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From early to phased retirement in the European Union

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1. Introduction

This chapter deals with early exit options from the labour market and their role in the development of a European model of lifetime working hours. The introduction of *temporary* early retirement schemes in Europe goes back to the 1970s. The principal aims were to relieve the labour market and to offer 'burned out' workers the opportunity to enjoy early leave. The economic environment was then characterised by downsizing, industrial restructuring, increasing youth unemployment and long-term unemployment.

The trend towards early retirement is the result of a deeply rooted consensus between the state, undertakings, the trade unions and the community. For the state, the main purpose of early retirement has been to reduce youth unemployment, which was high in the 1970s and 1980s. In many schemes, at least until recently, there has been a replacement condition. At the same time, the duration of unemployment benefit for older workers has been lengthened. For employers, early retirement has had a two-fold advantage: productivity can be enhanced without the cost nor embarrassment of an increasing number of redundancies. For the trade unions, early retirement has been a coveted prize in the long struggle to lower the retirement age; and for leaving workers, who so often started their working life young and frequently in strenuous jobs, early leave offers some years of respite in good health. The average worker has greatly benefited from this trend, particularly in countries where the financial terms of early retirement have been generous.

Unemployment and disability were, and still are, seen as being characteristic of failure, while early retirement was, and still is, socially accepted (the absence of stigma associated with disability and unemployment benefit). The latter may explain why early retirement schemes persist. In fact, the life cycle is characterised by an increasingly early exit from the labour market at the end of a working life and the average retirement age is still falling.

Over the past decades a rigid, linear, three-phase life cycle has developed; youth and training, adult life and work and then early withdrawal from work and retirement. However, the demographic outlook and its implications for pension liabilities in the decades to come oblige us today to reconsider the future economic and social contribution of older workers to our growing service economy. In view of these developments the question arises of which policy mix or institutional arrangements would allow more individual choice for older workers and a more intensive use of the labour resources of workers who are 55 years old and over. It is the latter question that will be answered in this chapter of the book. Section 2 deals with the objectives and aims of early and phased retirement. Differences in the implementation of the various national schemes are discussed in section 3. The impact of the early and phased retirement schemes is addressed in section 4. Conclusions are drawn in section 5.

2. The objectives and aims of early and phased retirement schemes

The average statutory retirement age in the European Union is 65. Exceptions are Denmark (67) and France (60). In Austria, Belgium, Greece, Portugal and the United Kingdom the standard retirement age for women is still lower than for men, although recent legislation is tending to harmonise the retirement age for men and women.

The effective retirement age has dropped substantially in all OECD countries. This drop has been particularly pronounced in Europe (see Table 1).

During the 1970s and 1980s a large number of OECD countries took special measures for older workers that facilitated early withdrawal from the labour market, especially for low-skilled workers: special unemployment benefits, career breaks, disability benefits and early and pre-retirement schemes (see Table 2). The measures that have been taken are partly linked to occupational pensions and the personnel policy aiming at replacing older and expensive employees with younger and cheaper employees and partly related to labour market problems (unemployment) and to the restructuring of industry. These pre-retirement non-wage income provisions allow the withdrawal of elderly workers from the labour market prior to the statutory retirement age and to their eligibility for a public pension.

Table 1: Average age of withdrawal from the labour market in 1970, 1980 and 1990

Country	**Males**			**Change**	**Females**			**Change**
	1970	**1980**	**1990**	**1970-90**	**1970**	**1980**	**1990**	**1970-90**
Denmark	66.8	64.3	62.9	– 3.9	61.5	60.4	59.5	– 2.0
Finland	62.3	59.6	59.1	– 3.2	60.4	59.2	59.3	– 1.1
France	63.1	61.3	59.4	– 3.7	63.6	60.8	58.6	– 5.0
Great Britain	65.9	64.4	62.9	– 3.0	61.8	61.6	60.2	– 1.6
Italy	62.0	60.9	60.3	– 1.7	59.8	58.7	56.8	– 3.0
Netherlands	64.0	61.6	59.0	– 5.0	62.1	58.0	55.7	– 6.4
Spain	65.0	63.0	61.4	– 3.6	67.3	63.2	59.1	– 8.2
Sweden	65.3	64.5	64.2	– 1.1	62.5	61.8	63.1	+ 0.6

Source: Latulipe, Denis (1996), *Effective retirement age and duration of retirement in the industrial countries between 1950 and 1990*, Discussion Paper 2, Issues in Social Protection, ILO, quoted in: Ministerie van Sociale Zaken en Werkgelegenheid (1997): *Income benefits for early exit from the labour market in eight European countries. A comparative study*, Werkdocumenten, No. 61, The Hague, p. 19.

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[1] Before standard retirement age.

[2] Before standard retirement age, but mostly above minimum retirement age.

[3] At any age below standard retirement age.

[4] Before minimum retirement age.

[5] With a replacement condition.

[6] Canada/Quebec Pension Plan: not available for old age security pension.

[7] For arduous or unhealthy work, and for construction workers.

[8] Includes labour market, i.e. unemployment component (Netherlands until 1987; Sweden until 1991).

[9] To be phased out by 2004.

[10] To be phased out by 2007.

[11] Since 1997.

[12] No new partial pensions will be awarded after the year 2000.

Table 2: Early retirement options in OECD countries

Country	Actuarially reduced pension[2]	Full pension for long service[2]	Invalidity[3]	Long-term unemployment[2]	Pre-retirement[4]	Partial pension[1]
Australia			X[8]	X		
Austria		X	X	X		X
Belgium	X	X	X	1982	1974	X[5]
Canada	X		X		X[6]	
Denmark			X	X	X	X
Finland	X		X[8]	X	X[7]	X
France	X		X		1988[5]	X[5]
Germany	X [11]	X[9]	X[8]	X[10]	1988[5]	X[5]
Greece	X	X	X		X[7]	
Ireland			X	X		
Iceland			X			
Italy		X	X		1985	X
Japan			X			
Luxembourg		X	X	X	X	
Netherlands			X[8]	X	X	
Norway			X	X		
New Zealand			X			
Portugal			X	X		
Spain	X		X		X[5]	X[5]
Sweden	X		X[8]	X		X[12]
Switzerland			X			
Turkey			X			
United Kingdom			X	X	1988[5]	1986[5]
United States	X		X			

Source: Based on Holzmann, 1992; OECD, 1992; 1994; Delsen 1996; Delsen and Reday-Mulvey, 1996.

The most important aim of the introduction of various early and pre-retirement schemes, notably those with a replacement condition, was the reduction of the unemployment rate amongst youngsters. There were also other social motives. In some European countries a full pension can be obtained after 30 years of service. A number of European countries and the USA foresee the possibility of an actuarially reduced early pension. In Australia and in some EU countries the eligibility criteria for a disability benefit include a labour consideration. Moreover, in Australia and in most EU countries, the duration of the unemployment benefit for elderly workers has been lengthened and elderly people who are unemployed prior to retirement are no longer obliged to register at the labour office or to apply for a job; this measure results in an under-estimation of the unemployment phenomenon and labour market participation; this feature may also partly explain why the average duration of unemployment for older age groups in all OECD countries is higher than the average for all workers.

From Table 2 it may be concluded that there is a clustering of measures in the EU countries, aiming at reducing the labour-force participation rate for older employees, while in Japan and the USA only few such measures have been taken. However, in countries where private pension schemes are particularly well developed (Canada, the UK and the USA) workers are increasingly given options to leave early: retirement age below public retirement age; actuarial reduction of the pension level in case of early exit; or severance pay (OECD 1994).

Demographic developments – the double ageing process – will have important social and economic consequences for all OECD countries. The anticipated ageing of the population[1] will put great stress on the pension systems of the industrialised countries. In particular, higher pension contributions (wedge) will profoundly affect labour markets. Furthermore, growing pension funds are likely to have a substantial impact on financial markets, while the need to transfer an increasing amount of resources to the elderly will have significant consequences for the intergenerational distribution of welfare and create considerable

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[1] The term "population ageing" refers to an increase in the proportion of a population in the older age groups, i.e. over age 55 or over 65 and is reflected in the increase in a population's median age. In fact there is a double ageing process: life expectancy at birth increased in all OECD countries, while at the same time fertility has declined in almost all OECD countries.

pressure on the financing of social programmes. While expenditure on social programmes is rising continuously due to the ageing of populations, the number of people of working age will grow only slowly or even decline. The fiscal crisis that would result from this must be prevented. Social security contributions and taxation rates cannot continue to rise without significant repercussions on wages, the competitiveness of businesses, and consequently on employment, all of which provides yet another incentive for national governments to alter the institutional framework. Moreover, service sector employment is growing strongly. Together with higher life expectancy, new technologies and higher educational attainment, more people should be willing and able to work longer.

In the light of these developments the Council of Europe adopted in 1989 a recommendation on the flexibility of retirement age. According to the Council, this flexibilisation should be organised around the following options:

- early and/or deferred benefit;
- partial or progressive benefit;
- benefit based on length of service (seniority).

Against this same background, the Council of Ministers of the EU on 29 June 1995 passed a Resolution on the employment of older workers in which the Council invited the members states and the social partners to, amongst others things, facilitate phased retirement by, for example, developing the possibility of part-time work for older workers and activities which make good use of their skills, while ensuring that workers in comparable situations receive equal treatment, in particular with regard to access to social protection.

In the meantime a number of policy changes prompted by financial motives have taken place all over Europe. Although there are considerable differences between the EU member states, we see the emergence of the following policy trends aiming at making the retirement systems more flexible and sustainable (Tamburi 1993; Delsen and Reday-Mulvey 1996):

- the abolition of financially attractive alternatives for full, early retirement options: certain alternative exit routes are abolished or made less attractive (communicating vessels);

- the replacement of pay-as-you-go financed basic – and complementary – systems by funded systems;
- the individualisation of contributions and entitlements;
- basing pension entitlements on average earnings instead of on final earnings; also a tendency to base pension entitlements on contributions paid rather than on salary levels;
- in the field of actuarially based pension schemes: a tightening of the link between contributions paid and benefit levels (equivalence principle): i.e. earlier retirement means lower benefits and visa versa;
- in order to promote labour mobility, the transportability of pension rights is increased;
- the statutory and pre-retirement age is raised;
- gradual retirement to replace the immediate transition to full retirement: this is socially desirable, financially significant and fits into the framework of transitional labour markets. Gradual retirement provides the material and financial conditions for older workers to stay in the labour force: an incentive to work part-time and moreover, to work more years;
- governments subsidise employment of older workers, and;
- EMU implies that social security systems become more transparent: policy competition is used to attract employment; a race to the bottom is set in motion.

Concrete measures have been taken or are being discussed in order to increase the effective retirement age and to reduce retirement costs (Delsen and Reday-Mulvey 1996; Hutsebaut 1997). These include: raising the statutory or contractual retirement age (Germany, Japan, the Netherlands, New Zealand, Sweden, USA); reduction of pension benefits (Finland); abolition of financial incentives in social security in order to discourage early retirement, for example the exclusion of labour market considerations from the definition of disability (Finland, Germany, the Netherlands, Sweden); cutting or abolition of early retirement benefits (Germany, Finland, the Netherlands, Sweden); increase in the number of years of insurance required in order to qualify for a full pension (France, Japan and Spain) and the possibility of a partial pension (Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands and Spain). As an example of this, see the policy changes introduced in Germany which are presented in Table 3.

In the Netherlands, sectoral, part-time, early retirement schemes have been agreed by the social partners. Also, the legal framework for supplementary pensions has recently been adopted. Full and partial drawing of pensions is possible between the ages of 55 and 70. The latter developments are partly promoted by the EEC Council recommendations of 1982 on policy principles with regard to retirement age. These principles, which are still valid as long-term guidelines for the Community policy, include a more flexible retirement age, the right to financial compensation in the case of gradual retirement and the right to gainful employment after retirement. However, where not securely incorporated into company policies, public policies to stem early retirement may not necessarily produce the expected results. Moreover, a higher age at which public pensions become available or reduced benefits may not result in an increase in the actual retirement age if other favourable public and private early exit routes are not altered or abolished.

Gradual or part-time retirement means, in general, that the transition from the phase of full occupational commitment to that of full pension phase takes place over a longer period with a gradual (step-by-step or continuous) reduction of occupational activity, consisting principally in a reduction of working time with the earnings from part-time work being complemented by a part-time retirement benefit. Gradual retirement has been advocated, introduced and used for various reasons (Delsen and Reday-Mulvey 1996: 9). It is a way of avoiding the pension shock, following an abrupt transition from full-time work to full retirement: it is also a method of achieving greater flexibility and individualisation in working life by distributing work and free time over the latter part of the occupational cycle, and it is a potential means of redistributing the available amount of work. It provides a "soft" form of personnel reduction, and a means of reducing the growing exclusion of older employees from the labour force; for management it offers cost-effective opportunities to retain people with valuable corporate knowledge and precious technical skills and prevents occupational disability. Finally it reduces retirement and unemployment costs not only by reducing the number of benefits but also by lengthening the contribution period and by broadening the contribution base.

Table 3: Early retirement regulations and recent policy changes in Germany

Regulation	**Main conditions**	**Bearer of cost**	**Number of entrants (1994)** (Thousands)	**Changes of regulations in 1996/1997**
1. Retirement age for women	Regular retirement age for women is 60	Pension system	223 (ca.)	Gradual increase of retirement age for women to 65 between 2000 and 2010
2. "Flexible retirement age"	Retirement age is 63 instead of 65 after 35 years in insured employment (since 1973)	Pension system	94	Gradual increase of retirement age for men to 65 between 2000 and 2004
3. Disability pensions	Early retirement due to partial or total disability to work (definition depending on labour market situation)	Pension system	280	
4. Extended duration of unemployment benefit (UB) for older workers	Duration of UB is 32 months for older workers (over 53) after 64 months in insured employment during last 7 years (since 1987)	Unemployment insurance	?	Maximum duration of UB (32 months) only for workers over 56 (from 1997 onwards)
5. Early retirement pension following unemployment	Retirement age is 60 for workers having been unemployed for 1 year during last 1.5 years and after 8 years in insured employment during last 10 years Together with regulation no. 4 results in "57-year-rule": UB for 32 months from age of 57, followed by early retirement at 60	Pension system	204 (1994) 290 (1995)	Gradual increase of minimum age for entering scheme to 65 between 1997 and 2007 Scheme can still be entered by workers between 60 and 64, but pension is reduced by 3.6% for each year of premature claim (applies also to regulations nos. 1 and 2). Additional contributions to the pension system can be paid to avoid pension reduction
6. Special regulations for East Germany: a) Vorruhestandsgeld (Vog) b) Altersübergangsgeld (Alüg)	Early retirement benefit for unemployed workers over 54 who could claim UB for the maximum duration (32 months) Duration: 5 years Level: similar to UB (65% of net wage)	Federal govt. and pension system	460 (1990; ca.) 350 (1991; ca.) 242 (1992)	No more entrants into scheme after 31.12.1992; no more benefit recipients after 31.12.1997

3. Implementation of early and phased retirement

In Europe, policies and schemes related to pensions and retirement from work differ substantially between countries (see Table 2 and the four following Boxes), reflecting differences in both cultural and institutional backgrounds (Casey 1996; Kohli *et al.* 1991; Schmähl 1989; Naschold and de Vroom 1994; OECD 1994). There is, however, an almost common trend to reduce full, early retirement and to move towards gradual retirement (see Box 3 on Germany).

With regard to the national, (statutory) part-time retirement schemes already applied in Europe, a distinction can be made between schemes with an obligatory replacement condition and schemes without a replacement condition. The Austrian, Italian, Swedish, Danish and Finnish schemes have no replacement obligation. The schemes in France, the United Kingdom, Belgium (for those under 60) and Spain all have a replacement condition.

Box 1: System of retirement and pre-retirement in Belgium

Since 1 July 1997, the *statutory retirement age* in Belgium has been 65 for men and women: 45 years of insurance contributions are required for a full pension. Women – who previously retired at age 60 – will see their official retirement age go up progressively during a transitional period lasting until the year 2009. In 1998, the (transitional) retirement age for women was 61.

Early retirement is possible from the age of 60 onwards for both men and women, provided that they have a minimum of 22 years of insurance (situation in 1998). From 2009, 35 years of insurance will be required for early retirement.

For many years now (since 1974) Belgium has also had a system of *full-time pre-retirement* (linked to compensatory recruitment). This system is based on a national collective agreement.

Full-time, pre-retirement is possible from the age of 60 onwards (on the basis of a national collective agreement). However, sectoral or company agreements can reduce the pre-retirement age to 58. Workers in shift work, including night work, are entitled to pre-retirement at the age of 55. Pre-retirement is possible from the age of 52 for workers employed in enterprises in difficulty or in the process of restructuring.

Full-time pre-retirement workers are entitled to an income composed of unemployment benefit (60% of gross salary, with a ceiling) and a supplementary allowance paid by the employer. This supplementary allowance equals a minimum of 50% of the difference between the net salary and the unemployment benefit.

Full-time, pre-retired workers maintain their social security rights.

Full-time pre-retirement is only possible after redundancy by the employer.

Since the national collective agreement no. 55, concluded in the National Labour Council in 1993, *half-time pre-retirement* (combined with half-time work) is possible for workers aged 58. For half-time, pre-retirement leave, the employer's agreement is required.

On the basis of a collective agreement in the sector or in the company, the age for half-time pre-retirement can be decreased to 55. The agreement of the employer remains a requirement unless the collective agreement foresees the right to half-time pre-retirement.

In total about 860,000 workers are covered by a Collective Agreement on part-time, pre-retirement schemes offering the possibility for partial retirement at age 55 to 58. The income of a half-time, pre-retired worker is situated between the full-time net salary and the full-time pre-retirement benefit. All social security rights are maintained. In practice, the formula for half-time pre-retirement is much less successful than the one for full-time pre-retirement since only about 280 workers have opted for this formula up to now (March 1998).

More successful than part-time pre-retirement is the formula for part-time career interruption from the age of 50 onwards: this formula gives the worker the right to a part-time salary, supplemented by a specific state benefit of 5,000 BEF plus, increasingly frequently, a supplement from the employer.

Box 2: Pre-retirement in France

The right to retire from the labour market at the age of 65 was lowered to 60 in 1982. However, there are currently significant differences in the reduction of the pensionable age between the private and the public sectors. Firstly, since 1994, employees in the private sector have had to pay 40 annuities before being entitled to a full pension while, in the public sector, the threshold is still 37.5 annuities. Moreover, pension levels are now calculated on the best 25 years of an individual's career instead of the best 10, as previously.

Since 1982-1983, with the implementation of the solidarity contracts on working-time reduction and on pre-retirement and progressive early retirement, several schemes concerning early withdrawal from the labour market have been implemented in France. Since 1985, 953,000 employees have participated in one of these early retirement schemes (this represents the majority) and progressive early retirement (the minority). In December 1995, 205,000 people were involved in these schemes. The result has been a strong decrease in the rate of activity for those aged 55 to 59 years old: 52.5% of the people in this age group were still at work in March 1995.

Currently, three schemes can be used by firms for (progressive) early retirement.

1. National Employment Fund early retirement

According to a 1994 edict, amended in 1995, a firm can come to an agreement with the state (the National Employment Fund – FNE) in the framework of a social plan (this means a plan concerning redundancies) which allows for early retirement (definitive). Employees must be 57 years old (exceptions are allowed for those aged 56 and over), they must have paid social security contributions for 10 years and must have been employed in the firm for at least one year. They must also have resided in France before the lay-off and may not accept further employment after having agreed to join the early retirement scheme. The grant is 65% of the reference wage within the upper salary limit for social contributions and then 50% up to double this limit. The minimum daily amount is fixed at 163.55 FF (25.2 Euro). The firm and the employee contribute to the financing of the scheme and the firm should prevent redundancies for employees between 50 and 56 years of age.

With this scheme, redundancy payment can be avoided, however, the social plan and the agreement with the FNE must be accepted by both the employees' representatives and by the employees concerned.

2. Progressive early retirement (with or without new recruitment)

The various schemes were merged in 1993. With the resulting new scheme, compensated part-time work is possible in order either to avoid or limit the number of lay-offs or to create new jobs. Employees must be between 55 and

65 years old. Other conditions concerning the employee are the same as those for early retirement. Part-time work may vary in duration from between 20% and 80% of the former working time, but the average over the period of progressive retirement must be 50%. Wage compensation is 30% for days not worked for those within the upper salary limit for social contributions (which means 80% of the former full-time wage) and 25% for the share of the wage which exceeds this limit (not to exceed double this limit). The daily minimum is fixed at 81.78 FF (12.6 Euro). A financial contribution is required from the firm, depending on its size, of between 4% and 6% of the costs for firms with less than 200 employees, and between 6% and 8% for larger firms. In this scheme, the employer must hire employees in order to compensate for the reduction in working time. Where there is a social plan, this obligation is cancelled. Generally, this scheme is used by firms that want to renew their staff. In this case, new jobs must be created within three months.

3. ARPE : Allocation de remplacement pour l'emploi

In the private sector, the social partners agreed in September 1995 within the UNEDIC System (unemployment fund under joint management of the social partners) to create the ARPE (*Allocation de remplacement pour l'emploi)* to last until the end of 1998, for all workers aged over 57.5 (in 1997 this was increased to 58 years) and who had paid in contributions for 40 years (or assimilated periods) but who had not yet reached the statutory retirement age, provided that they were replaced by a newly recruited employee. The employer had to agree to the pre-retirement.

The employee should have contributed to the UNEDIC for the previous 12 years at least and should have been employed by the firm for at least one year. The daily amount of the allocation is 65% of the previous wage with an upper limit of four times the upper ceiling for social security (56,360 FF, 8670 Euro). The daily minimum is fixed at 163.55 FF (25.2 Euro). By the end of August 1998, 121,167 people had benefited from the ARPE and about 106,766 new people were hired under the scheme. The cost to the UNEDIC is evaluated at about 25 billion FF (3.9 billion Euro).

According to an agreement which was signed on 22 December 1998 by all partners, the scheme was prolonged to 1999. It was also extended to employees aged 56 or 57 and over and who started working at the age of 14 or 15. This will allow 40,000 to 50,000 employees to enter the scheme in 1999.

Civil servants from central and local authorities and from hospitals are entitled to similar leave and benefit, called CFA, *congé de fin d'activité*, at 70% of full former pay, up until the retirement age of 60, provided that they have given at least 25 years of service, are aged at least 58 years and have paid pension contributions for at least 37.5 years.

Box 3: The new German partial retirement regulation

If,

- working time for older workers (over 54) is reduced by half,
- wages for these workers are reduced accordingly,
- the employer pays an allowance to the worker which raises the reduced wage to at least 70% of his/her previous net wage,
- the employer, in addition, pays contributions to the pension system on 90% of the worker's previous wage, and
- the employer fills the vacancy created by the reduction of working time with an unemployed person or with a worker who has just completed his/her apprenticeship in the firm (replacement condition),

the Federal Employment Institute will compensate the employer for

- the allowance, raising the reduced wage to 70% of the previous net wage,
- the additional contributions to the pension system corresponding to 90% of the previous wage for a maximum duration of 5 years.

The reduction of working time may take the form of standard part-time employment, but it may also take the following form:

- the worker works full-time during the first 2.5 years of a 5-year period and
- is not available for work for the next 2.5 years and
- the wage is paid continuously on a part-time basis for the entire 5-year period.

The reduction of working time may be based on a collective agreement, on an agreement between the works council and the firm, or on an agreement between the individual worker and the employer. The second form of working-time reduction described above *must* be based on a collective agreement.

Following at least two years in partial retirement, a worker can claim access to the "early retirement pension following unemployment" described above (Table 3, no. 5) if he/she has reached the corresponding age threshold.

Box 4: Flexible retirement in Italy

In addition to the harmonisation of the different pension systems, the new pension law of 1995 provides for the redefinition of the criteria for calculating pensions and for the flexibilisation of the retirement age.

Redefining the criteria for calculating pensions

Under the new system, the pension is calculated on the basis of the contributions paid, whereas the previous system provided for a percentage calculation of the average of the remuneration (earnings) over the entire working life. The amount of the contributions paid is multiplied by an individual coefficient based on the age of the policyholder at the time of retirement. The contribution rate used equals 33% of the taxable base for salaried workers and 20% of annual income for the self-employed. The annual amount of the contributions is re-evaluated at the end of each year in relation to the five-year variation in the nominal GDP. The amount of the credited contributions is multiplied by a coefficient based on the worker's age, but equal for women and men, with a minimum of 4.720 at 57 and a maximum of 6.136 at 65. The revaluation coefficient can be changed every 10 years in line with demographic and economic changes (change in GDP). The new system applies fully to workers who begin their career as of 1 January 1996. For workers with a contribution period of more than 18 years on 31 December 1995, the remuneratory calculation system will remain in force, while a mixed system will apply to those with less than 18 years of contributions on 31 December 1995: for the periods of work before that date, the pension will be calculated according to the remuneratory system, while for subsequent periods the calculation will be made using the contributory system.

Flexibility of the retirement age

Under the new system, the old age pension will be granted under the following conditions:

- after 40 years of contributing, with no age condition;
- at age 57 to 65 under the following conditions:
  - termination of the work contract;
  - five years of actual contributions and
  - an amount of pension which is more than 1.2 times the social welfare allowance: this condition does not apply to workers over 65.*

The legal retirement age will be fixed for the old age pension in the remuneratory system but is flexible (between 57 and 65 years of age) in the contributory system. As a result, pensions calculated solely according to the contributory system will no longer be integrated into the minimum salary. The new rules will be fully applicable as of 2008; until then, a transitional system gradually approaching the new grant conditions is provided.

Comparing the system prior to 1992 with the new contributory system, the situation will become less favourable for retirees as regards the relationship between the pension and the final wage. A comparison of the 1992 Amato Reform with the 1995 Dini Reform shows that the new calculation favours workers who delay retirement.

However, the contributory system also has advantages, such as:

- reducing avoidance of social security contributions;
- more choice for workers;
- a system better suited to varied career paths;
- more similar treatment of employees and the self-employed, and
- more similar treatment among workers in different pay brackets.

The new system:

- allows workers to choose a retirement age of between 57 and 65;
- is more generous for workers with interruptions in contributions;
- is more favourable for short careers and careers that begin late;
- extends the activities for which retirement entitlements can be purchased retroactively, and
- provides for an additional figurative (fictitious) contribution to bringing up children and for assistance for the handicapped.

On 1 November 1997 the government and the CGIL, CISL and UIL trade union confederations concluded an agreement on some changes to the previous pension reform introduced in 1995. These changes speed up the 1995 reform and allow budgetary savings of approximately ECU 2.1 billion. The agreement followed a very complicated period of negotiations with the social partners and within the majority coalition, a dispute between the government and the Communist

Reconstruction Party (RC) – upon whose votes the then government was dependent in Parliament, – and a quasi-crisis in the government. The deal which resolved the crisis was a compromise leading to the 35-hour working week introduced by law and to the exclusion of blue-collar workers by the new changes in the pensions system. The agreed reform contains measures to:

- accelerate the implementation of the previous reform of 1995, which provides for a phased increase in the retirement age for employees in the private sector from 53 to 57 by the year 2002. The number of years of pension contributions necessary to qualify for retirement will also increase from the current 35 to 40 by 2008;
- speed up the harmonisation of pension provisions in the public and private sectors by 2004: this will thereby bring the more generous public sector pension schemes into line with the private sector schemes and it will allow the government to make long-term savings;
- speed up the harmonisation to increase the level of social security contributions paid by self-employed people with the aim of gradually bringing them into line with dependent employees. This new agreement provides for a 4% increase in contributions for self-employed workers by 2004 and an increase in their retirement age from 57 to 58;
- abolish all special pension provisions, such as those for employees at the Bank of Italy and airline pilots, and bring them into line with general pension systems in terms of contributions, eligibility and benefits, and
- maintain seniority pension rights for blue-collar workers who have been employed for 35 years;

**Social welfare allowance*

For Italian citizens resident in Italy who have reached the age of 65, the social welfare allowance has been created in place of the social pension. For 1997, the allowance amounts to 6,477,250 lire. The allowance is granted subject to income conditions.

Box 5: Flexible retirement in Spain

Full-time early retirement is possible in Spain, from the age of 60 onwards for workers who started to pay contributions before 1967. The early retirement benefit depends on the number of years of pension contributions. A reduction of the entitled benefit of 8% will be applied per year below the age of 65; the reduction of the benefit will be only 7% after a minimum of 40 years of contributions and the involuntary termination of the work contract.

Partial early retirement for salaried workers is possible on the condition that all requirements for ordinary retirement are met, except the age condition: the age of the worker must be less than 3 years lower than the ordinary retirement age for the regime in question.

The pension entitlement will be equal to 50% of the corresponding pension level, taking into account the number of years of contribution at the time of the application and will not, in any case, be lower than 50% of the minimum pension for a retired person at the age of 65. No reduction will be applied for anticipated retirement. On the other hand, partial early retirement is linked to the obligation for the employer to replace the part-time retired worker with a registered unemployed person for the same number of hours. It has to be mentioned that this so-called “relay” contract is not very much used by companies and workers (in 1997 only 197 such replacement contracts were registered by the public employment agencies): most workers and companies prefer to sign full-time early retirement contracts when the workers meet the retirement conditions.

The UGT and CC.OO. are working out fresh proposals for a new system which would make the formula for linking early retirement to the signing of new employment contracts more operational.

The new Agreement on the consolidation and the rationalisation of the system of social security, signed in October 1996 between the government and the two main trade union organisations, the CC.OO. and UGT, on the basis of the “Pact of Toledo”, aims mainly to strengthen the public pension system and the contributory character of the system; the Agreement also foresees the progressive increase, from 1997 onwards, of the number of reference years (from 8 to 15) for the calculation of the pension base. This Agreement forms the basis of legislation introduced in 1997 to reinforce the contributory nature of the Spanish social security system.

(Situation March 1998)

The system applied in the Federal Republic of Germany does not have a replacement obligation, but premiums will be refunded only once replacement has taken place. The schemes with a replacement condition emphasise the sharing of available jobs between a larger number of people as a means of reducing unemployment. In the Netherlands, sectoral part-time early retirement schemes were introduced in the second half of the 1980s. In Belgium, part-time pre-retirement schemes date from the mid-nineties.

With the exception of the German system, in all the other countries under review, the part-time early retirement system exists in parallel with a full, early-retirement system. In Germany, the existing, full, early retirement schemes and their functional equivalents are gradually being replaced by the part-time early retirement scheme. In France the full early retirement scheme under the solidarity contracts was abolished in 1983 in order to promote the partial early retirement option, which is much easier on the public purse. In 1995 the ARPE system was introduced. In the United Kingdom, in 1986, the part-time Job Release Scheme was brought to a standstill while the full-time Job Release Scheme continued to function (see Table 2).

The Swedish partial pension scheme is financed by a pay-roll tax. Under the German scheme, the costs are also borne by the employer. However, in the event that the resulting vacant part-time jobs are filled by someone registered as unemployed, there is a full refund of the extra costs. The other national part-time early retirement schemes in Europe are state financed, though some are financed by the unemployment fund and thus mainly on the basis of social contributions by employers and workers (e.g. Belgium).

Contrary to most full early-retirement schemes, none of the national schemes give employees an automatic "right" to part-time early retirement: partial early retirement requires an agreement between the employee and the employer (or a collective agreement).

4. Effects and evaluation of early and phased retirement schemes

4.1. Evaluation of early exit routes

Unemployment, early retirement and disability are the principle causes of early exit from working life by workers aged 55 and over in Europe.

In 1990, 23% of inactive persons aged 55 to 64 in the European Community were out of work for reasons of illness or disability; another 54% went into early retirement for economic or other reasons; in addition, about 8% of the labour force in this age group were unemployed (OECD 1992: 206, 207). In Germany, for example, only 27% of all new male pensioners entered the pension system at the standard retirement age of 65 in 1993: 30% claimed a vocational disability or an invalidity pension; 18% claimed early retirement after having been long-term unemployed, and 17% made use of the "flexible retirement age" (63 years of age) for the long-term insured (Schmähl *et al.* 1996: 76). In the Netherlands, 47% of 55 to 59 years olds (and 32% of 60 to 64 years olds) who were not working were registered as long-term sick (OECD 1995: 38). Unemployment, early retirement and disability can thus be considered as communicating vessels (cf. also OECD, 1992: 205-232; OECD, 1995: 67). They have brought down the effective retirement age to well below the official retirement age, notably for men (see Table 1). As Table 4 shows, only about one third of the older workers are still in employment in the EU. This ratio decreased considerably during the 1980s and the early 1990s, and it is particularly low in Belgium, Italy, the Netherlands and France. Sweden is an exception to this rule. There, almost two thirds of older workers are still in employment, and, unlike in other countries, the employment rate of older women is hardly below that of older men (Delsen and Reday-Mulvey 1996; Casey 1996; Schumacher and Stiehr 1996; OECD 1994).

Table 4: Employment rates of 55 to 64 year olds in the EU member states

	Both sexes		Men	Women
Country	**1983**	**1996**	**1996**	**1996**
Austria		29.4	42.4	17.3
Belgium	29.0	21.8	32.2	12.0
Denmark	50.6	47.5	58.4	37.0
Finland	47.3	34.8	36.8	32.6
France	39.9	33.5	38.6	28.6
Germany	38.1	35.7[1]	47.2[1]	24.4[1]
Greece	46.3	40.5[1]	58.9[1]	23.8[1]
Ireland	43.5	40.3	58.7	21.8
Italy	34.1	27.3	42.1	13.8
Luxembourg	25.1	22.6	35.6	10.2
Netherlands	30.6	30.0	40.7	19.4
Portugal	49.1	46.2	58.6	35.5
Spain	41.3	33.0	49.9	17.8
Sweden	65.5	63.4	66.0	60.7
UK	47.5	47.7	57.0	38.8
European Union	40.7	35.1	46.4	24.4

[1] Data for 1995 instead of 1996
Source: OECD 1997: 166-195

The exchange of elderly employed persons for young unemployed persons, a primary objective of early retirement schemes in Europe, is not only an expensive method of preventing long-term (youth) unemployment but it is also an inefficient measure because it excludes the potential productive resources of older workers and results in the long-term unemployment of the latter. Flexible retirement schemes, such as part-time retirement, would be far preferable from both a social and an economic point of view (Schmid and Reissert 1996: 258).

4.2. Evaluation of gradual retirement

Naschold and De Vroom (1994: 441) conclude that in countries where gradual retirement options apply, e.g. Japan, Sweden and the USA, the labour force participation rates are higher than in countries like Germany and the Netherlands with a one-stage transition pattern.

According to Delsen (1996), so far only the Swedish partial pension system has proved a success. The partial pension scheme has stimulated part-time employment among older men in the eligible age group, and contributed to the humanisation of work in the sense of enabling individual workers to adapt the number of hours to their personal preferences. Unemployment, early retirement and disability are significant causes of early termination of an active career by older workers aged 55 and over; all three may be considered interdependent. In Sweden, part-time work for older workers has helped to avoid dismissals and reduce full, early-retirement and full disability benefit. It has also improved the health of older workers. The introduction of the partial pension reduced the total costs of early retirement and may contribute to the fight against unemployment by redistributing labour. Part-time employment has helped to reverse the downward trend in labour market participation rates for older workers. Also, changes in the level of compensation have had an impact on the take-up rate of partial pensions (Delsen 1990).

We may conclude from Swedish (best) practice that flexible and partial pensions combined with various income replacement rates can change the choice of the gainfully employed between early and late retirement and between larger and smaller work efforts. The abolition of financially attractive alternative options for full early retirement also significantly influenced the number of partial pensioners. The Swedish example also shows that actuarial reductions and increases in pension benefits need to be considerable in order to have an impact on the willingness of workers to continue working. The active labour market policy and the positive attitude of trade unions, employers and government towards part-time employment contributed to the success in Sweden. The Dutch example also shows that offering part-time employment possibilities will considerably reduce both the number of full-disability claimants and the number of workers taking up full early retirement.

Sweden offered a model for Denmark, Finland and the Netherlands, but the resulting initiatives were differentiated by contrasting patterns of support from the labour market actors. In these countries the right to income prevailed in public labour market policies. Early retirement and disability benefits have been used to reduce the unemployment rate. The labour market situation has also been a major factor in determining the success or failure of gradual retirement schemes. Another important condition for success is an adequate supply of part-time jobs, while the impact of part-time employment on pension entitlements is also of importance.

From the experiences of the four countries it can be concluded that essential conditions for the success of gradual retirement are: a social consensus on the advantages of part-time employment, good social security conditions linked to part-time employment and retirement and the absence of excessively generous benefit alternatives.

5. Conclusions

The working and retirement patterns of older people (55 and over) have undergone major changes in the course of the last few decades. Moreover, the recent pension legislation of most EU countries seems to be moving towards the flexible extension of working life. Evidence presented in this chapter suggests that the incentives supplied by public and corporate labour market policies have so far been unbalanced, have disguised unemployment (Walker 1998) and restricted employment opportunities for older workers.

A major challenge for labour market policy in the OECD member countries for the years to come is to increase employment and labour force participation rates or, more realistically, to devise new ways of redistributing employment at existing levels[2]. Various unions and

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[2] Although nearly all social groups agree that stronger economic growth would contribute most towards solving the unemployment problem, the prospects of a return to the conditions which prevailed before 1973 are poor. It may be argued that a general saturation, demographic developments and environmental problems may cause bottlenecks for economic growth. Important changes in the labour supply and in the sectoral distribution of employment are taking place away from the full-time, full-year concept. Also, advances in information technology make it imperative to re-examine the old concept of full employment (Delsen 1997).

academics argue in favour of collective working time reduction formulae as a means of preserving jobs. A redistribution of employment is indeed the maximum result to be achieved under acceptable and negotiated wage conditions. However, such a policy alone may not sufficiently contribute to avoiding early exit, reducing the exclusion of older workers and coping with the financial burden that lays ahead. The ageing of our societies also requires that older workers remain genuinely integrated in the labour markets. This necessitates the removal of the linear career model with its three successive stages and the establishment of an alternating pattern of work, training and leisure throughout the life cycle, the abolition of the age limits (on jobs) and the abandoning of fixed retirement in favour of flexible retirement. Age discriminatory measures against older workers must be eliminated, labour market programmes and labour market training for older workers could be extended, the rehabilitation of long-term sick and disabled workers should be promoted and part-time retirement or pre-retirement possibilities are to be developed if the employment rate of older workers is to be increased (Hutsebaut 1997).

Gradual retirement as a positive measure provides the material and financial conditions for older workers to remain within the labour force: it is an incentive to work part-time and moreover to work more years. The advantage of gradual retirement over other forms of transition from work to retirement often used in the past fifteen years (early retirement, unemployment and invalidity insurance) is that gradual retirement is built into retirement schemes (and thus more easily incorporated into overall employment policies) so that it can be considered as a "permanent" system. Flexible and partial pensioning can affect the choice made by the gainfully employed between early and late pensioning and/or between a larger and smaller work effort. Gradual retirement accompanied by adequate financial incentives is an important instrument in coping with the problem of ageing and in raising the effective retirement age, thereby helping to ease future financial constraints (Delsen and Reday-Mulvey 1996).

In principle, the changes that have been introduced recently in the retirement schemes in the various European countries should be advantageous for all parties: the pension shock is avoided; the viability of the welfare state is guaranteed; employees have broader choices because of greater flexibilisation and individualisation of their working lives and solutions are found to the financial burden that lays ahead.

In practice however, the concrete results are still disappointing:

- participation rates of older workers are still low and decreasing;
- it still seems to be important to employers to be able to dismiss older workers (think of the steep age/wage profiles);
- employees still prefer early retirement. The pay-as-you-go financing of early retirement implies that they would be thieving from their own purse if not taking the first opportunity to retire;
- employees still consider part-time employment as second class;
- gradual retirement results in a decrease in pension entitlements in final pay schemes;
- the labour market situation – persistently high unemployment rates – is an important incentive to work redistribution and early retirement;
- there is a continuing lack of an adequate supply of part-time jobs by employers;
- social consensus – an essential condition for the success of any change in the retirement systems – is often lacking, and
- other generous benefit alternatives, i.e. exit options, are still available.

The early retirement culture is still deeply rooted in the EU countries. This is not only demonstrated by the low and decreasing participation rates of older workers throughout Europe. It is also illustrated by the fact that all recent policy changes refer only to early and phased retirement but not to deferred retirement.

A change in attitude is needed. Flexible retirement entails not only a decrease in the number of hours or years worked, but also an increase, i.e. not only early retirement, but also deferred retirement (cf. Council of Europe's recommendation). Flexible retirement must be seen in the context of the labour market challenge facing all European countries to increase labour force participation rates. Gradual retirement constitutes a flexible extension of working life, and should be promoted as such. The

European social partners can play an important role here by, for example, concluding a framework agreement on partial retirement for older workers which is similar to the agreement on part-time employment concluded on 6 June 1997 by the ETUC, UNICE and CEEP.

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