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Article

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End of previous Forum article

Jürgen Bauknecht and Andreas Cebulla

Extending Working Lives – Sticks and Carrots to Get the Older Unemployed Back into Employment

Increasing the employment of older working-age adults can entail numerous benefits, including higher individual incomes, higher future pension entitlements, stimulation and retention of cognitive skills, and better mental health. Society also gains from higher tax revenues and social security contributions, coupled with lower social security expenditures and higher consumption. Recent years have seen economic activity among older people rising steadily as European member states resorted to a series of measures to “activate” their ageing workforces and extend working lives. Figure 1 shows the employment rates of 55 to 64 year-olds for a selection of European countries whose working lives policies will serve as examples in this brief review. Notable is the increase between 2010 and 2015 in all these countries with the exception of Spain.

In the aftermath of the 2007 financial crisis, unemployment rates among older people have increased concurrently with rising employment levels, as more and more people aged 50 and over entered or remained in the labour market in search of work (Figure 2). One reason for

this surge into the labour market was the tightening of labour market exit opportunities, such as early retirement or access to disability benefit schemes. At the same time, older unemployed people continued to find it harder than other age groups to regain employment.

This contribution presents snapshots of policy interventions implemented across Europe that were designed to encourage the re-employment of older unemployed people. It would go beyond the scope of this paper to present a comprehensive summary of all such initiatives; our focus must inevitably be on selected examples. The selection of countries represents those included in a policy scan conducted as part of the MoPAct project.¹

The main focus of this paper is on measures intended to reduce unemployment. Unemployment among older people is not necessarily driven by an increased risk of job loss among this population.² In fact, older workers have often benefited from formal or informal protection from redundancy as part of corporate social plans (as in Germany) or informal “last in, first out” rules that help to secure the jobs of those with long tenure. The prime driver of high levels of unemployment among older workers is, rather, the difficulty that this age group encounters in being re-employed after redundancy or resignation. OECD

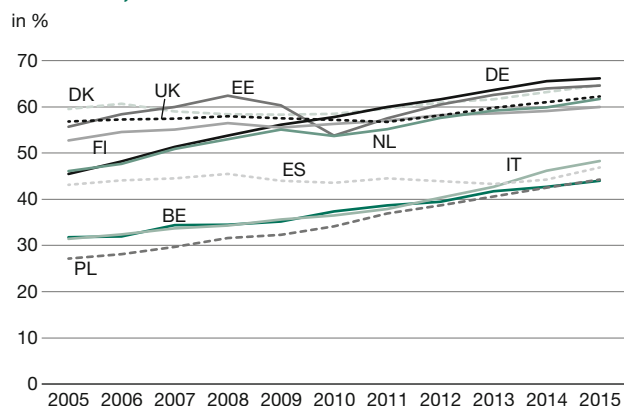
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1 Mobilising the Potential of Active Ageing in Europe (MoPAct) is a European Commission-funded programme, drawing together a multidisciplinary team to target the key challenges of ageing.

2 A. d’Addio: Recent pension reforms promoting higher retirement ages, presented at workshop on delivering longer working lives and higher retirement ages, European Commission and the OECD, Brussels, 12-13 November 2014.

Figure 1
Employment rates, 55-64 year-olds, selected countries, 2005-2015



Source: OECD: Ageing and Employment Policies, Older workers scoreboard, 2014.

data shows markedly lower re-employment probabilities for workers aged 55-64 when compared with workers aged 35-44, for both self-defined and firm-defined displacement. This holds in particular in France, Germany and Portugal, with less marked differences observed in Denmark, Finland, the UK and especially Sweden.³

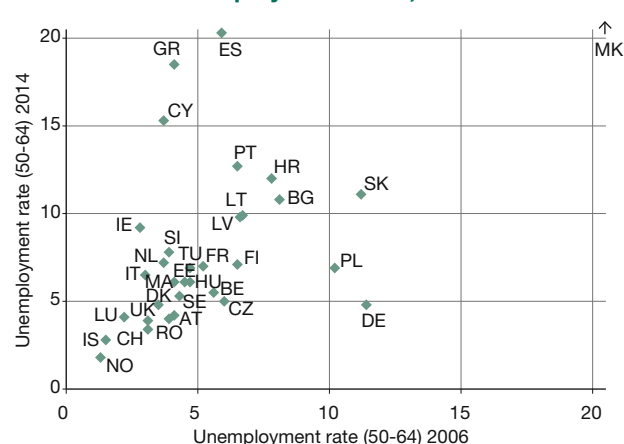
Public policy has responded to this challenge by putting into place a range of programs designed to incentivise both older jobless individuals below retirement age to seek, gain and retain employment, and employers to hire older jobseekers.⁴ Below, we provide examples of the three principal approaches to reversing the trend towards lower labour market participation of older workers: first, activation of jobseekers, second, active labour market intervention through training and schemes for job creation or placement, and third, the provision of wage subsidies as hiring incentives.

Programmes designed to “activate” jobseekers gained prominence in the 1980s in the US and were increasingly applied in European countries in subsequent decades. Activation is typically based on the twin principles of (the threat of) punishment and encouragement, or “sticks and carrots”, that seek to motivate the unemployed to take up work and to discourage non-compliance with this expectation by imposing sanctions. Across Europe, governments have adopted a range of strategies to reduce unemployment, typically directed at all age groups, although

3 G. Quintini, D. Venn: Back to Work: Re-employment, Earnings and Skill Use after Job Displacement, OECD, October 2013.

4 P. Hullegie, J.C. van Ours: Seek and Ye Shall Find: How Search Requirements Affect Job Finding Rates of Older Workers, IZA Discussion Paper No. 7400, May 2013.

Figure 2
Older worker employment rates, 2006 and 2014



Source: OECD.

older jobseekers were often exempt from the most penal of interventions.

Unemployment schemes

Reforms of unemployment protection schemes have featured strongly amongst the measures taken to discourage joblessness and reduce the risk of inactivity among the unemployed. In some countries, unemployment had been used as an early exit route into retirement for older age jobseekers. This had contributed to increasing unemployment and inactivity rates among older individuals of working age and, in some instances, raised concerns about the sustainability of a social security measure that appeared increasingly costly. At the same time, early retirement typically did not create new openings for younger workers.⁵ These realisations contributed to the closure of such routes and their replacement with alternative, activating schemes.

Access to special unemployment schemes for older workers

In Finland until 2005, for instance, unemployed people who had exhausted their entitlement of two years of unemployment insurance benefits at age 57 were able to continue their claim until they turned 60, after which they could transition to a so-called “unemployment pension”. They could then remain on this pension until age 65, at which point they were able to claim their retirement pen-

5 A. Kalwij, A. Kapteyn, K. de Vos: Retirement of older workers and employment of the young, in: De Economist, Vol. 158, No. 4, 2010, pp. 341-359.

sion. Effectively, this allowed an individual to transition from work to retirement over a period of up to ten years via this long-term unemployment option. This proved highly attractive to older unemployed people.⁶ A majority of those who received the extended benefits never returned to work.⁷ Only about half of them ever looked for work during this time.⁸

In 2005 the age threshold from which the unemployment pension could be paid was raised from 57 to 59 years. Subsequently, the number of long-term unemployed in the 55-59 age bracket dropped substantially (from about 25,000 in 2005 to about 10,000 in 2009), although unemployment rose among the 60-64 age bracket.⁹ The increase in the age threshold postponed unemployment entry and raised the employment exit age by 1.3 months. Alternative routes into retirement via disability benefits were also more closely regulated through the introduction of stricter medical screening of disability and work incapacity.¹⁰

Benefit levels

Many European states resorted to cutting unemployment benefits. The high replacement rates of these benefits relative to past earnings were seen as contributing to rising levels of unemployment,¹¹ although more nuanced studies have suggested that benefit duration may be a more critical contributor to rising and long-term unemployment.¹² According to these studies, incentives for job-seeking and re-employment may result not from low benefits as such, but from progressively declining benefits.¹³

The Hartz reforms in Germany in 2005 are one example of several that reduced the unemployment benefit levels. Prior to the reforms, an initial earnings-related Un-

employment Benefit (UB) had been paid at an earnings replacement rate of 60-67%. UB claims were typically exhausted after two years, at which point Unemployment Assistance (UA) stepped in. Its replacement rate was 53-57%. UA was topped up with Social Assistance (SA) if UA left a claimant under the minimum subsistence level.¹⁴ The reforms retained the replacement levels of the earnings-related UB (now referred to as UB-I), but replaced UA and SA with a flat-rate means-tested Unemployment Benefit II (UB-II, currently €404 per person plus housing allowance).¹⁵ Macro-economic impact estimates have suggested a reduction in the long-run unemployment rate by 1.4 percentage points, largely as a result of increased job search effort and higher job-finding rates since the Hartz reforms.¹⁶ In the German labour market, older working age people were most likely to experience long-term unemployment and exhaustion of their UA entitlement, and thus the Hartz reforms impacted disproportionately on this section of the labour force, contributing to lower unemployment and higher participation rates.

In some instances, changes in benefit rules have included the introduction of incentive payments for people returning to work and retaining their newly found job. Early examples included the UK New Deal 50Plus, which targeted jobseekers aged 50 or older and which, between 1999 and 2000, included a tax-free wage supplement of £60 a week paid to those working full-time (£40 for part-time) for a year and earning less than £15,000.¹⁷ Germany also pays an integration bonus to formerly long-term unemployed people who return to work. The bonus is paid out for up to 24 months and typically amounts to 50% of the standard flat-rate unemployment benefit. However, the bonus is discretionary and job centres determine whether it is paid on the basis of claimant need.¹⁸

Benefit duration

A further measure frequently applied in the context of unemployment benefit reforms was to reduce the period of benefit entitlement. Particularly affected were status-preserving benefits that had previously rewarded tenure and, effectively, protected older workers. Such differentiated

6 A. Börsch-Supan: The 2005 Pension Reform in Finland, Finnish Centre for Pensions, Working Papers No. 1, 2005.

7 T. Kyrrä: Early retirement policy in the presence of competing exit pathways: Evidence from policy reforms in Finland, in: *Economica*, Vol. 82, No. 325, 2010, pp. 46-78.

8 T. Kyrrä, V. Ollikainen: To search or not to search? The effects of UI benefit extension for the older unemployed, in: *Journal of Public Economic*, Vol. 92, No. 10, 2008, pp. 2048-2070.

9 H. Braconier: Coping with the Job Crisis and Preparing for Ageing: The Case of Finland, OECD Economics Department Working Papers No. 777, OECD Publishing, 2010.

10 Ibid.

11 A. Bassanini, R. Duval: The Determinants of Unemployment Across OECD Countries: Reassessing the Role of Policies and Institutions, OECD Economic Studies No. 42, 2006; D. Venn: Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries, OECD Social, Employment and Migration Working Papers, No. 131, OECD Publishing 2012.

12 J. Goul Andersen, J.B. Jensen, op. cit.

13 A. Arpaia, G. Mourre: Institutions and Performance in European Labour Markets: Taking a Fresh Look at Evidence, in: *Journal of Economic Surveys*, Vol. 26, No. 1, 2012, pp. 1-41.

14 T. Krebs, M. Scheffel: A Macroeconomic Model for the Evaluation of Labor Market Reforms, ZEW Discussion Paper No. 10-050, 2010.

15 S. Dlugosz, G. Stephan, R.A. Wilke: Fixing the leak. Unemployment incidence before and after the 2006 reform of unemployment benefits in Germany, IAB Discussion Paper, No. 25, 2009.

16 T. Krebs, M. Scheffel, op. cit.

17 See S. Vegeris, D. Smeaton, M. Sahin-Dikmen: 50+ back to work evidence review and indicative guide for secondary data analysis, Department for Work and Pensions, Research Report No. 615, London 2010.

18 Bundesministerium für Arbeit und Soziales: Gründungsförderung, 1 February 2015.

unemployment benefit entitlements have been shown to reduce the return to work of people whose entitlement allowed them to claim benefits for longer.¹⁹

In 2006 Germany shortened the duration of the earnings-related UB-I and prevented the future use of UB-II to bridge the time post-work and prior to retirement. Evidence suggested that shorter durations of earnings-related benefits reduced unemployment, especially for the oldest group (57-64), which had seen the strongest decline in the duration of earnings-related unemployment benefits. However, this did not stop the Federal Government from reversing the benefit duration reform by raising maximum benefit duration for some age groups in 2008.²⁰

The Netherlands reduced the maximum duration of earnings-related unemployment benefits from 60 months to 38 months in 2006.²¹ The length of UB entitlement continues to increase with the time spent in employment, but the maximum now applies to everyone with 40 or more years in employment, whereas this group had previously been entitled to additional months of UB. In other words, the reforms primarily affected older workers. Early empirical evidence suggests that the reforms increased the probability of finding a job, especially as claimants approached the point to entitlement exhaustion. However, the size of the effect was small, as were the estimated net welfare benefits to the state.²² Reforms currently aim to further decrease the maximum duration of UB from 38 months to 24 months by 2019.

Job search requirements

Besides changing the “mechanics” of unemployment benefits by reducing entitlement levels and durations and closing the door to using UB as a route to retirement, public policy has increasingly stressed the conditionality of welfare entitlements – not just on the basis of (past) contributions to welfare funds, but on concurrent obligations to seek work and thus reduce the receipt of welfare payments. These job search requirements were a prominent feature of the welfare-to-work measures first proposed in the United States, subsequently introduced in the UK in

the mid-1990s and later adopted in other European countries.²³

In the Netherlands, job search requirements were increased for workers aged over 57.5 years in 2004.²⁴ This policy change has been credited with raising the job-finding rates among older workers, albeit only weakly.²⁵ Further evidence suggests that the probability of finding a job within the first 24 months of unemployment had been raised by six percentage points for men and 11 percentage points for women.²⁶ Researchers found that “stricter search requirements strongly increase the number of individuals that find a job after a maximum of 2 years in unemployment”.²⁷ Search requirements for those unemployed and turning 57.5 years of age increased exit to employment by about six percentage points and into disability by three percentage points. At the same time, exits to employment rose from 19.1% to 30.2% without any concurrent effects on early retirement exit.²⁸

Similar revisions of age-based exemptions from job search requirements were undertaken in Germany in 2007. Until then, and unlike other jobseekers affected by the Hartz reforms, jobseekers over the age of 57 had not been required to be actively looking for work – an exemption rule that had been widely used.²⁹ Evidence of impact has been mixed. On the one hand, research has found jobseekers reducing reservation wages as a result of the reforms. On the other hand, it has also been suggested that the reforms had adverse effects on the mental health of older jobseekers, who face a largely unchanged environment in an economy reluctant to recruit older workers.³⁰

19 A. Paggiaro, E. Rettore, U. Trivellato: The Effect of a Longer Eligibility to a Labour Market Programme for Dismissed Workers, in: *Labour*, Vol. 23, No. 1, 2009, pp. 37-66.

20 S. Dlugosz, G. Stephan, R.A. Wilke, op. cit.

21 A.L. Bovenberg, R.H.J.M. Gradus: Dutch policies towards ageing, in: *European View*, Vol. 7, No. 2, 2008, pp. 265-275; K. Gasior, E. Zolyomi: National Report The Netherlands, MoPAct WP3.

22 N. de Groot, B. van der Klaauw: The Effects of Reducing the Entitlement Period to Unemployment Insurance Benefits, IZA Discussion Paper No. 8336, July 2014.

23 I. Lodemel, H. Trickey (eds.): *An offer you can't refuse – Workfare in international perspective*, Bristol 2000, The Policy Press.

24 M. Lammers, H. Bloemen, S. Hochguertel: Job search requirements for older unemployed: Transitions to employment, early retirement and disability benefits, in: *European Economic Review*, Vol. 58, 2013, pp. 31-57; H. Bloemen, S. Hochguertel, M. Lammers: *Job Search Requirements for Older Unemployed: Transitions to Employment, Early Retirement and Disability Benefits*, Tinbergen Institute Discussion Paper No. 11-008/3, 2011.

25 A.L. Bovenberg, R.H.J.M. Gradus, op. cit.

26 H. Bloemen, S. Hochguertel, M. Lammers, op. cit.

27 M. Lammers, H. Bloemen, S. Hochguertel, op. cit.

28 H. Bloemen: Job search requirements for older unemployed workers. How do they affect re-employment rates and flows into states of inactivity for older unemployed workers?, IZA World of Labor 2016.

29 M. Keese, D. Hirsch, R. Bednarzik: *Live longer, work longer. Aging and Employment Policies*, Paris 2006, OECD Publications.

30 N. Duell, K. Vogler-Ludwig: *Germany, EEO Review: Employment policies to promote active ageing*, European Employment Observatory, 2012.

Active labour market policies

European authorities, be they governments, regions or municipalities, have also used so-called active labour market policies (ALMPs) to assist jobseekers back into the labour market. Some of these measures have specifically targeted older jobseekers.

In Denmark, for instance, municipalities are expected to provide “senior jobs” to unemployed persons aged between 55 and 59 who have exhausted their unemployment benefits and are entitled to voluntary early retirement pay when they turn 60. This is in addition to the activation requirement of the Public Employment Service (PES) aimed at unemployed people aged 60 or older. Furthermore, Denmark has also supported local and regional networks of unemployed older workers (aged over 50), known as “senior networks” and funded through the Danish National Labour Market Authority to “develop new areas of employment”.³¹

Similar municipal job creation schemes were available until 2011 in Latvia, where the “work experience with a stipend” programme provided work and income support for those unemployed who no longer received unemployment benefits but wanted to remain active in their community, typically performing low-skilled work such as cleaning and the development and maintenance of public infrastructure and local social services.³²

In Germany the “Perspectives 50 plus” programme focused support services of the PES to help older long-term unemployed people return to work between 2005 and 2015. Measures included vocational training, job application training, internships, individual counselling and coaching.³³

Poland also promoted internships, on-the-job training and subsidised employment for jobseekers over 50 years of age.³⁴ In contrast to similar initiatives in Germany, the

over-50s were only supported in training programmes if an employer had already committed to hiring that person after he or she had completed the training.

Wage subsidies

The third and final pillar of measures to facilitate the labour market integration of older workers are wage subsidies. Subsidies are often criticised for large deadweight losses and for crowding out unsubsidised workers.³⁵ Wage subsidies have nonetheless been found to help increase employment and to prevent workers from leaving the labour market.³⁶

In 2012 Italy passed labour market reforms that included new incentives to hire long-term unemployed workers over 50, enticing employers with a 50% reduction on their social security contributions for older workers they hired for a period of up to 18 months, depending on the worker’s age, position and type of contract (fixed/open-ended).³⁷

Similar measures in Poland include the “Solidarity of Generations” programme. Under this programme, employers who take on older workers are exempt from making contributions into the national Labour Fund (which supports vocational training and development) and the Employee Benefits Guarantee Fund (which pays employees benefits in case of employer insolvency) for these newly hired people. In addition, they are only required to provide sickness coverage for up to 14 days instead of the conventional 33 days, and they can obtain co-financing for workplace equipment.³⁸

In Latvia a workplace programme subsidises private employers who provide jobs to unemployed people for a period of up to 12 months. This programme is not specifically targeted at older people, but a recent review found that unemployed people aged over 50 made up about a third of programme participants between 2010 and 2012. Total annual participation varied between about 1,500 and 2,000 jobseekers. Approximately a quarter of participants of pre-retirement age took up permanent employment after participating in the programme in 2011.³⁹

31 P.K. Madsen: EEO Review: Employment Policies to promote active ageing, European Employment Observatory, 2012; M. Barlund: Extending Working Lives: The Case of Denmark, CEPS Working Document No. 404, 2015.

32 Latvian Academy of Agricultural and Forestry Sciences: Atklāta Konkursa Novērtēšanas Pētījums “Aktīvā Nodarbinātības Pasākuma “Apmācība Darba Iemāņu Iegūšanai Un Uzturēšanai, Ja Darba Devējs Ir Pašvaldība Rezultātu Novērtējums” (Assessment of the Public Work with Stipend Activity Implementation – among Others), Riga 2011, as cited in K. Nurmela, L. Osila, R. Leetmaa: Baltic countries, in: G. Naegel, J. Bauknecht (eds.): National Policy Report, MoPAct WP3, 2015.

33 N. Duell, K. Vogler-Ludwig, op. cit.

34 K. Sztandar-Sztanderska: Activation of the unemployed in Poland: from policy design to policy information, in: International Journal of Sociology and Social Policy, Vol. 29, No. 11/12, 2009, pp. 624-636.

35 G.P. Rotger, J.N. Arendt: The Effect of a Wage Subsidy on Employment in the Subsidised Firm, paper presented at the annual meeting of the Society of Labor Economists, Vancouver, 29-30 April 2011.

36 A. Paggiaro, E. Rettore, U. Trivellato, op. cit.

37 M. Soggi, A. Principi: Country Report: Italy, MoPAct WP3, 2013.

38 B. Urbaniak, J. Wiktorowicz: Support For Economic Activity Of People Aged 50+ In Poland: The Best Solutions Of The Government’s Programme Solidarity Of Generations, in: Comparative Economic Research, Vol. 17, No. 1, 2014, pp. 77-92.

39 K. Nurmela, L. Osila, R. Leetmaa, 2.11 Baltic countries (Estonia, Latvia, Lithuania), in: G. Naegel, J. Bauknecht: MoPAct National Policy Report – WP3, Task 2, 2015.

A German programme provides wage subsidies for the recruitment of older workers for one to three years (30-50% of the wage, in cases of disability up to 70%, and for a maximum of five to seven years, the latter for those above 55). An early evaluation failed to find positive net effects, however, since subsidised hiring largely appeared to be substituted for unsubsidised hiring.⁴⁰

Conclusion

This paper gave a brief summary of European state initiatives designed or tested to facilitate the return to work of older jobseekers and older inactive people of working age. The summary has necessarily been selective and, hence, non-representative, focusing on a few countries and on three pillars of policy: benefit reforms and welfare activation, active labour market policies, and wage subsidies. In some but not all instances, we have been able to introduce some evaluative evidence, which hinted at possible positive impacts of reported interventions. However,

40 B. Boockmann, T. Zwick, A. Ammermüller, M. Maier: Do Hiring Subsidies Reduce Unemployment Among the Elderly? Evidence from Two Natural Experiments, ZEW Discussion Paper No. 07-001, 2007.

we have also found that effects can be small, negligible or indeed absent, and that otherwise well-intended programmes may yet have unintended adverse consequences. In order to ensure and improve positive effects on re-employment probabilities and to reduce deadweight effects and other negative consequences, close monitoring of reform impacts remains essential.

Some general findings from the evaluations may be noted. There appears to be a growing consensus that micro-targeting interventions has beneficial outcomes and, specifically, reduces the risk of negative effects. Where concerns exist about low productivity from workers rejoining the workforce hindering re-employment, wage subsidies may be a suitable public policy tool for incentivising employers by balancing the costs of productivity losses. Across age groups, financial incentives may help the unemployed in the low-wage economy to gain and retain work, while financial penalties can motivate behavioural change. Overall, however, the evidence suggests that individual policies on their own often have limited impact and that a diverse mix of demand and supply side measures are needed in order to redress the disproportionate unemployment risk faced by older workers.