The Social Protection Committee

Promoting Longer Working Lives Through Better Social Protection Systems

Report by the Social Protection Committee

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1. INTRODUCTION

In response to the Joint Report on Adequate and Sustainable Pensions the European Council, at its Spring 2003 meeting, invited the Council and the Commission to maintain the momentum for cooperation in the area of pensions by delivering special studies focusing on common challenges for pension systems. The Social Protection Committee (SPC) proposed several topics for such special studies, one of which is the focus of the present report, and these proposals were endorsed by the Council in June 2003.

Examining how social protection systems can be improved so as to encourage longer working lives is of crucial importance. In a context of demographic ageing, the long-term financial sustainability of pension systems and their ability to provide adequate pensions will depend on mobilising the full labour force potential, thereby ensuring the most favourable balance between the active and the retired. Sensitivity analyses carried out by the Ageing Working Group of the Economic Policy Committee in the context of the projections of public pensions expenditure showed that a one-year increase in the effective retirement age could absorb, on average, about 20 % of the expected increase in pension expenditure in 2050.

High employment rates of people aged between 55 and 64 and the average age of withdrawal from the labour market are also among the targets set by the European Council for the EU as a whole for the year 2010. Achieving these targets will require a wide range of measures aimed at maintaining the employability of older workers through life-long learning, adapting working conditions to the needs of older workers and changing attitudes towards longer working lives and, as far as employers are concerned, towards the hiring of older workers. These issues are examined within the framework of the European Employment Strategy.

The purpose of the present paper is to make a specific contribution on the adaptations that are required in many social protection systems to make it worthwhile for older workers to stay on the labour market. In particular, it will be necessary to review measures that may encourage early exit from the labour market - various forms of early retirement (including on the grounds of unemployment and invalidity) - and how social protection systems can promote greater labour market participation of older workers.

Today, it is widely accepted that any trade-off between the employment of younger people and older people, if it exists, would be restricted to the short term or the micro level. International comparisons show that, at the macroeconomic level, restricting the labour supply of older people does not improve the labour market prospects of the young, but it does reduce overall employment and generates a large burden to social protection systems.

The present report provides a useful overview of the various issues that need to be addressed in order to ensure that social protection systems fully support the targets of the Stockholm and Barcelona European Councils with regard to the employment rates of older workers and the effective labour market withdrawal age. It is based on replies by the Member States to a questionnaire elaborated within the Social Protection Committee.

Although the questionnaire was fairly detailed and structured, the replies are not directly comparable from one country to another. They did, nevertheless, illustrate how social protection systems can impact on labour market participation of older workers and allowed the elaboration of a 'checklist' which should allow the Member States and the acceding countries to assess their own social protection systems with regard to their impact on the employment of older workers.

2. INACTIVITY OF PEOPLE AGED 55-64

The target set by the Stockholm European Council for the employment rate of people aged 55-64 years is 50% by the year 2010. The EU has yet a long way to go to reach this target as currently the employment rate is around 40%. This nevertheless represents a noticeable improvement over the previous year.

Table 1: Employment rate of people aged 55-64 years

Country:	Employment rate of people aged 55-64 (%)			Average exit age from the labour force (years)		
	Total *(in brackets: 2001)*	Women	Men	Total	Women	Men
Belgium	26.6 *(25.1)*	17.5	36.0	58.5	58.4	58.6
Denmark	57.9 *(58.0)*	50.4	64.5	61.3	59.8	61.9
Germany	38.6 *(37.7)*	30.1	47.1	60.8	60.3	61.1
Greece	39.7 *(38.0)*	24.4	56.0	:	:	:
Spain	39.7 *(39.2)*	22.0	58.6	61.6	61.5	61.5
France	34.8 *(31.9)*	30.6	39.3	58.9	58.7	58.9
Ireland	48.1 *(46.8)*	30.8	65.1	62.6	62.8	62.0
Italy	28.9 *(28.1)*	17.3	41.3	59.9	59.7	60.2
Luxembourg	28.3 *(24.4)*	18.6	37.9	59.3	:	:
Netherlands	42.3 *(39.6)*	29.9	54.6	62.4	61.6	62.9
Austria	30.0 *(28.6)*	20.9	39.8	59.5	59.3	59.4
Portugal	50.9 *(50.1)*	41.9	61.2	63.2	63.0	62.8
Finland	47.8 *(45.8)*	47.2	48.5	60.4	60.4	60.6
Sweden	68.0 *(66.8)*	65.6	70.4	63.4	63.1	63.4
United Kingdom	53.5 *(52.3)*	44.7	62.6	62.4	61.9	62.7
EU15	40.1 *(38.8)*	30.5	50.1	61.0	60.7	61.1
Source: EUROSTAT, European Labour Force Survey 2002, 2nd quarter						

A second target related to older workers was set by the Barcelona European Council in Spring 2002. It focuses on the average labour market withdrawal age which is to rise by five years by 2010. The average labour market exit age is currently estimated at 61 years[1].

[1] The estimation is based on labour market exit probabilities between age 50 and 70. For an explanation of the methodology see the Joint Report by the Commission and the Council on Adequate and Sustainable Pensions, March 2003, table 6. The methodology can result in spurious variations from one year to the next which makes it difficult to monitor progress over time.

People who are not employed are either unemployed or inactive. Labour Force Survey data show that in the current 15 Member States nearly 57% of people aged 55-64 are inactive, i.e. neither in employment nor unemployed (the status of unemployed implies that the person is available and looking for work). Another 2.6% of the population in this age group is unemployed (the unemployment *rate*, i.e. the number of unemployed as a percentage of the active population is 6.2% for both men and women).

Almost half of the inactive in the age group 55-64 or 26.4% of the total population in that age group say that they are retired. This proportion can be as low as 6.5% of the age group in Sweden. It is particularly high in Belgium (41.5%), Germany (40.4%) and Italy (38.7%). Figures for France, Ireland and Austria are not available.

Women who do not work because of their family or personal responsibilities represent 6.6% of the total population in the 55-64 age group and 12.6% of the women. Another 1.3% of this age group (2.6% of the women) work part-time for family or personal reasons. Thus nearly 8% of the population aged 55-64 reduce their labour force participation for family or personal reasons – and this concerns almost exclusively women.

The proportion of people aged 55-64 who are inactive for family or personal reasons is particularly high in the southern Member States (Greece: 20.9% of women, Spain: 20.8%, Italy: 33.6% and Portugal: 16.8%) and in Luxembourg (59.1% of women). It is lowest in the Nordic countries (between 1.6% of women aged 55-64 in Finland and 3.2% in Denmark). The availability of social services freeing workers and especially women in their 50s and 60s from care duties towards frail elderly relatives or grandchildren may be an important determinant of labour force participation of these women.

The third major reason for inactivity is illness or invalidity. Around 6.5% of people aged 55-64 are inactive for this reason – nearly 2.8 million people. The percentage is lowest in Ireland (1.4%) and Sweden (1.5%) and highest in Finland (19.6%), the UK (15.7), Denmark (14.4%) and the Netherlands (11.4). It is likely that these differences reflect primarily different institutional arrangements rather than differences in the health status of people living in these countries.

Table 2: Reason for inactivity

Reason for inactivity (% of total population of same sex and age group)	**Total**	**Women**	**Men**
Illness/invalidity	6.5	5.8	7.2
Family or personal responsibilities	6.6	12.6	NA
Retired	26.4	25.7	27.2
Thinks that no work is available	1.5	2.1	0.9
Other reasons	6.1	10.0	2.1
No reason given	9.5	10.8	8.2
Total inactive	56.8	67.1	46.1
Unemployed (this is not the unemployment *rate*, but the proportion of unemployed in the total population of this age group and sex)	2.6	2.0	3.3

Checklist:

1. What is the level of employment and labour market participation of men and women aged 55-64?

2. What are the main reasons for not being in employment (e.g. early retirement, invalidity, unemployment, family obligations and lack of care services, perceived or actual lack of labour market opportunities)?

3. EARLY RETIREMENT OPTIONS IN STATUTORY PENSION SCHEMES

In most statutory pension schemes there are early retirement options. The main exceptions are countries with flat rate basic pensions (DK, NL, IRL, UK) where early retirement may nevertheless be possible thanks to private schemes (see section 7, below). It should also be noted that in a number of countries other social security schemes (notably for unemployment and invalidity) represent the most important early labour market exit pathway.

Early retirement is frequently offered as a reward for particularly long contribution careers. It thus mainly benefits manual workers who started working early in life. This may be desirable from the point of view of social justice (especially if manual workers also tend to have a shorter life expectancy). France, in the 2003 pension reform, increased the number of contribution years required for a full pension, but also introduced the option of retiring before reaching the age of 60 for people who started their careers between age 14 and 17 and who completed a full contribution career before age 60 (previously, there was no early retirement option under the old-age pension scheme).

Where actuarial reductions are applied to early retirement they range between 3.6% and 8% of the pension entitlement for each year of anticipated retirement.

Genuine flexibility regarding the age of retirement remains exceptional (see also section 9 on flexibility after the standard retirement age). Sweden allows full or partial retirement from the age of 61; Italy, under the new contribution defined scheme, allows retirement between 57 and 65 subject to the condition that the pension entitlement exceeds the social assistance amount by 20%; Portugal allows flexible retirement from the age of 55, but maintains 65 as the standard retirement age. Finland has de facto flexibility from age 60, but maintains 65 as the standard retirement age.

Checklist:

1. Does the retirement system allow easy retirement below the age of 65 at favourable financial conditions, thus offering poor incentives to stay in the labour market until 65?

2. Are these financially advantageous early exit possibilities well targeted to people with long contribution careers and/or shorter remaining life expectancy?

3. Does the pension system offer sufficient freedom of choice and fair financial conditions for individuals regarding the moment of retirement?

4. Are minimum pension guarantees implemented in a way that ensures adequacy without encouraging labour market exit as soon as people become eligible for the guaranteed minimum pension?

Table 3: General early retirement options

	Standard Retirement Age	**Early Retirement**	**Financial conditions/ actuarial Adjustment**	**Number of Beneficiaries**
B	Men: 65 Women: 63 (65 in 2009)	1. From 60 (subject to 34 years of employment to be raised to 35 by 2005)	For the self-employed: pension reduced by 5% for each year of early retirement, except after full career (45 years for men, 43 for women)	
		2. Since 2001, a time credit scheme allows workers aged 50 or more to reduce their careers by one fifth or one half.	Allowance paid by employment office. These periods are pensionable.	
DK	Public old-age pension scheme: 65	No early pension under the public old-age pension scheme.		
	Supplementary pension (ATP): 67	From age 65	Actuarial reduction.	
D	65 years (Severely disabled: 63 years)	1. Until 2011 early retirement possible two years before standard retirement age, subject to 35 insured years.	Actuarial reduction of 0.3% per month up to a maximum of 7.2%.	
		2. From 2012 onwards, early retirement age to be lowered to age 62 (by 2022); severely disabled: 60.	Actuarial reduction of 0.3% per month up to a maximum of 10.8%.	

	Standard Retirement Age	Early Retirement	Financial conditions/ actuarial Adjustment	Number of Beneficiaries
GR[1]	65 years	People with contribution record of 11 100 days (37 years) can retire without age limit. Subject to certain conditions: people with a contribution record of 10 500 days can retire at 58 (raised to 60 for people insured after 1.1.1983); people with a contribution record of 10 000 days can retire at 62 (men) or 57 (women).	No actuarial reduction.	
		People with 4 500 days and insured before 31.12.1992 can claim a reduced pension at 60 (men) or 55 (women); if insured since 1.1.1993, reduced pension can be claimed at 60 (both men and women).	Reduced pensions.	
E	65 years	For persons insured before 1.1.1967: from 60	Voluntary early retirement: reduction of pension by 8% for each year below 65. Involuntary (due to unemployment): variable reduction depending on length of contribution career: between 7.5% per year for people with 31-34 contribution years and 6% per year for people with 40 or more contribution years.	
		For people insured after 1.1.1967: from 61 if unemployed and with 30 or more years of contribution	Variable reduction depending on length of contribution career: between 8% per year for people with 30 contribution years and 6% per year for people with 40 or more contribution years.	
		Workers aged 64 if they fulfil the conditions for receiving a pension and if they are replaced by another worker.	No reduction.	
F	60 years (40 insurance years required for a full pension; 41 years from 2012 onwards)	The 2003 reform allows early retirement between 56 and 59 years for people who entered the labour market at a young age (between 14 and 17) and who worked for 40 to 42 years without any interruptions for reasons other than illness, maternity and military service.		
IRL	Retirement pension: 65 years Old-age contributory pension: 66 years	No early state pension, but private schemes often provide for early retirement at a reduced pension.		

	Standard Retirement Age	Early Retirement	Financial conditions/ actuarial Adjustment	Number of Beneficiaries
I	Old earnings-related system: Men: 65 years Women: 60 years in all statutory schemes	a) from age 57 with 35 years of contributions for private and public sector employees (under transitional arrange–ments, conditions are more favourable for workers who have begun to work at a young age); from age 58 with 35 years of contributions for self-employed. persons. b) after 38 years of contributions (to be raised to 40 by 2008);		about 2.700.000 people are retired below the age required for a normal old age pension
	New defined-contribution system: equally flexible for men and women	Retirement between 57 and 65, subject to five years of effective contributions and provided that the entitlement exceeds 1.2 times the minimum old age social assistance amount.	Amount depends on correction factors based on age.	
L	65 years (insurance period of at least 10 years)	- Early old age pension from age 57 with 480 months of insurance not counting assimilated periods. - Early old age pension from age 60 after 480 months of insurance including assimilated periods. - Certain categories of employees are eligible for early retirement from age 57 under certain conditions (retirement not earlier than three years before the month during which the employee becomes eligible for either an old age pension or an early old age pension from the age of 60).	No actuarial adjustment.	- Early old age pension at age 57: 1.68% of total labour force. - Early old age pension at age 60: 1.55% of total labour force. - early retirement for certain categories of workers: 0.41% of total labour force.
NL	65 years	No early state pension, but private schemes may allow early retirement.		
A	Men: 65 years Women: 60 years (65 by 2033)	To be phased out as from 1.7.2004: After 450 months of insurance or assimilated periods or 420 months of insurance: 61½ (men) or 56 ½ (women).	For every year before the standard age, reduction by 4,2%. Maximum reduction: 15%.	121 000 (Dec. 2002)
P	65 years	55 years after 30 years of contributions.	For every year before the standard age, reduction by 4.5%. However the number of years considered is reduced by one for every group of 3 years worked beyond 30 contribution years.	25 726 (Dec. 2002)

	Standard Retirement Age	Early Retirement	Financial conditions/ actuarial Adjustment	Number of Beneficiaries
FIN	65 years (63-68 as from 2005; 65 to remain the standard pension age for the national pension)	60 years (62 as from 2005)	For every month before the standard age, reduction by 0.4%. From 2005, people aged 62-63 will have their pension reduced by 0.6% for every month of early retirement.	15 000 (Dec. 2002)
S	Flexible from age 61 (guaranteed pension available from age 65)		Benefits calculated in an actuarially neutral way.	
UK	Earliest state pension age: Men: 65 Women: 60 (65 by 2020)	No early state pension, but tax privileged early retirement benefits may be available from private schemes.		

3.1. Gradual retirement and part-time working before the standard retirement age

Most pension systems now foresee the possibility of reducing working time before reaching the standard retirement age. If this is an alternative to full early retirement, the impact on labour supply would be positive; if, on the other hand, people opting for partial early retirement would, in the absence of such a possibility, be working full time, the impact on labour supply would be negative, in which case the partial withdrawal from the labour market should be clearly justified on social policy grounds.

In some countries, partial early retirement is clearly seen as an instrument of labour market policy. In Belgium, Spain, Italy, Luxembourg and Austria, the possibility to reduce one's working time before the standard retirement age may be subject to the condition that a replacement worker must be hired. The counterpart of this hiring condition is that early partial retirement is to some extent subsidised by the public budget to avoid to big a drop in the income of the gradual retiree and to guarantee the accrual of pension entitlements as if the worker remained in full time employment.

In other countries, partial early retirement is becoming a normal feature of a more flexible pension system with a view to responding better to individual preferences. Sweden stands out as an example: from the age of 61, workers can claim a full or a partial pension at ¼, ½ or ¾ of the full pension and complement the pension with earned income. The pension amount is calculated in an actuarially neutral way, taking into account the unisex average life expectancy at the age of retirement, and there is no public subsidy to this form of early partial retirement.

An obstacle to the reduction of working time before full retirement may be the fact that pension benefits are still strongly determined by earnings during the final years of the career. This may be due to a benefit formula that considers only earnings of the final years of the career, but it may also be the result of limited up-rating of past earnings. If earnings during the early phases of the career are only up-rated in line with inflation rather than wages then more weight is given to earnings at the end of the career and this would discourage flexible retirement. Full early retirement may become more attractive than remaining on the labour market at reduced working hours.[2]

Checklist:

1. Does the retirement system allow an easy reduction of working time before the standard retirement age? Are financial conditions such that they create incentives for a reduction of total labour supply?

2. Is public financial support for early partial retirement from the labour market well targeted to people for whom the most likely alternative would be a complete withdrawal from the labour market?

3. Is there sufficient freedom of choice for individuals regarding working time towards the end of the career?

4. Does gradual retirement and hence the reduction of earnings towards the end of the career have adverse effects on pension entitlements?

Table 4: Gradual retirement and part-time working before the standard retirement age

	Gradual/Progressive Retirement Options	**Financial Conditions**
B	1. Progressive retirement: Early retirement pensions for redundant workers can be taken part-time from age 55 and after 25 years of service. Replacement workers have to be hired. This option is not widely used.	Part-time earnings, unemployment compensation and an additional indemnity from the employer.
	2. Working time credits: allows a reduction of working time to 4/5	Thanks to an allowance paid by the employment office, net earnings are almost as high as for full-time work.
	3. Public sector: From age 55, employees can take part-time retirement.	Part-time earnings plus allowance paid by the employer.
DK	Public partial retirement pensions are payable to wage earners and self-employed people between the ages of 60 and 65 who reduce their working hours.	Part-time earnings plus partial retirement pension without reduction of the flat-rate old age pension from the age of 65.
D	1. A person who would be entitled to an old-age pension can claim a partial pension (1/3, ½ or 2/3) while working part-time.	Actuarial reductions for early pension receipt only apply to the partial pension.
	2. Early pensions for the unemployed allow part-time working since 1997. Age from which a pension can be received without actuarial reduction raised from 60 to 65.	
	3. Law on part-time employment for older workers allows working time to be halved in agreement with the employer.	Employer bears the cost by paying a wage supplement and pension contributions.

[2] If full early retirement is not possible, then such a calculation method may act as an incentive to stay longer in full time employment.

	Gradual/Progressive Retirement Options	Financial Conditions
E	Workers aged 60-64 who would be eligible for a pension at 65 can, in agreement with their employer, reduced their working time by between 25 and 85%. The employer must hire another worker to replace the working time no longer served by the older worker.	Part-time earnings plus partial pension without actuarial reduction.
F	The 2003 pension reform abolished progressive early retirement and focused public support on two other measures which either take account of hard working conditions or accompany company restructuring plans.	
IRL	In general there are no facilities available for gradual retirement and part-time working before normal retirement age. However, because the new Personal Retirement Savings Accounts are not linked to a particular employment they may help workers to avail of options which may become available to reduce their attachment to the workforce.	
I	Part-time working is possible in the framework of 'solidarity contracts' in the event of restructuring. Early retirement pensions can be combined with earned income subject to limits that are based on the reduction of working time.	Part-time earnings plus partial pension without actuarial reduction. Pension after full retirement will be calculated as if the worker had been employed full-time.
L	Progressive early retirement benefits can be granted to employees aged 57 and over under the same conditions as the (full) early retirement benefits if the beneficiary accepts the transformation of the full-time into a part-time job.	Part-time earnings plus early retirement benefit without actuarial reduction.
NL	Some private schemes allow part-time working combined with a partial pension during the last ten years before the regular retirement age.	Part-time earnings plus partial pension. Pension rights accrue during that period as for full-time work.
A	Employers who offer reduced hours to older workers and grant a pay compensation can claim an allowance for older part-time workers during a maximum period of 5 years for people who will reach the minimum age for an old-age pension within no more than 5 years. The allowance covers 50% of the additional costs (income compensation and social insurance contributions based on the assumption of full-time work). The full cost can be covered if a previously unemployed person is employed.	
P	Proposals for allowing part-time employment in combination with a partial pension are currently being discussed.	
FIN	Full-time employees can switch to part-time working from age 58 with the agreement of the employer.	Part-time earnings plus partial pension. Favourable conditions for the accrual of pension rights (to be tightened from 2005).
S	Pensions can be drawn from the age of 61 in full or as partial pensions (¼, ½ or ¾).	Actuarial neutrality.
UK	No options for gradual retirement under the state scheme, but proposals to allow part time working combined with partial pension are being taken forward. At present, tax rules prevent people from drawing an occupational pension from an employer and continuing to work for the same employer. Changes to tax legislation will be introduced to allow people to work part time and draw a pension from the same employer.	

3.2. Early retirement for certain professions and types of work

In most countries certain categories of workers have special, lower retirement ages. For certain physically demanding professions such as mining, fishing, the police and fire services the retirement age can be as low as 55. However, early retirement for specific categories of workers is not always justified on the grounds of difficult working conditions. Thus, in the UK and Ireland, it is possible for civil servants to retire at 60 (to be raised to 65 in both countries). Such lower retirement ages are often part of the employment conditions and negotiated between management and labour. The Social Partners therefore have an important role to play in adapting such rules to changing circumstances.

The entitlement to early retirement typically depends on the length of employment in a particular profession. In some cases, there are fixed thresholds beyond which the right to early retirement at a given age is acquired. In other cases, the age from which workers can retire is variable and depends on the duration of employment in particularly demanding professions. An interesting approach has been developed within the new defined-contribution scheme in Italy: the remaining life expectancy that is used to convert the accumulated contributions into a pension benefit is reduced by one year for each period of six years of employment in hard working conditions. This allows the worker to choose between retiring early or earning a higher pension.

While there are clearly professions with a negative impact on health or that are too demanding for most older workers, it is questionable whether setting a lower retirement age is the best approach. The priority should be given to improving the working conditions so that health risks are diminished and that it becomes easier to carry out the profession. If this is not possible, a change to a different, less demanding activity at some stage of the career would allow avoiding early retirement. However, from a point of view of social justice special rewards for periods of hazardous work are desirable, particularly if there are increased risks of invalidity and shortened life expectancy. Such rewards can take the form of improved invalidity and old-age pension benefits for these periods of employment rather than early retirement regardless of whether individual workers need it or want it.

Checklist:

1. Which professions/categories of workers benefit from special early retirement provisions?

2. Do these early retirement provisions deal adequately with mobility between jobs with different retirement rules?

3. Are the special early retirement provisions regularly reviewed and are they still justified?

4. Are alternatives (better working conditions, career management, higher accrual rates during periods of unhealthy work) being considered to avoid early retirement?

Table 5: Special early retirement rules for certain professions or types of work

	Category (age of retirement, conditions)
B	Military personnel, public sector employees (early pension from age 60 taken up by most as there is no actuarial reduction; police officers may retire before 60). Some categories of public sector employees are obliged to retire before age 60 (local authorities in financial difficulties can offer retirement at 55; navigating railway staff can retire at 55; staff of universities in financial difficulties can retire at 60) Early retirement for certain demanding professions: Miners (at 55 or 60, depending on whether the worker was involved in deep or open-cast mining, or without age condition depending on length of service for deep mining); sailors (60), navigating civil aviation staff (55 or before depending on length of service). Public sector: no early retirement for demanding work, but sometimes there is a pension increment.
DK	No exceptions under the statutory pension scheme.
D	Police, fire service, judiciary agents (60); miners (at 60 after 25 years of work under ground).
GR	Heavy and unhealthy work: entitlement to a reduced pension at 53 after contribution record of 10 500 days (around 35 years), of which at least 7 500 in heavy and unhealthy occupations. Construction workers (58 for men, 53 for women); miners insured since before 1993 (at 50 or 55); miners insured since after 1993, divers involved in underwater construction, certain electricians working on power grids and in power plants (55); actors, musicians playing stringed and percussion instruments, theatre and film technicians (60 for men, 55 for women); actors of the lyric theatre, choristers, musicians playing wind instruments (50); dancers (48). Local authorities' staff involved in garbage collection, street cleaning and graveyard works (58). Right to early retirement is subject to minimum employment duration in the profession.
E	Reduced retirement age for certain demanding, unhealthy or dangerous jobs with high observed invalidity and mortality risks. Miners, sailors, some navigating airline and railway staff are covered and the reduction in the retirement age depends on the total contribution years in these jobs. Singers, dancers, trapeze artists can retire from age 60; certain bullfighting professionals from 55, others from 60.
F	Early retirement options exist mainly in the public sector, notably for workers in difficult working conditions.
IRL	Civil servants (at 60 with 40 years service), teachers (at 55 with 35 years service), army officers (pension entitlement after 12 years), policemen (at 50 with 30 years of service; mandatory retirement at 57), fire fighters (must retire at 55), prison officers (at 50 after 30 years of service), farmers (between 55 and 70 in case of hand over to younger farmer), certain sports professionals (50), psychiatric nurses, air pilots, brass instrumentalists, fishermen, money broker dealers, singers (55), thanks to private pension provision (Retirement Annuity Contracts). The 2004 Budget law introduced certain changes regarding the retirement age for new entrants to the public service: minimum pension age increased to 65 for most new entrants from 1 April 2004; minimum pension age for certain categories (Gardaí, Prison Officers) to be increased to 55 and 50 (defence forces); minimum pension age increased to 65 for Oireachtas (Parliament) members and office holders elected or appointed on or after 1 April 2004.
I	More favourable rules regarding the retirement age exist for various professions including sports and entertainment professionals, navigating transport staff, sailors, military and police staff. Workers exposed to difficult working conditions (e.g. nightshifts, or work in extreme temperatures) as defined by law can anticipate their seniority pension by up to one year and their old-age pension by up to five years. Workers exposed to asbestos benefit from 1.25 (previously 1.5) contribution records for each period of exposition to asbestos. For those who apply for this benefit form 2004 onwards, this increase in contribution periods will only apply to the calculation of the pension amount and not for seniority. Under the new contribution-based scheme, for each period of six years in hard working conditions, the remaining life expectancy at retirement used for calculating the pension entitlement is reduced by one year.
L	Early retirement for shift workers: applicable to employees aged 57 and over having worked for at least 20 years in variable shift work arrangements or done fixed night shift work (retirement not earlier than three years before the month during which the employee becomes eligible for either an old age pension or an early old age pension from the age of 60).
NL	No statutory arrangements for specific categories of workers, but social partners can set up early

	Category (age of retirement, conditions)
	retirement schemes benefiting from preferential tax treatment (which the government proposes to phase out).
A	Railway workers (from 54 with 36 years of service, to be raised to 58 and 40 years of service), workers exposed to hard working conditions as defined by the Ministry for Social Security (men: 57, women: 52 after 15 years within the last 30; benefit amounts based on invalidity benefits).
P	Local politicians (60, after holding office for 6 years and 20 years of pensionable service or at any age after 30 years of pensionable service); embroideresses in Madeira (60, 15 years of insured employment); underground miners (50, pensionable age reduced by one year for every two years of service combined with higher pension accrual); sailors (55, after 15 years of seafaring); fishermen (55, after a total of 30 years of employment); navigating airline staff (60, after a qualifying period of 15 years); air traffic controllers (55, after 20 years of employment); ballet dancers (45, after a total of 20 years of employment of which 10 in the profession or at 55 after 10 years in the profession).
FIN	Nurses, police officers, train drivers, comprehensive school teachers (55, 58 or 60, available to people who were in the profession in 1989 and remain there until retirement); military personnel (55, higher for senior officers, combined with a higher accrual rate); no special provisions for hard working conditions.
S	No special rules under the public schemes, but certain collective agreements allow early retirement e.g. for pilots and fire fighters. No provisions for hard working conditions.
UK	Public sector employees (60, to be raised to 65, except for certain professions such as armed forces, fire service and police); private pension schemes may offer early retirement options, but preferential tax treatment will only be given for benefits paid from age 55 (instead or 50 today).

3.3. Early retirement for women

Although EU legislation calls for equal treatment of men and women in social security schemes, several Member States (see table 3 for details) and acceding countries still have a lower standard retirement age for women than for men in accordance with a derogation foreseen in Council Directive 79/7/EEC of 19 December 1978 on the progressive implementation of the principle of equal treatment for men and women in matters of social security. Such unequal treatment may allow women to retire more or less at the same moment as their partners who tend to be older on average. It may also allow women to provide child care for their grandchildren or care for elderly relatives. However, such general rules take little account of individual circumstances and may lead to an unnecessarily early withdrawal of women from the labour market.

In some countries, early retirement options are directly linked to motherhood. This is the case in Greece, Italy and Austria. In Greece, mothers can retire from the age of 55 if they are still looking after under-age children; thus early retirement can be regarded as a special parental leave arrangement for older mothers. In the other two countries motherhood seems to be assimilated to very demanding employment periods. In Austria, widowed mothers of at least four children are eligible for an invalidity pension. In Italy, mothers will have the choice between early retirement and a higher pension under the new defined contribution system.

While such arrangements may have been designed with the aim of supporting families it can be asked whether they represent the most effective way of achieving such goals. A greater availability of professional care services would make it easier to reconcile career and family life and would allow more people to combine the roles ofparents, grandparents and carers for elderly relatives with labour market participation.

Checklist:

1. Are there arrangements that allow women to withdraw early from the labour market and how are they justified?

2. Are these arrangements still appropriate and are they the most effective way of achieving the objectives?

Table 6: Early retirement options for mothers (pension credits or recognition of child care periods not included

	Provisions allowing mothers to retire early	**Beneficiaries**
GR	Mothers looking after under-age children are entitled to a full pension from age 55 if they have a contribution record of 5500 working days and if they are not entitled to another pension. For mothers first affiliated with IKA after 1.1.1993 the requirement is raised to 6000 working days.	~21000 (IKA)
I	Under the new defined-contribution scheme, mothers can bring forward the minimum age of retirement by 4 months for each child up to a maximum of 1 year. Alternatively, they can have a higher benefit corresponding to deferred retirement by 1 year (1 or 2 children) or 2 years (3 or more children).	
A	Mothers of at least four children fulfilling a minimum insurance requirement are entitled to an invalidity pension after the death of their husband (regardless of their actual health status). They must be aged 55 or over.	

4. SPECIAL RULES FOR OLDER UNEMPLOYED WORKERS

In most Member States there are special, more favourable rules for older unemployed workers. They may be entitled to more generous benefits and receive those during longer periods than younger unemployed. In some cases, special allowances are paid after the expiration of normal unemployment benefits. Conditions regarding availability for work and job search are often relaxed for the unemployed over the age of 55. Such conditions, combined with the level and duration of benefits (which tend to be available up to the standard retirement age), tend to transform unemployment benefits into early retirement pensions, and in some countries (e.g. Portugal, Finland, Austria), retirement pensions may actually be awarded on the grounds of unemployment.

Thus, in most Member States, dismissed older workers still tend to be treated as if they had hardly any chance of finding another job. Such a policy orientation diminishes the labour market participation of older workers in two ways: dismissed older workers have no or poor incentives to look for work, thus reducing labour supply; and employers are encouraged to make older workers redundant, thus also reducing labour demand for them.

However, a shift in policy orientations can be observed. Age limits above which older unemployed no longer have to be available for work are being raised in Belgium and the Netherlands; Austria is discontinuing the early retirement pension due to unemployment and Finland is raising the minimum age from which the benefit system allows an early labour market exit for the unemployed. It is likely that this will influence the way in which the social partners deal with industrial restructuring where the burden of adjustment is often born disproportionately by older workers.

Some countries consider it particularly urgent to help unemployed older workers back into the labour market. In Denmark, older unemployed aged between 60 and 65 have to take part in active employment measures after six months of unemployment (instead of 12 in the case of middle-aged unemployed). Germany encourages the return to work by offering a compensation allowance to unemployed people over 50 who accept a low-paid job. The UK introduced a voluntary 'New Deal 50 plus' scheme in 2000 offering a comprehensive package of job search help and extra financial help for up to one year for people over the age of 50 who had been claiming benefits for over six months.On balance, however, unemployment benefit systems are still largely based on the idea that becoming redundant in one's late fifties implies the end of one's working lives. Older unemployed workers may indeed find it more difficult to get another job than younger job seekers. This certainly justifies maintaining a good social safety net, but this should only be relied upon once determined labour market integration efforts have failed.

Checklist:

1. Do unemployment schemes offer more favourable benefits (in terms of levels and duration) to the older unemployed and is this justified for instance by poorer labour market opportunities for older job seekers?

2. Are older unemployed required to be available for work and actively search for a job?

3. Do older unemployed benefit from adequate job search support, active labour market measures and financial incentives to take up work (including with regard to the impact of low-paid work on old-age pension entitlements)?

Table 7: Special rules for unemployed workers

	Special conditions/benefits for the older unemployed
B	1. Unemployment benefits: unemployed workers who reached age 50 before 1 July 2002 are not required to search for work or to accept job offers and they receive an additional allowance (after 20 years of service and from the 2nd year of unemployment). The age limit was raised to 58 years on 1 July 2002. The status of unemployed rules out any paid or unpaid activity. These rules are often used to dismiss white collar workers who generally also receive a dismissal allowance from their occupational pension scheme.
	2. Early retirement benefit for redundant workers: in accordance with a collective agreement, workers over the age of 60 who have been made redundant after at least 25 years of service or assimilated periods and who are entitled to unemployment benefits may receive these unemployment benefits and an additional allowance financed by the employer until they reach the normal retirement age. This income is subject to special, more favourable tax rules. Under certain conditions, such early retirement benefits are available from a younger age. The employer must recruit a job seeker to replace the redundant worker and has to pay social insurance contributions. Pension rights for the redundant worker accrue during the early retirement period.
DK	Unemployed persons aged 60 to 65 have to participate in active employment measures after 6 months instead of one year for those aged 30-59. However, unemployed persons aged 55-59 years can receive unemployment benefits until their 60th birthday if they are eligible for voluntary early retirement at this age and unemployed persons aged 58-59 can be dispensed from active employment measures.

	Special conditions/benefits for the older unemployed
D	Unemployed persons over the age of 57 are currently entitled to full unemployment benefits during 32 months provided they contributed to the unemployment insurance during 64 months during the preceding 7 years. The duration of unemployment benefit receipt is to be shortened to 18 months for people over 55. This will be fully implemented on 1 February 2006. From that date, the older unemployed will also be required to accept employment under the same conditions as younger unemployed. Since 1 January 2003, unemployed persons over 50 may receive a compensation if they have to accept a low-paid job. Older unemployed persons have equal access to active employment measures.
GR	The long-term unemployed aged 45-65 are entitled to a special benefit payable after the normal unemployment benefit has expired. Special rules were designed for redundant workers of certain companies in economic difficulties. Older unemployed are entitled to participate in active employment measures.
E	Long-term unemployed aged 52 and who have contributed to unemployment insurance for at least 6 years and who fulfil the eligibility requirements for an old-age pension apart from the age condition can receive a means-tested benefit amounting to 75% of the minimum wage until they reach retirement age. Old-age pension insurance contributions are paid on the minimum contribution base amount, but additional voluntary contributions can be made by the worker.
F	Benefit duration under the unemployment insurance scheme depends on length of insurance and age. Subject to meeting contribution requirements, unemployed over 57 are entitled to benefits during 42 months, those over 50 during 36 months and those under 50 during 23 months. A means-tested state allowance (special solidarity allowance, *Allocation spéciale de solidarité*, *ASS*) can be awarded for an unlimited duration if the unemployed person below the age of 55 has been receiving this allowance for at least 36 months (24 months as of 1 April 2004) or if a beneficiary over the age of 55 faces serious labour market integration difficulities. A means-tested benefit is available for the unemployed who are not entitled to normal unemployment benefits; this allowance is higher for people over 55 with 20 years of contributions. At their request, older unemployed can be exempted from the obligation to look for work; this applies to unemployment benefit recipients over 57½ years or over 55 if they have contributed for 40 years and to beneficiaries of the means-tested unemployment benefit if they are over 55 years. The older unemployed are allowed to have limited earnings on top of their benefits for an unlimited duration or for a limited period of 12 months in the case of *ASS* beneficiaries. A tax on the termination of employment contracts with people over 50 does not apply to people who were hired after the age of 45.
IRL	People aged 55 and over who have been receiving unemployment assistance for 15 months are entitled to a means-tested pre-retirement allowance (PRETA) and do not have to be available for work. PRETA beneficiaries are eligible for ‘back to work allowance’, but not to ‘back to education allowance’. If unemployment benefit entitlement would stop between age 65 and 66 (eligibility for contributory old-age pension) it continues to be paid until the age of 66 (subject to contribution record).
I	Benefit duration for older unemployed is 9 months instead of 6. People affected by collective dismissals in manufacturing firms with more than 15 employees receive more generous ‘mobility benefits’ during an additional 24 months if they are aged 50 and over (12 months if over 40).
L	The unemployed over 50 years receive unemployment benefits beyond the normal 12 months depending on their contribution record. 20 years of contributions give rise to an additional entitlement of 6 months, 25 years to 9 months and 30 years to 12 months. An additional period of 4 months can be awarded on application.
NL	Earnings-related unemployment benefits are currently paid during a period that varies between 6 months and 5 years depending mainly on age; the duration is to be linked more to contribution periods. A flat-rate benefit is available after expiry of the earnings-related benefit; this is payable until age 65 for people who become unemployed after the age of 57½ years. The government plans to abolish the flat-rate benefit in 2004. However, people becoming unemployed after the age of 50 will still benefit from income-tested benefits (assets are not taken into account) under the Act on income provisions for older persons and the partially disabled (IOAW). Unemployment benefit recipients have to register with job centres and accept suitable work. Since 1 January 2004 government policy has changed. Persons aged 57½ years or more who become unemployed from 2004 onwards or have been unemployed for less than one year on 1 January 2004 must apply for jobs in an active way.

	Special conditions/benefits for the older unemployed
A	Early retirement pensions due to unemployment available from age 56½ for women and 61½ for men are discontinued on 31/12/2003. A transition allowance that increases the unemployment benefit by 25% is available for those who would have become eligible between 2004 and 2006 if their reintegration into the labour market seems unlikely in the foreseeable future. Depending on the labour market situation, the transition allowance can also be made available for unemployed who reach the minimum age for early retirement pensions due to unemployment between 31/12/2006 and 31/12/2009. After the expiry of normal unemployment benefits, means-tested benefits are available. Older unemployed benefit from a higher disregard of income of their spouses/partners (normal threshold: €437; for the older unemployment the amount is up to three times higher).
P	The duration of unemployment benefits depends on age: 30 months for people aged 45 and over, 24 months for people aged 40-45. Above 45, duration rises in addition by 2 months for every period of contributions of 5 years. People aged 55 or more at the beginning of unemployment may claim their old-age pension from the age of 60 if they fulfil the qualifying period required for an old-age pension or 58 if they contributed for at least 30 years (in the framework of a special and temporary scheme). People aged 50 or more at the beginning of unemployment and who have contributed for at least 20 years can claim a reduced old-age pension from the age of 55. The claimants can only retire after having exhausted their unemployment benefit entitlement (unemployment benefit or initial social unemployment benefit).
FIN	The unemployed over the age of 60 may receive an unemployment pension under certain conditions. For people aged 55 years and 1 month it is possible to leave the labour force on unemployment benefits that are prolonged to 5 years for the older unemployed, followed by the unemployment pension. Beneficiaries of the unemployment pension can earn up to €458 a month; higher earnings in a given month lead to the complete suspension of the benefit payment for that month. The system will change in 2005 and labour market exit with a combination of unemployment benefits and the daily allowance that will replace the unemployment pension will only be possible from the age of 57. The unemployment pension will be phased out and is only available to people born before 1950. Earnings-related unemployment benefits are higher for people with an employment history of more than 20 years.
S	There are no favourable rules for the older unemployed.
UK	The 'New Deal 50 Plus' programme gives individually tailored jobsearch help to people aged over 50 who have received certain state benefits for over 6 months, and an in-work training grant. There is also an income related over-50s return to work element of the Working Tax Credit payable for one year.To the end of March over 100 000 people had taken advantage of this help and 80% were still in employment one year on. More intensive back-to-work help is envisaged on a mandatory basis for people aged 50-59 who have been claiming benefits for over 18 months. Such help is already available on a voluntary basis, but many fail to take the opportunity because they have grown demoralised about the chances of returning to work.

5. INVALIDITY BENEFITS

Invalidity is one of the main reasons for early labour market exit. More than one fifth of men aged 60-64 are on invalidity benefits in Ireland, Luxembourg, the Netherlands, Finland and Sweden. The prevention of invalidity and professional rehabilitation of people with health problems can therefore make an important contribution to increasing the average labour market exit age. Prevention of health problems has to start from an early age and involves promoting healthier life styles and working conditions as well as the early detection and treatment of health problems.

However, while invalidity benefits are in principle conditional on fulfilling certain medical requirements regarding the degree of incapacity, it is likely that, in practice, labour market conditions as well as the generosity of, and the ease of access to, other benefits will also determine the number of people on invalidity benefits. While people on invalidity benefits clearly had difficulties continuing in their previous occupation, most of them would certainly be able to take up some other work.

Such alternative employment for people with impaired health is supported to varying degrees. In Spain there is an obligation on employers to guarantee the previous job during an initial period of two years, in case the health situation improves again. Some countries have a quota for the employment of disabled people (e.g. in France companies with more than 20 employees must employ 6% of disabled workers or pay a special contribution or make an equivalent effort towards their employment). Luxembourg and the Netherlands impose comprehensive redeployment obligations on employers for their incapacitated workers.

Several countries stress the medical and professional rehabilitation duties of their invalidity benefit schemes. This may include adaptations to the current job, retraining and employment subsidies. Germany stresses the principle that rehabilitation should be given priority over benefit payments. Finland puts a strong emphasis on prevention by introducing, in 2004, a right to vocational rehabilitation for people at risk of becoming disabled rather than waiting until they become incapacitated.

Within invalidity benefit schemes, it is important to take into account the degree of invalidity. In several Member States, there are no partial invalidity benefits, even though invalidity is clearly a matter of degree. According to the answers to the questionnaire, this situation is regarded as unsatisfactory in Ireland and it is under review in Austria. In other Member States, there are partial as well as full invalidity benefits, making it easier to combine limited professional activity with the receipt of an invalidity benefit.

Taking up work can be risky for a recipient of an invalidity benefit as this implies losing one’s benefit without being certain to carry out the job in the longer run. This problem can be addressed by gradually reducing the invalidity benefit or by allowing beneficiaries to test their work capacity during a certain period. In Sweden, it is possible to work during two years without losing one’s benefit entitlement. In the UK, people on incapacity benefits may continue to receive their benefit while trying some work for up to one year; earnings and weekly working time are, however, limited.

The incapacity to perform one’s previous job with undiminished intensity need not justify a complete withdrawal from the labour market. There could instead be efforts to adapt working conditions to the ability of the worker or help to find more suitable alternative employment. This has been recognised by a number of invalidity benefit schemes, but there is clearly scope for mobilising more effectively the remaining capacity to work of many people on invalidity benefits.

Checklist:

1. Are invalidity benefits well targeted to people whose earnings capacity is clearly reduced for medical reasons or do invalidity benefit schemes respond to a large extent to the general labour market situation and inadequacies in other benefit schemes?

2. Is there a sufficient focus on preventing invalidity for instance by adapting working conditions or facilitating a change to a job that is more compatible with the health condition of the worker?

3. Is medical and professional rehabilitation (including in a different profession) given sufficient priority?

4. Do invalidity benefits allow for different degrees of invalidity and do they encourage the use of the remaining capacity to work?

5. Are invalidity benefits designed in such a way that they encourage the return to work?

Table 8: Invalidity benefits

	Provisions for invalidity benefits and their compatibility with employment	**Beneficiaries**
B	Invalidity presupposes the complete cessation of activity following a reduction of the earnings capacity in the same or a similar profession to 1/3 or less. Subject to prior authorisation, it is possible to take up work, but capacity must remain below 50%. Benefits are reduced in accordance with earned income. The evolution of the medical status can be checked in the case of private sector workers; such checks are not carried out after the award of an invalidity benefit to public sector employees.	50-54: 7% of men, 5% of women; 55-59: 10% of men, 6% of women; 60-64: 11% of men, 2% of women.
DK	‘Anticipatory’ pensions are available once it is clear that the applicant's working capacity is permanently reduced and that the applicant will not be able, even with activation or rehabilitation measures or in subsidised ‘flexi-jobs’, to earn sufficient income from work. Anticipatory pensions can be withdrawn if the situation of the beneficiary improves.	Anticipatory pensions: 260200 beneficiaries in 2001.
D	Invalidity benefits are available from the statutory pension insurance or the employment injury insurance schemes. The employment injury insurance schemes pay pensions that compensate for any permanent medical impairment and disregards any other income. They also finance measures for professional rehabilitation (preservation of the current job, training, financial support to the employer).	
	The statutory pension insurance awards pensions for reduced earnings capacity for 3 years (renewable). After 9 years the pension becomes indefinite, unless they had been awarded because of poor labour market prospects. Benefits are only payable if rehabilitation measures fail to restore the earnings capacity. There are two levels of invalidity benefits: 100% or 50%. Benefits are reduced or withdrawn if earned income exceeds a certain level.	1.38 million beneficiaries aged 50-64 of a full invalidity pensions (plus 87000 on partial pensions)
GR	There are three levels of benefits depending on the degree of disability: 100%, 75% and 50%. All beneficiaries are subject to medical reviews up to the age of 65.	140000 (IKA)

	Provisions for invalidity benefits and their compatibility with employment	Beneficiaries
E	Invalidity benefits are initially awarded for a period of 2 years. During this period, the previous job must be guaranteed by the employer. Invalidity is recognised in the event of incapacity to exercise one's previous profession. This does not exclude work in another profession, including in the same company. The benefit amounts to 55% of earnings during the preceding employment years. People aged over 55 years who would have difficulties finding another job can obtain 75%. Invalidity is also recognised in the event of incapacity to exercise any kind of profession. The benefits amount 100% of earnings during the preceding employment years. A supplement of 50% is available for people who need the help of others for living.	People on disablement benefits (only general scheme): 50-59: 6% of men, 2% of women; 60-64: 10% of men, 3% of women.
F	Invalidity implies a reduction of the earnings/working capacity by at least 2/3 or the inability to earn more than 1/3 of typical earnings in worker's previous occupation. Three categories are distinguished: 1 - capable of gainful activity; 2 - incapable of gainful activity; 3 – same as 2, but in need of help in daily life. Invalidity pensions are always awarded on a temporary basis until age 60. Checks are carried out with a quarterly questionnaire on the health status and professional activities. The pension is suspended if the earnings capacity rises above 50%. The disabled are eligible for a range of integration measures based on the principle of positive discrimination. Companies with more than 20 employees must employ 6% of disabled or pay a contribution. Employment is possible for invalidity benefit recipients subject to a combined income ceiling which is the level of earnings before invalidity. The reduction of pensions due to earned income is lower for people in medical treatment or taking part in reintegration/conversion measures.	People on disablement benefits (only general scheme): 50-54: 4% of men, 3% of women; 55-59: 6% of men, 5% of women.
IRL	Flat Rate benefits are paid in the event that a person has been unable to work for at least a year and it is expected that the position will remain the same for at least a further year. There are no degrees of incapacity which is assumed to be total. Hence benefits are normally not compatible with employment except with prior approval. Work that is compatible with benefit receipt may be rehabilitative or therapeutic or light work that is not remunerated or charitable. Some 2000 people are engaged in such exempted work or training. A 'back-to-work allowance' allows beneficiaries to retain benefits on a sliding scale for 3 years (self-employed: 4) while taking up full-time employment, but this is being used by only some 500 people (out of a total of 52000 claimants). Invalidity pension recipients were traditionally not targeted by activation measures due to the assumption of permanent and full incapacity. The focus was on incapacity rather than remaining capacity to work. A network of jobs facilitators assists people in returning to work, training, and education.	People on disablement benefits: 50-54: 10% of men, 10% of women; 55-59: 14% of men, 11% of women; 60-64: 22% of men, 14% of women.
I	An invalidity pension is provided for those who are completely and continuously unable to work. This is assumed to be the case if the capacity to work is permanently reduced to less than one third (in a suitable job for the beneficiary). Benefits are awarded for a period of 3 years; they become permanent after the third renewal of the benefit. Earned income will reduce the benefit amount above a threshold unless the beneficiary has contributed for at least 40 years. Invalidity caused by employment injuries is covered by a special scheme (INAIL).	about 5.000.000 beneficiaries: 45-59: 23% 60-74: 24.6% of the population

	Provisions for invalidity benefits and their compatibility with employment	Beneficiaries
L	Every worker on prolonged sickness leave is examined within the first 4 months of leave to determine whether s/he is still unable to work due to illness. If the worker is found to be able to return to work, sickness benefit payments are stopped. If the examination shows that the illness is likely to continue, another examination is scheduled at a later date. If the worker applies for a disability pension benefit, a medical examination will determine if s/he is disabled according to the eligibility criteria for disability pensions. If this is the case, the employment contract is dissolved and the worker is entitled to the disability pension benefit. Beneficiaries under the age of 50 must undergo rehabilitation or retraining measures which may be prescribed by the relevant pension scheme on the basis of a proposal by the social security medical doctor. Failure to do so will result in the suspension of the pension. In case of partial disability, the occupational medical service will determine if s/he is able to continue working in the same job. A redeployment procedure begins if the occupational health examination concludes that the worker is no longer able to keep his/her job. Internal redeployment of a worker is compulsory for companies with more than 25 workers which have not yet fulfilled the legal minimum requirement concerning the employment of disabled persons. If the internal redeployment of a worker is not possible, s/he is registered as a job seeker with a new department of the employment administration for workers with reduced work capacity. If this department can find a suitable job, disabled workers and their employers are entitled to the same benefits as in the case of internally reclassified workers. Compensatory benefits are calculated according to the previous salary and regardless of the level of unemployment benefits the worker received in the interim. A worker who could not be redeployed to an alternative employment during the legal duration of unemployment benefit payments is entitled to a waiting allowance, which corresponds to the level of a disability pension.	People on disablement benefits (only residents and excluding civil servants, in % of resident population of same age class): 50-54: 9% of men, 6% of women; 55-59: 21% of men, 14% of women; 60-64: 32% of men, 21% of women
NL	Employers are obliged to redeploy sick workers within the company or to another employer. Employment of disabled workers is encouraged through a temporary reduction in social security contributions (*WAO* and *WW)*. The employer also benefits from a cover against the risk of illness of a disabled employee. Disabled employees are eligible for transport facilities to get to work. Sick and disabled persons without a current employer receive integration support from the Institute for Employee Benefit Schemes; they are obliged to cooperate in their labour market integration. People on disability benefits are allowed to work full or part-time. Earnings can be deducted from the benefit for a period of 3 years maximum after which the entitlement will be reconsidered.	People on disablement benefits: 50-54: 8% of men, 8% of women; 55-59: 16% of men, 12% of women; 60-64: 21% of men, 12% of women.
A	Invalidity is defined as having less than half the work capacity of a physically and mentally fit person with similar training/skills. There is no partial invalidity benefit taking account of the degree of invalidity, but this is currently under review. Invalidity benefit is only granted if rehabilitation and labour market reintegration fails. Rehabilitation measures are provided by health, accident and pension insurance schemes. The payment of invalidity benefit is partially suspended when earned income exceeds a certain level, but resumes when it falls again below these thresholds. Unless the disability is permanent, invalidity pensions are limited to 24 months, renewable after a new application.	People on disablement benefits: nearly 190000 (aged 50-64) in 2002.

	Provisions for invalidity benefits and their compatibility with employment	Beneficiaries
P	Invalidity is defined as reduced earnings capacity to 1/3 or less of normal earnings. It is regarded as permanent if within 3 years no improvement to more than 50% earnings capacity can be expected. Partial invalidity benefits are only foreseen in the case of occupational diseases. Beneficiaries can exercise another activity than their previous one and earn up to 100% of the reference income. Invalidity benefits are mainly passive; some rehabilitation services are already foreseen by the law, but they have yet to be fully developed. Disabled people can benefit from reduced employer contributions, special employment protection and other integration measures.	People on disablement benefits (December 2002): 50-54:14,2% of men, 14,9 of women; 55-59:23,2% of men, 25,8% of women; 60-64:36,1% of men, 37,8% of women. 17000 with partial incapacity pensions for occupational diseases (in 2000).
FIN	Full and partial disability pensions are available when it becomes impossible to exercise one's previous occupation and when disability has lasted for at least 12 months since start of eligibility for health insurance benefit. A full disability pension is awarded when earnings fall below 40% of pensionable income; for partial disability pensions the threshold is 60%. Partial disability pension amount to 50% of a full pension. Pensions are suspended if recipient's earnings are judged sufficient for adequate living. Disability pensions can also be paid as a rehabilitation subsidy during participation in a care- and rehabilitation measure which are provided by health, social welfare, social insurance, employment, education and pension institutions. From 2004 there will be a right to vocational rehabilitation for people at risk of becoming disabled. People on a full residence-based national pension can temporarily suspend their pension for 6 months to 5 years if they find employment. During the first two years a supplement is paid on top of earnings.	People on disability benefits: 50-54: 11% of men, 10% of women; 55-59: 18% of men, 16% of women; 60-64: 25% of men, 20% of women.
S	Benefits are available to people with long-term (minimum 1 year) full or partial incapacity to work. Instead of the previous disability pension, people between 19-29 get 'activity compensation' and people 30-64 'sickness compensation'. The minimum reduction in work capacity is 25% for a compensation of 25%. Other partial steps are 50 and 75%. Beneficiaries of compensation can test their work capacity during 2 years at most without losing their benefit entitlement. Benefits continue to be paid during the first 3 months of employment. Beneficiaries can use their remaining work capacity and recipients of full compensation can receive limited earned income.	People on full disability benefits: 50-54: 10% of men, 16% of women; 55-59: 15% of men, 22% of women; 60-64: 27% of men, 34% of women. People on partial disability benefits: 50-54: 2% of men, 5% of women; 55-59: 4% of men, 6% of women; 60-64: 5% of men, 7% of women.
UK	Incapacity benefits are subject to two tests: the own occupation test (OOT) and the personal capability assessment (PCA). The OOT applies for first 196 days; thereafter, the PCA must be satisfied. Beneficiaries may receive their benefit while trying some work for up to a year, but maximum earnings are set at £72.00 per week (from October 2003) and weekly hours are limited to 16 for 6 months (extensions are possible if this is useful for increasing work capacity). If earnings are below £20 per week there is no time limit. Many disabled people can access mainstream employment measures, but specialist disability programmes are available in addition, including supported job opportunities and residential training. Support is also available to those disabled people who have already found a job.	Beneficiaries of incapacity benefits (August 2003, in thousands): 50-54: 135 men, 113 women; 55-59: 211 men, 153 women; 60-64: 265 men.

6. SURVIVORS' BENEFITS

Survivors' benefits can discourage labour market participation of mainly widows if they cannot be combined with earned income. The impact of such restrictions on the overall employment rate may not be very strong, depending on how many people of working age actually receive survivors' benefits that would be sufficient as a regular income. For many widows in their late 50s and early 60s they do, nevertheless, represent a strong disincentive to labour market participation.

Countries that rely mainly on individual entitlements rather than derived benefits (e.g. Denmark and Sweden) and countries where there are no restrictions on the combination of survivors' benefits and earned income (e.g. Ireland, Portugal and the UK) are least likely to discourage the labour market participation of survivors. In a majority of Member States there are, however, either ceilings on the combined income from work and survivors' benefits (e.g. Belgium, France, Austria), or reductions of the survivors' benefit by a percentage of earnings exceeding a certain limit. Such reductions are applied in Germany (40%), Italy (25, 40 or 50%), Luxembourg (30%) and the Netherlands (2/3).

Checklist:

1. Are survivors' benefits likely to discourage the labour market participation of, in particular, widows?

2. Can benefits be redesigned in such a way that they protect the living standard of the survivor without discouraging employment (e.g. by offering an actuarially adjusted deferred benefit for survivors who take up employment)?

Table 9: Survivors' benefits

	Compatibility of survivors' benefits and employment
B	Survivors' benefits can only be combined with earnings up to certain limits which depend on the type of activity (higher ceilings for employees than for self-employed), on the number of dependent children, on other sources of income (higher ceilings if survivors' pensions are the only source of income) and on age (higher ceilings for survivors over the age of 65). The ceilings range from just under €6000 to around €18500. Beneficiaries of a survivors' pension have to give up their entitlement if they receive unemployment benefits.
DK	State pensions are only paid to a surviving cohabiting spouse or partner during a period of three months. There are no other public survivors' pensions.
D	Beneficiaries of survivors' pensions will have their pension reduced by 40% of monthly earnings in excess of €690 (this amount rises in line with pensions).
GR	During an initial period of three years survivors' pensions are paid unconditionally. Thereafter, a reduced pension of 50% is only paid to surviving spouses over the age of 40 who are not working or in receipt of another social insurance pension. The full survivors' pension is paid if the surviving spouse is invalid (at least 67%). Payment of the pension at the full rate also resumes when the surviving spouse reaches age 65, provided that the beneficiary does not work or receive another pension (in which cases the survivors' pension will be reduced to 70%). Survivors' pensions for persons affiliated to IKA after 1.1.1993 are allowed earnings up to a maximum amount that depends on the number of dependent children.
E	Survivors' pensions can be combined with earned income; only the minimum pension for survivors is means-tested.

	Compatibility of survivors’ benefits and employment
F	A temporary survivors’ benefit for spouses under the age of 55 is to be phased out over the coming five years. At the end of this transition period, age conditions, restrictions on the possibility to combine individual pension entitlements with derived rights and the condition that one has to remain single will be abolished. Income earned on top of a pension will be permitted up to a ceiling which is established for a single person or a couple.
IRL	An income test is only applied to non-contributory widow(er)s pensions. However, most widow(er)s are in receipt of Widow(er)'s Contributory Pension which is not means-tested.
I	Survivors’ pensions are reduced in three steps of 25%, 40% or 50% depending on other income. No reduction is applied if the additional annual income is below €15683 (in 2003); the highest reduction applies if the additional income exceeds €26138.
L	When the combined income from survivors' pensions and earnings exceeds a threshold corresponding to a reference amount (€1 369 in 2003) increased by 50%, the survivor's pension is reduced by 30% of the earned income. However, earned income up to an amount corresponding to 2/3 of the reference amount is not taken into account. Moreover, if the survivor's pension is lower than the threshold, the difference between the survivor's pension and the threshold is subtracted from the earnings used in the calculation of the reduction. The threshold is increased by 4% for every child for which "baby years" or an education allowance can be claimed or by 12% for every child claiming an orphan's pension.
NL	The amount of the survivor’s benefit depends on the own income of the surviving spouse. Work-related income (e.g. salary, share in company profits, early retirement and 'pre-pension' benefits) below 50 per cent of the gross minimum wage and one third of income above the gross minimum wage is disregarded.
A	The surviving spouse’s own earned income or pension entitlements are taken into account in the calculation of the survivor’s pension.
P	Survivors’ pensions are paid during a period of five years to the surviving spouse or former spouses (receiving alimony) under the age of 35 (except if there are dependent children entitled to pensions) or indefinitely if the surviving spouse or former spouses receiving alimony are older than 35 before the end of the five year period or are totally and permanently disabled and unable to perform any kind of work. There are no restrictions on earned income for spouses, but orphans’ pensions will only be paid beyond the age of 18 and up to the age of 27 if the beneficiary does not engage in an activity subject to social insurance contributions.
FIN	The surviving spouse’s own earned income or pension entitlements are taken into account in the calculation of the survivor’s pension.
S	Survivors’ benefits only depend on the income of the deceased spouse. There are no restrictions on earned income of the surviving partner.
UK	Following the abolition of the earnings rule (according to which survivors’ benefits were reduced, on a tapered scale, in line with other income), there are no more restrictions on earned income.

7. THE ROLE OF PRIVATE PENSION SCHEMES

In most Member States, private pension schemes will have only limited influence on retirement decisions because they represent only a small share of retirement income. However, even where the largest share of income is provided through statutory schemes, private pension schemes can be used to make older workers redundant and to bridge the time between the termination of employment and the moment when the retirement age is reached (a practice that is common in Belgium, for instance). Private schemes that specifically provide early retirement benefits exist in the Netherlands.

Whether early receipt of a private pension is possible under normal circumstances depends on the scheme rules which vary from one scheme to another. Some schemes allow early retirement at actuarially reduced benefits.

Pension scheme rules are strongly influenced by the conditions that have to be met to enjoy favourable tax treatment (deductibility of contributions from individual and company earnings). Such conditions may include a minimum age from which a tax-privileged private pension can be drawn. This minimum age can be as low as 50 in Luxembourg and the UK. Conversely, tax rules for private pension schemes can also encourage longer working lives. Ireland offers higher tax relief for contributions to private schemes for people aged 50 and over, allowing them to build up pension rights faster than during the earlier phases of their working lives.

In certain countries, the conditions under which private schemes can facilitate early exit from the labour market are under review. In the UK, it is proposed to raise the minimum retirement age in tax-privileged private pension schemes from 50 to 55 years. In the Netherlands, the government plans to abolish the favourable tax treatment of early retirement schemes. In Belgium, tax privileges will be progressively removed for private pensions taken before the age of 60.

As the questionnaire on which the present report is based was addressed to governments, this section mainly deals with the influence that public policies have on the design of private pension schemes. However, it must be borne in mind that the main responsibility for designing occupational pension schemes lies with the social partners. They will therefore have an important role to play in reviewing the incentive structures in such schemes.

Checklist:

1. Do private pension schemes allow early exit from the labour market under conditions that are more favourable than actuarial neutrality?

2. Does the financing of early retirement benefits attract a favourable tax treatment (e.g. employee contributions deducted from taxable earnings, employer contributions treated as business expenses and not taxed as employee income)?

3. How could the legal and tax framework for private pensions be adapted so as to encourage longer working lives?

4. What action needs to be taken by the Social Partners in order to strengthen employment incentives in private pension schemes?

Table 10: Private pension schemes and early retirement

	Private pension arrangements allowing early retirement
B	Tax-privileged private pension schemes are frequently used to allow white collar employees to retire early. They are dismissed and receive an allowance from the pension scheme to bridge the time until they become eligible first for unemployment benefits for the older unemployed (see table 7) and finally for a regular pension.
DK	In principle, tax privileged pension schemes can be paid out before the standard retirement age, depending on the contract between the beneficiary and the pension provider.
D	Private pensions represent a small share of retirement income (2nd pillar: 8%, 3rd pillar: 12%) and have little influence on retirement behaviour.
GR	Private pensions are of minor importance and they do not provide additional early retirement options.
E	The moment of retirement is determined by the statutory scheme, but private pensions must be paid no later than 6 months after the early retirement.

	Private pension arrangements allowing early retirement
F	Companies and the government jointly finance certain allowances for dismissed older workers over the age of 55 or 57, depending on the scheme. Conditions are becoming more restrictive and certain schemes are being phased out. At the end of 2002, there were around 100000 beneficiaries of such schemes. Companies can also finance early retirement schemes without support from the government. This can take two forms: the employment contract is maintained, but the beneficiary stops working; or the employer buys an annuity for the early retiree from an insurance company. Pre-funding of such early retirement benefits is not tax deductible. With regard to social insurance contributions, beneficiaries enjoy generally the favourable treatment of pensioners, with the exception that health insurance contributions are normally higher than for pensioners. A specific employer contribution of 23.85% on allowances paid to beneficiaries or the cost of the annuities has been introduced.
IRL	The fact that people aged 50 or over can benefit from tax and social insurance contribution relief for pension fund contributions up to 30% of net earnings could act as an incentive for working longer. On the other hand, it is likely that around 14% of people aged 60-64 do not participate in the labour force because they can rely on a private pension.
I	Private pensions are typically paid when people become eligible for the state old-age or seniority pension.
L	Minimum ages for eligibility for company pensions (50) and personal pensions (60) are fixed by law. Private pension provision benefits from a favourable tax treatment.
NL	Private early retirement schemes (VUT) were introduced on the basis of collective agreement in response to the poor labour market conditions in the 1980s. They are typically financed on a pay-as-you-go basis and allow retirement five or more years before the regular retirement age. Gross benefit levels amount to 70 to 85% of final earnings, payable until the regular retirement age. Normal retirement pension rights continue to accrue as if the early retiree remained an active member of the occupational pension scheme. In addition, there are ‘pre-pension’ and flexible pension schemes that allow early retirement at actuarially reduced pensions. All these schemes enjoy a favourable tax treatment (contributions are tax deductible, but benefits are subject to income tax). The government intends to abolish this favourable tax status from January 1st, 2005.
A	Private pensions are of minor importance and they do not provide additional early retirement options in the public scheme
P	About half of the private pension schemes (not linked to the statutory social security scheme) foresee the possibility of early retirement with the agreement of the employer. The majority of these schemes are established by collective agreement. Contributions to such schemes are exempt from taxes up to 15% of earnings for supplementary schemes and 25% for schemes that replace the statutory pension insurance. Early retirement benefits are taxed like pensions if the beneficiary is already retired and like income from work if the beneficiary is still in employment.
FIN	Private pensions can be used for early retirement. Currently, there are about 30 000 early retirement pensions from private schemes in payment. However, the number of personal pension schemes has increased considerably over recent years reaching more than 500 000 scheme members in 2003.It has been observed that the average retirement age of people with an entitlement to a private pension is two years higher than the average retirement age for the population as a whole. Contributions to private pension schemes are tax deductible within certain limits and under the condition that the pension is not paid out under the age of 60.
S	Pensions from tax-privileged private schemes can be drawn from the age of 55, but this is unusual.
UK	Pensions from tax privileged occupational or personal pension schemes can currently be drawn from the age of 50. It is proposed to raise this age to 55. It is usual that early pensions are actuarially reduced.

8. MEANS TESTED MINIMUM INCOME GUARANTEES FOR THE ELDERLY

Minimum income guarantees are an important instrument in most countries’ pension schemes for ensuring that older people are well protected against the risk of poverty. To the extent that they are means-tested against earned income and allow a reasonable living standard by themselves they can represent, however, a strong disincentive to work for those who have reached the eligibility age for such a minimum income guarantee.

The impact on labour supply also depends on the number of people whose income is made up to a significant extent from such means-tested benefits. The more people can earn sufficient pension entitlements that are not means-tested and that can be freely combined with earned income, the fewer people are likely to be discouraged from working. The eligibility age for means-tested minimum pensions is also an important factor.

It should also be noted that means-tests are often applied to households. As a result, all household members face poor labour market incentives, including a spouse who may not yet have reached the retirement age.

Pension systems with universal flat rate benefits (e.g. the Netherlands) or in which the minimum income is only means-tested against other pension income (e.g. Sweden) can largely avoid such employment disincentives. In these countries, only people who do not fulfil the residency requirements for a full entitlement to a minimum or flat-rate pension would have to rely on social assistance type benefits that are fully means-tested against all other forms of income.

An alternative policy approach consists in ensuring that most people earn sufficient pension rights to become independent of means-tested benefits. This requires achieving a high level of coverage of pension schemes offering adequate benefits to pensioners and their surviving spouses. Employment disincentives can also be moderated by disregarding a certain level of income in the means test or by deducting earned income at less than 100% from the means-tested benefit.

Checklist:

1. How many people above the age of 60 (including their household members) depend on means-tested income supplements which they would lose if they had earned income?

2. What measures could be taken to improve employment incentives while maintaining adequate income guarantees?

Table 11: Minimum income guarantees for the elderly and employment incentives

	Minimum income guarantees and the applicable means-tests
B	A minimum pension is awarded to after 30 years of insured employment. In addition, employees with at least 15 years of insured employment receive a minimum pension amount for each year in which they worked at least 1/3 of full-time hours. These measures limit the need for means-tested benefits as some 90% of the elderly achieve at least a minimum pension. A social assistance scheme for people over the age of 63 is also available (GRAPA); in this scheme, a means-test is carried out on the basis of the combined income of cohabiting partners.
DK	A full public old-age pension is paid from the age of 65 (67 for people born before 1 July 1939) after at least 40 years of residence in Denmark. It consists of a basic amount and an income-tested pension supplement. The basic amount (around half of the total public pension for pensioners living alone and two thirds for cohabiting pensioners)) is not income tested except for individual earnings from work exceeding €30706 (in 2003). The pension supplement is reduced in accordance with the combined earnings from work of the couple. Means-tested housing benefits are also a significant income component which is affected by earnings.
D	Older people with insufficient pension entitlements can claim social assistance. The means test has become less strict on 1 January 2003 and is applied mainly to the spouses. Descendants with an annual income of less than € 100.000 and other relatives living in the same household are no longer deemed to support social assistance claimants over the age of 65. The proportion of people over 65 claiming social assistance was 1.4% at the end of 2000.
GR	Minimum pensions are granted to people with insufficient pension entitlements based on their contribution records. These are not subject to a means test and some 65% of IKA pensioners receive a minimum pension. A means-tested supplement for pensioners worth up to €111 is also available from the age of 60; it is subject to ceilings for various types of income. Some 360000 pensioners currently receive such a supplement.
E	Beneficiaries of a contributory pension with total annual income (from work or capital) below €5915.49 in 2004 are entitled to an income supplement to reach a minimum pension level that depends notably on the type of pension, age and the marital status. In July 2003 nearly 30% of all pensioners received such an income supplement. Currently, there are some 475000 beneficiaries of non contributory pensions (invalidity and old age) who receive an means-tested annual amount fixed at €3.868,20 in 2004.
F	A means-tested old-age minimum is guaranteed to people over the age of 65. The means-test takes into account income from work, pensions and assets (except owner-occupied housing) of the beneficiary and his/her spouse. The number of beneficiaries was 724 000 en 2001.
IRL	Nearly 88000 older people are receiving the means-tested non-contributory old-age pension. There are approximately 105,000 people receiving the flat rate Old Age Contributory Pension which is based on social insurance contributions and is not subject to any income/earnings test. In addition, recipients of the Retirement Pension (payable from age 66) are also not subject to an earnings test. Recipients of Retirement Pensions are only subject to an earnings test for the first year (i.e. age 65 to 66).
I	Means-tested social assistance pensions and supplements to the public social insurance pension are available from the age of 65. Some 5 million pensioners under the public pension scheme for private sector employees (INPS) receive a means-tested pension or pension supplement. The maximum amount guaranteed under these schemes is €535.95 per month (paid 13 times a year).
L	Older people with insufficient pension entitlements receive a means-tested income supplement so as to reach a guaranteed minimum income. The means-test is applied to the household. About 1% of all beneficiaries of a pension from the general scheme received such supplements in September 2003.
NL	A full public old-age pension is paid from the age of 65 if the beneficiary resided continuously in the Netherlands between the ages of 15 and 65. This pension is not means-tested. A supplementary benefit of up to 50% of the net minimum wage can be paid if the partner has not yet reached the age of 65, depending on the partner’s income. This supplement will no longer be awarded after 1 January 2015.
A	Pensions below a certain level can be topped up subject to a means-test applied to the beneficiary and his/her cohabiting spouse. In December 2002 around 229000 top-up benefits amounting to €227 on average per month were paid.

	Minimum income guarantees and the applicable means-tests
P	Non-means-tested contributory minimum pensions are available from the age of 65 and can be claimed by people with at least 15 contribution years. The amount depends on the length of the contribution career. A means-tested non-contributory pension is paid from the age of 65. The 'social insertion income' is also means-tested at the level of the household. For the initial calculation of this benefit, 80% of the income from employment is taken into account; if a gainful activity is taken up by the beneficiary or a family member after the award of the benefit, only 50% of these earnings are taken into account.
FIN	The residence-based national pension is means-tested against other pension income. In 2002 around 54% of pensioners received a national pension. The full national pension amounted to €417-493 per month.
S	The guaranteed pension is only reduced in accordance with other public income-related pensions and is usually combined with a housing supplement. Some 11000 people over the age of 65 receive fully means-tested maintenance support because they are not entitled to the full minimum pension.
UK	Pension Credit, introduced on 6 October 2003, is an income related benefit available to people over the age of 60. It provides a guaranteed minimum income of £102.10 per week for individuals and £155.80 for couples. Pension credit can be combined with modest savings and/or income (e.g. pensions or earnings) yielding a total income of up to £139 a week for single pensioners and £203 a week for couples. It is estimated that around half of all households over the age of 60 are entitled to Pension Credit.

9. OPTIONS FOR DEFERRED RETIREMENT

As retirement becomes more flexible, the choice of the moment of retirement will increasingly depend on the available retirement income. High pension income available at a low age is likely to encourage early withdrawal from the labour market, whereas low pension income will create the need to work longer in order to acquire higher pension entitlements or in order to complement the pension with income from work – provided, of course, that the pension system allows such flexibility.

Earned income is actually sometimes regarded as a fourth pillar of income for older people, alongside statutory, company and personal pensions. Clearly, the possibility of earning an additional income from work or accruing higher pension rights can be expected to become a more important way of reconciling adequacy and financial sustainability in the context of demographic ageing.

This section looks at the financial rewards for continuing to work beyond the standard retirement age. There are basically two ways of achieving this: allowing them to earn additional pension rights by deferring the receipt of their pension; or allowing them to draw their pension while at the same time earning income on top of it.[3] The two options can be combined by allowing the claim of partial pensions to be combined with part-time or low-wage employment.

Options for deferred retirement can be actuarially neutral, i.e. leave the present discounted value of the future pension income stream unchanged (taking account of additional contribution payments and shorter remaining life expectancy at the moment of retirement). However, in many cases the discounted value of future pension benefits

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3 Restrictions regarding the combination of a pension with earned income are sometimes justified on the grounds that the pension system aims at insuring the loss of income due to old age. By contrast, regarding the pension system as a savings scheme for old age (with an element of insurance against above-average longevity) would imply no restrictions on income earned on top of one's pension. It should be noted that removing such restrictions on earned income for pensioners also has budgetary implications.

decreases, for instance due to the fact that the shorter remaining life expectancy or the longer period during which contributions are paid are not fully taken into account. In other terms, an individual's pension wealth diminishes as a result of deferring retirement[4].

Currently, deferring retirement – either by claiming one's pension later or by combining earned income with a full or partial pension – is not financially attractive in most Member States, although there appear to have been many moves towards somewhat better incentives over recent years. The country that went farthest is clearly Sweden where it is possible to retire from the age of 61 and claim an actuarially fair partial or full pension. There is no upper age limit at which the pension can be claimed.

While it should be a priority to raise the employment rate of people *below* the standard retirement age, there is also scope, in the vast majority of Member States, for reviewing pension scheme rules so as to make them more employment friendly for people *beyond* the standard retirement age. Such a review should look at the possibility of awarding fair pension increments in the event of deferred retirement, reconsidering restrictions on the combination of pensions and earned income and allowing the receipt of partial pensions for those who want to work part-time or in low-paid jobs after reaching the standard or minimum retirement age.

Checklist:

1. Are certain types of employment subject to a compulsory retirement ages and is this justified?

2. Is deferred retirement adequately rewarded or do people who work beyond the standard retirement age suffer financial penalties (as measured for instance through pension wealth)?

3. Is it possible to combine pension income and earned income without restrictions?

4. Is it possible to claim a partial pension and thus to remain on the labour market in part-time or low-paid employment?

5. What measures would need to be taken to allow people to work beyond the standard retirement age under flexible and fair financial conditions? Are there any obstacles to taking such measures?

[4] Total income over the life cycle would nevertheless still be higher as long as earnings during the period of postponed retirement exceed the benefit entitlement.

Table 12: Options for deferred retirement

	Possibility of retiring later in exchange for higher pension	Combining income from work with pension
B	There no possibility of deferring retirement. Reaching the retirement age implies the cessation of the professional activity.	Pensioners who work are subject to a ceiling to the combined income from pensions and work. If earned income exceeds the limit authorised by law, the payment of the pension is suspended partially or totally. The earnings limit depends on the professional status (higher limits for employees than for self-employed), the number of dependent children, and the age (higher limits for people over 65).
DK	The public old-age pension is paid from the age of 65. There are no possibilities of early or deferred receipt of this pension. A bill on deferred retirement has, however, been tabled. This would give rise to increased pensions for deferred retirement.	The public old-age pension consists of a basic amount and a pension supplement. The basic amount (around half of the total public pension for pensioners living alone and two thirds for cohabiting pensioners) is not income tested except for individual earnings from work exceeding €30706 (in 2003). The pension supplement is reduced in accordance with the combined earnings from work of the couple. Beneficiaries of the voluntary early retirement scheme have their earned income deducted from their pension.
D	It is possible to defer the pension receipt beyond the age of 65 or to claim a partial pension (2/3, ½ or 1/3). Such employment is subject to social insurance contributions. Pensions increase by 6% per year of deferred retirement. There is no upper age limit.	Pensioners over the age of 65 can have unlimited earned income. People retiring before age 65 can only earn up to €340 per month or must opt for a partial pension (2/3, ½ or 1/3).
GR	It is possible to work beyond the standard retirement age. Such employment is subject to social insurance contributions. For every period of 300 working days or one year of employment the amount of the old-age pension is increased by 3 percent.	Pensioners under the age of 55 who take up a gainful activity have their pension suspended. Pensioners over the age of 55 can combine earned income with their pension, but pensions exceeding €734 per month are reduced to 70% (with increments for each dependent child).
E	The calculation base (100% of the average earnings during the last 15 years of the career for people retiring at 65 after a career of 35 years) is increased by 2 percentage points for each year of employment beyond age 65 and 35 contribution years.	The receipt of a full contributory pension is not compatible with a gainful activity. However, it is possible to draw a partial pension and combine this with part-time employment.
F	The latest pension reform rewards each year of employment after reaching age 60 and completing the insurance required for a full pension with a pension increment of 3%. There is no upper age limit in the private sector. In the public sector, derogations to the mandatory retirement age for a particular profession are possible if the employee has not yet fulfilled the conditions for a full pension.	The pension is suspended if the combined income from statutory pensions and work exceeds earnings just prior to retirement. A partial pension can be drawn in combination with part-time employment. This increases the pension entitlement after full retirement.

	Possibility of retiring later in exchange for higher pension	Combining income from work with pension
IRL	There is currently no system in place to provide for a higher State pension where a person defers retirement though the possibility of introducing such a system is being examined in the context of an overall review of qualifying conditions for old age and retirement pensions. Private and occupational schemes can provide for such an eventuality though the extent to which this can happen depends on the rules of individual schemes. Tax relief for contributions to personal pension schemes is granted up to the age of 70 and such pensions must be drawn down from the 75th birthday at the latest. More recently the Government has announced that compulsory retirement at 65 for new entrants to the public service is being abolished and they will be allowed remain in employment after age 65.	Contributory old-age pensions can be combined with earned income without limits. The means-tested non-contributory pension will be reduced by the amount of earnings exceeding €7.62 per week. The retirement pension payable at 65 is conditional on retirement and hence incompatible with earned income. The government is, however, committed to eliminating this condition.
I	Workers who remain in their job after having fulfilled the requirements for a pension remain subject to social insurance contributions unless they enter a new temporary contract with their employer. The requirement of a new contract in order to be exempted from social insurance contributions is currently under review. Under the new contribution-based pension system, there is no standard retirement age and workers can retire between the ages of 57 and 65, provided their pension entitlement exceeds 1.2 times the social assistance level. The pension amount is actuarially determined. Under the old earnings-related system, it is possible to defer retirement, but pension increments are less than what would be actuarially neutral. The increments are 2 percent of pensionable earnings per year (3% for women aged between 60 and 65). Under both the old and the new schemes private sector workers are allowed to remain in their job up to the age of 65; public sector workers up to the age of 67.	Old-age pensions can be combined with earned income without limits. New seniority pensions (paid since 1/1/2003) are suspended if the pensioner works as an employee and has fewer than 37 contribution years or is under the age of 58. For self-employed activities there is a reduction in the pension amount. Under the new contribution-based scheme earned income is deducted in full from the pension for pensioners under the age of 63 working as employees. If they are aged over 63 or if pensioners work as self-employed the pension is reduced (minimum pension plus 50% of the portion that exceeds the minimum pension). A partial pension of up to 50% of the full pension can be drawn if one's full-time job is converted into a part-time job (minimum 18 hours per week); private sector employers are, however, obliged to hire a new worker.
L	Working longer results in pension increments from the age of 55 and with a contribution record of at least 38 years. A fiveyear extension of working life results in a pension increment of around 11%, which is below the actuarially neutral increment.	Personal old-age pensions can be combined with earned income without limits after the age of 65 years. When the old age pensioner carries out a paid activity, s/he is entitled, on application, to a reimbursement of employee contributions. The reimbursement has to be requested for each calendar year.
NL	There are no possibilities of early or deferred receipt of the state pension. Private occupational pensions may allow early or deferred retirement with actuarial adjustments, but this depends on collective agreements.	The state pension can be combined with earned income without limits. Private occupational pension schemes may have rules that prevent pensioners to earn income on top of the occupational pension. Certain private occupational pension schemes allow partial retirement, i.e. the combination of a partial pension with part-time work. If the part-time job represents at least 50% of full-time employment pension rights may accrue as for full-time employment.

	Possibility of retiring later in exchange for higher pension	Combining income from work with pension
A	Deferred retirement is possible and gives rise to pension increments of 4.2% per year above the standard retirement age. This is slightly below the actuarially neutral level estimated at 5-6%. There is no upper age limit, but the maximum pension amount is limited.	Regular old-age pensions can be combined with earned income without limits. Early retirement or invalidity benefits of pensioners engaged in a gainful activity are suspended or converted into partial pensions.
P	Workers over the age of 65 and with a contribution career of 40 years can benefit from a pension increment of 10% for each additional year of employment up to the age of 70. Employers pay reduced social insurance contributions once the employee has completed a full insurance career; employees benefit from lower contributions after the standard retirement age.	Regular old-age pensions can be combined with earned income without limits. Although contributions are reduced (the self-employed may be exempted), additional pension rights accrue while pensioners are engaged in a gainful activity. The introduction of partial pensions is being envisaged.
FIN	Pensions for employees over the age of 60 accrue at a higher rate (2.5% per year instead of 1.5%). The pension reform that will come into force in 2005 will change the accrual rate to 1.9% per year between age 53 and 62 and to 4.5% per year between age 63 and 68. Social insurance contributions will be due up to the age of 68. Deferring retirement beyond the age of 68 results in pension increments of 4.8% per year.	Early, deferred and regular old-age pensions can be combined with earned income without limits. Partial pensions can be drawn from the age of 58 if the weekly working time is on average between 16 and 28 hours and earnings are between 35 and 70% of previous full-time earnings.
S	There is no standard retirement age and workers can draw their income related pension from the age of 61. Employment is always subject to social insurance contributions, irrespective of age, which increase the notional pension capital. Later retirement also increases the pension due to the fact that the shorter remaining life expectancy at retirement is taken into account in the calculation of the pension benefit.	Old-age pensions can be combined with earned income without limits. Pensions can also be drawn partially at 25, 50 or 75% of the full amount.
UK	The receipt of the state pension can be deferred by a minimum of 7 weeks up to a maximum of 5 years after reaching the state pension age (60 for women, 65 for men). This upper limit was due to be removed in 2010. Pension increments amount to 7.5% per additional year of employment (due to be raised to 10.4% from 2010 which will be above the actuarially neutral level). Workers above the state pension age do not pay social insurance contributions. Subject to legislation to be laid before Parliament in this session, the Government is proposing to bring forward to 2005 the change in the pension increment for deferred retirement, removing the 5 year maximum for deferral and offering the option of a taxable lump sum payment instead of an increased weekly benefit when the pension is eventually drawn. The possibilities for deferring the receipt of private pensions depend on the scheme rules. However, tax legislation requires that pensions be drawn from the age of 75 at the latest. Favourable tax treatment is also limited to pension rights that do not exceed 2/3 of final earnings.	The state pension can be combined with earned income without limits. Tax rules currently prevent drawing an occupational pension while remaining employed with the same employer. The government intends to abolish this restriction.

10. ACTIVE EMPLOYMENT MEASURES TARGETED AT OLDER WORKERS

The financing of social benefits through contributions represents a major element of labour costs. Exempting older workers and their employers from such contributions can therefore constitute a strong employment incentive, but this could of course also distort conditions on the labour market in favour of older workers. On the other hand, numerous employment incentives for the recruitment of younger job seekers could also create a bias against older workers.

A majority of Member States have measures in place that reduce the cost of employing older workers. Sometimes reductions in labour cost or employment subsidies are specifically targeted at the recruitment of older unemployed workers (e.g. Portugal), but it is more common that reductions in labour costs are available for all older workers. In particular, older workers who are already eligible for a pension may not have to pay pension scheme contributions (e.g. UK).

Member States appear not to be concerned about possible distortions on the labour market as a result of reduced labour costs of older workers. Such measures may therefore constitute a useful, albeit expensive, complement to other active ageing measures and facilitate the return to higher labour force participation of people in their 50s and 60s.

Checklist:

1. Are the financial conditions for employing older workers sufficiently attractive for employers and is there need/scope for improving them notably through reduced social insurance contributions?

2. Are these measures cost effective?

3. Should they be limited in time until the moment when other active ageing measures will have produced their effects or should they be of indefinite duration?

4. Is there a risk that employment incentives for younger job seekers could create a bias against older workers on the labour market?

Table 13: Active employment measures for older workers

	Active employment measures for older workers in social security schemes
B	A certain number of employment promotion measures are targeted at people over the age of 45. The recruitment of older unemployed can help a company fulfil the eligibility criteria for a reduction in employers' contribution (this scheme was originally designed to promote the recruitment of young labour market entrants). Under a general scheme of employment promotion through reductions in employer contributions more favourable conditions are available for job seekers over the age of 45. From 1/1/2004 onwards employers pay reduced social insurance contributions for their employees over the age of 57.
DK	There are no measures that are specifically targeted at older workers.
D	The employment of older workers is encouraged by an exemption of workers over the age of 55 from unemployment insurance contributions. Labour law allows greater flexibility for temporary employment contracts with workers over the age of 52. Recruitment subsidies are available for hiring workers over the age of 50 (this measure will be in force until 2006). There is special training support for workers over the age of 50: the employment offices finance the training costs if the employer pays the wage during the training course.
GR	There are certain subsidies for businesses recruiting older unemployed workers.

	Active employment measures for older workers in social security schemes
E	Employers who employ workers over the age of 60 who have been in the company for at least five years benefit from a 50% reduction in employer contributions to the pension scheme. This reduction increases in 10 percentage points steps every year up to 100%. Employment of people over the age of 65 and with more than 35 contribution years is exempt from social insurance contributions. In addition, earned income of workers over 65 is taxed at a reduced rate. Unemployed worker over the age of 52 may take up employment while continuing to receive 50% of their unemployment assistance benefits. The employer pays the difference between this reduced unemployment benefit and the normal wage. Another incentive for hiring older unemployed consists in a reduction of employer social insurance contributions by 55% (women: 65%) during the first year of employment and 50% (women: 60%) during subsequent years. For job seekers aged between 45 and 55 years these reductions are five percentage points lower than for people aged between 55 and 65. In June 2003 some 450000 workers over the age of 45 benefited from one of the above-mentioned reductions in employer contributions. 168000 of these workers benefit from measures to encourage longer working lives. There are also financial penalties for employers who dismiss workers over the age of 55. In this case, the employer has to pay part of the social insurance contributions that would have been due if the worker had remained in the company up to the age of 61; moreover, the company may be barred from receiving certain subsidies.
F	There are no measures aimed at reducing specifically the employment costs of older workers.
IRL	There are no measures that are specifically targeted at older workers. However, workers aged 66 or over pay a reduced rate of social insurance.
I	There are no measures that are specifically targeted at older workers.
L	Employers who employ workers aged 50 years and over (registered for at least one month as unemployed) benefit from a reimbursement of social security contributions from the Labour Fund during 7 years if the employment agreement is unlimited in time. If it is limited, reimbursement of contributions is limited to 18 months. Pensioners over the age of 65 who are employed can reclaim their employee social insurance contributions.
NL	Reductions of taxes and social insurance contributions for employers hiring long-term unemployed and low-paid employees are to be phased out over a period of 4 years. Continued employment of the disabled/incapacitated is encouraged through a temporary reduction in social security contributions and subsidies for adapting the workplace. The employer also benefits from a cover against the risk of illness of the disabled employee. Moreover, employers are exempted from disability insurance contributions for employees above the age of 55 and for previously unemployed persons above the age of 50. Both exemptions apply from 1 January 2004.
A	As of 1/1/2004 certain social insurance contributions (employment injuries, unemployment, family benefits) will no longer be due by employers for older workers. This reduces the wage costs for workers aged over 58 (men)/56 (women) by 6 percentage points and those of workers over the age of 60 by more than 12 percentage points.
P	Earnings of pensioners are subject to reduced (employee and employer) social insurance contributions. A number of employment subsidies are available to the long-term unemployed or employers for the recruitment of job seekers over the age of 45. Employers can benefit from temporary exemptions from, or reductions of, social security contributions for the recruitment of long-term unemployed (there are, however, not specifically targeted at older workers). Disabled people can benefit from reduced employer contributions, special employment protection and other integration measures.
FIN	There are no specific measures to reduce the cost of employing older workers. Currently, the rate of employer contributions for companies with more than 50 employees still rises with the age of the employee, but this is currently being changed.
S	Employers only have to pay social insurance contributions for old-age pensions and a special tax for employees over the age of 65. As a result, total employers’ contributions for workers over the age of 65 amount to 26.37% (instead of 32.7% for workers under the age of 65).
UK	Social insurance contributions are not levied on earnings of workers over the state pension age. This also reduces their cost to employers.

11. MODERNISING SOCIAL PROTECTION SYSTEMS TO PROMOTE LONGER WORKING LIVES: A PROPOSAL FOR FURTHER WORK

This report was prepared in accordance with the open method of coordination that underpins the cooperation in the area of pensions. The aim of the open method of coordination is to support the Member States in their efforts to modernise their social protection systems by agreeing on broad common objectives, examining jointly the progress achieved towards these objectives and by facilitating mutual learning through the exchange of experiences and good practices.

The information gathered in the present report on the basis of the Member States' replies to the SPC questionnaire provides a useful overview of the various issues that need to be addressed in order to ensure that social protection systems fully support the policies aimed at meeting the targets of the Stockholm and Barcelona European Councils with regard to the employment of older workers. The replies to the questionnaire show that the modernisation of social protection systems is clearly an important complement to the European Employment Strategy which promotes the development and implementation of comprehensive ageing strategies. The present report should therefore be seen in the context of the interaction between employment and social protection policies and the wider efforts to raise the employment rate of older workers and delaying labour market exit which on which the Commission will shortly adopt a Communication.

In view of the complexity of the issues related to social protection systems, much more information would be needed to assess what further action is required in the Member States to make social protection systems more conducive to longer working lives. Moreover, in this exercise no information has been gathered on the situation in the acceding countries.

Rather than collecting information from acceding countries on the basis of the SPC questionnaire, and trying to improve the comparability of the information already gathered from the current Member States, it seems more appropriate to move forward by encouraging policy reviews at the national level on the basis of the present report's findings. Such reviews may already be taking place – and producing tangible results in terms of policy changes – in some of the current and future Member States. In many countries, though, an intensification of such efforts might be warranted.

In view of the importance of the issues reviewed in the present report for achieving the employment targets set by the European Council and for ensuring the future adequacy and financial sustainability of pension systems, the SPC recommends to hold workshops in those Member States and acceding countries where it is felt necessary to intensify efforts aimed at making social protection systems more employment-friendly for older workers. Such workshops should identify current weaknesses in social protection systems and possible measures that would contribute to the goal of increased labour market participation of older workers. The workshops should involve the key policy actors (various government departments, Parliament, social partners, NGOs); experts from some other Member States, including the acceding countries, should also be involved.

The outcome of such workshops should not be limited to a critical assessment of the social protection system and its impact on the employment of older workers. Ideally, the workshops should be the starting point of a reform process or sustain the momentum of reforms already in progress, involving governments and the social partners. The main issues identified in the present report could serve as a checklist (see annex) to ensure that all important aspects are covered. Experience gained from the workshops should, of course, be reflected in improvements to this checklist.

The workshops should take place before the next round of national strategy reports due in mid 2005 so that their results can be reflected in those reports and the Joint Report to be submitted to the 2006 Spring European Council. Relevant outcomes should also strengthen the analysis and policy orientations presented in the National Action Plans on employment.

APPENDIX: A CHECKLIST FOR NATIONAL WORKSHOPS

Inactivity of older workers and main reasons for not being employed

(1) What is the level of employment and labour market participation of men and women aged 55-64?

(2) What are the main reasons for not being in employment (e.g. early retirement, invalidity, unemployment, family obligations and lack of care services, perceived or actual lack of labour market opportunities)?

Early retirement options in statutory pension schemes

(1) Does the retirement system allow easy retirement below the age of 65 at favourable financial conditions, thus offering poor incentives to stay in the labour market until 65?

(2) Are these financially advantageous early exit possibilities well targeted to people with long contribution careers and/or shorter remaining life expectancy?

(3) Does the pension system offer sufficient freedom of choice and fair financial conditions for individuals regarding the moment of retirement?

(4) Are minimum pension guarantees implemented in a way that ensures adequacy without encouraging labour market exit as soon as people become eligible for the guaranteed minimum pension?

Gradual retirement and part-time working before the standard retirement age

(1) Does the retirement system allow an easy reduction of working time before the standard retirement age? Are financial conditions such that they create incentives for a reduction of total labour supply?

(2) Is public financial support for early partial retirement from the labour market well targeted to people for whom the most likely alternative would be a complete withdrawal from the labour market?

(3) Is there sufficient freedom of choice for individuals regarding working time towards the end of the career?

(4) Does gradual retirement and hence the reduction of earnings towards the end of the career have adverse effects on pension entitlements?

Early retirement for certain professions and types of work

(1) Which professions/categories of workers benefit from special early retirement provisions?

(2) Do these early retirement provisions deal adequately with mobility between jobs with different retirement rules?

(3) Are the special early retirement provisions regularly reviewed and are they still justified?

(4) Are alternatives (better working conditions, career management, higher accrual rates during periods of unhealthy work) being considered to avoid early retirement?

Early retirement for mothers

(1) Are there arrangements that allow women to withdraw early from the labour market and how are they justified?

(2) Are these arrangements still appropriate and are they the most effective way of achieving the objectives?

Special rules for older unemployed workers

(1) Do unemployment schemes offer more favourable benefits (in terms of levels and duration) to the older unemployed and is this justified for instance by poorer labour market opportunities for older job seekers?

(2) Are older unemployed required to be available for work and actively search for a job?

(3) Do older unemployed benefit from adequate job search support, active labour market measures and financial incentives to take up work (including with regard to the impact of low-paid work on old-age pension entitlements)?

Invalidity benefits

(1) Are invalidity benefits well targeted to people whose earnings capacity is clearly reduced for medical reasons or do invalidity benefit schemes respond to a large extent to the general labour market situation and inadequacies in other benefit schemes?

(2) Is there a sufficient focus on preventing invalidity for instance by adapting working conditions or facilitating a change to a job that is more compatible with the health condition of the worker?

(3) Is medical and professional rehabilitation (including in a different profession) given sufficient priority?

(4) Do invalidity benefits allow for different degrees of invalidity and do they encourage the use of the remaining capacity to work?

(5) Are invalidity benefits designed in such a way that they encourage the return to work?

Survivors' benefits

(1) Are survivors' benefits likely to discourage the labour market participation of, in particular, widows?

(2) Can benefits be redesigned in such a way that they protect the living standard of the survivor without discouraging employment (e.g. by offering an actuarially adjusted deferred benefit for survivors who take up employment)?

The role of private pension schemes

(1) Do private pension schemes early exit from the labour market under conditions that are more favourable than actuarial neutrality?

(2) Does the financing of early retirement benefits attract a favourable tax treatment (e.g. employee contributions deducted from taxable earnings, employer contributions treated as business expenses and not taxed as employee income)?

(3) How could the legal and tax framework for private pensions be adapted so as to encourage longer working lives?

(4) What action needs to be taken by the Social Partners in order to strengthen employment incentives in private pension schemes?

Means tested minimum income guarantees for the elderly

(1) How many people above the age of 60 (including their household members) depend on means-tested income supplements which they would lose if they had earned income?

(2) What measures could be taken to improve employment incentives while maintaining adequate income guarantees?

Options for deferred retirement

(1) 1. Are certain types of employment subject to a compulsory retirement ages and is this justified?

(2) Is deferred retirement adequately rewarded or do people who work beyond the standard retirement age suffer financial penalties (as measured for instance through pension wealth)?

(3) Is it possible to combine pension income and earned income without restrictions?

(4) Is it possible to claim a partial pension and thus to remain on the labour market in part-time or low-paid employment?

(5) What measures would need to be taken to allow people to work beyond the standard retirement age under flexible and fair financial conditions? Are there any obstacles to taking such measures?

Active employment measures targeted at older workers

(1) Are the financial conditions for employing older workers sufficiently attractive for employers and is there need/scope for improving them notably through reduced social insurance contributions?

(2) Are these measures cost effective?

(3) Should they be limited in time until the moment when other active ageing measures will have produced their effects or should they be of indefinite duration?

(4) Is there a risk that employment incentives for younger job seekers could create a bias against older workers on the labour market?