Overcoming Early Retirement in Europe

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Presented at Paris Seminar of Economic Demography, Paris, November 13, 2012

Paper forthcoming in Comparative Population Studies (CPS)

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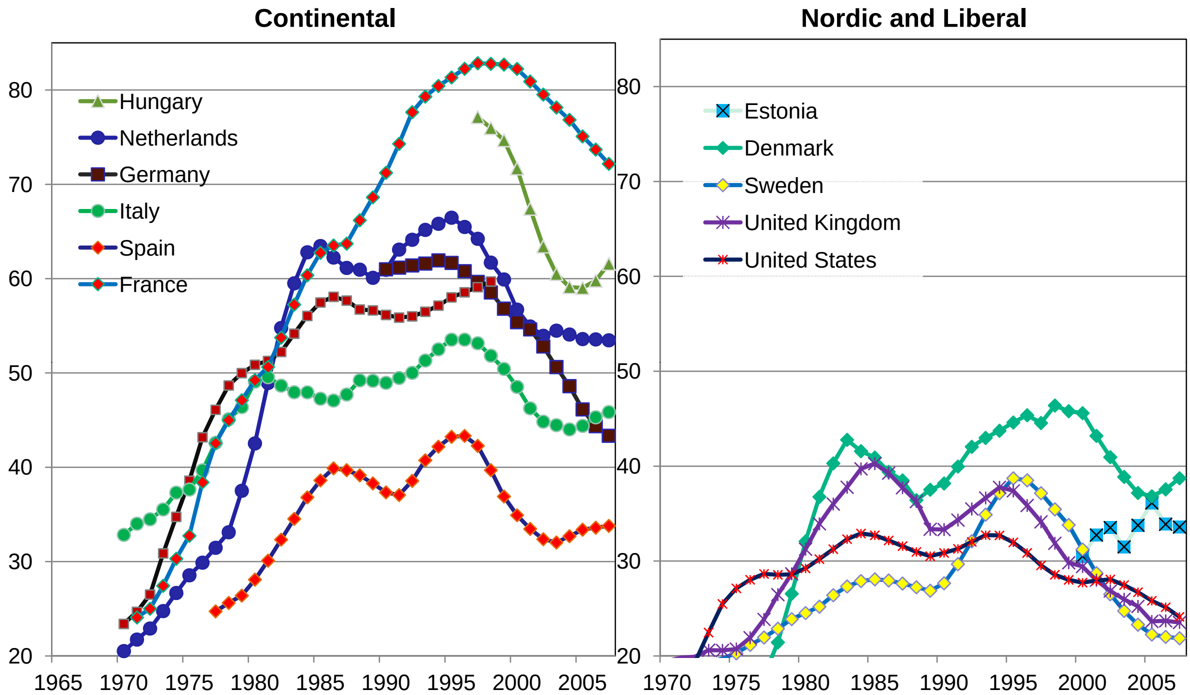
Exit Rate: **Men** Aged 60-64 (cohort adjusted)



Bernhard Ebbinghaus: *Reforming Early Retirement in Europe, Japan and the USA*, Oxford University Press, 2006; pbk. 2008; and updates from OECD and Eurostat. Own calculations: cohort-adjusted 5-year average.

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Motivation, main question, and approach

- **Early exit** as a widespread practice in developed economies since the oil price shock of the 1970s
- Against the background of demographic ageing, increasing orientation towards **increasing older workers' employment** (EU 2010 target: 50% employment 55-64)

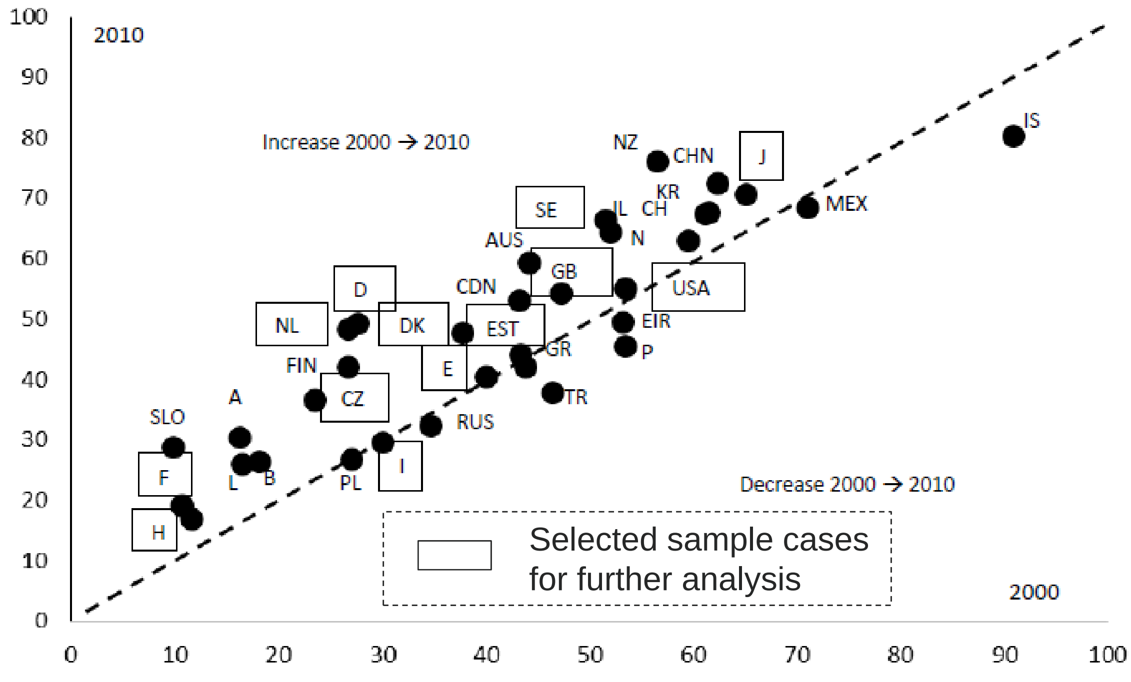
Main research question and approach:

How can early exit trend be reversed?

→ **Reconstructing the scope of early exit** from work **and the more recent reversal** of early retirement across several welfare states in Europe, USA and Japan

→ **Providing an (institutional) explanation** of the **observable cross-national variations** of early exit from work and its reversal trend, **identify outliers** from known regime typologies

Employment trend among men aged 60-64, 1990-2010



Source: OECD (2011)

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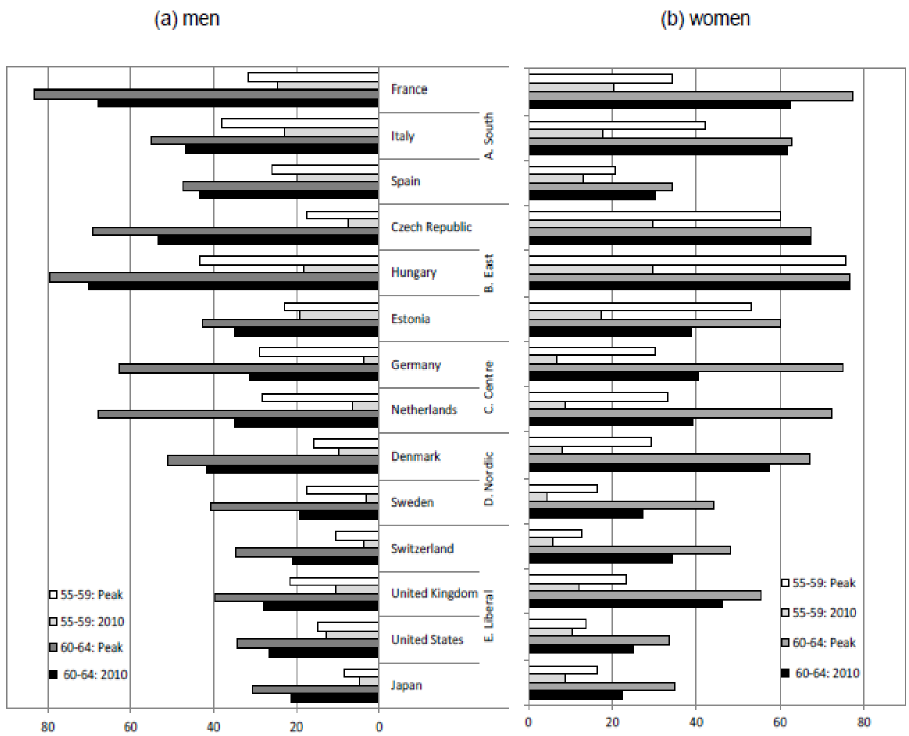
Exit rates and peak levels



Cohort-adjusted exit rates
decline in the employment rate for the age group (60-64 or 55-59) compared to their employment five years earlier (age group 55-59 or 50-54 respectively)

Peak-level:
highest exit rate since 1985 (or first available year thereafter)

Source: own calculations based on (OECD 2011).

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Early exit from work and its reversal

Early exit Level 2010	Decline (relative to peak): Low	Decline (relative to peak): [Medium]	Decline (relative to peak): …n
High (>50%)	A **France** ♂ ♀ **Italy*** ♂** B **Hungary** ♂** ♀** Czech Republic ♀** *Denmark* ♀**	Italy* ♀** **Czech Republic** ♂**	
Medium	***Denmark*** ♂** ***Spain*** ♂ ♀ United Kingdom ♀ **United States** ♂	***Estonia*** ♂*** **United Kingdom** ♂	*Estonia* ♀ C **Germany**** **Netherlands****
Low (<30%)	United States ♀ E	**Japan** ♂ ♀ **Switzerland** ♂** ♀	**Sweden** ♂ ♀ D

Entrenched early exit

Moderate early exit

(Persistent) Late exit

Early exit reversal

Source: own calculations based on OECD Lab… …e on (…)…
Notes: Level: exit rate 60-64 in 2010; decline: decline of exit rate 60-64 (% peak level) bet… …d 2010; ♂ men; ♀ women; * also high very early retirement (age 55-59); ** more significant … …p 55-59; *** less significant decline in age group 55-59; Clusters: A) South, B) East, C) Centre, … …al; countries with consistent gender pattern or those for men only in **bold**; cluster outliers in *italics*.

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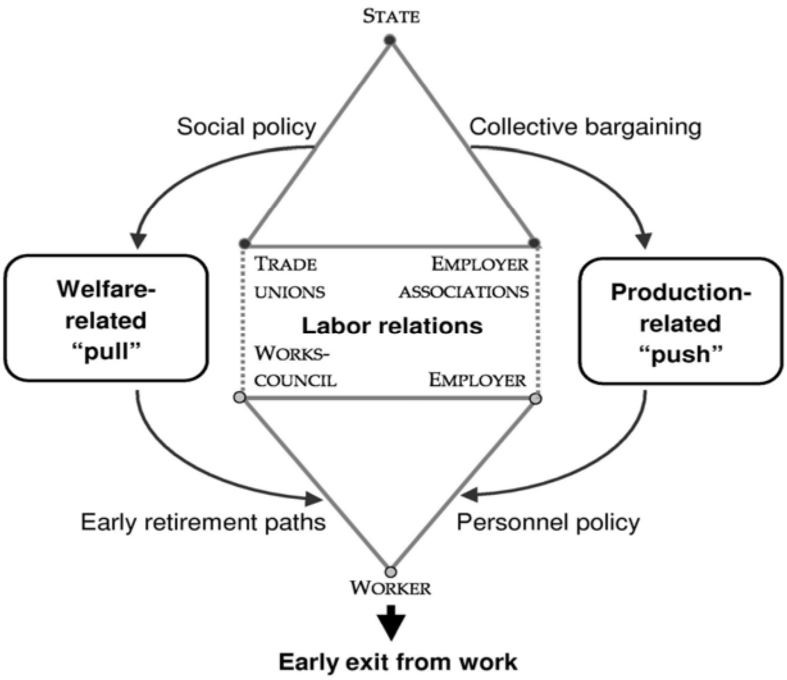
Early Exit: Protection-Pull versus Production-Push



B. Ebbinghaus: *Reforming Early Retirement in Europe, Japan and the USA*, Oxford: Oxford University Press, 2006.

Explaining early exit and ist reversal

"Pull factors"

- **Incentives** to exit early from employment: standard retirement age vs. early exit without reductions
- Available **pathways**: number of pathways, generosity of pensions, conditions

"Push factors"

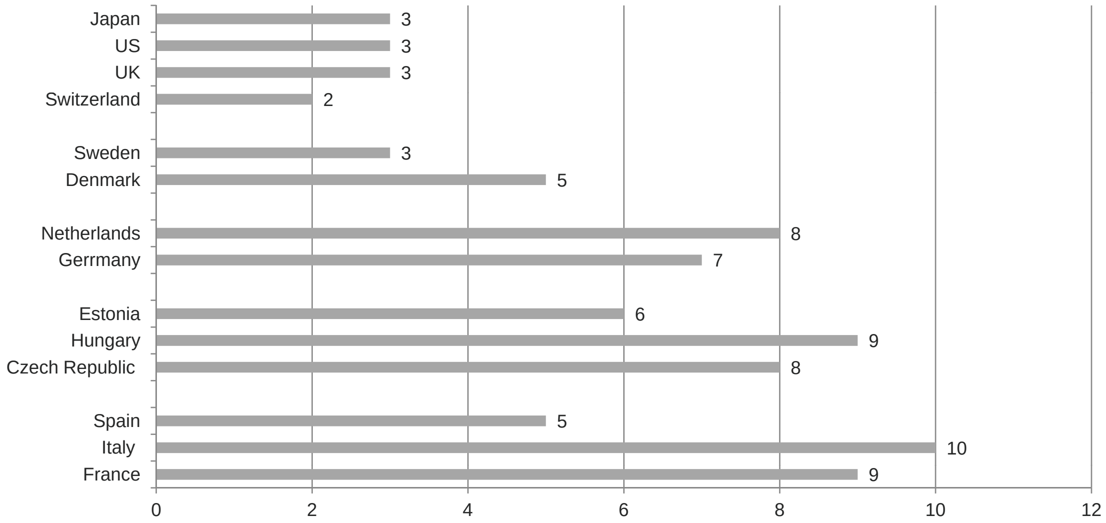
- '**labour shedding'** of older workers from employment
- De-qualification of skills but strong **seniority** systems

"Stay factors"

- Policies that promote ***employability*** of older workers
- **Active** labour market policies, lifelong learning

Protection-related pull factors

Index of early exit pathways* (men)



*Additive, unweighted index, based on statutory pension, flexible pension, special schemes, unemployment insurance and disability insurance

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Production-related push factors

		Average tenure (in years) age 55-64		Tenure 10+ years (% overall) age 55-64		EPL-Index (Version 1)		Long-term unemployed (>1 year) (%) age 55+ (25-54)			
		2000	2009	2000	2009	2000	2008	2000	(25-54)	2010	(25-54)
A	France	21.8	22.7	77.2	75.1	2.98	3.05	67.7	42.8	56.3	41.8
	Italy	23.6	23.9	82.4	78.3	2.51	1.89	63.1	62.7	59.2	49.0
	Spain	22.4	23.0	78.1	76.2	2.93	2.98	61.8	50.9	62.2	45.2
B	Czech Republic	16.9	16.5	54.6	63.6	1.90	1.96	45.6	53.3	40.8	46.4
	Hungary	16.6	15.6	56.0	57.8	1.27	1.65	57.9	52.6	55.7	52.3
	Estonia	—	—	—	—	—	*2.39	50.9	51.9	43.0	48.5
C	Germany	21.7	21.9	74.9	74.5	2.34	2.12	69.1	51.0	62.3	48.4
	Netherlands	22.2	23.0	75.6	75.3	2.12	1.95	63.0	**30.0	52.0	30.5
D	Denmark	18.5	17.7	65.3	65.4	1.50	1.50	47.5	21.6	35.1	22.4
	Sweden	21.0	20.2	75.7	—	2.24	1.87	49.3	26.6	29.7	21.2
E	Switzerland	20.6	20.2	74.6	70.6	1.14	1.14	***	***	***	***
	United Kingdom	15.3	16.1	56.5	55.5	0.68	0.75	42.1	33.2	42.9	37.0
	United States	—	—	—	—	0.21	0.21	11.9	6.6	38.1	31.5
	Japan	—	—	—	—	1.43	1.43	36.0	22.5	40.5	38.7

Source: (OECD 2011)
Notes: *: EPL Index, Version 2 ; **: Data from 2002; ***: no data available

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Stay Factors

		ALMP expenditure, in % GDP		PLMP expenditure, in % GDP		Training in last four weeks, 55-64 years	
		1985-99	*2000-09*	*1985-99*	*2000-09*	*1992-99*	*2000-10*
A	France	0.95	1.00	0.52	1.46	0.2	1.7
	Italy	—	0.51	0.93	0.77	0.7	1.6
	Spain	0.58	0.77	2.50	1.63	0.4	2.9
B	Czech Repulic	0.16	0.22	0.18	0.27	—	2.2
	Hungary	0.48	0.32	1.10	0.39	0.3	0.4
	Estonia	—	0.09	—	0.30	2.3	4.5
C	Germany	1.04	1.03	1.82	1.82	0.8	2.3
	Netherlands	1.32	1.32	2.77	1.24	4.7	7.5
D	Denmark	1.41	1.65	4.09	2.10	6.0	17.8
	Sweden	2.25	1.32	1.61	0.97	14.6	12.9
E	Switzerland	0.39	0.63	0.73	0.76	17.5	19.8
	United Kingdom	0.39	0.34	0.88	0.23	5.7	15.3
	United States	0.21	0.15	0.40	0.45	—	—
	Japan	0.31	0.29	0.35	0.45	—	—

Source: for expenditure: OECD (2011), training: Eurostat (2011).

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Synthesis: Explaining early exit and its reversal

Scandinavian 'late exit' model

- High retirement age and little early exit incentives
- Push factors prevalent primarily throughout the 1980s (Denmark) and 1990s (Denmark/Sweden), but policies largely reversed in economic upturn
- Tenure system (less in Denmark) and employment regulation but low long-term unemployment
- Well-developed stay policies

Synthesis: Explaining early exit and its reversal

Liberal 'late exit' model

- Highly privatised pension system with little early exit incentives
- Maintenance of older workers through flexible unregulated market
- Little active employment policies; but high significance of 'on-the-job training

Synthesis: Explaining early exit and ist reversal

Conservative 'reversal' countries

Traditionally

- Various pathways into early retirement
- Rigid labour markets and structural unemployment, high level of seniority
- Little focus on active labour market policies

Recently

- Revision of pension systems, closing of retriement pathways
- Strengthening of ALMP and lifelong learning

Synthesis: Explaining early exit and its reversal

(Persistent) Early exit regimes

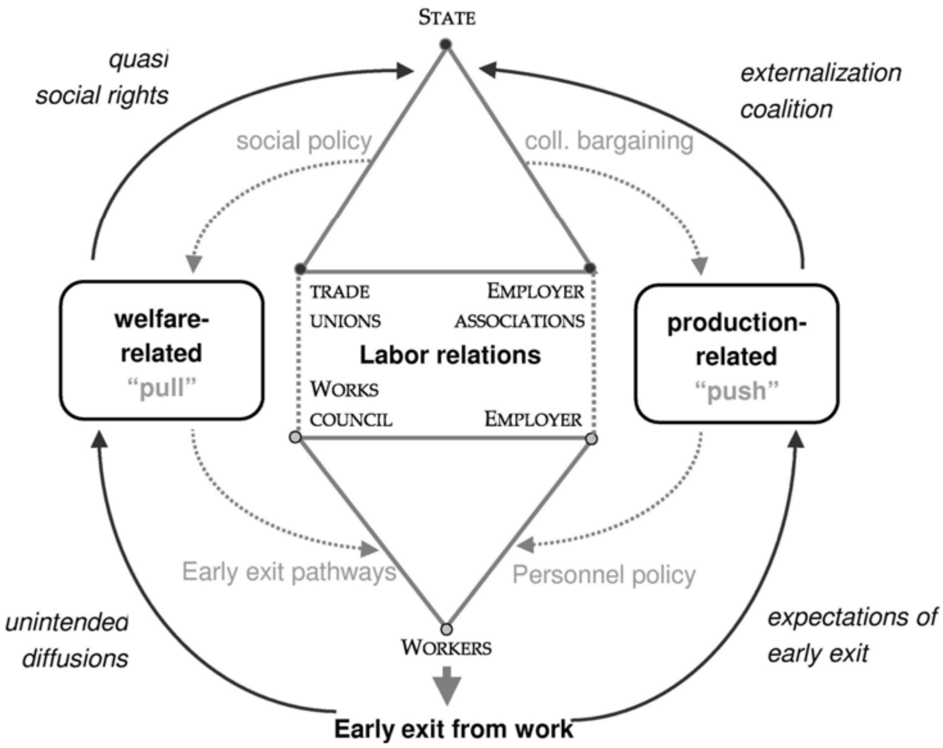
Traditionally

- Various pathways into early retirement
- Rigid labour markets and structural unemployment, Southern Europe: clientelist protection
- Little focus on active labour market policies

Recently

- Implementation of pension reforms, but with far longer time horizons
- Internal labour markets, strong seniority
- Still low or modest ALMP and lifelong learning
- *Outliers*: Spain/Estonia

Difficult Policy Reversal: Path Dependency



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Conclusion: Past early exit regimes

- Cross-national **variations** in **exit patterns** :
  - Early exit pathways solved production problems and **socially acceptable restructuring**
  - **Welfare states** have thus far provided "politics *for* markets" (helping labour shedding)
- **Path dependence** as **reform problem**:
  - **Unintended consequences** through social diffusion and expectation trap
  - **Policy reversal** difficult due to status quo defense and externalization coalition

Conclusion: Overcoming exit

- Need to simultaneously consider pull, push and stay factors and their **interplay** to explain its reversal
- Need **for integrated** political strategies: Scaling back of early retirement incentives to avoid second best alternatives
- **Change possible** even in rather 'locked' institutional patterns (Germany, Netherlands) after two decades of **reforms** (pension & labour market policies)
- Reconsideration of 'traditional' **regime typologies** for explaining older workers' employment patterns

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