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# Active Ageing Strategies to Strengthen Social Inclusion

Discussion Paper

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In the coming years, the share of elderly people in the whole population will strongly increase in all European Union countries. It is therefore necessary to implement a social inclusion strategy targeted towards older people both for economic and social reasons. This strategy needs to include: a substantial postponement of the retirement age, in order to reduce the burden of pensions costs and to increase total employment; an improvement in the physical condition of older workers; the maintenance of a pensioner income level close to working people's incomes; finally, the involvement of retired people in social activities.

Finland is a particularly interesting country to consider, because it has succeeded in raising strongly older workers' employment rates and has launched extensive programmes to promote active ageing and to keep older people at work through social partners' involvement and through an improvement of working conditions. This review aims at analysing these programmes. What are their impacts in terms of raising Finnish older workers activity rates and social inclusion? Can they serve as a model for other EU countries facing the same problems?

## Part A. The policy debate at the European level

In face of the ageing of populations in all EU countries in the coming 40 years, employment of older workers becomes one of the more important issues of social policy and labour policy in Europe.

The problem is first a demographic one: the ratio of the number of elderly people to working age people will increase significantly from 2005 due to the ageing of the baby-boom generations, to declining fertility and to the increase in life expectancy. In the EU, there are currently 25 people older than 65 for 100 people aged between 15 and 65; the figure will rise to 50 in 2050.

The problem is also economic. According to the European Commission's projections, many countries will see their employment levels fall significantly by 2050, despite relatively favourable assumptions on immigration, decline in unemployment rates and rising activity rates (see Table 1). This decline would have damaging consequences on their economic activity, standard of living and financing of their pensions systems. It is therefore necessary for these countries to implement economic and social strategies in order to raise the employment rates of their population, especially for women in Southern EU countries (where female employment rates are particularly low), unskilled workers, older workers in most EU countries.

Last, the problem is social. Continental European countries have established generous public pension systems, pay-as-you-go financed. In these systems, pensioners were entitled to a standard of living similar to active people. Since 1974, in face of persistently high unemployment, these countries have introduced early retirement schemes, which significantly lowered activity

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<sup>1</sup> I thank, for its help and comments, my OFCE colleague, Catherine Mathieu.

rates for the 55-65 year old. This strategy of reducing activity rates developed at each wave of higher unemployment, in the early 1980s and in the early 1990s. This Continental model of retirement is now questioned. Maintaining the model would require a significant increase in pensions' spending, that companies and a majority of employees are unwilling to finance. Continental countries have to move from an 'early exit' culture to an 'active ageing policy' (Gould and Saurama, 2004).

**Table 1: Some elements of the European Commission's Projection (2005)**

	Employment growth 2003-50 (%)	Employment rate, 55-64, in 2004	Projected employment rate 2050
BE	1.6	28.1	44.5
DK	-4.8	59.8	67
DE	-9.3	39.5	66
EL	-13.1	42.1	53
ES	-3.8	40.6	62.5
FR	4.0	36.3	53
IE	34.0	48.8	69
IT	-12.0	29.4	54.5
NL	2.1	44.4	55
AT	-5.2	30.1	58
PT	-15.2	51.4	65
FI	-4.8	49.4	65
SE	10.9	68.8	76.5
UK	1.2	55.4	64
CZ	-24.9	42.5	59
EE	-17.6	52.7	62
HU	-17.1	28.7	49.5
LT	-13.3	45.3	66
LV	-19.7	44.1	59
PL	-5.2	26.7	49
SK	-23.9	25.2	51
SI	-16.1	23.5	52.5
EU-25	-4.7	39.9	59

Source: European Commission (2005)

Most EU Member States have already undertaken substantial reforms of their pensions systems. These generally include three components:

- Measures reducing the amount of public pensions, through reforming rules for setting and indexing pensions. But these measures undermine the confidence of employees in the retirement system and may push some elderly people into poverty. There is no justification for a permanent decline in pensioners' living standards. A better option would be to stabilise the replacement rate provided by public pensions at a satisfactory level, even if employees could be requested to work longer in order to be entitled to it.
- Incentive measures for workers to supplement their public pensions with private pension funds. But there is a big risk that only a part of workers would be covered and that a rise in savings would depress activity.

Mandatory or incentive measures to postpone the retirement age: gradual reduction or even abolition of existing early retirement schemes (early retirement pensions, disability allowances granted for economic reasons, unemployment pipeline or job search exemptions for older

unemployed people); postponing of the legal retirement age; longer careers required to be entitled to a full pension, change of rules setting the level of pensions, so that early retirement is financially discouraged and late retirement is rewarded. But the effective retirement age depends on the situation of the labour market and of hiring and firing choices of companies

The most favourable strategy, from both an economic and a social view point, is to increase older workers' employment rates. Such a strategy can generate a triple dividend: higher output; higher tax revenues and social contributions receipts; lower pensions spending. Along these lines, the Lisbon Agenda has set two objectives: a higher than 50% employment rate for older workers (aged 55 to 64), a postponement of the average retirement age by 5 years before 2010.

This strategy, however, generates two risks. The first risk is that a significant number of older workers no longer entitled to a pension remain jobless, experience long periods of unemployment, with low unemployment allowances and have no choice but retire with a low pension. How to ensure that postponing the retirement age will not increase unemployment among older workers? How to induce companies to keep older workers in their current jobs or even to hire older workers? Should the market be allowed to play to cut older workers' wages? Should governments introduce financial incentives (lower social contributions or subsidies for companies employing older workers)? Should firms introduce second and less well paid careers?

The second risk is a widening of inequalities among pensioners. Can there be incentives for longer working lives without worsening the situation of manual workers unable to work longer and improving the situation of managers who would benefit fully from the incentives and extend their working life? How to account for differences in job painfulness, for different life expectancies and work abilities of 60 year-old people in view of their working conditions?

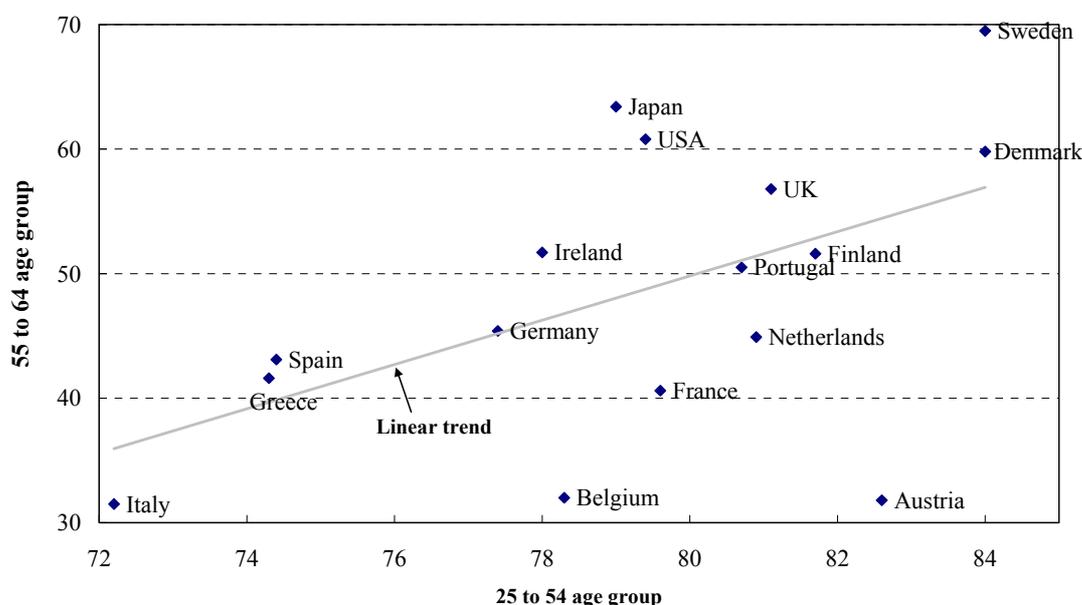
Besides, early retirement may be viewed either as the exclusion from the labour market of workers who would like to keep working or as an opportunity and choice for people to enjoy a period of freedom, without job constraints, in good health and without financial worries. If early retirement is a social choice between work and leisure, how can it be reconsidered? Shouldn't we change work too so that people would agree to retire later?

It is therefore particularly interesting to analyse the strategy of successful countries in terms of keeping older people at work. In 2005, the employment rate of people aged 55 to 64 was 69.5 in Sweden, 63.5 in Japan, 61 in the US, 60 in Denmark, 57 in the UK and 46 in Germany, 41 in France, 32 in Austria, Italy and Belgium (see Table 2). Employment rates of people aged 55 to 64 are above the 50% Stockholm target in six out of the EU-15 countries. Over the last ten years, the older workers' employment rate has increased by 17 percentage points in Finland and by 15 in the Netherlands, i.e. by 10 percentage points more than the total employment rate. Five countries can be considered as 'successful countries': older workers' employment rates are high in 3 of them (Sweden, Finland, the UK); older workers' employment rates have rapidly increased in 2 of them (Finland, the Netherlands) in recent years. In most cases, particularly in Denmark, Finland and Sweden, ageing workers' employment had fallen sharply during the crisis in the first half of the 1990s. These countries have been able to boost employment of ageing workers in the years 1995-2005. Sweden experiences a structural high employment rate of older people; Denmark, Finland and the UK were able to reach again a higher level than prior the crisis. There was a remarkable rise in older workers' employment in the Netherlands, which was ranking at the bottom of EU countries in the 1990s.

**Table 2: Employment rates**

	Employment rate 55-64		Unemployment rate Global		Employment rate 25-54		Employment rate 55-64 Variation		Unemployment rate Variation, percentage point		Employment rate 55-64 Relative variation	
	2005		2005		2005		2005-1995		2005-1995		2005-1995	
Sweden	69.5	(1)	7.8	(8)	84.0	(1)	7.5	(9)	-1.4	(9)	6.0	(6)
Japan	63.4	(2)	4.8	(3)	79.0	(10)	-0.4	(16)	1.5	(14)	-0.1	(11)
United States	60.8	(3)	5.1	(5)	79.4	(9)	5.5	(12)	-0.5	(11)	5.8	(7)
Denmark	59.8	(4)	4.9	(4)	84.0	(2)	10.5	(5)	-2.1	(6)	8.2	(4)
UK	56.8	(5)	4.6	(2)	81.1	(5)	10.9	(3)	-4.1	(4)	6.9	(5)
Ireland	51.7	(6)	4.3	(1)	78.0	(12)	9.2	(7)	-8.1	(2)	-4.1	(14)
Finland	51.6	(7)	8.5	(12)	81.7	(4)	17.2	(1)	-7.0	(3)	11.6	(1)
Portugal	50.5	(8)	8.1	(10)	80.7	(7)	7.2	(11)	0.5	(12)	4.2	(9)
Germany	45.5	(9)	11.3	(16)	77.4	(13)	10.0	(6)	3.1	(16)	9.3	(3)
Netherlands	44.9	(10)	5.2	(6)	80.9	(6)	15.5	(2)	-1.9	(7)	9.6	(2)
Spain	43.1	(11)	9.2	(13)	74.4	(14)	10.7	(4)	-13.6	(1)	-4.2	(15)
Greece	41.6	(12)	9.8	(14)	74.3	(15)	1.1	(15)	0.5	(13)	-4.4	(16)
France	40.6	(13)	9.9	(15)	79.6	(8)	7.5	(10)	-1.7	(8)	4.9	(8)
Belgium	32.0	(14)	8.1	(11)	78.3	(11)	8.8	(8)	-0.7	(10)	4.2	(10)
Austria	31.8	(15)	5.2	(7)	82.6	(3)	1.4	(14)	1.5	(15)	-0.7	(12)
Italy	31.5	(16)	7.8	(9)	72.2	(16)	3.1	(13)	-3.9	(5)	-3.6	(13)

Note: Rank in (). Source: OECD

**Chart 1: Employment rates, 2005 (%)**

The case of Finland is therefore a model to follow for countries with low employment rates. In 1994, the older workers' employment rate was 33.5% in Finland, i.e. close to the French rate. It has risen to 53% in Finland and to 41% only in France since then.

Older workers' employment depends on the situation of the labour market. Countries with high older workers' employment rates are generally close to full-employment, although there are some exceptions like Finland, which has succeeded in raising older workers' employment rates despite a relatively high unemployment rate. Conversely, in Austria both the unemployment rate and older workers' employment rates are low (see Table 2). But in general, strategies targeted at older workers' employment cannot be considered without global macroeconomic, structural and industry sector measures aiming at raising total employment (see Chart 1). In successful countries in terms of older workers' employment rates, female employment rates are also high which shows the importance of labour demand and work incentives.

Unemployment rates of workers aged 55 to 59 are not so low in some of these countries (Denmark, Finland, see Table 3). But the postponement of the retirement age has generally not translated into a rise in older workers' unemployment rates.

**Table 3: Share of the unemployed in the population, per age group, in 2003**

	30-49		50-54		55-59		60-64	
	Men	Women	Men	Women	Men	Women	Men	Women
Denmark	3.5	5.1	3.8	4.0	5.6	4.9	1.9	1.0
Finland	6.0	6.6	5.7	5.0	5.8	5.6	1.5	1.2
France	6.0	7.2	5.5	5.5	3.8	3.1	0.5	0.5
Netherlands	3.4	3.4	3.1	2.7	3.1	1.2	1.1	0.4
UK	3.3	2.6	2.8	1.8	2.9	1.6	2.3	0.4
Sweden	4.4	3.7	3.7	1.9	4.1	2.4	4.2	2.7

Source: European Labour Force Surveys.

The successful countries appear less generous for pensioners than other EU countries (see Table 4), although the Netherlands is an exception. There are three reasons for this. Work incentive strategies make losers among ageing workers who fail to keep a job: they have lower pensions. A low level of pension is an incentive for employees to work longer (this effect plays undoubtedly in Denmark). Conversely, a satisfactory level of pension is an incentive for workers to retire as early as possible (in France and Italy).

**Table 4: Older people's relative income levels**

	Poverty risk at 65 + less poverty risk at 65- (%)	65+ incomes relative to 65- incomes
EU-25	+ 2	
Sweden	+ 3	0.77
Denmark	+ 7	0.71
UK	+ 7	0.74
Finland	+ 3	0.75
Netherlands	- 6	0.84
Germany	+ 1	0.88
France	+ 3	0.90
Italy	- 4	0.94

Source: Eurostat.

Some countries, like the UK, rely mainly on market mechanisms to raise older workers' employment rates, once early retirement schemes are abolished and pension rules are reformed. Some other countries consider that specific measures in favour of older workers' employment are needed. Many countries, especially in Scandinavia, are implementing strategies aiming at raising the number of jobs available for older workers: tax incentives for companies employing older people, limitation of the seniority component of wage growth; fight against age discrimination; campaigns to promote older workers' employment among companies and employees; reshaping of careers; improvement of working conditions and training. These strategies also aim at inducing older workers to work longer, through improved working conditions and training for either all workers or specifically older workers. Such strategies are generally implemented jointly by the government and social partners, which requires a certain agreement on the objective of retirement age postponement.

Older workers' employment strategies can be split into five categories:

- Global employment policy includes both macroeconomic measures and structural measures to improve the functioning of the labour market
- Reforms of pensions and early retirement systems aim at making it mandatory or give older workers incentives to work longer
- Tax incentives for employers to keep older workers' in their companies or tax incentives for employees to retire later.
- Campaigns to induce companies to keep or to hire older workers. Companies are induced to reform their vocational training policies, their career management, working conditions to allow workers to work longer.
- Incentive measures for workers to work longer through information campaigns and through career, training and job adaptations

The two latest types of measures will be grouped in our paper as 'active ageing strategies'. The successful countries have generally implemented simultaneously the five types of measures. The measures strengthen each other. It is useless to try and expand older people's employment in countries where the employment rate of younger people is low. It is socially dangerous to deprive older people from the possibility to retire early without having checked that employers are actually ready to hire older workers. It is therefore especially difficult to disentangle the impacts of acting ageing strategies from the impact of all implemented measures.

However it is relevant for countries hesitating to introduce active ageing strategies to consider the experience of countries that have been successful in lengthening working life without raising the 55-64 unemployment rates, without raising pensioner poverty and within a certain degree of social consensus.

An analysis in terms of institutions shows clearly that two contrasted models have reached similar performances in terms of older workers' employment rates: the liberal and the social-democrat model. The liberal model is characterised by a low protection of workers, both in terms of trade unions powers and of legislation, low tax rates and, as a counterpart, low unemployment allowances and weak labour market policies. In this model, flexibility has allowed to avoid the

emergence of mass unemployment through an increase in inequalities. The social democrat model is characterised by high taxation rates and high public and social spending. Countries with such a model have a high level of equality. Trade unions have a strong weight. The fight against unemployment is operated through social cohesion, share of work available and a certain agreement among social partners. Working time is generally low, negotiations are generally centralised and coordinated. Besides, the small size of these countries and the constraint they have in terms of trade openness, have favoured a consensus between social partners on the need of a strategy favouring company competitiveness: high levels of education spending, R&D spending, adaptation of the productive structure, employees' flexibility both within the company and from one company to another. This means that success in terms of older workers' employment requires a social choice and deep institutional changes. The attitude towards work must be modified, either through job flexibility, status and wage cuts, or towards the top, through education, career management piloted by social partners.

Work is rewarded in successful countries, although at various degrees and with specific ways. The reasons for rewarding work can be either liberal - each individual has to care for their own financial needs -, or social democrat - each individual must give a contribution to the Society. Conversely, the main axis of the continental social model is that the Society should provide a decent income to the people who cannot earn it by themselves. *Workfare* views have gained importance in the EU at the expense of *welfare* ones and this raises the issue of the link between work and social welfare. Should social welfare ensure that everyone has a decent income or that everyone gets a decent income through work? The problem is especially acute for pensions. To what extent is it justified to reduce the pensions' level in order to increase work incentives, especially as the issue is often raised in mass unemployment countries? It is therefore crucial to address the issue of the transferability of the Finnish model to other countries.

## Part B: Description of the main elements of the policy

Finland ranks fourth in the EU in terms of older workers' total employment rate, at the same level as Ireland and behind Sweden, Denmark and the UK. The older people's (60-64) employment rate had strongly decreased in Finland in economic depression periods (1984-1986, 1992-1994). But it has increased by 17 percentage points since 1995 and this is the most rapid rise in the EU, despite the fact that the Finnish unemployment rate has remained rather high<sup>2</sup>. The increase in Finnish older workers' employment rate is due to an improvement in the economic context, to institutional reforms (like initially the reform of early retirement schemes and later the reform of retirement schemes), but the Finnish specificity is to have undertaken substantial active ageing programmes. These programmes aim at supporting ageing workers in their job by the mobilisation of social partners and firms and by the improvement of wellbeing at the workplace. These programmes have facilitated the implementation of institutional reforms. They have three objectives: allowing to maintain older people at work, facilitating the social acceptance of working longer, improving social inclusion of older workers and pensioners. Their specific impact will thus be difficult to define.

<sup>2</sup> Recent macroeconomic developments in Finland, the evolution of the labour market and some features of ageing workers employment are addressed in Appendix A.

A social consensus had emerged to favour early retirement in the 1980's, in order to let younger people have a job and allow for economic transformations. This consensus has strengthened during the crisis (1993-1997). A new consensus emerged from 2002 to bring an end to earlier choices. At the end of the 1990's, the Finnish Society became aware that it could no more afford to pay for early retirement schemes. At the same time, ageing people were in general low skilled; companies wanted to hire a skilled and flexible workforce; they wanted to be able to restructure rapidly. In face of the rising demands of companies, most ageing workers preferred to opt for generous early retirement schemes. The worsening of demographic prospects is more rapid in Finland than in the average EU-15 and has led to fear a 'lack of labour supply'. The female employment rate is already very high in Finland and immigration cannot be expected to rise substantially (because of climate and of language issues, see Kunz, 2005). Hence, the employment rate of the 55-68 year-old needs to rise. This change in paradigm has been facilitated by the tradition of negotiation between social partners on general social and economic prospects.

The specificity of the Finnish experience is to have launched substantial programmes of social mobilisation to support older people to work longer. These programmes have in general been decided by the government, social partners and pension companies (see Piekkola, 2004). The main programme was the *National Programme for Ageing Workers*. It was launched before the 2005 Reform, which facilitated the adoption of the reform<sup>3</sup>. These programmes have a specificity: they rely on the thesis that working conditions and skill accumulation need to be increased all along the career in order to allow longer carriers. According to European Surveys, the Finns are the people who complain most about poor working conditions, although the government and social partners pay a specific attention to this issue. It is therefore difficult to say if this opinion reflects particularly worsened working conditions or a difference in feeling due to paradoxical effects of campaigns.

The 'active ageing' concept tries to modify the behaviour of individuals, firms and the society in four steps (Piekkola, 2004):

- Health: maintenance of social, mental and physical capacities.
- Maintenance of occupational capacities
- Value of ageing workers: maintenance of attitudes and motivation.
- Workplace organisation and wellbeing in work.

The *Finnish Institute of Occupational Health* (TTL) first launched the *Finn Age, respect for the ageing* Programme (1990-1996). This programme aimed at maintaining older workers' productivity at work through the promotion of their health and ability to work. The rehabilitation became a central element of occupational care. A campaign targeting doctors and care practitioners aimed at making them consider that their job was not to give evidence that their patients were not able to work, but to give workers incentives to use better their work abilities. Campaigns were launched to promote sports or healthier lifestyle for workers (such as reduction of tobacco and alcohol consumption).

The *National Programme on Ageing Workers* (1997-2002) was implemented jointly by the Ministry of Social Affairs and Health, the Ministry of Education and the Ministry of Labour with the collaboration of social partners, the Finnish Institute of Occupational Health, the Social Insurance Institution, the Federation of Employment and the pension Institutions. The five-year programme

<sup>3</sup> Appendix B addresses the Finnish pensions system, its reforms before 2005 and the 2005 reform.

period was allocated 4.2 million Euro. It benefited from the financial support of the European Social Fund. The objective was to strengthen the status of ageing people in the labour market, to improve their capacity to stay at work and to help them get a job. It was targeted at people older than 45. The objective was to breach the vicious circle where ageing workers felt they did not have a place anymore in companies, made no education effort, where companies were considering that these workers were about to retire and were refusing to invest in their education or career. Companies were reluctant to hire ageing workers, which was the reason why it was necessary to implement generous early retirement schemes that increased in turn early retirement advantages. The counterpart to a longer career is the maintenance of employability and work ability. This relies on both workers' and companies' commitments.

The programme was involving mainly information and campaigns, with three advantages: higher well-being for employees, higher productivity for companies, a smaller pensions spending burden. The experience of older people was emphasised; the motto was '*experience is a national asset*'. Different campaigns targeted specified groups: the general public, workers, companies, journalists, doctors, labour market organisations and health sector organisations.

The Programme has developed training activity for personnel managers to teach them to take age into account in work organisation. There was also 'training for trainers' to learn teachers how to teach older people.

The programme also stressed the importance of vocational training, especially for adults with an incomplete basic education and inadequate learning facilities. Training financial support was granted to all workers and was more generous for employees with a long career. More generally the programme stressed the importance of training in the maintenance of adequate human capital.

The programme financed research programmes focusing on the maintenance of work ability and employability. Research was also financed on the issue of wellbeing at work.

The programme had an influence on the legislative changes of early retirement and pension schemes. It tried to promote the mainstreaming principle in terms of older workers' employment.

The Act on Occupational Health Care (2001) increased the role of the occupational health care services in the prevention of work-related illnesses and accidents; healthiness and safety at work; worker's health and capacity.

The *Finnish Institute of Occupational Health* developed a programme for the Workplace health promotion (WHP).

The rehabilitation programmes were impulsed by the Social Insurance Institution, KELA, which developed a vocationally oriented medical rehabilitation, ASLAK.

Last, pilot-programmes were launched in some industry sectors. For instance, in the paper industry the objective was to modify the management of careers, moving from an automatic early retirement scheme at 55 to changes in job allowing employees to work until 60. In the retail trade sector, the objective was to stress the role of old age customers who prefer to see shop sellers of a similar age. Job offers encouraged explicitly older people to apply.

A working-life barometer was established, based on the confidence of workers on their ability to find a new job (see Table 5).

**Table 5: % of workers who believe they will certainly or possibly find a new job**

	18-24	25-34	35-44	45-54	55-64
1993	41	37	27	16	9
1998	81	80	73	42	17
2001	93	93	78	60	37

According to the final report (2002), the Programme succeeded in four areas: promotion of work ability, measured by the WHP barometer and the volume of adult education; increasing the opportunity to work, measured by the decrease in the employment rate gap between ageing and all workers; employability by the promotion of social capital maintenance; promotion of the research on employability, WHP and rehabilitation. It strengthened the cooperation between various administrations, labour market organisations, firms and social partners. According to Gould and Saurama (2003), however, there has been no serious evaluation of this programme.

The programme was prolonged by the *Well-Being at work programme* (2000-2003), which focuses on the need to increase working conditions over the whole career, so that workers are able to work longer. It was aiming at mobilising social partners and promoting good practices. Practical developments took place at the firm level, which was visited by programme experts. Twelve firms' experiences were advertised as best practices. The main considered problems were too early retirement, low level of education of ageing people and work exhaustion. The budget was 7.5 million Euro for four years.

This programme is prolonged by programmes differentiated by ministry.

The *Veto Programme* (2003-2007), the National programme for increasing the attraction of working life, is conducted by the Ministry of Social affairs and Health. Its objectives are to obtain a high employment rate, and also to increase actually worked hours and to reduce absences from work caused by illness. Well-being at work should both improve work attractiveness and boost productivity. The programme targets people aged 45 and over, small and medium size enterprises, middle management and occupational health care professionals. The Ministry of Social affairs and Health (2006) recognizes that this programme has more objectives than tools. The general target is to reach an employment rate of 75 per cent. The 9 indicators are:

- 1) Working life should be extended by 3 years and unemployment rate should be reduced to clearly less than 5 per cent. The tool is mainly rehabilitation of patients.
- 2) Absence from work due to illness should be reduced by 15 per cent.
- 3) The frequency of accidents at work should be reduced by 40 per cent.
- 4) Tobacco and alcohol consumption of people of working age should decrease considerably.
- 5) Entry into working life should take place earlier. The average age was 19.5 in 1990, rose to 21.2 in 1996 and decreased at 20.1 in 2000. In 2006, it was 20.4.

- 6) A comprehensible family policy should be implemented. The objectives are to increase the fertility rate from 1.8 to 2.1 and to decrease the average age at which women first give birth from 27.8 to 26.
- 7) The quality and the availability of occupational health services should improve and cooperation with rehabilitation service should become more efficient.
- 8) The incentive of income security and pension schemes should increase; remaining at and returning to work should increase. The Ministry recognises that 'there is an inevitable conflict between the level of minimum income guarantee and the incentive to work'. It recognises also that the structural problem of the Finnish labour market arises because 'new sectors have employed people from new age groups but they have only taken on a small number of unemployed people'.
- 9) The general atmosphere and attitudes should change in a way that allows the content goal of the programme to be approved and achieved.

The *National Workplace development programme* (1996-2003), called *Programme Tykes*, was piloted by the Ministry for Labour. It funded projects aiming at developing innovations improving labour productivity and quality of life at the workplace through strengthened cooperation between company management and workers. The outcomes of these projects are highlighted through dissemination and exchange of experience networks. The programme involves the public administration, companies, academics and consultants. It applies both to the public and private sectors. It was expected to reach 1,000 projects and 250,000 workers.

The *Kesto Programme* (2004-2007) is a research programme of the Minister for Social Affairs and Health and is implemented by the *Institute of Occupational Health*. The programme aims at designing a set of measures increasing attractiveness of life at work, promoting work ability and preventing social exclusion. A similar programme – the *Kaiku Programme* - is being implemented in the public sector.

The *Noste Programme* (2003-2007) of the Ministry of Education aims at increasing the education level of adults to improve their ability to remain in the labour market. It applies to people aged 30 to 59. It finances training courses for low skilled workers and programmes of basic education allowing to attend occupational training. This Programme has a budget of 26 million Euro per year. 10,000 people per year are expected to take part in the programme.

Incapacity and unemployment expenditure are partially paid by large companies and funded through insurance contracts. Hence pension insurance companies have introduced programmes (*Motivo* and *Evita*) to give incentives to companies to implement actions in favour of longer careers. These programmes include advice (like individualising tasks according to the age, setting working teams with workers of different age), and training seminars both for human resources managers and trade unionists.

The national report on Strategies for Social Protection and Social Inclusion of 2006 did not mention anymore the ageing workers' employment rate as an important objective. Can we consider the target has been reached? Or did the Ministry reduce its efforts because the effects of the 2005 reform are sufficient to increase the ageing workers' employment rate? If we compare

- arbitrary - the current Finnish situation to the Swedish one, it appears than Finland has yet some progress to make (see table 6). If we look at poverty rates, trends are worrying (see annex 3) for the whole all population and for older people.

**Table 6: Employment rates**

	1994	2005	Sweden 2005	% of the tar get
Global	60.0	68.0	73.8	58
M15-24	27.4	38.0	41.5	75
M25-54	76.2	84.4	86.7	66
M55-59	47.7	63.2	82.7	44
M60-64	20.7	35.5	61.8	36
M65+	5.7	7.3	14.6	18
F15-24	28.5	40.5	43.9	75
F25-54	73.5	79.0	81.1	72
F55-59	50.0	67.3	78.8	60
F60-64	13.2	31.0	54.9	42
F65+	2.0	3.2	5.9	44

## Part C. The policy debate in Finland

The policy debate about the pensions system seems to have reached a certain degree of consensus in Finland, insofar as measures increasing more sharply contributions or raising more substantially the number of foreign workers have been rejected. The Finnish recession of the early 1990s obliged to a reflexion on the labour market functioning. The general public became more aware of budgetary constraints. But the consensus remains that the reforms should be based on the Nordic model, with an extensive scope, high level of benefits, high standard social welfare system. The social actors disagreed on the measures to be implemented but not on the goal of postponing the retirement age.

The consensus was facilitated by three factors:

1. The Programme was undertaken in a situation of rapid growth and reduction of the global unemployment rate. The difficulty will arise in the event of a new economic crisis and increase in unemployment: how will firms and workers react?
2. The 'Active Ageing' Programmes contributes to create a new social culture: ageing workers should have a job (and not should give their work to younger people); the Society, companies and trade unions should get committed to change work organisation in order to allow ageing people to work. The issue becomes a social problem one and not an individual one. The 2005 reform was accepted without conflict. It makes it unavoidable for workers to postpone retirement but it raises the level of pensions (although this will imply a rise in future contributions).
3. The programmes benefited from co-operation between ministries, from the development of research on ageing, from the involvement of all social partners and from action at firm-level.

The Programmes were mainly implemented by the Ministry of Social Affairs and Health (MSH). The Health occupational Health Unit plays a big role. This unit estimates that the maintenance of work ability is the main issue. This maintenance does not generate conflicts of interest since workers and firms agree on it.

The Ministry of Labour takes part in the programmes with a lower commitment. Also, the issue of career patterns within companies, like the issue of the transfer of older workers from one sector to another (from manufacturing to services) was hardly developed.

Since the objective is to adapt to the Knowledge Society and to globalisation, it is necessary to focus on education and training. The objective of working longer is imposed, but companies wish to improve their productivity and competitiveness which means both restraints in the rise in contributions and a younger workforce. The system could turn into a two-speed system, where the services sectors would shelter the workers that industry or innovating sectors do not want to hire anymore. But such a strategy has not been clearly stated.

The Ministry of Education was also involved, but with a lower commitment too. The issue of occupational training did not appear as central.

The programmes involved social public institutions: the Social Insurance Institution (KELA), the Finnish Centre for Pensions (ETK), the Finnish Institute of Occupational Health (TTL).

The private pension institute launched programmes as MOTIVO and EVITA to provide firms with an ageing strategy.

Trade union confederations and employers' organisations took part to the programmes. The TUPO wage agreement of 2002-2003 contains employees' and employers' joint action to maintain work ability and to adjust working conditions for ageing workers. The Central organisation of Finnish Trade Unions (SAK) insists on the importance of labour market issues and of education.

Finnish pension associations are generally not very active. The tri-partite thinking concentrates on labour market issues. Finnish older people are not massively involved either in civil, social or political actions. It is a pitfall of the Finnish strategy of "active ageing". Older peoples appear more as the objects of the policy than as actors.

## **Part D. Key issues for the Peer Review meeting**

The Finnish ageing programme is generally considered as a success story. The programme paved the way for reforms of early retirement and pension systems which were implemented in cooperation with social partners without social crisis. The ageing workers' employment rate has risen faster in Finland than in any other Member State.

However, it is not easy, in this success, to disentangle the effect of economic growth, of pre-retirement reform and of the active ageing strategy. Thus it will be interesting during the Peer Review meeting, to discuss how Finnish economists or administrations have evaluated the impact of the specific active ageing strategy.

How important are economic incentives compared to 'active ageing' strategy to prevent early retirement? How can we measure the effects of 'active ageing' strategy on early retirement?

The success of the Finnish experience may be due to the good economic situation. Is it possible to maintain high older workers' employment rate in time of low economic performance?

The Finnish experience shows the need for a global mobilisation of the Society, firms and workers to reverse the trend towards early retirement and to develop a strategy enabling ageing workers to remain at work. However, the outside observer is surprised by this accumulation of more or less redundant programmes. How is the continuity of effort ensured, both inside the administrations and with social partners?

This mobilisation seems driven by the administrations rather than by social partners. We may fear that their aim was to dictate the social choice. The administrations made the social choice, not the Finnish workers. After all, early retirement is an acceptable social choice if workers are willing to pay the price in terms of social contributions.

The strategy focused on workers' health, maintenance of working ability and improvement of working conditions. Paradoxically, it is in Finland that workers complain most about their health and working conditions, although data do not support this specificity. How can we explain this emphasis on health at work?

On the other hand, the programmes seem to have been less concerned with issues such as training and adaptation to new technologies. To what extent should ageing workers be trained? The programmes do not appear to have financed substantial intensive training schemes. Should workers be trained to acquire new skills and stay in their company or should younger workers be trained while ageing workers would be transferred in less demanding sectors? Should this movement be organized? As the objective is to adapt to the Knowledge Society, it should be necessary to focus more on education and training.

Similarly, the issue of employees' careers has hardly been addressed. Should firms organize second careers with less responsibility and lower wage earnings? If ageing workers lose a significant part of their working capability, should the Society try first and foremost to find a new job for them or should it accept that they get a disability pension?

If ageing workers lose a significant part of their working ability and become long-term unemployed, should the Society try first and foremost to find a new job for them or should the Society continue to accept that ageing workers get a disability pension?

The Finnish programmes do little about the issue of inequality of workers in the event of longer careers. It is difficult for blue-collars workers to work after 60 years whereas it is easier for white-collars and executives, who have a higher life expectancy. How are the disparities in situations taken in account in the Finnish reforms? The reforms run the risk of exacerbating inequalities. Should the society provide specific arrangements for manual workers who have hard jobs: early retirement without penalty or career evolution at 40-50 years?

What can be done to increase older people's involvement in social activities and associations so that they become actors and not only objects of the policy?

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## Annex A. The Finnish situation

### A1. The pension issues

Public pensions were amounting to 10.7% of GDP in Finland in 2004. In terms of demography Finland is in an intermediate position in the EU. Fertility rates have remained close to the EU-15 average (1.76 child per woman in 2004, versus 1.53 in the EU-15), but birth rates have started to decline relatively early in Finland. Demographic prospects are expected to worsen less in Finland than in the EU-25, but earlier. The 'older than 65/15-65 year old' ratio stands currently at 23% (versus 25% in the EU-25). It is expected to rise to 45% in 2030 (40% in the EU-25), and to 47% in 2050 (52% in the EU-25).

Finland ranks 13<sup>th</sup> in the EU-15 in terms of the pension generosity indicator (average pension as a percentage of average wage). The poverty rate (60% of the median income) is 17% among people older than 65, against 12% for the whole population<sup>4</sup>. Poverty affects especially older women (21% against 11% for men) and people older than 75 (25%). The average pensioner income is 75% of the rest of the population. The theoretical replacement ratio is on average 57% of gross wages, 63% of net wages (for a retirement age at 65, after a career of 40 years). The average pension is 50% of the average wage. The pension system is therefore not especially generous. In a country where inequalities are low, pensioners appear a less-advantaged social group.

The Finnish employment rate is well above the average EU-15: 69.3% in 2006 versus 66% in the EU-15. Since its low level of 1994, the employment rate has increased sharply among the 55-60 year old (49% in 1994, 59% in 2000, 65% in 2005) and among the 60-65 year-old (17% in 1994, 23.5% in 2000, 33% in 2005). Finland stands already above the Lisbon target of a 50% employment rate for the 55-65 year-old. The Finnish objective was to raise the 55-65 year-old employment rate from 51% in 2004 to 55% in 2010, but the rate has already reached 54.5% in 2006. However the employment rate of older workers remains in Finland below the level reached by other Scandinavian countries. The average age of retirement was estimated at 59 in 2004 and 59.5 in 2006. The Finnish government wishes to postpone it to 61 in 2025 and 62 in 2050.

According to the European Commission's projection, the ratio of public pensions to GDP will rise from 10.7% in 2004 to 14% in 2030 and 13.7% in 2050. According to the Stability Programme presented by the government in 2005, the ratio of public pensions to GDP will rise from 10.4% of GDP in 2005 to 13.8% in 2050. Prior the 2005 reforms, projections were expecting expenditure of around 16% of GDP in 2030. The pension contributions rates (21.6% in 2005) are expected to be increased by 6 percentage points by 2030. The gross replacement rate for an average wage employee with a full career is expected to decrease from 56.5 to 54% but the net rate would increase from 62.5 to 63.5%.

<sup>4</sup> According to Finnish figures, the poverty rate is 12% for the whole population and 12.7% for the older than 65. According to the Finnish government, the gap disappears once implicit rents are taken into account or if the poverty ceiling is 50% (many pensioners' incomes stand between 50 and 60% of the median income).

## A2. The macroeconomic context

GDP growth had been fully satisfactory until 1989. Growth has decelerated under the effect of the first oil shock in 1973, but had been relatively robust from 1974 to 1989. In the 1990-1993 period the fall of the USSR economy, the economic transformation in Central and Eastern European Economies (CEECs) caused a sharp and deep depression of the Finnish economy. But Finnish growth rebounded in 1994 under the effect of the expansion of the new technologies, especially in the mobile phone industry. Finnish GDP growth was substantially affected by the burst of the NTIC bubble in 2001, but has since succeeded in keeping higher GDP growth rates than the average EU-15 (see table A-1) with higher labour productivity gains too (2% versus 0.8% in the EU).

**Table A-1: GDP and employment growth rates (% , average growth per year)**

	1969-1973	1974-1989	1990-1993	1994-2000	2001-2006
<i>GDP</i>					
Finland	6.8	3.1	-2.9	4.4	2.9
EU-15	4.9	2.2	1.4	2.8	1.7
<i>Employment</i>					
Finland	0.4	0.4	-4.8	1.7	0.95
UE15	0.4	0.35	-0.15	1.35	0.9

Source: Eurostat

The Finnish unemployment rate had risen to 7.3% in 1978 after the first oil shock (see Table A.2 and Chart A.1). But contrary to the average EU-15, Finland has succeeded in reaching full employment at the end of the 1980's, with an unemployment rate of 3.2% only in 1990. The early 1990's crisis led the unemployment rate to reach 16.6% in 1994. It has only slowly declined since then, down to 7.7% in 2006, i.e. slightly above the EU level.

**Table A-2: Unemployment rates (%)**

	1973	1978	1985	1990	1994	2000	2005	2006
Finland	2.6	7.3	4.9	3.2	16.6	9.8	8.4	7.7
EU15	2.4	4.9	9.4	7.3	10.5	7.7	7.9	7.5

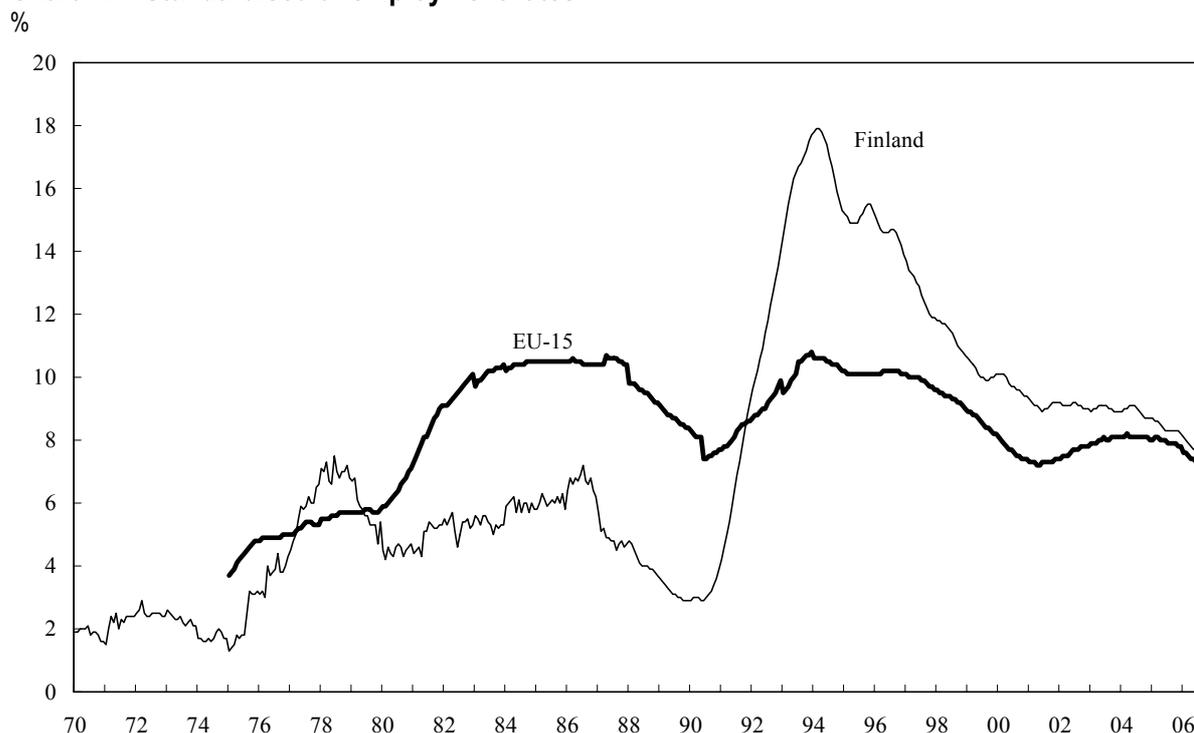
Source: Eurostat.

A large number of Finnish companies relocate their production in CEECs and in emerging Asia. Conversely, Finland attracts workers from Estonia, other CEECs and Russia, in particular in the services to the person and construction sectors. But the number of immigrants is small both for climatic and language issues: 4,000 per year on average. Foreigners amount to a mere 2% of the population living in Finland.

Finland is characterised by centralised wage negotiations (TUPO) and a high rate of trade unions membership. Negotiations take place first at the national level and later at the industry level. Competitiveness is a major objective, especially as the country is small. On the contrary, wages are often rigid at the company level. Since the 1990s, more industry-level variations were introduced.

From 1991 to 2002, wage growth was relatively moderate: real wage costs per head rose by an annual 0.8 per cent. But from 2003 to 2005 wages grew by an annual 3 per cent before decelerating to 1.2 per cent in 2006-2007. The wage to value added ratio was at 72 per cent in the 1980's, declined to 64 per cent in 1995 and to 61 in 2001-2002, before rising to 63 per cent in 2005 and falling back to 61 per cent in 2007. The wage pressure of the years 2003-2005 have therefore disappeared.

**Chart A.1: Standardised unemployment rates**



Source: Eurostat

### A3. Labour market situation

Finland ranks 5<sup>th</sup> in the EU in terms of full-time equivalent employment rates. The specificity of the Finnish performance is to have succeeded in increasing significantly the older workers' employment rate, despite a relatively high unemployment rate (see charts A.2 and A.3).

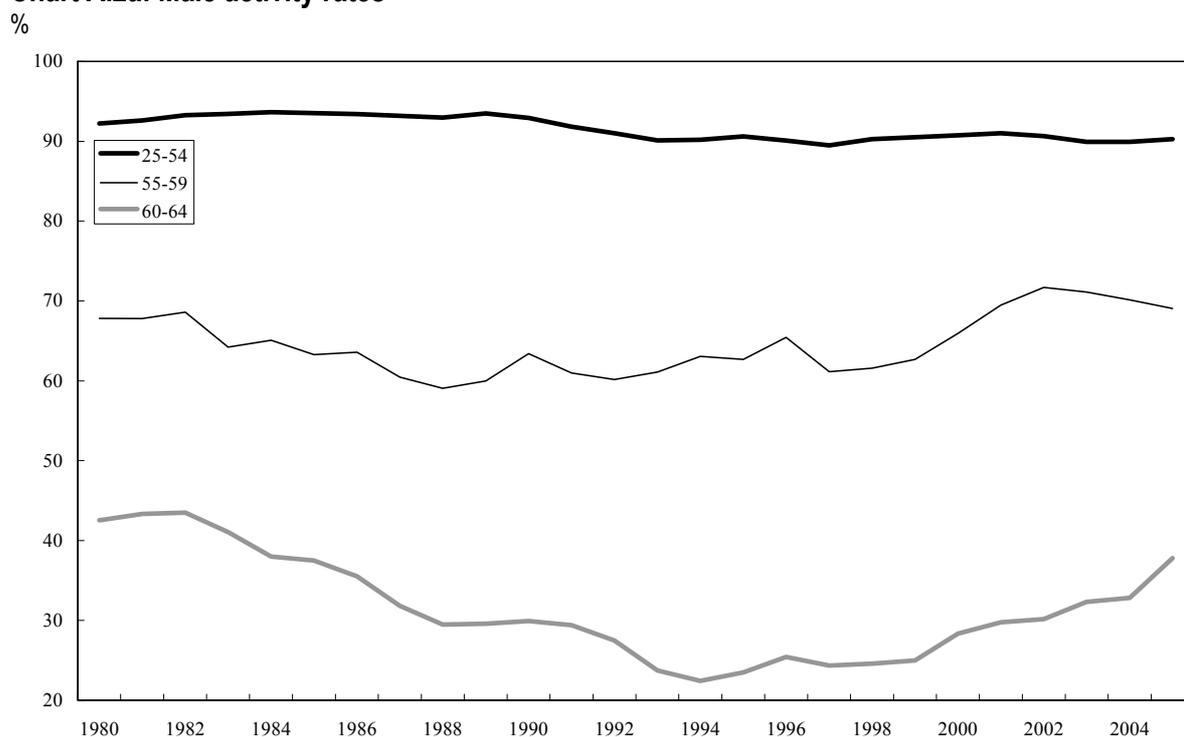
Until 1990, the overall stability of the activity rate was hiding a decreasing trend in older people's activity. The crisis of the 1990's led to a large fall in the activity rate (4.5 percentage points from 1990 to 1994) especially among the young. Afterwards, the 2.3 percentage point rise in the total activity rate was boosted by the 17 percentage point rise in the older people's rate. The female activity rate is traditionally high, while the male rate is relatively low, due to incapacity schemes (see Tables A.3).

In 2005, the unemployment rate was still relatively high in Finland, especially for the 15-25 year-old. The unemployment rate was still above the level of 1990 and even of 1985. The employment

rate had not reached yet its level of 1990. But the employment rate of the 55-65 is well above the level of 1990, whereas employment rates of the young and adults are well below.

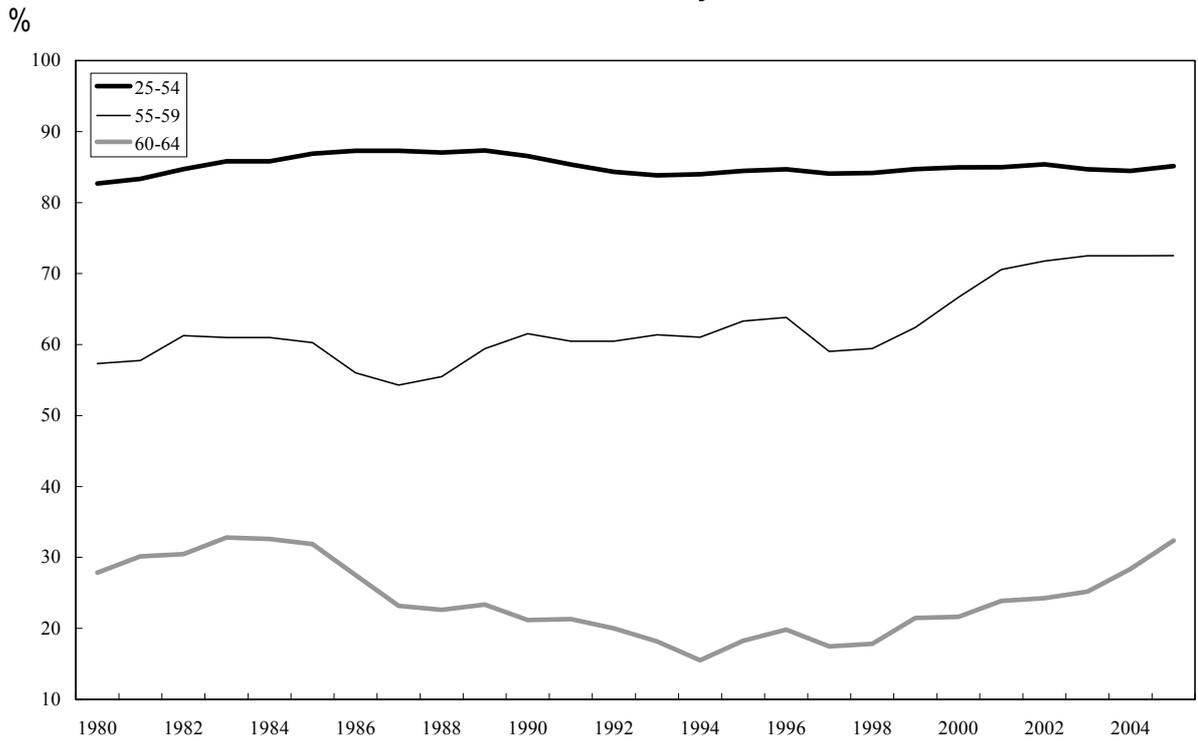
Finland is therefore a successful example of answer to a large shock. The 1991-1994 crisis caused a strong rise in the unemployment rate, in particular among older people. The latter had very little opportunity to find a job because they were often low skilled, in declining sectors. They have been offered the possibility to retire early. Companies have been tempted to lay-off older workers because they could leave under favourable financial conditions. A spiral of destruction of 55-64 jobs has thus occurred. Since 1999, a better labour market situation has helped older people to keep a job. This strategy was however paid by a relatively high unemployment rate, especially for the 55-59 year old.

**Chart A.2a: Male activity rates**



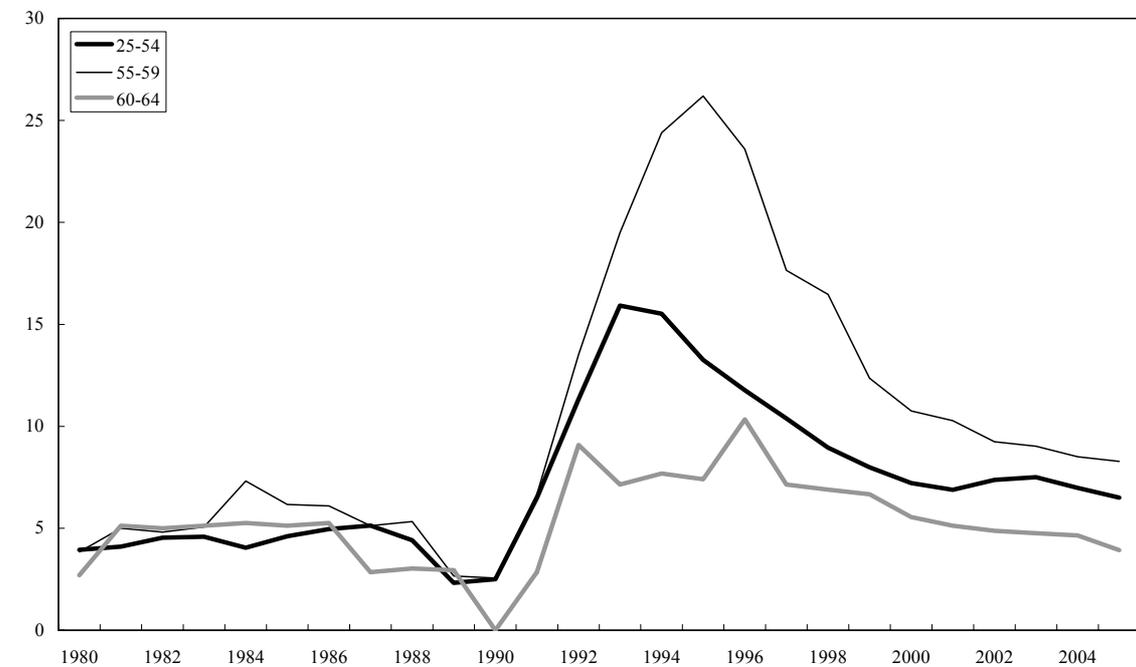
Source: OECD

Chart A.2b: Female activity rates



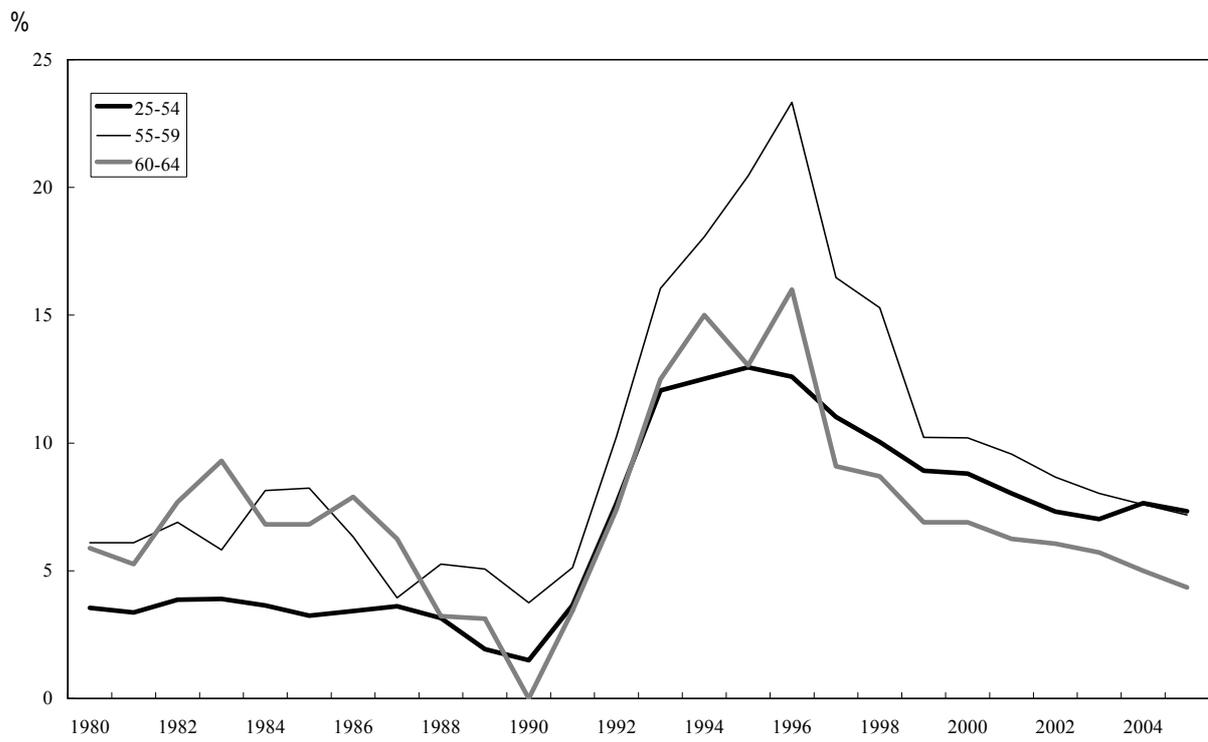
Source: OECD

Chart A.3a: Male unemployment rates



%  
Source: OECD.

Chart A.4b: Female unemployment rates



Source: OECD.

Table A.3: Some figures on the labour market situation in Finland

	Activity rate						
	1985	1990	1994	2000	2005	France 2005	Sweden 2005
Global	76.2	76.5	72.0	74.3	74.3	69.1	80.1
M15-24	56.2	58.1	43.5	50.4	47.9	37.3	32.5
M25-54	93.5	92.9	90.2	90.7	90.3	93.8	92.4
M55-59	63.3	63.4	63.1	66.0	69.0	66.1	87.4
M60-64	37.5	29.5	22.4	28.4	37.0	18.5	65.4
M65+	10.6	9.2	5.7	6.3	7.3	1.7	16.6
F15-24	35.8	39.4	25.0	30.4	50.2	29.9	41.1
F25-54	86.9	86.4	84.0	85.0	85.2	80.7	86.5
F55-69	60.3	61.5	61.0	66.7	72.5	56.0	81.7
F60-64	31.9	22.2	15.5	21.6	32.4	16.7	56.7
F65+	4.8	3.4	2.0	1.5	3.2	1.3	5.9

	Unemployment rate						
	1985	1990	1994	2000	2005	France 2005	Sweden 2005
Global	5.2	3.1	16.7	9.0	8.5	9.9	7.8
M15-24	10.7	10.4	37.1	21.6	20.6	21.4	34.9
M25-54	4.6	2.5	15.5	7.2	6.5	7.7	6.2
M55-64	5.8	1.8	20.4	9.3	7.2	7.1	5.5
F15-24	8.7	8.3	30.7	21.6	19.4	24.6	21.6
F25-54	3.2	1.5	12.5	8.8	7.3	9.9	6.3
F55-64	7.8	2.8	17.5	9.4	6.5	6.4	3.4

	Employment rate							
	1985	1990	1994	2000	2005	2005 - 1990	France 2005	Sweden 2005
Global	72.2	74.1	60.0	66.9	68.0	-6.1	62.2	73.8
M15-24	49.3	51.5	27.4	39.5	38.0	-13.5	29.3	41.5
M25-54	89.2	90.6	76.2	84.2	84.4	-6.2	86.6	86.7
M55-59	59.4	61.8	47.7	58.9	63.2	1.4	61.1	82.7
M60-64	35.6	29.0	20.7	26.9	35.5	16.5	17.5	61.8
M65+	10.6	9.2	5.7	6.3	7.3	-1.9	1.7	14.6
F15-24	50.1	52.2	28.5	40.0	40.5	-11.7	22.5	43.9
F25-54	84.1	85.1	73.5	77.5	79.0	-6.1	72.7	81.1
F55-59	55.3	57.0	50.0	59.9	67.3	10.3	52.2	78.8
F60-64	29.7	20.5	13.2	20.1	31.0	17.8	15.7	54.9
F65+	4.8	3.4	2.0	1.6	3.2	-0.2	0.9	5.9

Source: OECD

#### A4. Ageing workers' jobs characteristics

In Finland, the system of 'last in first out' is generally implemented. This system is *a priori* favourable to older people's employment. It is not stated as a law, but is often in collective agreements. However, the system can be questioned in practice because trade unions and employers can agree on firing first those who benefit from favourable benefits.

Since the early 1990's depression, job creation has occurred mainly in new sectors (electronic) and was very slow in traditional sectors. The return to employment of older workers remains relatively low. The rise in the employment rate since 1995 comes from lower unemployment (see Ilmakunnas and Takala, 2005).

Wage dispersion is relatively small in Finland. Seniority wage increase is relatively weak in Finland, especially for women. The average wage of men aged 50-54 would be 9 per cent higher than the average wage of men aged 30-34 (against 13 per cent in Germany), the figure would be 2 per cent only for women (8 per cent in Germany).

On the contrary, contributions to pension, incapacity and unemployment systems vary with the age, at least in companies with more than 50 employees: the rate rises from 18% for employees aged 22, to 23% for employees aged 48 and 26 for older than 52 year-old people (against 21.7% for companies with less than 50 employees). Moreover, since 1998, the effective rate accounts for the unemployment and incapacity allowances paid to the employees of the company. The modulation is total for companies with more than 1000 employees as concerns incapacity and partial for companies with between 50 and 1000 employees. As concerns unemployment contributions, the modulation is total for companies with more than 300 employees. This can lead companies to refrain from hiring people of a certain age or with some risks. But companies can be individually interested to maintain work ability of their employees and to avoid early pensions and understand better the importance of a global policy of maintaining older people in economic activity. Since 1999, the last employer of a worker aged over 50 shares the risk with former employers (within a limit of 3 years).

Employability is generally considered to be maintained through vocational training, which would be a prerequisite for working longer. It is true that the correlation is observed in Scandinavian countries, but the Netherlands and the UK cannot be taken as examples in this respect (see Table A.4). Paradoxically the EU country where vocational training is the more important is Austria and Austria has poor performances in terms of older people's employment.

**Table A.4: Participation rate to vocational training, according to age**

	35-44	45-54	55-64	Total
EU-25	45	40	30	42
Austria	88	87	93	89
Denmark	83	80	72	80
Finland	82	76	66	77
Sweden	74	71	62	71
France	55	51	32	51
Italy	52	47	35	49
Germany	45	41	32	42
Netherlands	44	39	30	42
Belgium	45	41	27	42
UK	42	39	23	38
Spain	26	20	14	25

Source: Eurostat (2006).

One of the reasons of the success of longer working life could be the rapid increase of educated people in the 55-64 age group. University graduated people were 22% of the age group in 1995, 32% in 2000 and 34% in 2005. Conversely, Finland has refused to introduce a strategy of subsidising unskilled jobs, in order to avoid job creation without career prospects. However, there are subsidies for employing long-term unemployed people that may benefit also to older unemployed people.

Part time work is relatively rare in Finland for 30-50 year old people, especially for women. On the contrary a significant part of 55-64 year old switches from full to part time, in particular among men, which results from the existence of part-time retirement (see Table A.5).

**Table A.5: Part-time work**

%, 2005	30-49		55-64	
	Finland	EU-15	Finland	EU-15
Men	3.3	4.1	17.6	10.4
Women	12.0	37.2	22.2	42.0

Source: Eurostat.

The European Working Conditions Survey provides elements of comparison on the opinions of workers on their working conditions even if one needs to be cautious in interpreting the survey (see Table A.6). Countries implementing measures so that people work longer are also the countries where workers feel they are being asked to give their opinion about the organisation of their work. This is the case for Finland. The answer on health at work shows contradictory results: workers complain most about their working conditions in Scandinavian countries, although it is in these countries that the governments and social partners care most of the issue. It is also in Scandinavian countries that workers declare most to be absent from work for medical reasons. In some countries – France, Belgium, Spain – many employees judge they will not be able to work until 60; it is the opposite in Scandinavian countries and in particular in Finland.

**Table A.6: Working conditions**

	Consulted about his work organisation	Work affects his health	Able to do the same jobs at 60	Absent for healthproblems in the previous year	Satisfied with his working conditions
EU-15	47	31	61	23	85
Sweden	60	57	70	28	85
Denmark	54	44	69	33	93
UK	52	21	64	23	93
Finland	72	43	65	45	84
Netherlands	83	25	72	34	89
Germany	42	23	74	28	89
France	43	27	49	19	82
Italy	37	39	60	25	76
Belgium	58	29	52	20	83
Austria	48	32	60	21	90
Spain	39	36	54	14	79

Source: Fourth European Working conditions Survey (2005).

## Annex B. The Finnish pension system and its reforms

### B1. The Finnish system

The Finnish pension system has two pillars: a national income-tested pension and a mandatory earnings-related pension. The system has gone through successive reforms since 1993, the last reform having been introduced in 2005.

#### a) *The national pension*

The national pension is paid to people older than 65 and having lived in Finland for at least 40 years. It amounted in 2005 to 16% of total pensions. It was formerly universal; it is now a flat means-tested pension. For an individual without any other resources, it represents now around 30% of the net average wage, i.e. 505 or 485 Euros per month depending on the area of residence in 2005, which is relatively low but is complemented by housing benefits (352 Euros in Helsinki) and sometimes by long-term care allowances. The pension decreases with the amount of other incomes (at a rate of 50%) and becomes nil for incomes above 724 Euros. The national pension does not prevent the fall into poverty in statistical terms (incomes below 60% of the median households' incomes). Moreover it is indexed on prices only. Only 8% of pensioners receive the national pension at a full rate, 52% part of it.

This pension could reduce the gains to remain economically active for low wage earners, or workers with low numbers of working years. This is why the fraction of the contributory pension entitled from 63 is no more accounted for in the calculation of the national pension.

b) *The earnings-related pension*

The earnings-related pension system covers all economically active people. Until 2005, its objective was to ensure a replacement rate of around 60% to workers with full careers. The pension rate was then 1.5% per year between 23 and 60; 2.5% between 60 and 65. The pension was thus 55.5% of the wage after 40 years of contributions for an individual retiring at 60. The replacement rate was 60% as a maximum, which was cancelling any gain to remain in employment after 62 for almost all active people. The calculation of the pension was based on the 10 best years, and the acquired rights were revaluated with an index 50% based on price inflation and 50% based on wage growth. For pensions, the indexation index was 20% based on wages and 80% based on prices.

The employees' contribution rate is 4.6%. The average employers' contribution rate is 16.8% but varies according to the fund where the company contributes.

The contributory pensions system has two specificities. Although mandatory and defined benefit, the system is managed by private funds (there are around 60 of them) which can be insurance companies, pension funds specialised by profession or company funds. These funds compete in offering the same service at the lowest cost: funds succeeding to make profitable investment can offer contributions' rebates to companies. The system is coordinated by the *Finnish Centre for Pensions* (ETK), which calculates pensions' rights and ensures the portability of the rights.

The system is a mix of a pay-as-you-go system and pension funds. Pensions are defined under rules set at the national level and do not fluctuate with investment earnings. The principle is that pension funds must cover in permanence a third of the rights acquired between the age of 23 and 54 for the proportion of pensions to be paid after 65. Funds must always have capitalized the corresponding capital, using official mortality tables by sex and age, future rights being actualised at the rate of 3%. Funds have to pay the corresponding pension. On the contrary, the remaining part of pensions (pensions paid before 65 and 2:3 of pensions paid after 65 is financed by contributions to the pay-as-you go system and is mutualised under the auspices of the *Finnish Centre For Pensions* (ETK). This system has pernicious effects: contribution rates vary with age and sex. Women contribute on average 0.8 percentage point more than men. The total average contribution rate increases from 18% for an employee aged 22, to 23 aged 48 and 26 after 52.

The legal pension age was 65 but there were a number of early retirement schemes that were extensively developed in the 1980's as a solution to the job crisis in the industrial sectors (see Table B1):

- Incapacity benefit can be paid to people aged 15-64. It is entitled under medical and social criteria, accounting for the possibility of the individual concerned to find a job accounting for his age, his profession, educational background and place of residence. Incapacity benefits amount to 3.5% of GDP, as compared to 2.5% in the EU-15 and 1.5 in France. The important size of incapacity benefits in Finland generates surprising results if one looks at the results of labour force survey on handicap. In the EU-15, it is in Finland that the share of people declaring they suffer from a chronic health problem or have a handicap is the highest: 32.2% of people aged 16-64 against 16.4% in the EU-15 and 6.6% in Italy. Also, while life expectancy is in Finland at the EU-15 level, i.e.78 years, life expectancy in good health is only 57, against 65.2 in the EU-15, and is the lowest of EU-15 countries (see table B2).

- An early individual pension was entitled to people aged 58-64 with a long professional career or a reduced ability to work. Medical criteria are less strict than for the incapacity benefit.
- The unemployment benefit was entitled to the unemployed aged 60-64 having been unemployed for at least 2 years.
- Unemployed people aged 55-60 were entitled to an unemployment allowance for two years, that could be paid until the age of 60, when people could be entitled to an unemployment pension (so called pipeline system). The benefit was 55% of past wage.
- An individual early retirement pension could be received from 60. But the retirement pension was reduced by 0.4% per month between the retirement age and 65.
- People aged 58-64, taking a part time job were receiving a *part-time pension*.

**Table B1: Situation of people aged 55+ in 1998**

	55-59	60-65	+ 65
Employed	50.8	19.4	2.0
Unemployed	9.1	1.3	0.0
Retired	1.6	12.8	90.0
Early-retired	0.1	5.4	5.2
Disability	17.3	23.6	0.0
Individual early retirement pension	1.6	13.2	0.0
Unemployment Pension	0.0	17.0	0.0
Part-time pension	1.6	2.0	0.0
Agricultural regime	1.9	4.4	2.8

Source: ETK (1998).

**Table B.2: Health Conditions in the EU**

	% of the working population with LSHPD*	Good health Life expectancy	Life expectancy
Belgium	18.4	69.2	78.1
Denmark	19.9	60.9	77.4
Germany	11.2	64.7	78.4
Greece	10.3	68.4	78.9
Spain	8.7	70.2	80.0
France	24.6	63.9	79.8
Ireland	11.0	65.4	78.3
Italy	6.6	74.4	79.9
Netherlands	25.4	58.8	78.6
Austria	12.8	69.6	79.0
Portugal	20.1	61.8	77.7
Finland	32.2	56.5	78.5
Sweden	19.9	62.2	80.2
UK	27.2	60.9	78.2
Czech Republic	19.2	63.3	76.0
Hungary	11.3	57.8	72.8

\* Long standing health problem or disability

For people fired at over 50, unemployment benefits, incapacity pensions and unemployment pension at partly paid by the last employer. The part paid by the company is 0 for companies with less than 100 employees and rises to 80% for companies with more than 800 employees. On the one hand, this is an incentive for companies to take care of maintaining the employability of their workers. On the other hand, it may be a disincentive for them to hire people older than a certain age. From 2007, these costs will be shared by the last three employers.

## B2. The reforms before 2005

Until the depression of the early 1990's, the policy implemented in terms of pensions was rather to raise the pensions' level and facilitate early retirement. Early retirement strategies were matching the desire of companies to reduce wage costs and to easily adjust the number of their employees. These strategies were also matching the desire of workers, in that they were reducing the risk of unemployment for adult workers and were transferring it to older workers, who received in counterpart favourable retirement conditions. This was the almost only possibility to tackle the issue of deindustrialisation. Even if this policy was questioned in the 1980's, the governments were not able to reform it due to the high level of unemployment and the popular support for these measures. According to Gould and Saurama (2003), most early-retired people were happy to be retired, because they were no more at the risk to lose their job and did not have to face difficulty in their job for physical reasons (contradiction between a more intensive work and the reduction of their intellectual abilities) and intellectual reasons (contradiction between limited education and a more demanding technical progress). The recession aggravated the situation of the labour market further and increased the need for companies to get rid off an excess of labour force. It led the government to try and reduce wage costs and raised the issue of the long-term sustainability of the system. Thus, after the recession, reforms were introduced with a view to cut spending and postpone the retirement age. Finland must move from early exit culture to the policy of active ageing (Gould and Saurama, 2003)

The 1993-1994 reforms introduced employees' contributions (at the rate of 3%) and it was decided that future rises in contributions would be paid half by employees, half by employers. Pensions' rules in the public sector were brought in line with those in the private sector. The early retirement rules were toughened: the age required for early individual pensions rose from 55 to 58. The minimum age for unemployment pensions rose to 60. The pension rate rose from 1.5% to 2.5% for active people aged 60-65 as an incentive to work longer (although the ceiling of the replacement rate meant that a worker with a full career had little financial incentive to work after 62).

In 1996, it was decided that pensions would progressively depend on the wages of the last 10 years (instead of the last 4). The national pension was means-tested. The accrual pension rate for early retired workers or workers in incapacity was cut to 1.2% between 50 and 60, to 0.8 between 60 and 65. The system of double indexation was introduced: pensions and wages considered for the calculation of pensions were no more indexed on gross wages but on prices and net wages. The indexation is only 20% of wages for pensions and 50% for wages taken in account.

In 1997, the *pipeline* was shortened: it could start only from 55, instead of 53 previously.

In 2000, the minimum age for being entitled to the individual early retirement pension was raised from 58 to 60 for people born after 1944. Receiving an unemployment pension was made more disincentive in terms of future pensions. The Employment public service was asked to find jobs for the 55-60 year old instead of inciting them to move into early retirement schemes.

In the 1995-2002 period, the strong rise of activity among the 55-60 age group (16 percentage points, instead of 5 for the 30-50 year-old) was accompanied by a strong reduction in the number of incapacity pension recipients (-4.5 percentage points), unemployment allowances recipients (-10 points). Activity rose less rapidly among the 60-64 (8 percentage points). The cut in incapacity pensions (16 points) generated a rise in the number of unemployed (2 points) and unemployment pension recipients (5 points).

### **B3. The 2005 reform**

The principles of the 2005 reform were agreed by social partners in 2001. The precise content of the reform was set out in an agreement of social partners in September 2002, enacted by the Parliament in February 2003 and introduced in 2005. The objective is to bring the effective retirement age (59) more in line with the legal retirement age (65). Trade unions have accepted this objective in exchange of some rise in the level of pensions.

The retirement age is now flexible between 63 and 68. With the reform, the starting age for calculating pensions is lowered from 23 to 18 year-old. The accrual pension rate is 1.5% per year between 18 and 53, 1.9% between 52 and 6 and 4.5% between 63 and 68. Pension is now calculated on the basis of all wages earned in the whole career and the ceiling for pensions (previously 60%) is abolished. Years in education (in the limit of 5) and time off to care for children below 3 are now taken into account, although on the basis of a 500 Euro per month wage. Pension is thus 64% of the wage after 40 years of contributions for a retirement at 62, 91% after 46 years of contributions for a retirement at 68.

In the calculation of the pension, acquired rights are revaluated according to an index 20% based on consumer price inflation, 80% based on wages<sup>5</sup>. Pensions are 80% indexed on prices, 20% indexed on wages.

The employees' contributions rate is 4.4% for people below 53, 5.6% from that age. The future rises in contributions rates will be shared half by employees, half by employers. Rates are expected to rise strongly: by 6 percentage point before 2030, of which 3 percentage points are already planned before 2013.

A new mechanism has been introduced so as to cut the level of pensions in relation with the lengthening of life expectancy. The mechanism will start to be enforced in 2010 and is expected to cut pensions by 5% in 2020, 10% in 2040 under constant number of years worked. This cut should be offset by a 7 month lengthening of time worked in 2020, 17 months in 2040.

To reach the agreement of trade unions, the reform increases significantly the replacement rate for pensioners having a full career, who will agree to postpone their retirement age, all the more that education and care years are taken into account into the calculation of the career. There is a

<sup>5</sup> A better indexation system as compared to the rules prior 1995 is part of the concessions done to get the agreement from trade unions.

risk that the reform favours managers (since years in education are taken into account) at the expense of blue-collar workers who will not be able to work longer. The 2005 reform is expected to be accompanied by measures to favour the supply of jobs for the 62-68 year-old and working conditions giving workers the desire and the possibility to work until 68.

Early retirement schemes have been reduced (see Table B.3):

- Early old-age pension is possible at 62 only.
- The national pension is cut by 0.4% per month of early retirement; the contributory pension by 0.6%. Pensions increase by 0.4% per month worked after 65 (for the national pension) or 68 (for the contributory pension).
- The individual early retirement pension is abolished (but disability pensions will be given more easily after 60, accounting for social factors).
- People born after 1950 can join the pipeline scheme from 57 instead of 55.
- Unemployment pensions will be progressively abolished (between 2009 and 2014). People aged 60-65 will be entitled to unemployment benefits for a longer period.
- Entrance in part time pension schemes will be possible from 58 instead of 56.

**Table B.3: The 2005 reform of early-retirement disposals**

	Recipients in 2004 among the 55-64 in %	Age in 2004	2005 reform
Early old-age Pension	0.2	60-64	62
Disability pension	23.1	16-64	More easily after 60
Individual early retirement pension	0.4	60-64	Abolished from 2009
Unemployment pension	7.9	60-64	Abolished from 2009
Pipeline	5.8	55-64	57-65
Agricultural regime	1.7	55-64	
Part-time pension	5.4	56-64	58-68
Total	44.5		

Source: ETK.

Part time pensions schemes, unemployment pensions and pipeline are controlled and financed by companies. The incapacity pension is given on the basis of the general practitioners' proposal and acceptance by the pension company. In 2005, the rejection rate was 20% for the 55-59 year-old; 7% for the 60-65 year old. Access conditions to this scheme seem easy.

OECD has made several proposals (2004, 2006): making a clear difference between on the one hand unemployment and incapacity pensions and on the other hand retirement pensions. The OECD suggests for instance to abolish all pipeline schemes, by limiting strictly the number of unemployment allowances years to 2 and by avoiding to soften the eligibility criteria for incapacity pensions after 60. But what to do if unemployed older than 60 workers cannot find a job? The OECD criticizes the fact that years in education and care are taken into account. It is also critical on the point that social contributions increase with the age.

It is too early to have an exact picture of the impact of the 2005 reform. The reform provides strong incentives for people to work until 68, the level of pensions is risen albeit leaving the possibility to reduce it owing the longevity factor. According to the ETK, the global employment rate will rise from 67% in 2003 to 69 in 2050; the reform will allow the rate to reach 71%. The effective retirement age would increase by 3 years until 2050 (instead of 1.5 years).

However, Börsch-Supan (2005) considers that the system is too complicated, that the expected rise in social contributions will have a negative impact on Finnish competitiveness, fears that early retirement schemes will continue to be too extensively used (the pipeline, in particular) and that the Finns will consider that the normal retirement age is the minimum age entitling to pension (63) and not the maximal age (68).

Gould (2006) shows that the ability to work longer increases when the worker is in good health, knows his job well and is highly qualified, but also depends on individual choices related to job security. From 55, workers must choose between making efforts to remain in employment or prepare to early retirement. Opting for the first choice will be easier if the worker thinks he is not at risk of losing his job. There is a risk that the reforms increase inequalities in terms of retirement, all the more that there is no guarantee of full-employment especially for manual workers. Kunz (2005) expresses the same worry. According to Redor (2003), the employment of manual workers in the industry is rare above 59. Retiring at 64-65 can apply only to services or trade sectors, financial companies. The problem of inequalities in face of retirement remains.

According to the 'working conditions' survey of 2003, 15% of Finnish people intend to retire between 57 and 59, 32% at 60, 28% between 61 and 63, 25% between 64 and 65, 2% after 65 (see Forma *et al.*, 2006). 26% say that their willingness to work after 63 will be increased by the financial incentives introduced by the pension reform. 15% consider working after 68. Workers are more likely to retire later when they are highly educated and in good health, when they have no private insurance, have started to work late, when their job is not painful, when they are satisfied with their job, when they have a good relationship with their boss and live alone. But a large number of workers wish to retire 'as soon as possible'.

According to a survey implemented in 2005 (Tuominen *et al.*, 2005 et 2006), 26% of companies say they can hire older than 55 workers, while 47% reject this possibility. Companies positive about hiring older workers are also companies where employment grows. However, 77% consider they could hire part-time retirees. 50% of the companies think that it is possible to keep people at work until 65 for most jobs, but only 21% until 64. This age is generally viewed as too old. Last, 59% of companies think they support their workers to work until the retirement age, but here again these companies are companies with employment growth. The interviews of firms' managers (Piekkola and Heikkilä, 2004) are rather disappointing: many firms are more interested to recruit new workforce than keep the old one. They think it would be difficult to convince people to stay at work if they have the opportunity to retire early.

## Annex C. Divergences in poverty figures

Poverty rate estimates differ strongly between Eurostat and the Finnish Ministry of Social Affairs and Health (MSH). However, in the two sources, poverty rates have increased from 1996 to 2005, especially for older people.

**Table C.1. Poverty rates**

	1996		2000		2005	
	Eurostat	MSH	Eurostat	MSH	Eurostat	MSH
Global	8	7.3	11	10.4	12	12.0
M65+	6	4.3	9	6.3	11	8.1
F65+	16	8.9	26	12.2	23	15.7