates was found in countries with sectoral bargaining but without co-ordination;

¹² The study on determinants of changes in the labour force participation rates of older men aged 55-64 countries by Blöndal and Scarpetta (1998) is based on panel data about fifteen OECD countries from the years 1971-1995. Duval (2003) has separately analysed economic activity of males aged 55-59, 60-64 and 65 and more by use of panel data about 22 OECD countries over the years 1967-1999. The paper by Casey *et al.* (2003) makes use of the data set for fifteen OECD countries which provides an assessment of the incentives to retire in current systems for single individuals aged from 55 to 70 at various levels of income.

- labour market factors and institutional factors explain a great deal of the cross-country and time-series differences in the labour force participation rates, however a large part of the cross-country variation remains unexplained.

Another study on changes in economic activity rates in the EU-15 by Vlasblom and Nekkers (2001)¹³, in which both the labour supply and labour demand factors were represented along with institutional variables, allows for the following synthesis:

- more higher educated persons tend to stay longer in the labour market;
- the higher the pension age, the higher the activity rates;
- the possibility to defer pensions increases the activity rates;
- the possibility of early retirement lowers the activity rates of males younger than 65 and increases the rates of males older than 65;
- a similar effect has been noted regarding the possibility to use a partial pension.

The studies referred here confirm that the majority of the differences in the labour force participation rates between countries stem from differences in the country-specific labour force behaviour (behaviour and work attitudes) and institutional and policy factors affecting labour supply decisions, *i.e.* they confirm a relevance of contextual factors.

The decline in economic activity of persons aged 55 and over in ‘transition’ countries could also be related to both the demand and supply sides. The demand for labour has been strongly influenced by the transformation processes: institutional changes linked to the establishment of a labour market and the restructuring of the economy and employment structures. Economic reforms imposed a fundamental reconstruction of labour market control mechanisms aimed at the more effective management of the workforce, a rise in labour productivity and an improvement in the quality of work. Demand for labour changed drastically in quantitative and qualitative terms. On the supply side the increase in the size of the working-age population and its ageing and declining spatial mobility were observed. Moreover, the fact that the overwhelming majority of older workers were low-skilled significantly reduced their capacity to avoid skill mismatches. Demand-supply imbalances led to rising unemployment in most countries on a large and unanticipated scale. Moreover, the strategy to re-allocate some groups of the population from work to outside the labour market was frequently used to limit the labour supply (for example liberalising entitlements to early retirement and implementing non-employment related benefits). And despite recent reforms aimed at reducing early withdrawal from the labour market the economic activity of older workers in the new EU member states is significantly lower than in the EU-15, except for the Baltics and Cyprus.

4. Older workers in the labour market - from the fragmented to integrated policy towards older workers

4.1. The Lisbon strategy perspective

The EU development strategy, adopted in March 2000 at the Lisbon European Council, aims to reach by 2010 a strategic goal defined as “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and

¹³ Labour force participation rates of both females and males aged 55-74 at the national and regional (NUTS-II) levels have been analysed for the period 1992-1997.

greater social cohesion” (Employment in Europe 2004, 2004, 3). The Lisbon strategy accounts for population ageing, the contraction of the labour force and its ageing. In response to that change increases in labour supply have been considered as extremely relevant from the economic and social perspectives. Following that approach the European Council has formulated the ambitious employment targets: to increase the overall EU employment rate to 70% by 2010 and to increase the female employment rate to more than 60% by 2010. The European Council in Stockholm (March 2001) added two intermediate targets for 2005: to increase the overall employment rate to 67% and the employment rate for women to 57%. The additional target concerns an increase of the employment rate for older workers to 50% by 2010. Moreover, the Barcelona European Council (March 2002) confirmed that full employment was the overarching goal of the EU and called for a reinforced employment strategy to underpin the Lisbon strategy in the enlarged EU. And the revised European Employment Strategy, adopted at the European Council in Thessaloniki in June 2003, includes three overarching objectives: full employment, quality and productivity at work, social cohesion and an inclusive labour market. For their achievement the four key strategies are recommended:

- increasing adaptability of workers and enterprises,
- attracting more people to the labour market,
- investing more and more effectively in human capital,
- ensuring effective implementation of reforms through better governance.

An emphasis given to labour supply seems to reflect an opinion that the rapid ageing is calling into question Europe’s ability to achieve the defined strategic goal, in particular higher employment and productivity rates. Therefore, interventions to improve adaptability of labour force to dynamic and highly competitive labour market are so strongly recommended. Especially, actions towards older workers require a radical policy and culture shift, away from early retirement.

Since increasing participation of older workers along with higher participation of women and other groups of population underrepresented in the labour market, to be considered as fundamental to meet the goals of increasing economic growth, improving competitiveness and achieving greater social cohesion, need both institutional and cultural adaptations, one can look at reforms of old-age pension systems as a component of more comprehensive approach to prolong stay in the labour market. Therefore not only measures aimed at removing disincentives for workers to work longer and to discourage early retirement should be discussed but also policies stimulating lifelong learning, improving working conditions, encouraging employers to retain and retrain older workers. That view, presented increasingly by many researchers in the field, is shared by policy makers also. The Lisbon strategy situates policies towards older workers within the broad frame of active ageing and highlights its fostering as a priority (Economic Commission, 2004 ; Economic Commission, 2005). These policy considerations follow the brief discussion of old-age pension system reforms.

4.2. Reforms of old-age pension systems

The rising imbalance between the number of the contributors to the public defined-benefit pension systems, predominantly based on a PAYG basis, and their beneficiaries is one of the main reasons for concerns about deteriorating levels of income support for the elderly, widely shared by the governments. That imbalance is related to the population ageing as well as the labour force ageing, accompanied by the decline in the economic activity of older workers. In ‘transition’ countries shrinking tax bases additionally affects public pension finances. What happened in ‘transition’

countries with PAYG schemes demonstrates clearly the sensitivity of that scheme to changes in the labour market (Augusztinovics, 1999, after Fultz, Ruck, 2001), contrary to its usual perception as dependent on demographic factors mainly. Another subjects of policy concern are also: low effective retirement age despite increasing life expectancy, work disincentives embedded in the pension systems, adequacy of the pension benefit level (mostly in 'transition' countries), and improving the size of population covered by pension arrangement.

Since the 1990s, particularly since the second half of the decade, many policy initiatives have been undertaken to improve social and private financial arrangements for retirement. The commonly listed goals of pension reforms are:

- establishing a closer link between contributions and benefits,
- reducing pension generosity;
- removing financial incentives to early retirement;
- improving the adequacy of pension benefit levels;
- increasing the number of contribution years;
- increasing the share of the population covered by pension arrangements;
- promoting private pension schemes, and
- getting greater convergence between existing public and private pension schemes.

Since theoretical considerations as well as empirical studies have demonstrated that defined-benefit pension schemes include work disincentives (for example Blöndal and Scarpetta, 1998, 1999; Gruber and Wise, 1999; Kalisch, Aman, 1998; Disney and Whitehouse, 1999a, 1999c; Duval, 2003; Casey *et al.*, 2003) amendments to the PAYG schemes have been recommended as necessary to counteract the deterioration of public pension finances. And reforms recently undertaken in a number of countries follow that direction. However, it has becoming more and more clear that fundamental changes are needed to ensure the financial sustainability of pension systems given the predicted advancement in population and labour force ageing.

In discussions on how to adapt pension schemes to demographic and labour market challenges, the issue of closer links between benefits and contributions remains one of the main problems. What is an adequate solution: to reform defined-benefit schemes or to introduce notional defined contribution schemes? A reform strategy oriented at the first option could include a reformulated benefit structure (for example by adjusting the contribution rate, the pension coverage ratio and the replacement rate, reducing the accrual periods, lengthening the assessment periods, introducing actuarially fair adjustments for late/early retirements, and incorporating demographic and fiscal factors in the benefit formula). Early retirement should be eliminated or permitted on a more limited and actuarially fair basis. Also consolidation of the system by removing sector privileges and administrative adjustments is necessary. With that approach changes in some parameters of the system are implemented, however, its logic remains unchanged. These adjustments can be termed *parametric reform* (Holzman *et al.*, 2003). Most of the EU-15 countries adopted these reforms.

Moving towards a notional defined contribution scheme requires a transformation of the public pension system into a new system based on individual accounts. Pension contributions are credited with an "interest rate" equal to growth in the country's aggregate wage. Each person's pension depends on his or her accumulated amount divided up by the average life expectancy at the retirement age. That formula uses lifetime wages to determine benefits, includes adjustments to growing longevity and incentives for older workers to remain in the labour force and pay contributions. This approach imposes a change in the paradigm of the system. *Paradigmatic reforms* (Holzman *et al.*, 2003) encourage not only those below the standard retirement age but also

persons above that age to stay in the labour market. Several examples of such reforms can be referred to, mostly in ‘transition’ countries: Sweden (1994), Italy (1995), Latvia (1998/2001), Estonia (1998/2002), Hungary (1994/1998), Poland (1999), Bulgaria (1994/2002), Romania (2001), Lithuania (2003)¹⁴.

It is difficult to state definitely whether the parametric or paradigmatic approach is better when reforming pension systems given the existing and future challenges. The parametric reforms improve the short-term financial stability of the system but for the long-term sustainability further changes are needed. Furthermore, diversification of pension provisions proceeds much slower than under paradigmatic reforms. Incentives to stay longer in the labour market seem to be weaker. Placing more emphasis on the individual responsibility for the future pensions in the paradigmatic reform is also its advantage. Altogether, the move towards financial stability is mentioned as an advantage of the changing paradigm solution, however, high transition costs are pointed out as its drawback (see for instance Disney, 1999; Disney, Whitehouse, 1999b; Holzman *et al*, 2003).

Among different measures suggested for pensions reforms, those listed below are usually considered as promoting the economic activity of older workers (see Kalisch, Aman, 1998; Disney and Whitehouse, 1999c, Casey *et al*, 2003):

- a reduction in early retirement opportunities by an actuarial reduction in early-retirement pensions, an increase in the standard age of retirement, tighter conditions for entitlement (duration of employment, participation in training programmes);
- some disincentives to work in the defined-benefit scheme can be mitigated by moving to pensions based on the average salary across the working life rather than on a limited number of best or final years. Maximum pensions and limits to the number of years of contributions that earn pensions should be removed;
- permission to combine pensions at the standard age with some work;
- the introduction of partial retirement schemes aimed at helping people leave the workforce gradually by moving to part-time work;
- equalising women’s retirement age.

Several of these measures have been implemented in pension reforms ongoing in Europe¹⁵. Increases in the standard age of retirement, especially with respect to women’s age, have been a key measure sometimes combined with more flexible retirement and stronger incentives to continue work (see Table 3).

¹⁴ Reforms started from implementation of the private voluntary tier which was followed by implementation of private mandatory tier (Chłóń, 2004).

¹⁵ For the comprehensive overview of reforms to pensions systems in the OECD countries since the early 1990s see Casey *et al* (2003), Burniaux *et al* (2004); the review of reforms in Europe accounting for two main strategies i.e. parametric and paradigmatic approaches is given by Holzman *et al* (2003).

Table 3. Standard age of retirement and its changes in the EU-25+2 since 1999*

Country	Males	Females
Austria	65	60 (to 65 in the years 2019-2028)
Belgium	65	62 (to 65 by 2009)
Denmark	67	67
Finland	65	65
France	60	60
Germany	65	65
Greece	62 (65 for the post-1992 labour-market entrants)	57 (65 for the post-1992 labour-market entrants)
Ireland	66	66
Italy	60 (to 65 by 2008)	60 (65 for the post-1995 labour-market entrants)
Luxemburg	65	65
Netherlands	65	65
Norway	67	67
Portugal	65	65
Spain	65	65
Sweden	67	67
Switzerland	65	62 (to 64 by 2005)
United Kingdom	65	60 (to 65 by 2020)
Czech Republic	60 (to 62 by 2006)	53-57** (increase to 57-61 by 2007)
Hungary	62	57 (increase to 62 by 2009)
Poland	65	60
Romania	60 (increase to 65 by 2013)	57 (increase to 60 by 2013)
Slovak Republic	60	53-56**
Estonia	62.5 (increase to 63 by 2001)	57.5 (increase to 63 by 2016)
Latvia	60 (increase to 62 by 2003)	57 (increase to 62 by 2005)
Lithuania	61 (increase to 62.5 by 2009)	57 (increase to 60 by 2009)
Slovenia	60 (increase to 63)	53-58** (increase to 58-61)

* Malta and Cyprus are omitted.

* The retirement age depends on the number of children.

Source: Kotowska, 2003, 117; Duval, 2003, 35; Casey *et al.*, 2003, 41; Burniaux *et al.*, 2004, 46-48.

Other relatively frequent measures counteracting early retirement concern mostly rising the contribution period, increasing the minimum age, reduction in an access to early retirement schemes, and improvements of the actuarial fairness of the system. Several of changes adopted recently are presented below to illustrate a scope of ongoing reforms in Europe.

Italy has increased the minimum number of years of contributions from 20 to 35 for public sector employees (to be phased in by 2013). Iceland has abolished the right of civil servants to take retirement at 60 in 1997. Belgium will increase contribution years for retirement at 60 from 20 to 35 (by 2005), Greece has introduced minimum contribution years from 13.5 to 15, Portugal has increased the minimum contribution years from 10 to 15, and France from 37.5 to 40 years. Italy has set the minimum age at 52 (from 1997) and the contribution years from 35 to 40 years (from 2008). By increasing the number of contribution years required for a full pension in France retirement at the earliest legal age (60) has been discouraged. Early pensions because of unemployment are also being phased out in Germany. Finland has introduced a lower benefit and increased minimum age from 55 to 58, similarly in Germany the minimum age will increase to 62

(from 2012). New regulations in Norway provide for a smaller reduction for working while drawing pension for ages 67-70, in Sweden and United Kingdom they allow for actuarial increases for deferral after the age of 70 (Burniaux *et al.*, 2004; Casey *et al.*, 2003).

The Netherlands have introduced radical reform of the early-retirement system by switching from the PAYG schemes to more actuarially neutral ones. Under the new regime the early-retirement benefit is related directly to the work record and the contribution paid, accumulated on an individual basis. The minimum retirement age is 55 (van Dalen and Henkens, 2002).

Austria, Finland, Germany, and Italy have reduced an access to early retirement. Also Sweden has recently abolished any incentive for early retirement by introducing progressive pension entitlements when retiring later and making pension entitlement depending on the average income over the whole life-course instead on the best 15 years of wage income (Burniaux *et al.*, 2004).

Several countries have implemented changes which aim at improving the actuarial fairness of the system. The 2003 pension reform in Austria has introduced a decline in the accrual rate and an increase in the number of contribution years required to reach the maximum replacement rate as well as larger actuarial adjustments for early and deferred retirement. In Finland the cost of retirement before the standard age of retirement has been increased due to lowering the accrual rate for the age pension earned by people on pre-retirement benefits. Raising the public pension accrual rates for those who work after 60 affects incentives to retire later. Moreover, similar arrangements to those introduced in 2003 for the private sector are under consideration for the public sector. The notional-defined contribution systems introduced in Italy and Sweden during the 1990s permit early retirement, and apply a form of actuarial reduction to the benefits received. In Germany later retirement has been encouraged by benefit appreciation. In Luxembourg the 2001 reform has introduced a supplementary accrual rate, which has slightly lowered implicit tax rates on continued work. The 2003 reform in Portugal has reduced replacement rates at age 65 and established an actuarially reduced pension from age 55 as well as an actuarial bonus for deferred retirement beyond age 65. Also, the 2003 pension reform in France has brought in lower actuarial adjustments for insufficient contribution years as well as an actuarial adjustment for deferred retirement. As a result, post-reform implicit tax rates are higher at age 55 but lower at ages 60 and 65 (Burniaux *et al.*, 2004; Casey *et al.*, 2003).

Besides various pathways to retirement, reforms to tighten up an access to alternative arrangements have been implemented. An access to disability pensions has been limited in Finland, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom. In Finland and the Netherlands, a form of “experience rating” has shifted the costs of disability pensions back to the employer. In Finland the individual disability pension is to be phased out. Italy has increased costs to employers by forcing them to take on greater responsibility for rehabilitation and job retention policies. Some countries have also introduced more frequent medical checks, complemented by greater incentives to return to the labour market, and increased emphasis on rehabilitation (Germany, Italy, the Netherlands, Norway, Switzerland). Also a number of reforms have been undertaken to unemployment benefit systems to lower benefits, shorten benefit periods and to enforce job search criteria for older workers in a variety of countries (Casey *et al.*, 2003).

Pension reforms in a number of countries in Central and Eastern Europe are based on the paradigmatic approach (Latvia, Estonia Lithuania, Hungary, Poland, Bulgaria, Romania, Lithuania). Only Poland and Latvia replaced the PAYG schemes into the notional defined contribution schemes. Others implemented multi-pillar systems with the public mandatory pillar based on significantly modified PAYG schemes. The changes concern increases in the standard age of

retirement (see Table 3), reduced accrual rates (Bulgaria, Hungary, Estonia), adjustments to individual contribution (Poland, Latvia) and lower indexation of pension benefits in all countries kept below a rise in wages (Chłoń, 2004).

4.3. The integrated policy towards older workers

In the social policy towards older workers more focus has been given on removing disincentives to retire earlier than on improving the employability of older people and increasing their employment opportunities. It can be related to the high priority of the medium and long-term financial viability of public pension systems in these reforms. Moreover, in debates on PAYG schemes demographic changes have been emphasised without a relevant attention put on labour market developments. And in reasoning for policies aimed at discouraging older workers from work withdrawal conditions for their adaptability to the dynamic and competitive labour markets as well as their employment opportunities have not been adequately accounted for. It must be remembered, however, that under-utilisation of productive capacity and unemployment are widespread across Europe. Early retirement regulations as well as occupational pension arrangements have been implemented to facilitate the exit of older workers to combat youth unemployment. Under existing labour market structures and rising competition, reduced opportunities in early retirement without improving the employability of older workers and their work opportunities could lead to a rise in disability incidence and unemployment (see for instance Blöndal and Scarpetta 1999; Taylor 2002; van Dalen and Henkens, 2002; Duval 2003; Casey *et al*, 2003).

Furthermore, existing employers' attitudes towards older workers would limit the effects of measures stimulating their higher labour market participation. Research among employers carried out in several European countries has shown that they still do not consider older workers a force to be reckoned with. Few employers are inclined to recruit older workers due to a perceived lack of appropriate skills, a truncated payback period on training, and rules governing company/occupational pension schemes. On the contrary, many employers prefer laying off older workers first when firms downsize their labour force instead of implementing programmes to retain and retrain them (Henkens, van Dalen, 2004; Taylor, 2002). Moreover, employers perceive increasing labour costs as one of the most important effects of labour force ageing, due to the fact that wages increase more with age than productivity. Additionally, older workers might be negatively affected by technological progress, which erodes their technology's specific human capital. They could also have some difficulties in adapting to new work patterns.

Therefore, comprehensive approaches to employment and retirement of older workers are needed which aim at integrating older workers in the labour market as well as at closing down options to early exits. Such integrated policies have been implemented only in a few countries (Austria, Finland and United Kingdom). In majority of European countries fragmented policies prevail (Taylor, 2002; Casey *et al*, 2003) of which examples are as follows:

- active labour market programmes targeting older workers (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, the Netherlands, Spain and United Kingdom);
- wage subsidy schemes and other employment incentive schemes (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Spain and United Kingdom);
- support to employers (for example, advice and guidance, training, employment placements - Denmark, Finland and United Kingdom);
- encouraging a more gradual retirement as an alternative to full early retirement (Finland, Germany, the Netherlands, Spain);

- age discrimination legislation, protection against dismissal, proscription of age bars in recruitment advertisements, and/or abolition of mandatory retirement (Austria, Belgium, Finland, France, Ireland, Italy, Spain and United Kingdom);
- awareness raising campaigns among employers (Denmark, Finland, Germany, Netherlands and United Kingdom).

Views about a need to formulate a comprehensive policy towards older workers, which integrates pension and social welfare reforms and employment policy, have been increasingly shared by many researchers in the field (for instance OECD, 1998; Blöndal and Scarpetta 1999; van Dalen and Henkens, 2002; Taylor, 2002; Duval, 2003; Casey *at al*, 2003; Kotowska 2003). They are also reflected in the Lisbon strategy (European Commission, 2004; European Commission, 2005; Kok, 2004). Its main lines of policy recommendations towards older workers are formulated as follows:

- providing the legal and financial incentives for both workers to work longer and for employers to hire and keep older workers;
- increasing participation in training for all ages, especially for the low-skilled and for older workers;
- improving working conditions and quality in work.

That approach is situated within a framework of building active ageing strategies which, however, requires both fostering relevant interventions and a culture shift which concerns workers, employers, and public authorities. Especially relevant seems to overcome institutional and mental barriers related to participation in training, currently particularly poor for older workers. Skills upgrading and life-long learning are considered as main measures to improve adaptability of older workforce. A concept of sharing costs and responsibilities for increased investment in human resources by all actors - public authorities, individuals and employers - is expected to foster implementation of new measures to develop a widespread culture of business investment in training, accessible for all regardless of age, and encouraging individuals to participate in lifelong learning. Both Kok's report (2004) and a communication to the Spring European Council by the Economic Commission about a new start for the Lisbon strategy (European Commission, 2005) put an emphasis on lifelong learning as a key strategy to increase employment and improve work quality.

5. Older workers in the labour market – individual and experts' perspectives

A need for urgent retirement reforms is perceived mostly at the macro level. On the level of organisations and individuals, and also among older workers, the problem is not considered to be so important. Moreover, the attitudes by employers are also affected by norms and representations of age and stereotypes concerning younger and older workers in the labour market. For many years, a prevailing view was that in combating unemployment among young people older workers were supposed to make room for young workers on the labour market. Therefore, much more should be done to raise awareness of the issue of ageing, employment and links to retirement systems among employers and individuals (Taylor, 2001 in van Dalen and Henkens, 2002; Taylor, 2002).

In debates on economic and social adaptations to population changes the citizen's perspective is underrepresented. Very little is known about individual opinions on these issues and attitudes towards suggested policies. Especially, a cross-country perspective is missing. The international project "Population Policy Acceptance Study – The Viewpoint of Citizens and Policy Actors Regarding the Management of Population Related Change (DIALOG)" (EC project, HPSE-CT-

2002-00153) offers an unique opportunity to look at attitudes towards retirement and suggested policy measures from the individual perspective. That project makes use of data from the cross-sectional national surveys to analyse attitudes and opinions concerning demographic changes, fertility behaviour, ageing, intergenerational exchange of resources and services as well as perception of population related policies. The national surveys, based on the standardised questionnaire, have been carried out in 13 European countries in the years 2000-2003 (Austria, Belgium (Flanders), the Czech Republic, Estonia, Finland, Germany, Hungary, Italy, Lithuania, the Netherlands, Poland, Romania, Slovenia)¹⁶. Here, selected results on preferences and expectations about the age of retirement and opinions on retirement policies will be briefly described. However, discussions on possible explanations are beyond that paper.

People's opinions about transition to retirement can be confronted with experts' views. Within the DIALOG project experts' opinions on population changes and policy scenarios have been studied by the Delphi method (Work Package 3, Delphi-Study, 2004). Some results of that study with respect to ageing and the labour market will be briefly presented.

5.1. People's opinions on transition to retirement

Preferences and expectations about the retirement age

People's preferences and expectations about the age to retire from ten of the DIALOG countries are related to the standard age of retirement at the period of field work *i.e.* in the years 2000-2003¹⁷. The standard age of retirement of males is 65 years except for the Czech Republic (62), Estonia, Slovenia (63) and Lithuania (61.5). The age to retire for women is more diversified. It is set lower than that of males in Austria and 'transition' countries (Table 4).

Estimates of the average age of withdrawal from the labour market, based on a probability model considering the relative changes of activity rates from one year to another at a specific age (European Commission, Indicators for monitoring the Employment Guidelines, 2004), confirm a common practise to leave the labour market earlier. Only in the Czech Republic the average age of exit for males exceeds slightly the standard age.

¹⁶ In 2004 Cyprus joined the group of countries which have run the surveys.

¹⁷ Data on retirement age have been provided in country specific reports under the project.

Table 4. Expectations and preferences about retirement age by sex of respondent *

Country	sex	standard age of retirement	Exit age of older workers in 2002**	Expected age of retirement			Preferred age of retirement		
				below 60	below 65	65-69	below 60	below 65	65-69
AT	Male	65	59.4	6.4	50.1	41.7	40.9	87.4	9.4
	Female	60	59.3	31.4	77.3	16.2	71.0	96.2	2.5
	Total			16.9	61.5	31.0	53.6	91.1	6.5
DE	Male	65	61.1	5.3	28.9	66.0	38.6	80.2	17.5
	Female	65	60.3	42.1	49.6	47.8	79.2	90.7	8.0
	Total			24.1	39.2	57.0	59.6	85.5	12.7
FI	Male	65	60.6	18.3	62.1	34.2	7.4	87.2	9.9
	Female	65	60.4	50.4	63.2	35.1	10.8	89.4	9.5
	Total			37.4	62.7	34.7	9.4	88.5	9.7
NL	Male	65	62.9	18.0	57.5	37.1	50.3	82.3	14.0
	Female	65	61.6	11.4	59.4	37.7	43.9	85.4	12.2
	Total			14.2	58.3	37.4	46.6	83.6	13.2
CR	Male	62	62.2	4.7	67.2	26.4	30.1	85.4	10.8
	Female	57-61***	58.4	4.4	85.9	10.7	37.8	95.1	3.2
	Total			4.6	76.8	18.4	34.0	90.4	6.8
EST	Male	63	-	5.4	73.2	20.3	30.8	41.4	47.5
	Female	63	-	19.3	86.4	10.1	75.8	61.5	32.0
	Total			12.9	81.0	14.3	55.0	53.3	38.3
LT	Male	61.5	-	10.5	43.1	48.7	43.8	87.3	9.9
	Female	57.5	-	16.5	81.3	15.3	46.4	95.7	2.8
	Total			13.0	63.8	30.6	44.8	91.8	6.1
PL	Male	65	58.1	15.1	56.9	42.1	47.3	90.0	9.3
	Female	60	55.8	48.2	93.9	5.8	84.6	97.5	1.9
	Total			31.4	75.1	24.3	66.1	93.8	5.6
RO	Male	65	-	32.1	71.5	26.1	57.6	91.3	6.6
	Female	60	-	63.7	93.3	5.6	87.9	97.3	1.7
	Total			47.6	82.2	16.1	72.9	94.4	4.1
SLO	Male	63	-	23.4	65.1	33.3	72.7	94.8	4.0
	Female	61	-	50.8	85.3	13.8	88.1	97.2	2.3
	Total			36.8	75.0	23.8	80.2	95.9	3.2

*) percentages of respondents who select a relevant option

**) the average age of withdrawal from the labour market, based on a probability model considering the relative changes of activity rates from one year to another at a specific age (European Commission, Indicators for monitoring the Employment Guidelines, 2004)

***) related to the number of children

Source: own calculations, DIALOG 2004

Preferences to retire before age of 60 years are visibly stronger in the former socialist countries, especially in Poland, Romania and Slovenia. Women remarkably more frequently than men prefer to retire before 60 what could be related to the standard age of retirement. Austria is similar to 'transition' countries in terms of preferences to retire before 60 years and their differences between men and women. Another exception is the Netherlands where more often men than women wanted to retire before 60 years. The highest discrepancy between preferences to retire before 60 years and the standard age of retirement concerns females in Germany, followed by females in Estonia and Poland and by males and females in Romania and Slovenia.

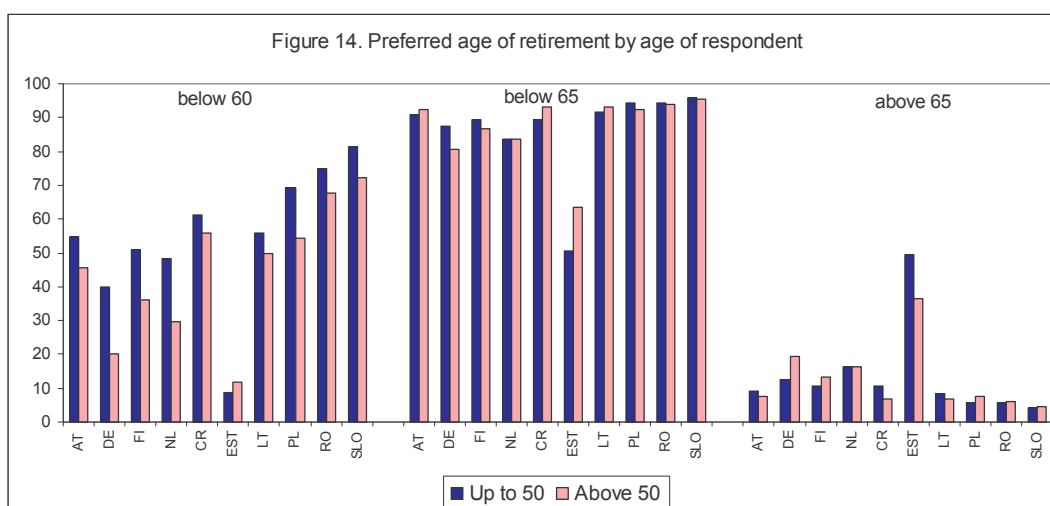
These results demonstrate a general strong preference to withdraw from the labour market earlier than at age 65. At least 84% of respondents expressed such wish (except for Estonia where that

indicator is 53%), slightly less frequently in the Netherlands and Germany than in the other countries. For six countries with the retirement age of males set at 65 years the percentage of males who preferred to leave the labour market before 65 ranged between 80% (Germany) to 95% (Slovenia).

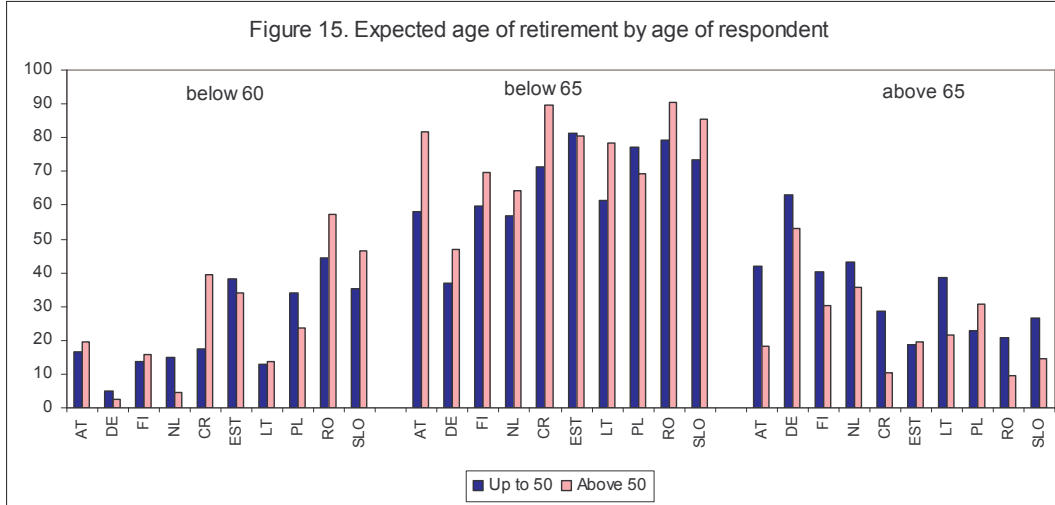
Expectations about the age of retirement are more realistic, *i.e.* the percentages of persons who expect to retire before 60 and before 65 are markedly lower than those for persons who prefer to retire before that age. Expectations seem to be more related to existing regulations. The differences between expectations and preferences are on average higher for retirement before 60 years, except for Germany having the highest discrepancy for retirement before 65. Also Germany is distinctive for the most frequent expectations to retire at age 65-69. Relatively often expectations to retire before 60 years were expressed by women in Poland, Romania (the age of retirement is 60), Slovenia (61), Finland and Germany (65). In the Netherlands and Finland the similar percentage of men and women (58-63%) expected to retire before 65, the standard age for both sexes.

When looking at these preferences and expectations about the age to retire by the age of respondents one can notice that, in general, the age of respondents (up to 50 years and more than 50 years) does not affect preferences to retire before 65 years and after 65. Contrary to what could be expected younger persons more often than older ones prefer to leave the labour market before 60 (except for Estonia).

The age of respondents diversifies visibly expectations about the age of retirement. Persons aged more than 50 years expected more frequently to retire either before 60 years or before 65 years. The exceptions are the Netherlands and Estonia where percentages of younger persons expecting to retire before 60 exceed that of older ones as well as Poland where that relation holds for leaving the labour market before 60 and before 65 years. Younger persons expected more frequently than those aged 50 years and more to retire at age 65-69. Again Poland is an exception since younger persons less often than older expressed their expectations to retire at later age.

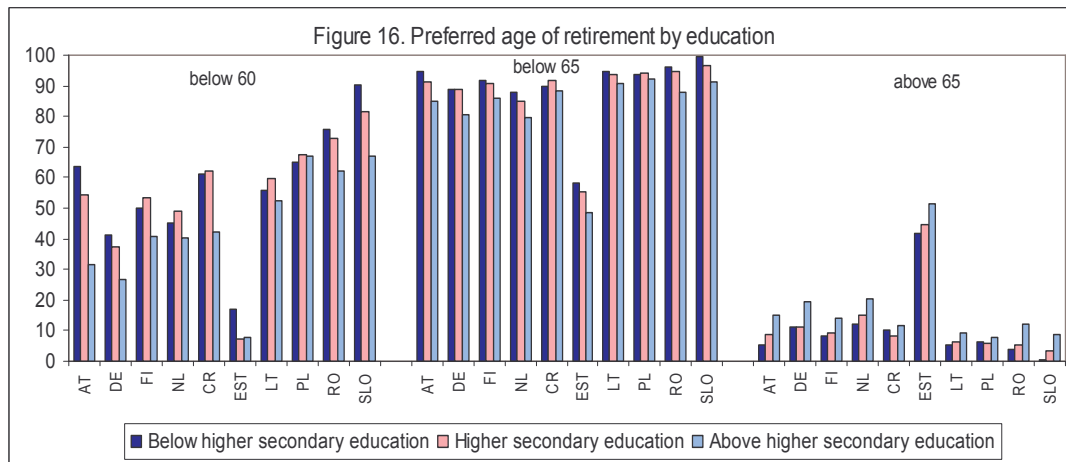


Source: own calculations, DIALOG 2004.

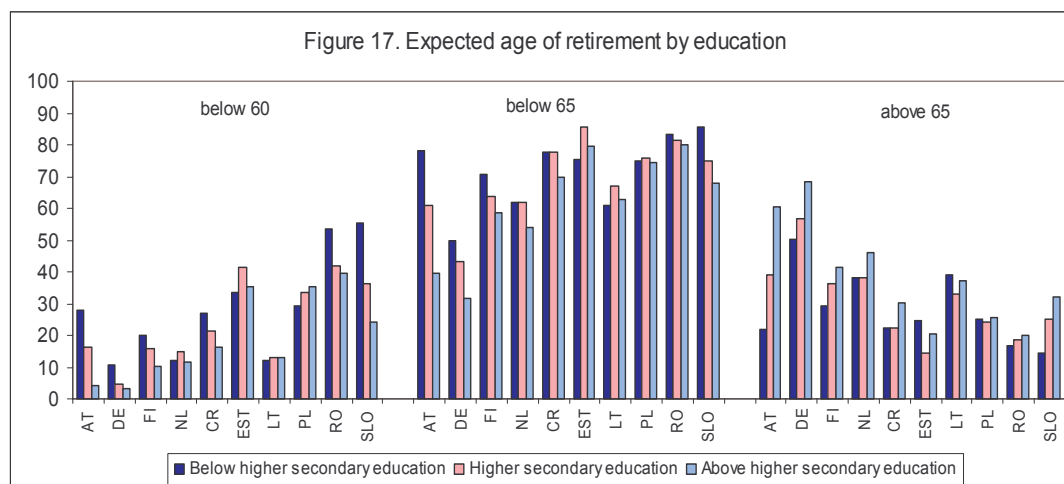


Source: own calculations, DIALOG 2004.

Education seems also to have a stronger impact on expectations than on preferences. In general, persons at the highest level of education (above higher secondary education) less frequently preferred and expected to retire before 65, especially before 60 years. Expectations about the age of retirement are markedly different by three defined education levels. Only in Poland, Lithuania and Romania interrelations between education and preferences/expectations seem to be weak or do not exist.



Source: own calculations, DIALOG 2004.



Source: own calculations, DIALOG 2004.

Preferences about policy measures aimed at the sustainability of the pension systems

People's preferences regarding policy measures to be implemented in order to ensure a financial stability of the old-age pension system might be evaluated by analysing respondents' opinions on the following measures:

- increasing the age of retirement,
- increasing the monthly taxes or social premiums on the income,
- to lower the monthly benefit payment to pensioners,
- forcing the children to support their aged parents financially,
- abolishing early retirement programmes,
- making old-age benefits dependent on the number of children: the more children one has, the higher the benefit.

In general, abolishing early retirement and raising the monthly taxes or social premiums on the income were the most preferred measures in the DIALOG countries. They were selected by at least 50% of respondents (only in Estonia 48%, Table 5). In Finland and Estonia abolishing early retirement was followed by rising the retirement age, in Romania people opted most often for increasing the monthly taxes and the retirement age. Making old-age benefits dependent on the number of children was ranked as the second measure in Germany, Lithuania and Poland.

Table 5. First preference about the government's measure to ensure old-age benefits in the future¹⁸

Country	To increase the retirement age	To increase monthly taxes	To lower monthly benefit payment to pensioners	To force the children to support their parents	To abolish early retirement programmes	To make old-age benefits dependent on the number of children
BE	9.2	26.5	5.3	3.2	45.2	10.7
DE	15.0	12.0	8.8	2.7	33.5	20.8
FI	28.1	39.6	5.8	3.8	15.2	7.5
NL	16.3	37.1	5.0	1.2	35.4	5.0
CR	12.2	26.6	2.6	6.6	30.9	21.1
EST	21.9	18.2	3.4	9.7	25.6	21.3
LT	9.6	28.7	2.0	7.6	24.3	27.7
PL	9.3	38.9	2.7	7.8	20.3	21.0
RO	26.1	30.0	4.2	12.0	16.4	11.3
SLO	10.9	38.7	5.3	2.6	24.3	18.3

Source: own calculations, DIALOG 2004

These results pretend to be inconsistent with the preferences and expectations about the retirement age since such popularity of abolishing early retirement programmes seems to contradict desires and expectations to retire before 60 and 65 years. However, they might indicate that abolishing early retirement is a solution which could be accepted to ensure old-age pensions contrary to rising the age of retirement ranked as the second preferred measure in three countries only. They seem to suggest that there is more support for policies which make existing regulations about the retirement age more effective than for changes in the standard age of retirement. For countries which have recently increased the retirement age (Belgium, the Czech Republic, Lithuania, Slovenia) these results might suggest a disapproval for a further rise. In other countries they reveal a lack of support for the increase in the retirement age irrespective of its current level (Germany, the Netherlands, Poland).

Another policy measure often discussed is enabling the elderly to work after retirement. Such question was asked in some countries only: Belgium (Flanders), Germany, the Czech Republic, Estonia, Lithuania, Poland and Romania. That policy measure received the greatest support in Estonia (57% of respondents) and Romania (38%). In other countries no more than 30% persons selected that measure.

Summing up, the DIALOG countries showed strong preferences to withdraw earlier from the labour market *i.e.* to retire either before 60 or before 65, especially among women, irrespectively from the age of persons interviewed. Better educated persons slightly more frequently preferred to stay longer in work. Expectations were more realistic – younger generations, better educated persons expected to work longer, less frequently women than men. The rise in the age of retirement, the most popular measure suggested in debates on pension schemes reforms and implemented already in a number of countries, did not get an approval as a solution to ensure old-age pensions in the

¹⁸ Since the standardised questionnaire included obligatory and optional questions, the identical country coverage is difficult to be obtained in our analyses. And in Table 5 data on Belgium are presented while in Table 4 Austria is included.

future. Rather consolidation of existing regulations about the retirement age and increasing taxes were perceived as suitable measures.

5.2. Experts' view on active ageing¹⁹

The policy-Delphi study, carried out under the DIALOG project, aimed at formulation of population and societal scenarios up to 2030. The policy-Delphi method is particularly useful to get a consensus on complex issues by a group of experts who work independently. Population ageing, family and fertility and gender roles were the main issues dealt with in terms of policy developments. Fifteen European countries participated in the policy-Delphi study (Austria, Belgium (Flanders), Cyprus, the Czech Republic, Estonia, Germany, Finland, Hungary, Italy, Lithuania, the Netherlands, Poland, Romania, Slovenia, Switzerland). Experts selected to the study represented a highly diverse groups of opinion and decision influential people and institutions: policy-makers, industrial organisations, entrepreneurial associations, lobbies and pressure groups, trade unions, journalists, representatives of church and religious associations, gender equity institutions, academics, representatives of the cultural world (writers, art directors, poets, musicians, etc.), and representatives of the local administration.

As regards population ageing policy objectives most frequently selected by experts were: ensuring the retirement provision and adapting old-age pension systems to socio-demographic changes as well as improving the quality of life of the elderly.

Consequently, among the fifteen Delphi study participants eleven countries included policy priorities related to active ageing in their final policy scenarios. These priorities covered also objectives relevant for older workers participation in the labour market: to make retirement flexible (Switzerland), supporting employment of the elderly *i.e.* persons aged at least 60 years and more (Austria, Italy, the Netherlands), promoting active ageing (the Czech Republic, Lithuania, the Netherlands, Poland, Slovenia).

Active ageing was considered to be composed of five elements: to be involved in paid work, life long learning, voluntary work, leisure and health. As regards paid work of the elderly, experts suggested to implement the following measures: promoting part-time work, introducing innovative forms of part-time work, reducing work-load, continuation of work after retirement, removing old-age barriers in the labour market, vertical job-sharing, tax-exemption for hiring retired persons and the adoption of leaves during work life as a form of anticipated retirement during work-life. Life long learning was also recommended as a tool to sustain active ageing.

A high relevance of the old-age pension issue is reflected by the fact that all countries included different objectives related to pension systems in their final policy scenarios. Adjusting a social security system to the ageing population and increasing intergenerational solidarity was selected by majority of countries (except for the Czech Republic, Estonia, the Netherlands, Poland, and Switzerland). Five countries set ensuring the sustainability of pension systems as a policy objective (Belgium (Flanders), the Czech Republic, Estonia, Italy, and Switzerland).

The policies suggested by experts to attain these goals could be grouped as follows:

¹⁹ That section is based on the research report 'Work Package 3, Delphi-Study. Comparative Delphi Report, Summary Policy Implications of Delphi Study, DIALOG 2004, prepared by the Research Institute of Population and Social Policy in Rome.

- innovation and flexibility of work models and pension systems proposed by all countries,
- better investment in health improvement and life long learning (Finland, Hungary, Lithuania and Estonia),
- intergenerational solidarity and rejuvenation of society (Lithuania, Romania, Slovenia and Italy),
- gender balance in the work environment and new immigrants work schemes (Austria, Germany and Italy).

Within the first group of policies an increase of the retirement age was the most recommended measure to ensure the financial sustainability of pension systems. However, experts of six countries did not select that solution as a priority for 2030 (the Czech Republic, Italy, Lithuania, Poland, Slovenia and Romania). The second option for experts was the widening of private retirement schemes while the flexible and gradual retirement and work-after retirement were ranked at third and fourth position respectively in terms of their capability to assist in reforming pension systems.

As illustrated, adjusting a social security system to the ageing population is considered as a highly important and complex issue but relevant policy measures to be implemented differ across countries. That reflects a variety of ways to tackle the problem. However, within the broad scope of possible solutions those related to changes in working patterns and pension systems were mostly suggested. And rising the age of retirement received a high recognition of experts.

6. Concluding remarks

Recent population projections by the UN (2003a) as well as labour force projections by Eurostat (Statistics in focus, 2001) and OECD (Burniaux *et al*, 2004) show clearly that population ageing, shrinking the working age population and its ageing are unavoidable characteristics of the Europe of the future. Despite regional differences in the intensity and timing of changes, illustrated in detail in Section 2, their global dimension is undisputable. The pressure on the social security system, which results from these changes, and especially on pension systems predominantly based on the PAYG basis, is additionally affected by labour market developments. A decomposition of long-term projections in spending on old-age pensions to 2050 for 22 OECD countries to evaluate impacts demographic change, change in labour force participation, unemployment and changes in the generosity of the pension system, shows the demographic effect is the key factor driving pension spending over the period while effects of the three other factors are visibly lower. However, the results demonstrate also that increases in the share of persons aged 55 and more drawing a pension appears to be offset, to some extent, by reforms undertaken in many countries to encourage later retirement (Casey *et al*, 2003).

In policy response to demographic change more focus has been given on interventions which ensure the financial sustainability of public pension systems than on improving use of human potential in Europe. Labour market developments in the current decade show that the question formulated in 2000 (Pearce and Punch, 2000, 11) if there will be an increase in demand for labour, and can that increase be met by increased economic activity rates under future population trends – on one hand – and the high degree of under-utilisation of labour force widespread across Europe – on the other – is still vital. A view that Europe needs more and better jobs as well as must tap its unused human potential is clearly expressed in the recent policy documents for the European Union (Kok, 2004; European Commission, 2005). Therefore, in employment recommendations and reasoning for a new start of the Lisbon strategy so much emphasis is given on the adaptability of both workers and employers as well as creating longlife learning culture.

As a consequence policies towards workers aged 55 and more can be seen from a different perspective, strongly insisted by researchers. Policies encouraging older workers to stay in employment which coincide with policies aimed at improving their working conditions and increasing their employment prospects reflect the shift from the fragmented to integrated policy towards older workers, to be placed within a broad multidimensional strategy of active ageing. However, that shift is more visible at the conceptual than implementation level.

It is clear that the adaptability of the old workforce is increasing in significance in the EU. But effects of stimulating labour market participation of older workers depend largely on acknowledgment that older workers are an essential part of the labour force not only by governments but also by employers and unions. A need for reforms is perceived mostly at the macro level. For organisations and individuals, and also among older workers, the problem is not considered to be so important. Preliminary results on the individual perception of ageing and retirement from the DIALOG project confirm also that individual perspective of the later phase of the life course is entirely different from that of experts (the Delphi study) and policy makers. Therefore, much more should be done to raise awareness of the issue of ageing, employment, investment in human resources and links to retirement among employers and individuals. National education programmes have been undertaken in many countries (Taylor, 2001 in van Dalen and Henkens, 2002; Taylor, 2002). Despite their mixed and questionable effects until now, it seems to be reasonable to expect some changes in opinions at least in mid-term, especially under conditions to combine them with educational programmes and supporting local job initiatives aimed to strengthen the position of older workers within firms and in the labour market.

Ageing is not a problem of the Europe's future. It is already happening. An intelligent and effective management of change needs an integrated approach towards pension, social welfare and employment policy which entails a co-ordinated set of public policies (education, health, safety and social protection, and employment) and involves all relevant stakeholders. This requires, however, that an agreement about main directions of response to demographic change, seemed to be shared by governments and experts despite a variety of measures to be proposed, should be transferred to other social actors – organizations, employers, local authorities and citizens. An adaptation of the economy and the society to the population and labour force ageing means sharing costs and responsibilities, which result from the increased number of the elderly and older workers, between public authorities, employers and individuals, and caring for effective use of their human and social capital. It would require the reinforcement of the mediating role of the state rather than the disengagement of public authorities (Avramov and Mašková, 2003).

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