Responding well to the challenge of an ageing and shrinking workforce. European Union policies in support of Member State efforts to Retain, Reinforce & Re-integrate Older Workers in employment

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In response to the ageing and shrinking of the working-age population, the European Union has agreed ambitious goals for raising the employment rate and the exit age of older workers. This article traces the development of EU policy approaches and presents EU-15 figures on the state of affairs. Progress so far has been modest, but EU policies are expected to facilitate the emergence of better regimes of age management within Member States. In turn, this will help Europe move towards its employment targets for the working population aged 55 to 64 years.

Introduction

The trend towards ever-lower exit ages has become a feature of labour markets across the European Union. Thirty years ago, the participation rates of male workers aged 55–64 were only 10–15 per centage points lower than those of prime-age workers. Today the difference has widened to 40–50 per centage points. From the early 1970s until the late 1990s the participation and employment rates of European older (male) workers have been in constant decline. Although recent data suggests that this trend may finally be levelling out, Europe is a long way from having reversed the ‘stampede’ towards early exit.

The European Union has now set itself two important strategic objectives by 2010: to increase the employment rate of older workers to 50 per cent (Stockholm target); and to delay by five years the age at which older workers stop working (Barcelona target). These complementary employment goals mark the culmination of developments underway since the early 1990s, when the European Commission began focussing on the ageing of Europe’s workforce.

This article examines the significant shift in European Union approaches towards older workers. It does so by focusing on a number of recent policy initiatives:

- the adoption of a specific employment guideline on active ageing from 2001;
- the 50 per cent employment rate target by 2010 for workers aged 55–64 agreed at the March 2001 Stockholm Summit;
- the pension objectives agreed in Laeken in December 2001;
- the March 2002 Joint Report on labour-force participation and active ageing;
• the March 2002 Barcelona agreement to raise the age at which people stop working by 5 years by 2010;
• the decision to introduce a new structural indicator on the average effective exit age in the 2003 synthesis report.

An ageing and shrinking workforce in Europe

The economic and social impact of the ageing of Europe’s population will be particularly pronounced in the next decades, as the longevity growth and lower fertility levels of the last decades combine with the retirement of the ‘baby boomers’ to cause a sudden worsening of old age dependency rates. The European Union is faced with the prospect of an ageing and shrinking workforce. Over the next two decades, the number of people in the 20–29 age band will fall by 20 per cent, while the number in the 50–64 age group will increase by 25 per cent. If current early retirement practices continue among this latter group, participation rates may drop to just 1/3 of those of prime age workers. This will have a strong negative effect on overall labour supply and result in skill and labour shortages followed by wage drift and inflation. To avoid such a scenario, Europe must adjust working practices to an ageing workforce and invest in its continued employability and productivity. It is imperative to enable and motivate the baby-boomers to remain in work for several years longer than present cohorts of older workers.

While rooted in the erosion of workability, as well as in labour market pressures and work place practices, the decline in the participation of older workers has been accentuated and consolidated by public policies offering easy access to early retirement. Over time these policies led to the institutionalisation of wasteful practices of age management. They also gave rise to a veritable culture of early retirement expectations and practices. Ageing workers, their colleagues and personnel managers began to expect work careers to end some 5 to 10 years before workers became eligible for an old age pension – and to plan and act accordingly.

This is beginning to change. Experts are increasingly turning their interest to concrete strategies for improving the employability of older workers and for adjusting employment conditions so that better opportunities for work after age 50 are available. Management practices will need to adapt to a tight and ageing labour market, placing a premium on innovative strategies which retain and reintegrate older workers, whilst also securing productivity and profitability.

Although the European Commission became interested in the challenges of future ageing from the late 1980s, it was some time before labour force issues took centre stage. Along with international debates, attention had focused largely on the consequences for pensions, and health and long term care. It was not until 1999 that older worker issues began to be addressed in the European Employment Strategy. Developments followed swiftly, however. The May 1999 Communication ‘Towards a Europe for All Ages’ located higher employment of older workers as one of the pivots of a successful policy response to the ageing challenge. ‘Active strategies for an ageing workforce’ was a major theme during the Finnish Presidency in 1999 and the employment package adopted at the Helsinki Summit gave considerable attention to the age gap in Europe’s employment performance. The European Commission’s first recommendations to Member States emphasised the need to change tax/benefit structures that facilitated early exit and penalised those people who worked longer. Towards the end of 1999 the European Commission also presented...
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a proposal for a directive to outlaw discrimination in employment, including on grounds of age. Surprisingly, this was adopted by the Council in less than a year.

Yet, more than anything, it was the launching of the ten-year strategy to make Europe ‘the most competitive and dynamic knowledge based economy in the world’ at the Lisbon European Council in March 2000 that set the ball rolling. The Strategy committed the European Union to full employment by 2010 and to enabling social protection systems to weather the impact of demographic ageing. Since then, extending working life by improving the incentives and opportunities for older workers has become a major priority in European strategies for employment and for adequate and sustainable pensions.

As the issue slowly worked its way up the EU agenda, the approach matured considerably. The resolution on older workers adopted in 1995 called on Member States to ‘adapt to the needs and prevent the social exclusion’ of older workers. When the issue was first mentioned in the employment guidelines, the emphasis was on securing equal opportunities for older workers. However, since the introduction of the separate guideline on active ageing and the Stockholm target on increasing the employment rate in 2001 older workers have primarily been portrayed as a ‘resource to be mobilised’. Older workers were no longer perceived as just another vulnerable group meriting special attention, but as a core element in the labour supply of the future and a factor in the sustainable development of Europe. In the same period, EU instruments evolved from soft suggestions to binding guidelines and recommendations.

When EU leaders met at the Lisbon European Council in March 2000, they agreed a number of ambitious goals for policy developments over the coming decade. These included the reaching by 2010 of full employment, defined as an overall employment rate of 70 per cent for those of working age. It soon became clear that such a target could only be achieved if Member States also managed to raise the employment rates for older workers. It was therefore logical that EU leaders at the 2001 Spring Summit in Stockholm adopted a specific employment rate target for older workers of 50 per cent and requested a report on ‘Increasing labour force participation and promoting active ageing’ for the Barcelona Summit in March 2002.

The separate guideline on active ageing introduced in 2001 pinpointed ‘existing social attitudes’ towards older workers as one of the important barriers to be addressed. Furthermore, it drew up the following sequence of policy priorities:

- securing the best use of older workers’ experience;
- maintaining the work ability and qualifications of older workers;
- making working arrangements more flexible;
- alerting employers to the strong business case for employing older workers;
- securing that the right mix of incentives and disincentives are present in tax/benefit systems.

The guideline represented a major advance towards a holistic approach to the problems of making work after 55 possible and attractive. Most importantly, the guideline underscored the link between the successful implementation of active ageing policies and the realisation of some of the general policy goals of the Union. Promoting better employment opportunities for older workers, and enabling and motivating them to seize these, have thus finally become an integral part of Europe’s overall strategy for employment and growth.
Nevertheless, such approaches must be set against the large disparity in the position of older workers across Member States. As Table 1 shows, employment rates for workers aged 55–64 vary considerably. Between the low (Luxembourg, Belgium, Italy) and the high (Sweden and partly Denmark) achievers there is a gap of more than a factor of 2. The UK is the only large Member State presently meeting the target. The rest of these hover around the EU employment rate average for this age group of 38.8 per cent. Or, as in the case of France and Italy, they drop well below this, reflecting the fact that the pensionable age for men and women in the basic state schemes have, for a long time, been set at respectively 60 and 60/55.

### Policies culminating in the Barcelona target on delaying labour exit

In December 2001, the Laeken Summit in Brussels adopted 11 common objectives for a European strategy for adequate, sustainable and adaptable pensions. Higher employment rates for older workers were highlighted as an important element in making pension systems durable. Around the same time, this strategic assessment was amply confirmed by the findings of the Ageing Working Group under the Economic Policy Committee in its path-breaking forecast of public pension expenditure 2000–2050. Postponing retirement by extending working lives stood out as the single most powerful policy response to the problem of rising pension costs. A single year's rise in the average effective pension age would neutralise between 1/5 and 1/3 of the expected growth in pensions expenditure if no extra rights were incurred in the process. Ensuring that pension schemes promoted longer working lives and later, more flexible, retirement had therefore become critical to the EU agenda for making pensions sustainable. Policy-makers also recognised the need for...
for a more ‘social protection friendly’ approach to age management in the workplace. The long-standing practice of off-loading employment problems onto pension systems, evident in early retirement patterns, had to cease. It was seen as essential that the cost of taking people out of labour markets through early retirement should be shifted to policies for retaining and re-integrating older workers. As in other areas, a shift from a passive to an active response to the employment problems of older workers was seen as essential.

The February 2002 Joint Report on ‘Increasing labour-force participation and promoting active ageing’ adopts a life cycle approach to labour force participation. It focuses, firstly, on policies to ensure that present and future working generations remained active as they grew older and, secondly, on ways to prolong the participation of today’s older workers. The recommendations cover five specific areas: more jobs and better quality in work; making work pay; providing higher and adaptable skills at work; making work a real option for all; and developing a partnership approach to deliver the strategy. These objectives are reflected in the revised European Employment Strategy 2003–2010. An increase in the participation of all people of working ages is regarded as critical to the success of the strategy. It requires promoting active ageing through the positive interaction of economic, social and employment policies, and strong support from the social partners. The strategy calls for measures to provide an attractive and adaptable work environment, to improve access to training and to enhance incentives for taking up and staying longer in employment. Existing models of retirement and recruitment would have to change and early retirement should no longer be a major way to handle personnel problems during downsizing and corporate restructuring.

In March 2002, the Spring European Council in Barcelona considered the older worker issue both from the point of view of maintaining labour supply and of making adequate pensions sustainable. In the particular ageing and pensions context of the Spanish host, the issue of raising the effective retirement age took on a crucial importance. The Spanish Presidency pressed this issue with vigour. The result was that the assembled heads of government and state concluded that ‘a progressive increase of about 5 years in the effective average age at which people stop working in the European Union should be sought by 2010’. By endorsing the report on increasing labour participation, the Summit had embraced a set of instruments for prolonging working life.

Raising the average exit age by 5 years in the remaining 8 years before 2010 is an ambitious goal. To some observers, the target agreed in Stockholm – of raising the employment rate of older workers from the EU average of 38.8 per cent to 50 per cent in 9 years – had already appeared quite daring. They were therefore apprehensive when the Spring European Council in Barcelona went substantially further. Other commentators, however, appreciated the emphasis of European leaders on enabling older workers to continue working in labour markets which had, up to now, demonstrated a marked tendency to squeeze them out.

Table 2 ranks countries according to their performance in relation to the average exit age and the employment activity and unemployment rate. The EU average exit age stood at 59.9 years in 2001: 60.5 years for men and 59.1 years for women. Thus, the Barcelona agreement commits the Union to lift the average effective exit age to about 65 years by 2010. The ranking in relation to the exit age and the employment rate differs somewhat. But there are also important elements of stability. Sweden, Denmark, the UK and Portugal are among the 5 top performers for exit ages as well as for employment and activity rates.
<table>
<thead>
<tr>
<th>Average exit (Barcelona target)</th>
<th>Employment rate 55–64 (Stockholm target)</th>
<th>Activity rate 55–64</th>
<th>Unemployment rate 55–64</th>
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</thead>
<tbody>
<tr>
<td>Ireland 63.1</td>
<td>Sweden 64.3%</td>
<td>Sweden 68.4%</td>
<td>Germany 12.0%</td>
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<tr>
<td>UK 62.1</td>
<td>Denmark 56.6%</td>
<td>Denmark 58.9%</td>
<td>Finland 9.0%</td>
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<tr>
<td>Sweden 62.0</td>
<td>UK 52.2%</td>
<td>UK 54.0%</td>
<td>Spain 8.6%</td>
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<tr>
<td>Portugal 62.0</td>
<td>Portugal 50.7%</td>
<td>Portugal 52.1%</td>
<td><strong>EU15 6.8%</strong></td>
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<tr>
<td>Denmark 61.9</td>
<td>Ireland 46.7%</td>
<td>Finland 50.0%</td>
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<td>Finland 61.6</td>
<td>Finland 45.5%</td>
<td>Ireland 47.9%</td>
<td>France 5.8%</td>
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<tr>
<td>Netherlands 60.9</td>
<td>Netherlands 39.3%</td>
<td>Germany 42.8%</td>
<td>Austria 5.6%</td>
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<td>Germany 60.7</td>
<td>Spain 38.7%</td>
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<td>Spain 60.6</td>
<td><strong>EU15 38.2%</strong></td>
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<td>Greece 59.9</td>
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<td>Austria 59.6</td>
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<tr>
<td>Luxembourg 56.8</td>
<td>Belgium 25.2%</td>
<td>Belgium 26.0%</td>
<td>Netherlands 1.5%</td>
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</tbody>
</table>

Source: DG EMPL and Eurostat.

When we move to unemployment rates, the picture is more complex, since low unemployment rates may result from low activity and low exit ages as well as from high employment rates. Thus, there are important differences between the Barcelona and Stockholm measurements that need to be highlighted.

(1) The Stockholm target is about increasing the employment of those aged 55–64. This requires reductions in unemployment and inactivity and progress is monitored through the employment rate. The Barcelona target is about delaying the age at which individuals withdraw from the labour force into inactivity and it is monitored by changes in the activity rate. As the latter is calculated only among those who are active, countries with low participation rates may have relatively high exit ages. This, for example, is the case in the Netherlands.

(2) The average exit age also takes the unemployed into account – presently amounting to 7 per cent of the 55–64 year-old labour force in EU15.

(3) Generally, men exit the labour force at a later age than women. Yet, in Italy and Spain exit ages of men and women are broadly similar although the gender gaps in the participation of older workers are among the highest in the EU.

(4) The Stockholm target refers to those aged 55–64. The Barcelona target does not set any specific age threshold. When monitoring the average age of withdrawal from the labour force the age-span must be broader – and it has been defined as 50 to 70+ years. The age class 50–54 needs to be included because participation falls significantly from the age of 50. Those above 65 years in the labour force are also included. Arriving at an average exit age of 65 will imply that a substantial number of people continue to work into their late 60s and early 70s.4

Meeting the Stockholm target would imply securing employment for an additional 5 million older workers. As for the Barcelona goal, a simple simulation shows that about
two thirds of those workers presently aged 46–55 years would have to remain in the labour force by 2010. In other words, 24–26 million of the 38.4 million people aged 46–55 in 2001 would need to be active in 2010, an equivalent increase of 7–9 million. In the comparable cohort of 1991 only half were still active at the age of 55–64 in 2001.

**Consolidating EU policy objectives**

Following a favourable review of the first five years of the European Employment Strategy, the Joint Council in June 2003 agreed a revised strategy and adopted a new set of guidelines. The fifth guideline of ‘increasing labour supply and promoting active ageing’ commits Member States to:

‘...promote active ageing, notably by fostering working conditions conducive to job retention – such as access to continuing training, recognising the special importance of health and safety at work, innovative and flexible forms of work organisation – and eliminating incentives for early exit from the labour market, notably by reforming early retirement schemes and ensuring that it pays to remain active in the labour market; and encouraging employers to employ older workers’.

Furthermore, it highlights that ‘...policies will aim to achieve by 2010 an increase by 5 years, at EU level, of the effective average exit age from the labour market (estimated at 59.9 in 2001)’ and that ‘In this respect, the social partners have an important role to play’. Thus, it continues the comprehensive approach adopted by the guidelines for 2001.

Europe’s endeavours to develop better employment opportunities for older workers, and enable and motivate them to take advantage of these, will need multi-pronged approaches and integrated strategies. Likewise, there will be a need for the involvement and close co-operation of all stakeholders. The social partners must collaborate on devising better practices of age management while getting constructive support from government policies. Some experts argue that policy makers should expect the raising of the average exit age to be a slow and gradual process, which will require massive awareness-raising campaigns and co-ordinated efforts from all stakeholders. They also suggest authorities should formulate their success criteria accordingly. Changing the present retirement behaviour is likely to require a combination of carrot and stick: negative incentives to quit/lay off older workers must be combined with positive incentives that make working longer/employing older workers for as long as possible attractive, accessible and rewarded. Yet, the present ageing, and the forthcoming shrinking, of the workforce does not leave Member States much time to improve their practices on age management. If the time-schedule of EU targets seems ambitious, it is largely because it reflects the urgency of the changes that are needed.

Every year progress is assessed in the Joint Employment Report. In 2000 this report highlighted that:

Most Member States have started to implement or are planning to introduce soon measures encouraging older people to stay longer in employment, by raising the retirement age or by introducing or strengthening disincentives to early retirement.
After the adoption and monitoring of the Stockholm and Barcelona targets, the tone was much less optimistic. Thus, the 2002 Joint Report stated laconically:

With regard to older workers it is evident that ... the combination of low employment rate plus moderate employment rate growth ... seriously questions the ability of the EU to reach the target set for this group.

Clearly, the employment rates of older workers will have to improve much faster if targets are to be met by 2010. A number of Member States are presently taking steps to improve incentives in tax/benefit systems. The majority are still working towards the introduction of policy measures designed to improve employment opportunities and the employability of older workers. Such initiatives are hampered by the current slowdown in growth and the rise in unemployment. Yet, it is still quite conceivable that these changes in employment and pension policies will produce a significant increase in older workers’ employment, particularly if supported by the social partners. Indeed, the tone of the Joint Employment Report is by no means defeatist. It merely sounds a serious warning that much more needs to and indeed can be done.

Conclusions

In the current decade, the combination of small cohorts of labour market entrants and the first large cohorts of baby-boomers becoming older workers will amount to a marked ageing of the labour force. In the second decade of the 21st century, when the baby-boomers begin to retire, the labour force will also begin to shrink at an increasing rate. Thus, it seems safe to assume that demographics will produce a positive context for policies aimed at improving employment opportunities and at enabling and motivating older workers to seize them. If a sufficient labour supply is to be sustained in the face of the shrinking of the prime age labour force, older workers must again become well represented among the active and employed in the EU.

Given the ageing context, it is important to ask, firstly, whether the demographically determined trends in labour supply will create a market more conducive to the employment of older workers. In other words, will demand for older workers automatically increase and employment opportunities develop as younger workers become scarce and the competition for them fiercer? Or will employers simply outbid each other for the young until it becomes cheaper to resort to capital substitution – and thus continue to shun older workers? Obviously, these scenarios are not mutually exclusive and possibly we will experience some of both.

Efforts to extend working lives have come up against barriers in the skill levels, attitudes and expectations of past and present cohorts of older workers. A second crucial question to ask, then, is whether structural developments in the characteristics of the labour force – such as rising average levels of educational achievement – are likely to make it easier to reach the EU goals? We can expect average education levels to grow with each successive cohort. Indeed, as the proportion of low skilled among people 55–64 drops significantly in this decade, measures to enable and motivate future cohorts of older workers to remain in the labour market may be markedly more successful than in the past.
In conclusion, structural developments and market forces are likely to lend a helping hand to Member States working towards EU objectives to return older workers to their rightful share in the employed workforce. But employers, trade unionists and policy makers are also likely to need innovative workplace strategies which, on the one hand, retain and reintegrate older workers on attractive conditions and, on the other, secure productivity and profitability.

Notes

1. The assessments and views expressed in this article are those of the author and not the European Commission or its Services.
2. In the same period employment rates for women in this age group have been growing constantly as a reflection of the growing activity rates in successive cohorts of women. Yet, beyond this structural trend, female workers also encounter major barriers to continuous employment as they age and their problems are easily on a par with those of their male colleagues.
3. The underemployment of older workers accounts for 25 per cent of the difference in employment performance between EU and the USA.
4. The average age of withdrawal from the labour force is to be distinguished from the calculation of the effective retirement age. The Labour Force Survey includes people receiving a pension as long as they are at work (e.g. part-time) or actively seeking a job.

References

All public documents pertaining to the policy developments covered in this article can be consulted and downloaded at the homepages of the European Commission. The address for documents produced by DG Employment is: http://europa.eu.int/comm/employment_social/index_en.htm