



Ageing and Employment Policies

Finland

*Vieillessement et politiques
de l'emploi*



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to work, both paid and unpaid. Many of these policies and practices are relics from a bygone era. There is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work for longer given appropriate policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with some of the challenges posed by population ageing. However, these reforms will not be enough to encourage later retirement and to reduce the risk of future labour shortages. Measures are also required to adapt wage-setting practices to greying workforces, to tackle age discrimination and negative attitudes to working at an older age, to improve job skills of older people and their working conditions, and to better “activate” older job seekers. Relatively little is known about what countries have been, or should be doing, in these areas. Therefore, in spring 2001, the OECD Employment, Labour and Social Affairs Committee decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both supply-side and demand-side aspects.

For the purpose of this thematic review, it was decided to define older workers as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not. Perceptions about being old are inherently subjective and only loosely connected with chronological age. However, in many countries, the age of 50 marks the beginning of a decline in participation rates by age. Moreover, to facilitate international comparisons, it is preferable to refer to the same age group for all countries. Thus, all references to “older workers” in this report should be taken as shorthand for workers aged 50 and over (or in some cases, because of data constraints, workers aged 50 to 64), and should not be seen as implying that all workers in this group are “old” *per se*.

This report on Finland is one in a series of around 20 OECD country reports that will be published as part of the older worker thematic review, which has been developed by Raymond Torres. It has been prepared by Patrik Andersson, under the supervision of Mark Keese (team leader), with a contribution from Tuulia Hakola and the technical and statistical assistance of Clarisse Legendre, Anne-Marie Gray and Alexandra Geroyannis. A draft of the report was discussed at a seminar on “Finnish Policies to Improve Labour Market Outcomes for Older Workers” in Helsinki on 31 October, 2003, which was organised by the Finnish Ministry of Social Affairs and Health. Discussants at the seminar included representatives of the national authorities, the social partners and academics. The final report, which incorporates the comments received at the seminar, is published in this volume on the responsibility of the Secretary-General of the OECD.

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This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume on page 19.

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The challenges facing Finland

The Finnish population will age more rapidly over the next 25 years than the populations of most other OECD countries. The proportion of the population aged 65 years or older will increase from 15% in 2000 to 25% by 2025 and reach 28% by 2050. As a result, the working-age population is expected to drop and, unless the age at which people retire is increased, the total number of employed people leaving the workforce during the next 15 years will approach 900 000. This represents nearly 40% of all people currently employed. Population ageing is likely to bring in its train labour shortages which could have a negative impact on output; it will also put increased strain on public expenditures that are already relatively high by the standard of other OECD countries.

This report argues that, if Finland is to meet the challenges of population ageing successfully, it is vital to reverse decisively the trend to early retirement. It sets out a series of recommendations designed to achieve this aim.

Some progress has been made

Finland has already taken several steps to address the challenges of population ageing.

Strengthening incentives to work by reforming the public pension system

In September 2002, the social partners reached an agreement on extensive reforms of the statutory earnings-related pension scheme. One of the most important measures is the replacement of the standard retirement age of 65 by a flexible retirement age ranging from 62 to 68. This implies that, if the pension is drawn at the age of 62, it will be substantially reduced but if it is delayed, the accrual rate will increase from its standard rate of 1.5% per year to 1.9% for those aged 53-62 and to 4.5% for those aged 63-68. It was also decided that

pension entitlements should no longer be calculated on the incomes from the last ten years of each employment contract, but instead be based on lifetime earnings. Finally, it was decided to abolish the present pension ceiling of 60% of highest earnings and to take changes in life expectancy into account when calculating pension entitlements. The main elements of this reform will be implemented in 2005.

In addition to these changes in the old-age pension system, reforms were introduced to four of the six early retirement schemes in order to: *i*) gradually abolish the unemployment pension scheme over the period 2009-2014 and replace it with additional unemployment benefit days from the age of 60 until the age of 65; *ii*) raise the minimum qualifying age for the so-called “unemployment tunnel” from 55 to 57 (*i.e.* the age when active job search, in practice, is no longer required for the older unemployed); *iii*) abolish the individual early retirement pension, which will be accompanied by a relaxation of the medical assessments required for an ordinary disability pension for workers aged 60 years and older; and *iv*) raise the eligibility age in the subsidised part-time pension scheme from 56 to 58. While some of these reforms are likely to raise the average effective age of retirement, others may not (see below).

Enhancing workability and employability through ageing programmes

Since the early 1990s, Finland has introduced a series of programmes intended to address the issues of population ageing and early retirement. One of the most well-known programmes is the *National Programme on Ageing Workers*. The programme aimed to increase the employability of ageing persons and to ensure that those who want to work can do so until they reach pensionable age. It consisted of information campaigns and training of both workers and managers. Research projects on how to improve working life for older workers were also carried out under the aegis of the programme. While it is extremely difficult to evaluate the effects of such information programmes, it is possible that they have played some role in the sharp rise in older worker employment rates recorded since the mid-1990s.

The main objectives of the most recent programmes are three-fold: *i*) to encourage older people to stay on at work until the age of 62, three years longer than the present *effective retirement age* of 59; *ii*) to raise the overall employment rate to 75%; and *iii*) to lower the overall unemployment rate to 5% within the next five years.

Areas where further reform is required

While these reforms go in the right direction, more needs to be done. One indicator of this is the sizeable gap in participation rates between older (50-64) and prime-age (25-49) people. In 2002, this gap amounted to 25.5 percentage points for males and 20.4 percentage points for females. The participation rates for men aged 25-49 are 91.9% and 85.3% for women. For the age group 50-64, these figures are 66.4% and 64.9%, respectively. Participation rates for Finnish men aged 25-49 and 50-64 are in the bottom half of the OECD ranking, while Finnish women in the same age groups are close to the top of the OECD league table. Thus, in order to tackle effectively the challenges Finland faces as a result of population ageing, it will be of great importance to maintain high labour market participation among women at the same time as raising participation rates for men in all age groups.

This report argues that, in order to achieve these objectives, a comprehensive reform strategy is needed to improve the employment prospects of older workers. It should encompass not only measures to enhance the work incentives that are embedded in the tax and welfare systems, but also action on the demand-side. The following policy recommendations are put forward as possible elements of this strategy.

Reforming pensions and income-support arrangements

One main explanation for the large difference in participation rates between prime-age and older persons is the higher take-up of different social security benefits.

Among the main pathways to early retirement, the most important ones in Finland are disability and unemployment benefits. In the age group 50-59, the proportion of the population receiving *unemployment benefits* increases from around 10% for 50-years olds to 24% for those aged 59. Moreover, in the age group 60-64, most unemployed persons transfer to the *unemployment pension* which combined with ordinary unemployment benefits accounts for approximately 23% of the population. The other common reason for inactivity is the *disability pension*. Already at the age of 50 nearly 8% of the population are receiving a disability pension and by the age of 60 this figure almost trebles to 22%. For the age group 60-64, about 10% rely on the *individual early retirement pension* and about 20% rely on disability benefits. Old-age pensions have a more pronounced role from the age of 60 on and increase very steeply from a level of 9%. Not surprisingly, at the official retirement age of 65, 94% of older people receive the old-age pension. In order to enhance work incentives, access to these various pathways to early retirement should be restricted as a matter of urgency.

The start of the phasing out of the unemployment pension could have been set earlier than 2009, thereby including the baby-boom generation. It is also questionable whether this will have the desired effect since the system will be replaced by additional unemployment benefit days for the older unemployed until the age of 65. Furthermore, while the individual early retirement scheme will be abolished, the eligibility rules for obtaining an ordinary disability pension for workers 60 years and older will be relaxed, which will certainly lead to an increase in the proportion of older workers on this benefit.

In sum, as long as generous rules for unemployment benefits, disability benefits and other types of early retirement schemes continue to exist, it will be extremely difficult to raise the effective age of retirement in Finland to the official target. A general objective should be to restore the original purpose of disability benefits and unemployment benefits. A first step in achieving this goal would be to separate these benefits from the old-age pension scheme and instead integrate them with the sickness insurance and unemployment schemes, respectively. This would make it easier to establish a clearer link between medical assessments and receipt of a disability pension and between joblessness and receipt of an unemployment benefit, while signalling, at the same time, that disability benefits and unemployment benefits should not be used or considered as early retirement schemes.

Recommendations for reform

Thus, further reform in the area of income-support arrangements should be considered as follows:

- *Review the proposal to extend the duration of unemployment benefits.* Abolishing the unemployment pension means that people can draw on unemployment benefits from the age of 57 up to 65. Instead, unemployment benefits for older persons should be aligned with the ordinary rules of unemployment benefits, *i.e.* a maximum benefit period of 500 days. Moreover, the phasing out of the unemployment pension should start before 2009 and the transition period should be shortened.
- *Tighten job-search requirements for receiving unemployment benefits.* Requirements of active job search and mobility for persons above 57 years in receipt of unemployment benefits should be strengthened. Currently, these requirements, though mandatory, are in practice not enforced for older unemployed so that they can remain essentially inactive for eight to ten years before receiving an old-age pension. One

immediate step would be to enforce the requirements in order to encourage older unemployed workers to search more actively for work. If this is not done, the phasing out of the unemployment pension will have little or no effect on employment outcomes.

- *Review the proposed easing of eligibility rules for receiving disability benefits.* Relaxing the medical assessments required for receiving a disability benefit will almost certainly lead to increased take-up of this benefit. In order to avoid this, eligibility rules should be based on stricter medical grounds than the present ones.
- *Abolish the subsidy of part-time pensions.* There is some evidence that the generous subsidy offered under the part-time pension scheme reduces total effective labour supply in terms of hours worked. This scheme should be discontinued and, instead, it should be made possible to combine the old-age pension with income from a full-time or part-time job.

Removing barriers facing employers to hire and retain older people

Although age-earnings profiles in Finland tend to be less steep than in many other OECD countries, the structure of employer social security contributions tends to make employment of older workers more expensive. First, social security contributions paid by employers increase both with the age of the worker and the size of the company. For a firm with 50 employees, the contribution rate ranges between 15% and 26% depending on the employee's age. The rationale for this is that the risks of both disability and unemployment increase with age. Secondly, there is a system of experience rating of the employer's contribution for larger firms that relates directly to the incidence of job-loss in each company as a result of disability or lay-offs. And since the use of these schemes tends to rise with age, a company's contributions will tend to rise in line with the average age of its work force. In practice, large companies may pay up to 80% of the disability and unemployment pension until the person is transferred to an old-age pension at the age of 65. Together, these factors make older workers more expensive than younger workers and therefore create further disincentives for employers to retain or hire older workers.

Another important factor for employers' hiring and retention decisions is their *attitudes* to older people and possible discrimination. However, these attitudes also affect the allocation of time and money spent on training of different age groups. Since middle-level managers do most of the hiring at companies, it is crucial to influence their attitudes towards older people. Thus, measures such as those that have been taken in the National Programme for

Ageing Workers should continue over the longer term to promote a change in attitudes among both management and colleagues at the workplace.

In particular, the anti-age discrimination legislation in Finland appears to be weak. Very few cases are taken to court compared to the share of workers who report suffering age discrimination. It is therefore important not only to combat negative age stereotyping by employers but also to promote awareness among trade unions and the general public of the need to tackle age discrimination.

Recommendations for reform

- *Remove the age-related component of social security contributions and review the system of experience-rating.* In combination with a tightening of eligibility rules for obtaining unemployment benefits and disability benefits, social security contribution rates for older workers should be set equal to those of prime-age workers. Moreover, the experience-rating system has been changed recently; the effects of this change should be evaluated carefully in order to see if the system has significant negative employment effects for older workers. If it does, a high priority should be assigned to reforming it with a view to minimising such effects.
- *Continue to promote age-management training and information campaigns.* Some ageing programmes have already included not only training of older people, but also of managers and human resource staff. Long-term measures like this are important and valuable tools to influence employer attitudes towards older workers and overall hiring practices of firms. In turn, information campaigns to raise the awareness of older peoples experience through the media could also influence attitudes among colleagues at the workplace as well as the overall public opinion. However, there is need to evaluate rigorously the effects of such measures and to adapt the design and scope of such training/information programmes accordingly.
- *Review the implementation of anti-age discrimination legislation.* The implementation of the legislation at the workplace should be evaluated as a matter of urgency. A clear signal should be given to employers and to society as a whole that age discrimination will not be tolerated.

Removing barriers facing older people and improving their employability

The difference in average educational levels between prime-age people and older people is larger in Finland compared with many other OECD countries. The share of older people with only a primary education is around 45%, compared with 17% for prime-age. Moreover, participation in employer-paid training falls in the older age groups and so do the number of training days for those participating. Thus, older workers not only have relatively lower education levels, but also have less on-the-job training.

The reason for the lower incidence of training among older workers in Finland does not depend solely on employers' unwillingness to train these people. It also has to do with worker motivation to undertake training. The main reason why workers in Finland do not undertake employer-paid training seems to be lack of time: almost half of the adult work force responds that they are too busy at work to participate in training. Thus, arranging working time so that employees actually find time to participate in training is of great importance, not just to older people but to mid-career workers as well, as is the adaptation of the training to different needs and skills.

The public employment service needs to encourage the older unemployed to participate in job search and active labour market programmes. All too often, there has been little interest in making active labour market programmes available to this group. In addition, it is important to strengthen career information and guidance for all age groups but especially for older people.

In terms of subjective evaluations of their working conditions, Finnish workers report a higher incidence of unpleasant working conditions, work tasks and time-flexibility compared with the average in the European Union. Perhaps as a result, Finns also report a relatively higher incidence of work-related health problems compared with the European Union average. Further, older Finns seem to experience a worse working environment compared to prime-age Finns, which is less common in other countries.

Recommendations for reform

A number of measures may be required to improve the employability of older workers. These include:

- *Encourage upgrading of education levels and participation in lifelong learning.* Higher education levels usually result in higher participation rates at older ages. Thus, to reduce the use of early retirement, the

government should seek to further encourage and support lifelong learning for the adult workforce, paying specific attention to the needs of mid-career and older workers. One good example already used is to personalise secondary training for adults by using a system of competence-based tests. It should also involve close co-operation with the social partners since some co-financing of training is called for, given that many of the returns to training accrue to individual firms and workers.

- *Arrange working time to leave room for training.* There is considerable scope for employers to re-organise work tasks so that workers have the time to participate in training. However, employers should also organise training more frequently and tailor it towards the different needs and skills of their employees.
- *Establish quantitative goals for future government programmes.* Instead of having general and rather vague goals such as improving work capacity and employability, there should be measurable goals that are relatively easy to follow up and evaluate. This could, for example, include targets for employment rates for different groups of older people by skill or education level, say, and by gender. Objective targets should also be set for improving “work ability” if possible. Clear objectives would not only help to increase programme efficiency, but would also help to establish good practices or benchmarks for future actions.

RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS

Les défis que la Finlande doit relever

Au cours des vingt-cinq prochaines années, la population finlandaise vieillira plus rapidement que celle de la majorité des autres pays de l'OCDE. La part de la population qui est âgée de 65 ans ou plus passera de 15 % en 2000 à 25 % avant 2025 et aura atteint 28 % en 2050. De ce fait, la population d'âge actif devrait diminuer, et si l'âge du départ à la retraite n'est pas relevé, le nombre total de personnes occupées qui quitteront la vie active au cours des quinze prochaines années sera proche de 900 000, ce qui représente près de 40 % de l'ensemble des personnes ayant actuellement un emploi. Le vieillissement de la population finlandaise risque d'engendrer des pénuries de main-d'œuvre qui pourraient avoir des effets négatifs sur la production ; il accentuera en outre la pression qui s'exerce sur des dépenses publiques déjà relativement élevées par comparaison avec celles des autres pays de l'OCDE.

Ce rapport montre que, si la Finlande souhaite relever avec succès les défis que lui pose le vieillissement de sa population, il est indispensable qu'elle s'emploie à inverser de manière déterminante la tendance au retrait anticipé de la vie active. Il énonce tout un ensemble de recommandations afin de lui permettre d'y parvenir.

Des progrès ont été réalisés

La Finlande a déjà pris plusieurs mesures pour faire face aux problèmes liés au vieillissement de sa population.

Renforcement des incitations au travail par la réforme du système public de pension

En septembre 2002, les partenaires sociaux ont conclu un accord sur la réalisation d'une vaste réforme du régime légal de retraite basé sur les salaires. L'une des principales mesures adoptées consiste à remplacer l'âge normal du départ à la retraite, fixé à 65 ans, par un âge flexible allant de 62 à 68 ans. Ainsi, si la liquidation de la pension a lieu à l'âge de 62 ans, celle-ci sera fortement réduite, mais si le retrait de la vie active est différé, le taux

d'accumulation passera du taux normal de 1.5 % par an à 1.9 % entre 53 et 62 ans, et à 4.5 % entre 63 et 68 ans. Il a en outre été décidé de calculer les droits à pension non plus sur les salaires des dix dernières années de chaque contrat de travail effectué, mais sur les salaires perçus durant l'ensemble de la vie active. Enfin, il est prévu de supprimer le plafonnement de la pension, limitée actuellement à 60 % des gains les plus élevés, ainsi que de prendre en compte l'évolution de l'espérance de vie dans le calcul des droits à pension. Les principaux volets de cette réforme entreront en application en 2005.

Outre les modifications du régime de retraite, des mesures de réforme ont été adoptées pour quatre des six dispositifs permettant un retrait anticipé de la vie active, en vue de : i) mettre fin progressivement au régime de la pension de chômage sur la période 2009-2014 et, en remplacement, prolonger la durée d'indemnisation du chômage au-delà de 60 ans et jusqu'à 65 ans ; ii) porter de 55 à 57 ans l'âge minimum à partir duquel il est possible d'entrer dans ce que l'on appelle le « tunnel du chômage » (c'est-à-dire l'âge auquel les chômeurs âgés ne sont plus tenus dans les faits de rechercher activement un emploi) ; iii) supprimer la pension individuelle de retraite anticipée, mesure qui s'accompagnera d'un assouplissement des critères médicaux appliqués pour l'octroi d'une pension d'invalidité ordinaire dans le cas des travailleurs âgés de 60 ans et plus ; iv) faire passer de 56 à 58 ans l'âge d'admissibilité dans le dispositif subventionné de retraite à temps partiel. Si certaines de ces réformes sont de nature à entraîner un relèvement de l'âge moyen du départ effectif à la retraite, ce ne sera sans doute pas le cas pour d'autres (voir ci-dessous).

Renforcer la capacité de travailler et l'aptitude à l'emploi des travailleurs âgés grâce à des programmes d'accompagnement du vieillissement

Dès le début des années 90, la Finlande a mis en place une série de dispositifs destinés à lui permettre de faire face aux problèmes liés au vieillissement de sa population et au retrait anticipé de la vie active. L'un des plus connus est le *Programme national pour les travailleurs âgés*. Son but était de renforcer l'employabilité des personnes vieillissantes et de permettre à celles qui souhaitent continuer à travailler de le faire jusqu'à l'âge d'ouverture des droits à pension. Il comportait des campagnes d'information et des actions de formation destinées aussi bien aux travailleurs qu'aux responsables. Il a également donné lieu à la réalisation de projets de recherche sur les moyens d'améliorer la vie professionnelle des travailleurs âgés. S'il est très difficile d'évaluer les effets de ce type de mesures, il est possible qu'elles aient contribué à la forte progression du taux d'emploi des travailleurs âgés que l'on observe depuis le milieu des années 90.

Les programmes les plus récents dans ce domaine ont trois grands objectifs : i) encourager les travailleurs âgés à rester en activité jusqu'à 62 ans, soit trois années de plus que l'*âge effectif actuel du départ à la retraite*, qui est 59 ans ; ii) faire passer le taux d'emploi global à 75 % ; iii) ramener le taux de chômage global à 5 % au cours des cinq prochaines années.

Domaines dans lesquels l'effort de réforme doit être renforcé

Ces réformes vont certes dans le bon sens, mais il est nécessaire de faire encore davantage. C'est ce que donne à penser notamment l'écart non négligeable de taux d'activité entre les personnes âgées de 50 à 64 ans et celles de 25 à 49 ans. En 2002, cet écart était de 25.5 points de pourcentage chez les hommes et de 20.4 points de pourcentage chez les femmes. Le taux d'activité des hommes âgés de 25 à 49 ans est de 91.9 %, et celui des femmes appartenant à la même tranche d'âge, de 85.3 %. S'agissant du groupe d'âge 50-64 ans, les chiffres sont respectivement de 66.4 % et de 64.9 %. Les taux d'activité des hommes finlandais âgés de 25 à 49 ans et de 50 à 64 ans se situent dans la moitié inférieure du classement des pays de l'OCDE, alors que ceux des Finlandaises dans les mêmes groupes d'âge sont proches du rang le plus élevé de ce classement. Par conséquent, pour pouvoir s'attaquer avec efficacité aux problèmes que lui pose le vieillissement de sa population, la Finlande aura fort intérêt à maintenir le taux d'activité des femmes à un niveau élevé tout en faisant progresser celui des hommes dans tous les groupes d'âge.

Ce rapport souligne que, pour réaliser ces objectifs, il est nécessaire de mettre en œuvre une vaste stratégie de réforme qui permette d'améliorer les possibilités d'emploi des travailleurs âgés. Celle-ci devrait prévoir non seulement des mesures de renforcement des incitations au travail intégrées dans les systèmes d'imposition et de prestations sociales, mais aussi des actions du côté de la demande. Les recommandations pratiques exposées ci-dessous fourniront peut-être des éléments utiles pour la définition de cette stratégie.

Réformer les régimes de pension et les dispositifs de garantie de revenu

L'un des principaux facteurs expliquant cette forte différence de taux d'activité est l'utilisation plus importante que font les travailleurs âgés des diverses prestations sociales.

Parmi les grandes voies de sortie anticipée de la vie active qui existent en Finlande, les plus importantes sont l'invalidité et le chômage. Dans le groupe d'âge 50-59 ans, la proportion de personnes qui reçoivent des *indemnités de*

chômage passe de 10 % environ chez celles qui ont 50 ans à 24 % chez celles qui sont âgées de 59 ans. De plus, lorsqu'ils entrent dans le groupe d'âge 60-64 ans, la majorité des chômeurs passent au régime de la *pension de chômage*, et avec les bénéficiaires d'indemnités de chômage normales, ils représentent à peu près 23 % de la population. L'inactivité est aussi très souvent liée à la perception d'une *pension d'invalidité*. Ainsi, près de 8 % des personnes âgées de 50 ans en perçoivent déjà une, et la proportion atteint 22 %, soit presque trois fois plus, avant l'âge de 60 ans. Au sein du groupe d'âge 60-64 ans, on recense environ 10 % de titulaires de la *pension individuelle de retraite anticipée* et quelque 20 % de bénéficiaires de pensions d'invalidité. Les pensions de retraite jouent un rôle plus marqué à partir de 60 ans et le taux de bénéficiaires connaît dès lors une très forte progression à partir d'un taux de 9 %. Il n'est donc pas étonnant qu'à 65 ans, âge légal du départ à la retraite, 94 % des travailleurs âgés reçoivent une pension de vieillesse. Afin de renforcer les incitations au travail, il est urgent de prendre des mesures propres à limiter l'accès aux différentes filières qui permettent une sortie anticipée de la vie active.

Le début de la suppression progressive de la pension de chômage aurait pu être fixé avant 2009, ce qui aurait permis d'inclure la génération du baby-boom. Il y a également lieu de se demander si cette mesure produira l'effet souhaité, étant donné que ce système sera remplacé par une prolongation de la durée de versement d'indemnités de chômage jusqu'à l'âge de 65 ans. En outre, s'il est prévu de supprimer la pension individuelle de retraite anticipée, les règles déterminant l'octroi d'une pension d'invalidité ordinaire vont être assouplies dans le cas des travailleurs âgés de 60 ans et plus, ce qui va assurément entraîner une augmentation de la proportion de travailleurs âgés bénéficiant de cette prestation.

En résumé, tant que les règles régissant l'accès aux indemnités de chômage, aux prestations d'invalidité et autres dispositifs permettant un retrait anticipé de la vie active demeureront aussi généreuses, la Finlande aura beaucoup de difficulté à faire passer l'âge effectif du départ à la retraite au niveau qu'elle s'est officiellement fixé. Elle devrait viser de façon générale à redonner aux allocations d'invalidité et aux indemnités de chômage leur finalité première. Dans ce but, il faudrait commencer par dissocier ces prestations du régime de pension de retraite et les intégrer respectivement dans le système d'assurance maladie et le régime d'assurance chômage. Cette démarche faciliterait l'établissement d'un lien clair entre l'évaluation médicale et le versement d'une pension d'invalidité, et entre la privation d'emploi et l'octroi d'indemnités de chômage, et permettrait en même temps de signifier

que ces deux catégories d'allocations ne doivent pas être utilisées comme des prestations de retraite anticipée, ni considérées comme telles.

Recommandations en vue d'une réforme

Il conviendrait donc d'envisager d'intensifier l'effort de réforme concernant les dispositifs de garantie de revenu à l'aide des dispositions suivantes :

- *Réexaminer la proposition relative à la prolongation de la durée de versement des indemnités de chômage.* Lorsque la pension de chômage sera supprimée, il est prévu de permettre aux intéressés de percevoir des indemnités de chômage de 57 à 65 ans. En fait, il faudrait appliquer aux chômeurs âgés les règles qui régissent normalement l'octroi de prestations de chômage, c'est-à-dire leur accorder une période maximale d'indemnisation de 500 jours. De plus, la suppression progressive de la pension de chômage devrait débuter avant 2009 et la période de transition être écourtée.
- *Renforcer les obligations à respecter en matière de recherche d'emploi pour pouvoir bénéficier d'indemnités de chômage.* Il conviendrait de renforcer l'obligation de recherche active d'un emploi et de mobilité pour les personnes de plus de 57 ans recevant des indemnités de chômage. A l'heure actuelle, bien que cette obligation soit légale, les chômeurs âgés ne sont pas tenus dans la pratique de s'y conformer, de sorte qu'ils peuvent rester presque totalement inactifs pendant huit à dix ans avant de percevoir une pension de retraite. Il faudrait dans l'immédiat imposer le respect de cette obligation afin d'encourager les chômeurs âgés à rechercher un emploi de façon plus active. Sans quoi la suppression progressive de la pension de chômage n'aura guère d'effet sur les résultats du point de vue de l'emploi, voire aucun.
- *Réexaminer la proposition d'assouplir les règles d'admissibilité au bénéfice des prestations d'invalidité.* Si les critères médicaux appliqués pour l'octroi d'une prestation d'invalidité sont rendus moins rigoureux, il est presque certain que l'utilisation de ces prestations augmentera. Pour éviter une telle évolution, il conviendrait de soumettre l'accès à ces prestations à des critères médicaux plus stricts que ceux qui sont actuellement en vigueur.
- *Supprimer la subvention accordée pour la pension de retraite à temps partiel.* Il y a lieu de penser que la généreuse subvention qui est accordée dans le cadre du régime de retraite à temps partiel a pour effet de réduire l'offre effective totale de main-d'œuvre en terme de temps travaillé. Ce

dispositif devrait être abandonné et, à la place, il devrait être possible de cumuler la pension de retraite avec un revenu provenant d'un emploi à temps complet ou à temps partiel.

Supprimer les obstacles qui empêchent les employeurs de recruter des travailleurs âgés et de les garder

Bien qu'en Finlande l'évolution du profil par âge des salaires dessine une courbe généralement moins pentue que dans d'autres pays de l'OCDE, la structure des cotisations patronales de sécurité sociale tend à rendre plus coûteux l'emploi de travailleurs âgés. Premièrement, ces cotisations augmentent aussi bien avec l'âge du salarié qu'avec la taille de l'entreprise. Dans le cas d'une entreprise de 50 salariés, le taux de cotisation va de 15 % à 26 % selon l'âge de ces derniers, la raison étant que le risque d'invalidité et de chômage croît avec l'âge. Deuxièmement, les grandes entreprises sont soumises à un système consistant à calculer pour chacune d'elles les cotisations patronales directement en fonction de ses antécédents quant à la fréquence des pertes d'emplois dues à l'invalidité ou aux licenciements. Or, comme l'utilisation des dispositifs de prise en charge de ces deux risques tend à augmenter avec l'âge, les cotisations de ces entreprises progressent en général avec l'âge moyen de leurs effectifs. Dans la pratique, les grandes entreprises peuvent avoir à acquitter jusqu'à 80 % de la pension d'invalidité ou de chômage jusqu'à ce que les bénéficiaires passent sous le régime de la pension de retraite, à l'âge de 65 ans. La conjonction de tous ces facteurs fait que les travailleurs âgés coûtent plus cher que les jeunes, ce qui dissuade encore plus les employeurs de recruter ou de les garder.

Les décisions des employeurs concernant le recrutement de travailleurs âgés ou leur maintien en activité sont aussi fortement déterminées par leur *attitude* à l'égard de cette catégorie de travailleurs et le risque de discrimination qui peut en découler. Cette attitude influe aussi sur la répartition du temps et des dépenses de formation entre les différents groupes d'âge. Étant donné que dans les entreprises ce sont les cadres moyens qui assurent l'essentiel du recrutement, il est indispensable d'agir de façon à modifier leur regard sur les travailleurs âgés. Par conséquent, des mesures comme celles qui ont été prises dans le cadre du Programme national pour les travailleurs âgés devraient être appliquées à plus long terme, afin de faire évoluer les mentalités tant au sein de l'encadrement que des collègues sur leur lieu de travail.

En particulier, la législation finlandaise relative à la discrimination liée à l'âge semble insuffisante. Les procès intentés pour ce motif sont très peu nombreux par rapport à la proportion de travailleurs qui déclarent être victimes

de cette forme de discrimination. Par conséquent, il importe non seulement de combattre les idées reçues que peuvent avoir les employeurs à l'égard des travailleurs âgés, mais aussi de sensibiliser les syndicats et le grand public à la nécessité de lutter contre la discrimination liée à l'âge.

Recommandations en vue d'une réforme

- *Supprimer la composante des cotisations de sécurité sociale qui est liée à l'âge et revoir le système de calcul des cotisations patronales en fonction des antécédents.* Parallèlement au durcissement des règles d'admissibilité au bénéfice d'indemnités de chômage et de prestations d'invalidité, les taux des cotisations de sécurité sociale versées pour les travailleurs âgés devraient être fixés au même niveau que ceux qui sont appliqués pour les travailleurs d'âge très actif. Par ailleurs, le système de calcul des cotisations en fonction des antécédents a été récemment modifié ; il conviendrait d'évaluer avec soin l'incidence de ce changement, afin de déterminer s'il exerce des effets négatifs importants sur l'emploi des travailleurs âgés. Si tel est le cas, il conviendrait de réformer d'urgence ce système en vue de réduire ses effets au minimum.
- *Continuer à promouvoir la formation à la gestion du vieillissement des ressources humaines et les campagnes d'information.* Certains dispositifs portant sur le vieillissement ont déjà permis d'organiser des activités de formation à l'intention non seulement des travailleurs âgés, mais aussi des cadres et du personnel chargé des ressources humaines. Ces mesures qui portent sur le long terme jouent un rôle important et constitue un moyen très utile d'influer sur l'attitude des employeurs à l'égard des travailleurs âgés et sur l'ensemble des pratiques des entreprises en matière de recrutement. De même, les campagnes d'information menées à travers les médias, en vue de mieux faire comprendre tout l'intérêt que présente l'expérience des travailleurs âgés pourraient aussi modifier la façon dont leurs collègues se comportent envers eux sur le lieu de travail, et permettre également d'agir sur l'opinion publique en général. Il est toutefois nécessaire d'évaluer avec rigueur les effets de ces actions de formation et d'information et d'adapter en conséquence leur conception et leur contenu.
- *Examiner la mise en œuvre de la législation sur la discrimination liée à l'âge.* Il est urgent d'évaluer la façon dont cette législation est mise en œuvre dans l'entreprise. Il importe de signifier clairement aux employeurs et à la société dans son ensemble que la discrimination liée à l'âge ne sera pas tolérée.

Supprimer les obstacles auxquels se heurtent les travailleurs âgés et améliorer leur employabilité

La différence de niveau d'instruction moyen entre travailleurs adultes et âgés est plus forte en Finlande que dans beaucoup d'autres pays de l'OCDE. La proportion de travailleurs âgés qui n'ont fait que des études primaires est d'environ 45 %, contre 17 % pour les travailleurs d'âge très actif. De plus, on observe une diminution de la participation à la formation financée par l'employeur au sein des groupes d'âge élevé, ainsi qu'une baisse du nombre de journées de formation chez les participants âgés. Par conséquent, non seulement les travailleurs âgés ont un niveau d'instruction relativement faible, mais ils bénéficient moins souvent de la formation sur le tas.

Si en Finlande la fréquence de la formation est moins forte chez les travailleurs âgés, cette situation ne tient pas uniquement au refus des employeurs de leur en faire bénéficier. Elle est due aussi à l'existence de certains facteurs qui les incitent ou non à suivre une formation. Il semble que la principale raison pour laquelle les travailleurs finlandais ne participent pas à la formation financée par l'employeur soit le manque de temps : près de la moitié de la main-d'œuvre adulte déclare être trop prise par le travail pour pouvoir prendre part à une formation. Par conséquent, il est très important d'organiser les horaires de travail de façon que les salariés puissent effectivement trouver le temps de participer à la formation, et ce non seulement pour les plus âgés d'entre eux, mais également pour ceux qui sont en milieu de carrière, ainsi que d'adapter la formation à la diversité des besoins et des compétences.

Le service public de l'emploi doit encourager les chômeurs âgés à rechercher un emploi et à participer aux programmes actifs du marché du travail. Le fait de proposer ces dispositifs à cette catégorie de chômeurs est trop souvent absent des préoccupations. Il importe en outre d'accroître les efforts en matière d'information et d'orientation professionnelles pour tous les groupes d'âge, mais surtout pour les travailleurs âgés.

S'agissant de l'appréciation subjective de leurs conditions de travail, les travailleurs finlandais font plus souvent état de mauvaises conditions de travail, de tâches désagréables et d'une organisation peu flexible des horaires que ne le font en moyenne les travailleurs de l'Union européenne. C'est peut-être pour cette raison que, d'après leurs déclarations, la fréquence de problèmes de santé liés au travail est relativement plus forte que la moyenne relevée dans les pays de l'Union européenne. Il semble en outre que les Finlandais âgés aient un moins bon cadre de travail que les Finlandais plus jeunes, ce qui est moins souvent le cas dans les autres pays.

Recommandations en vue d'une réforme

Afin d'améliorer l'employabilité des travailleurs âgés, l'adoption d'un certain nombre de mesures peut être nécessaire, dont les suivantes :

- *Encourager l'élévation du niveau d'instruction et la participation à la formation tout au long de la vie.* En règle générale, plus le niveau d'instruction est élevé, plus le taux d'activité est important chez les plus âgés. Par conséquent, afin de réduire le recours aux dispositifs permettant un retrait anticipé de la vie active, les pouvoirs publics devraient s'efforcer d'encourager et de soutenir davantage la participation de la main-d'œuvre adulte à la formation tout au long de la vie, en portant une attention particulière aux besoins des travailleurs en milieu de carrière et âgés. Il existe par exemple une formule intéressante, déjà en application, qui consiste à offrir aux adultes une formation de niveau secondaire, personnalisée à l'aide d'un système de tests d'évaluation des compétences. Il conviendrait aussi de renforcer la coopération avec les partenaires sociaux, le financement de la formation devant être assuré dans une certaine mesure de façon conjointe, étant donné que les entreprises et les travailleurs profitent chacun largement des avantages qu'elle procure.
- *Organiser le temps de travail pour laisser une place à la formation.* Les employeurs ont des possibilités non négligeables de réorganiser les tâches de façon à laisser à leurs salariés le temps de participer à la formation. Mais ils devraient aussi organiser plus souvent des activités de formation et adapter celles-ci aux divers besoins et compétences de leur main-d'œuvre.

Déterminer des objectifs quantitatifs pour les futurs dispositifs publics. Au lieu de viser des buts très généraux et plutôt vagues, comme l'amélioration de la capacité de travail et l'employabilité, il conviendrait de définir des objectifs mesurables dont la réalisation soit relativement facile à suivre et à évaluer. Ceux-ci pourraient par exemple porter sur le taux d'emploi à atteindre pour différentes catégories de travailleurs âgés selon la qualification ou le niveau d'instruction et le sexe. Des buts objectifs devraient en outre être fixés en vue d'améliorer si possible la « capacité de travailler ». Le fait de définir clairement les résultats à obtenir aiderait non seulement à accroître l'efficacité des programmes, mais aussi à déterminer les bonnes pratiques ou des critères de référence utiles pour l'action future.

INTRODUCTION

The proportion of the population aged 65 years or older will increase more rapidly in Finland over the next 25 years than in most other OECD countries. It is projected to increase from around 15% of the population in 2000 to 25% by 2025. The rapid ageing of Finland's population will not only generate increased pressures on public expenditures but as a result of a fall in the number of people in the working-age population will also lead to labour shortages and slower economic growth.

Mobilising labour resources will be the key to meeting these challenges. Although employment rates for older women are relatively high in Finland, they are far below the OECD average for men. Thus, older workers – especially men – should be given better incentives to continue working by reducing access to early retirement entitlements, giving better job-search assistance, providing suitable training opportunities and improving working conditions. It is of utmost importance that participation rates remain high for women and increase for men, especially among older workers. The main purpose of this report is to reflect on the different avenues for reform that will need to be pursued in order to meet this objective.

Chapter 1 sets out the challenges ahead. It highlights the importance of improving the employment prospects of older workers as the key to meeting the ageing challenge. *Chapter 2* discusses the current labour market situation for older workers in terms of their employment and unemployment situation, but also in terms of absenteeism and people outside the regular labour market. *Chapter 3* discusses the role of supply-side factors in influencing participation rates of older people and how incentives to work are affected by benefit levels and eligibility criteria in the welfare system. *Chapter 4* examines those factors which negatively affect the attitudes of employers towards older workers. *Chapter 5* looks at barriers that workers themselves face to gaining access to better jobs and how to remain in these jobs longer. Finally, *Chapter 6* examines the possibilities to raise the overall employment rate in the future, emphasising the importance of introducing a broad range of reforms. It also examines the importance of co-operation between government bodies, social partners and individuals.

Chapter 1

THE CHALLENGE AHEAD

Like many other OECD countries, the population in Finland is ageing. But the ageing process is hitting Finland earlier than in most other OECD countries. The old-age dependency ratio is projected to rise from 25% in 2000 to about 37% by 2020, the fastest rise in the OECD area. However, the labour force may start to decline as early as 2004. This is likely to have a negative impact on potential output and growth and place increasing financial pressures on the social protection system. In light of the demographic trends described below, it would appear that increasing participation of older workers is a crucial policy objective.

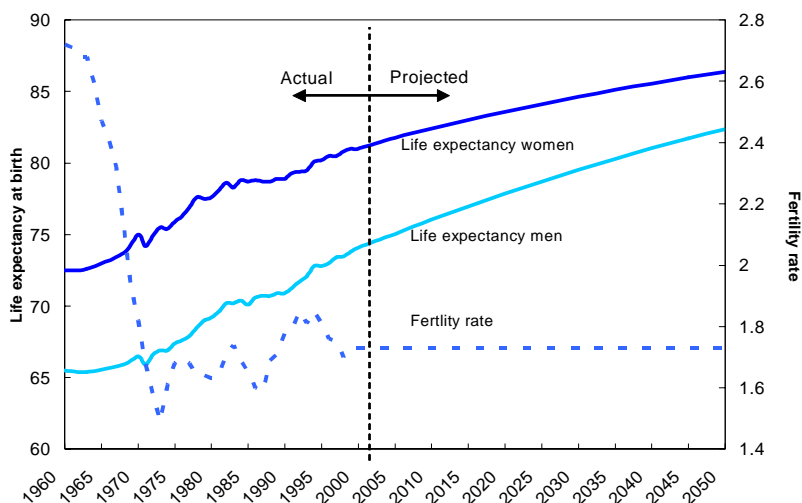
1. The demographic challenge

The key factors behind this transition are rising life expectancy and declining fertility rates. While the total fertility rate has fallen from around 2.7 in the beginning of 1960s to 1.73 in 2002, life expectancy at birth for men and women has increased from 65.5 and 72.5 years to 73.8 and 83 years, respectively. This increase is projected to continue and by 2050, life expectancy at birth could reach 86.4 years for women and 82.4 years for men (Figure 1.1).

A broad indicator of the rising economic burden that an older society may place on the working-age population is given by the *old-age dependency ratio*, *i.e.* the ratio of the population aged 65 and over to the population aged 20 to 64. Projections suggest that the ratio for Finland is set to almost double over the next five decades, *i.e.* increasing from its 2000 level of 24.7% to 48.1% in 2050 (Figure 1.2, Panel A). By 2050, the situation confronting Finland will be comparable to the rest of the European Union (52.7%) and the OECD area (45.6%).

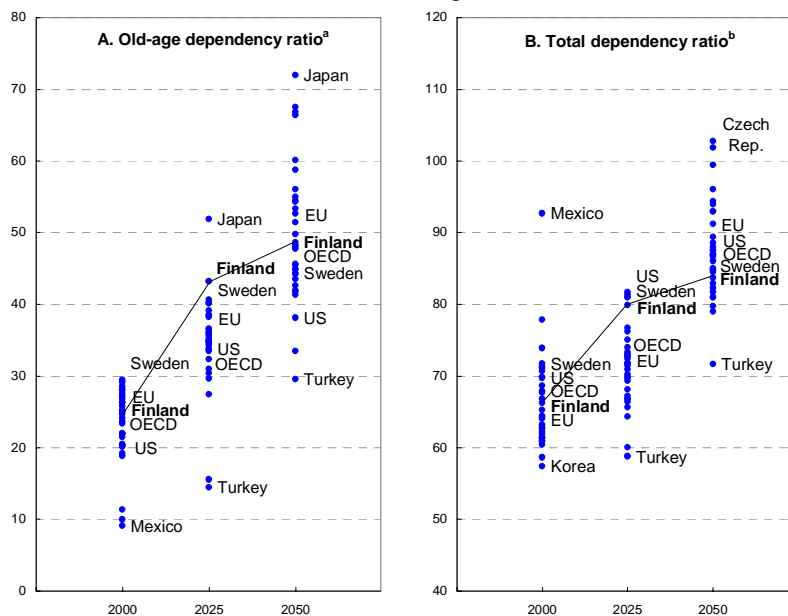
However, the increase will be far stronger in the first half of the period. Indeed, by 2025 Finland is expected to have the second highest ratio and the third largest increase – only Korea and Japan will experience larger increases. Thus, to cope with the pressure from an ageing society, Finland has to start taking measures earlier than most other countries in the OECD area.

Figure 1.1. **Life expectancy at birth and the total fertility rate in Finland, 1960-2050**



Source: OECD Health Data (2001) and Statistics Finland (Population Statistics).

Figure 1.2. **Demographic dependency ratios, 2000-2050**
Percentages

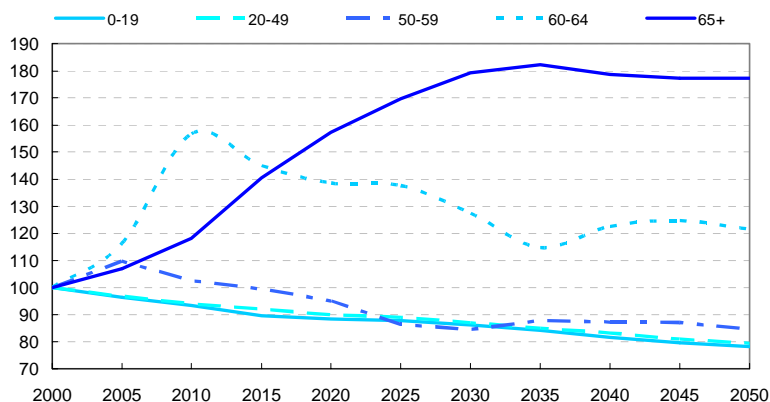


a) Ratio of the population aged 65 and over to the population aged 20-64.

b) Ratio of the sum of the population aged below 20 and the population aged above 64 to the population aged 20-64.

Source: National projections; EUROSTAT Population Projections (1999 revision); and UN, *World Population Prospects 1950-2050 (The 2000 Revision)*.

Figure 1.3. **Population projections, 2001-2050^a**
Indexation (2000 = 100)



- a) The projections are based on the Finnish baseline population projection scenario. This assumes an increasing life expectancy (based on changes in mortality from the years 1981-1985 to 1996-2000), fertility rates of 1.73 and an annual net immigration of 5 000 (calculated as the average over 1996-2000).

Source: Statistics Finland, Population Projections for Finland 2001-2050.

Changes in the old-age dependency ratio tell only part of the story about the additional economic burden that may result from population ageing. The *total dependency ratio*, which captures the overall shift in population changes relative to the working-age population (20-64), is also important to consider. Most of the increase in the Finnish total dependency ratio is also expected to occur in the next 25 years. From its 2000 level of 65.2%, it will increase to 81% in 2025 and to 84.8% in 2050 (Figure 1.2, Panel B). This is comparable to the situation in the European Union and the OECD area where the increases mainly occur over the latter part of the period.

Altogether, the population in Finland is projected to decline from the present level of 5.2 million people to 5 million by 2050. However, the composition of the population is projected to change quite dramatically (Figure 1.3). The evolution of the “baby-boom” generation reaching the age of 65 around 2010 is clearly traceable. Further, the increase in the population aged 65 and over is also striking. Thus, the number of people aged over 65 is projected to increase by 57% by 2020 and 80% by 2050 compared with its 2000 level. At the same time, the age groups 20-49 and 0-19 are expected to decrease by 20%.

2. Potential economic and social impacts

The ageing of Finland's population is likely to have serious economic and social repercussions. The changes in population structure will most certainly raise the pressures on public spending in terms of pensions, health and long-term care, but also create serious labour shortages. According to OECD estimates, total public expenditures associated with ageing are expected to rise from 19.4% of GDP in 2000 to 27.9% by 2050 (OECD, 2001*b*). Expenditure on old-age pensions accounts for most of this increase.

The ageing process is also likely to create intergenerational tensions. Indeed, the strain on public expenditures is likely to bring about an increase in taxes and social contributions and most of the increase in this fiscal burden is likely to be borne by the working-age population.

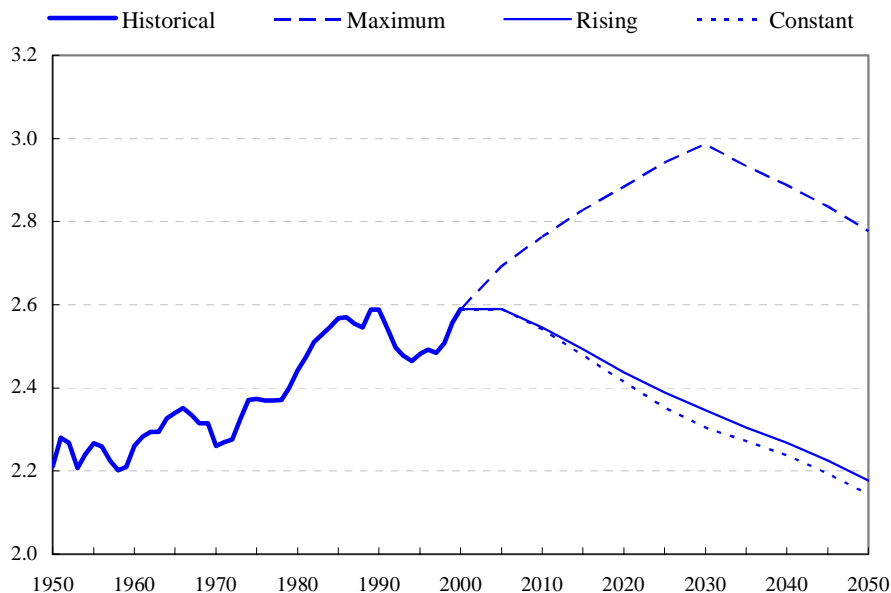
A key factor in meeting these challenges will be the extent to which Finland's potential labour supply can be fully mobilised, especially with respect to older people. Indeed, increased participation would lead to stronger labour force growth, thereby contributing to reducing the economic pressures that arise as a consequence of an ageing population. The impact of participation rates on the evolution of the labour force is illustrated in Figure 1.4, which shows labour force projections under three different scenarios reflecting various assumptions about participation rates:

- In the *constant* (or baseline) scenario, participation rates by age and gender are assumed to remain constant at their 2000 level over the next five decades. Accordingly, by 2050, Finland's labour force is projected to decrease by 450 000 persons.
- The *rising* scenario assumes constant participation rates for age groups up to and including 45-49, but assumes that participation of older groups (over 50), converges by 2030 to the OECD averages in 2000 and remains constant thereafter. For Finland, there is very little difference between the constant and rising scenarios, and both projections predict a decline in the labour force.
- The *maximum* scenario assumes that participation rates by age and gender converge by 2030 to the corresponding maximum rate observed across OECD countries in 2000, and remain constant thereafter.¹ For Finland, this implies a big upswing in participation rates and a labour force growth by 400 000 by 2030. Thereafter, the labour force declines to 2.8 million people in 2050 – an increase of 190 000 people compared to 2000.

1. Excluding Iceland, Luxembourg and Mexico.

Figure 1.4. **Labour force growth, 1950-2050^a**

Millions of people, projections after 2000



a) See text for an explanation of the different scenarios.

Source: OECD Labour Force Statistics and OECD estimates.

The economic consequence of a declining labour force growth could, under the “constant” scenario, manifest itself by reducing average real GDP growth by 0.46 percentage points per annum over the next 50 years, relative to the growth rates experienced over the period 1950-2000.² A similar reduction could be expected under the “rising” scenario while a small increase in annual GDP growth of 0.12 percentage points could occur under the “maximum” scenario. Thus, the impact of slower or negative labour force growth on overall economic growth has to be offset by either a rise in total factor productivity growth or faster growth in capital inputs.

These scenarios suggest that there is considerable scope for changes in policy and institutional settings that affect participation rates to influence the

2. In accounting for GDP growth, the contribution from labour force growth is often given a weight of around 0.65. Under the “constant” scenario, the slowdown in labour growth of 0.71 percentage points — the difference in the average annual growth rate over the period 1950-2000 (0.33%) and the projected growth rate over the period 2000-2050 (-0.38%) under the constant scenario — means that annual average potential growth would decline by around 0.46 percentage points (0.65x0.71).

rate at which labour force growth develops over the coming decades. In particular, they point to the importance of raising overall participation rates for older men and to ensure that a high proportion of older females continue to work (Table 1.1).

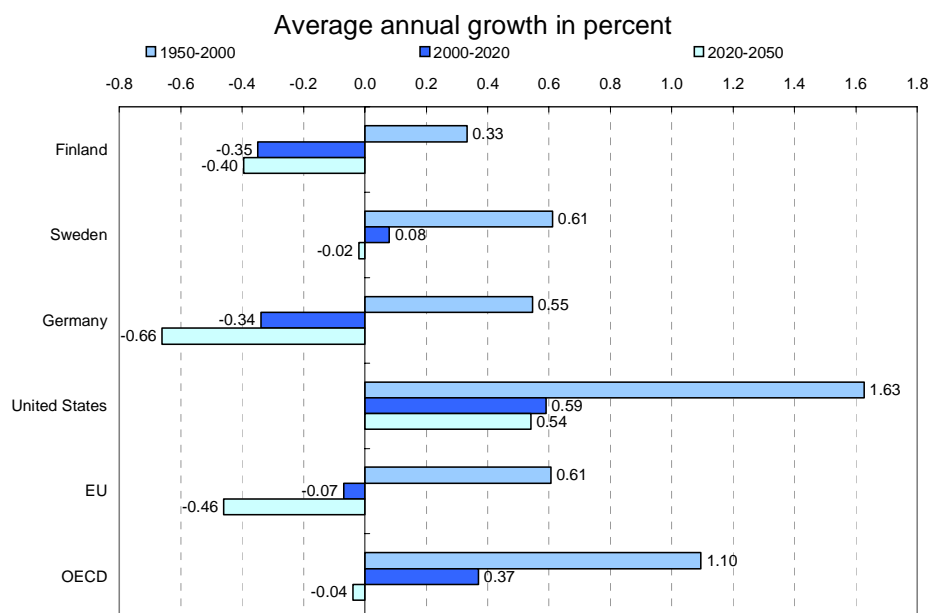
Table 1.1. Projected growth in the Finnish labour force under different scenarios^a

	Average annual percentage change		
	Constant participation rates	Rising participation rates	Maximum participation rates
2000-2020	-0.35	-0.30	0.54
2020-2050	-0.40	-0.38	-0.13
2000-2050	-0.38	-0.35	0.14

a) See text for an explanation of the different scenarios.

Source: OECD estimates.

Figure 1.5. Labour force growth in OECD countries, 1950-2050^a



a) The projection of labour force growth over the period 2000-2050 assumes that participation rates by five-year age groups and gender remain constant at their 2000 level.

Source: OECD estimates.

The constant scenario is applied to other OECD countries to gauge the severity of the changes expected in Finland (Figure 1.5). In fact, the expected decline in the Finnish labour force will be greater than the reductions expected for the OECD area. In particular, while annual labour force growth in the OECD area will be 0.37% between 2000 and 2020, it will average -0.35% in Finland. For the period 2020-2050, the Finnish labour force is projected to decline by -0.40% annually, in line the European Union average but a steeper decline than the OECD average.

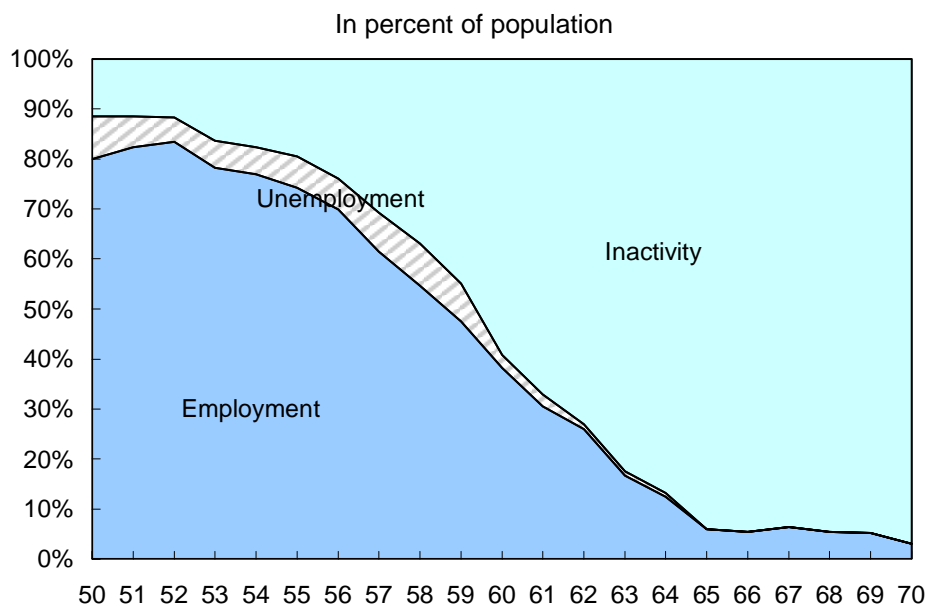
If Finland manages to increase participation rates of older workers, the reduction in labour force growth would be mitigated, thus alleviating the economic challenges caused by the decline in the working-age population. Generally, participation rates for the age group 50-64 are higher than the OECD average, but significantly lower than the OECD average for the age group 65-69. In the context of the labour force growth scenarios, this implies that the somewhat higher participation rate in the age group 50-64 is offset by the much lower participation rate in the 65-69 age group.

Chapter 2

THE CURRENT LABOUR MARKET SITUATION OF OLDER WORKERS

The current labour market situation in Finland needs to be set against the background of the severe recession in the early 1990s. GDP growth plummeted from just over 5% in 1989 to zero growth in 1990 and fell by over 6% in 1991. Although the economy recovered slowly, it continued to experience negative growth until 1994. This was followed by a recovery with GDP growth peaking at 6.1% in 2000. However, the recent global slowdown has affected Finland more severely than many other OECD countries, with GDP growth falling to around 1% in 2001-2002.

Figure 2.1. **Labour market status in Finland by single year of age, 2001**



Source: Finnish Labour Force Survey.

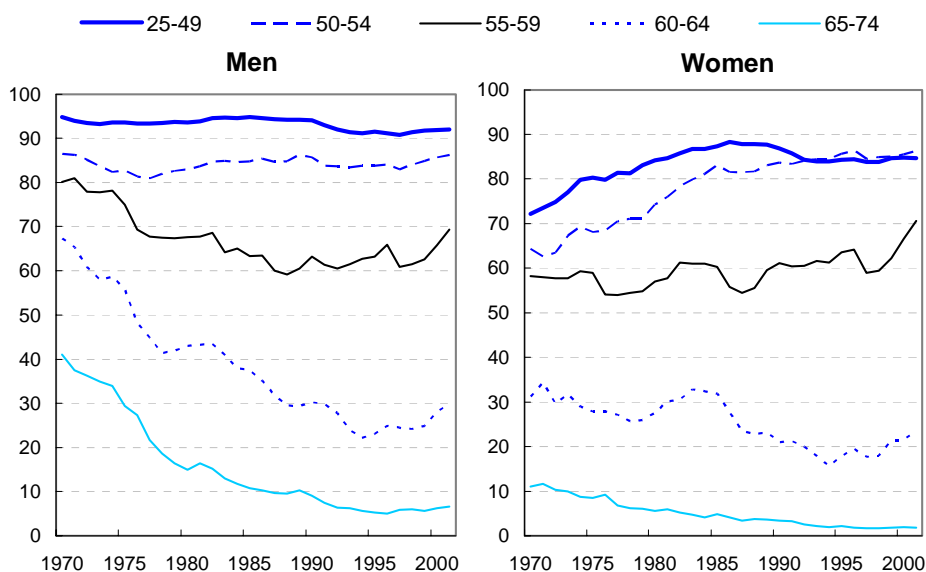
Employment rates in Finland start to fall at the age of 53 and fall steeply thereafter (Figure 2.1). At the age of 61, only around 30% of the population is working – a drop of more than 50 percentage points compared with individuals 51 years old. This corresponds to a similar increase in inactivity rates. In fact, by the age of 53, inactivity rates amount to more than 16% and, between the ages of 57 and 60, the inactivity rate jumps from 31% to almost 59%. In turn, unemployment rates are highest for 50-year olds and thereafter vary between 5% and 8% up to the age of 60. After the age of 60, as will be shown in Chapter 3, unemployment falls since many individuals transfer to the unemployment pension. Moreover, the number of people on unemployment benefits in the age group 55-59 is considerably higher than the reported numbers of unemployed in the labour force survey since they are generally categorised as inactive.

1. Key issue I: Increasing labour market participation rates of older workers – especially men

Overall labour force participation in Finland has been quite stable over the past three decades. However, dramatic changes have taken place within many of the age groups and by gender (Figure 2.2). The participation rates for men below 55 years of age have been relatively stable over time while those of men aged 60-64 and 65-74 have dropped by almost 40 percentage points since 1970. On the other hand, participation rates of women have increased for all age groups below 60. Moreover, the participation rate of women aged 50-54 has been above that of prime-aged women since the early 1990s at levels comparable to men in the same age group. The participation rate of women aged 55-59 has increased significantly over the past few years and is now higher than their male counterparts. In fact, Finland is the only country in the OECD where the participation rates of women in the age groups 50-54 and 55-59 are higher than for men.

Despite the recent uptick in participation rates, Finnish males fare relatively poorly in comparison to the rest of the OECD (Figure 2.3). Participation rates for men aged 25-49 and 50-64 are in the bottom half of the OECD ranking, while Finnish women in the same age groups never rank less than fourth in the OECD area. However, the ranking for men and women in the group 65-69 is very similar, at the 22nd and 23rd position, respectively.

Figure 2.2. **Participation rates by age and gender in Finland, 1970-2001^a**
Percentages



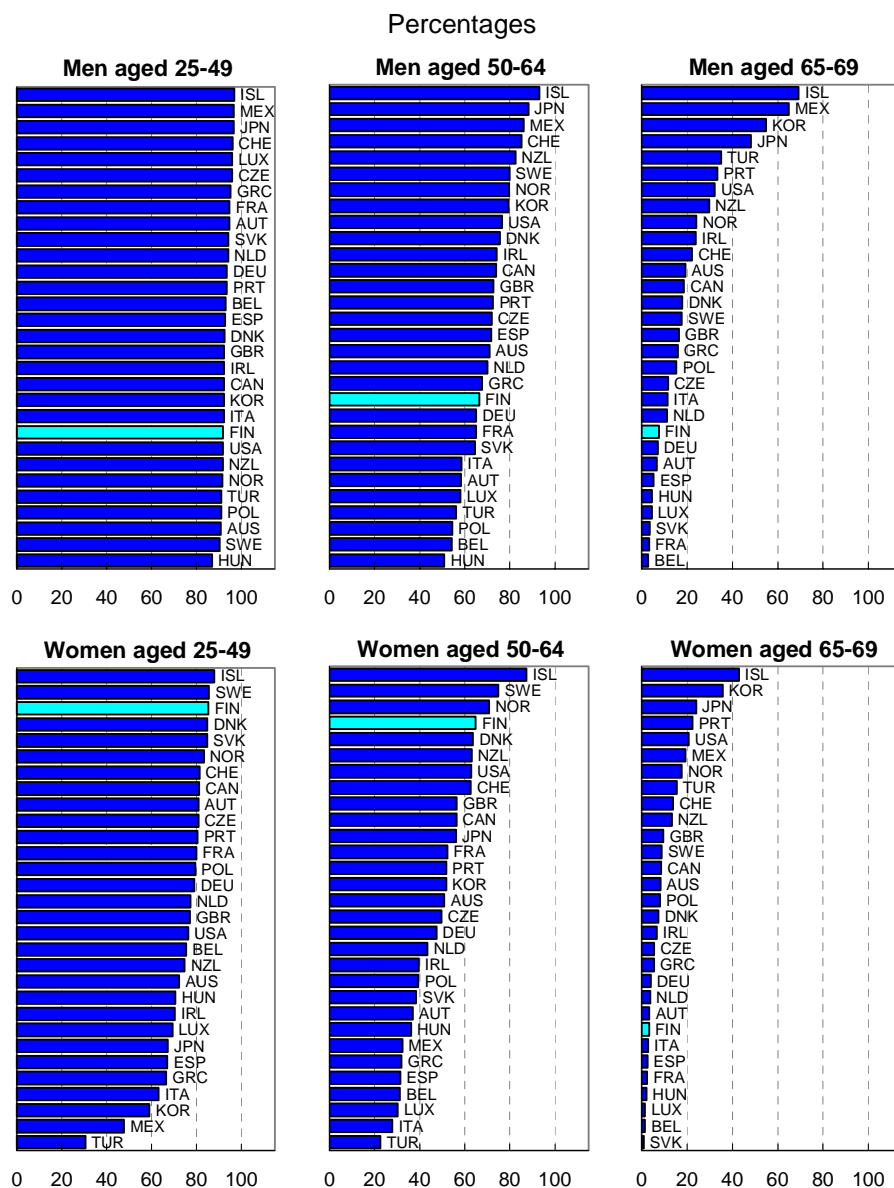
a) There is a break in the series due to a classification change in 1997. These new criteria have been applied back to 1989.

Source: Finnish Labour Force Survey.

Furthermore, Finnish participation rates are below those for Sweden across all age groups, except for men aged 25-49. In the age groups 50-64 and 65-69, the gap between Swedish and Finnish men amounts to around 13 and 10 percentage points, respectively; the equivalent gaps for women are 10 and almost 6 percentage points, respectively. For prime-aged workers, these gaps are much narrower.

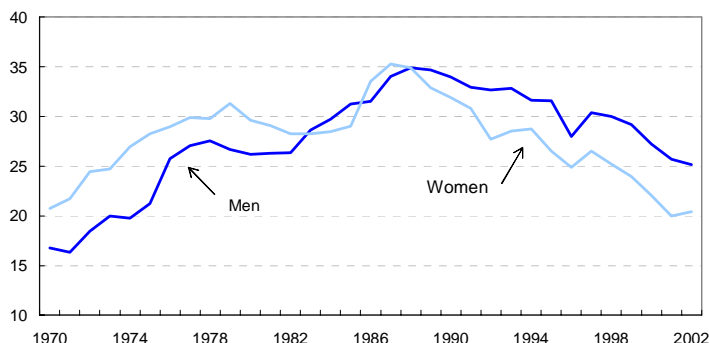
Between 1970 and 1990, the gap between older and prime-age workers increased from around 20 to 35 percentage points for both males and females (Figure 2.4). Since the early 1990s, the gap has declined significantly for both men and women. Still, in 2002, the gap in participation rates amounted to 25.5 percentage points for males and 20.4 percentage points for females – slightly above the OECD average. However, compared to Sweden and Norway, for example, the Finnish gaps are almost twice as high for both men and women.

Figure 2.3. **Participation rates by age and gender in OECD countries, 2002**



Source: OECD Labour Force Statistics.

Figure 2.4. **Differences in Finnish participation rates between prime-age and older workers by gender, 1970-2002**
Percentage points



Source: Finnish Labour Force Survey.

2. Employment situation

Achieving higher rates of labour force participation among older people will be only part of the battle in coping with population ageing. Even if participation rates are high, substantial part-time employment and work absences among older workers could reduce effective labour supply in terms of hours worked. Thus, it is also important to take into account the average number of hours worked by older workers. In Table 2.1, employment rates for people aged 50-64 in 2000 are shown both before and after an adjustment for hours worked per week.³

For Finnish older women, weekly hours worked were just over 29 hours per week, which was around 5.2 hours less than the corresponding figure for Finnish men. This gap is much smaller than the average OECD gender gap in hours worked. The reason, however, is not that older Finnish women work particularly long hours, but rather that older Finnish men work relatively short hours. In fact, older Finnish men have among the lowest weekly hours of work in the OECD area – third only to Norway and Denmark. Taking hours worked into account reduces employment rates by almost 8.3 percentage points for men, which is one of the largest reductions and by 15.5 percentage points for women. Consequently Finland's ranking in terms of the adjusted employment rate of older men changes from the fifth lowest to the second lowest, but improves for older women from seventh highest to fifth highest.

3. It would be preferable to make an adjustment on the basis of annual rather than weekly hours worked but the relevant data by age are not available.

Table 2.1. Employment-population rates for persons aged 50-64 before and after adjustment for hours worked, 2000^a

	Unadjusted employment rate				Adjusted employment rate				Weekly hours of work	
	Men		Women		Men		Women		Men	Women
	Rate (%)	Rank	Rate (%)	Rank	Rate (%)	Rank	Rate (%)	Rank		
Australia	67.6	11	46.6	11	68.6	8	33.3	11	40.6	28.6
Austria	56.3	17	32.4	16	57.6	15	27.4	15	40.9	33.8
Belgium	51.5	20	27.0	18	46.9	20	18.2	20	36.4	27.0
Denmark	70.3	9	60.1	4	59.6	13	41.8	6	33.9	27.8
Finland	59.1	15	57.6	7	50.8	19	42.1	5	34.4	29.2
France	54.7	18	42.9	12	53.4	18	33.3	12	39.0	31.0
Germany	57.7	16	39.6	13	59.0	14	29.0	13	40.9	29.4
Greece	66.0	12	29.5	17	71.3	6	27.8	14	43.2	37.7
Iceland	95.8	1	82.7	1	116.7	1	69.9	1	48.7	33.8
Ireland	71.1	7	34.7	15	76.5	5	24.6	16	43.0	28.3
Italy	54.4	19	23.1	20	54.0	17	19.3	18	39.7	33.4
Japan	84.1	2	54.8	8	96.1	2	49.1	4	45.7	35.8
Netherlands	65.5	13	38.2	14	57.6	16	19.1	19	35.2	20.0
Norway	78.3	4	67.3	3	64.0	11	41.4	7	32.7	24.6
Portugal	70.8	8	48.6	10	69.0	7	40.6	8	39.0	33.5
Spain	64.9	14	25.6	19	63.9	12	21.6	17	39.4	33.7
Sweden	73.7	5	70.4	2	65.5	10	52.4	2	35.5	29.8
Switzerland	83.6	3	59.2	6	86.7	3	37.8	9	41.5	25.5
United Kingdom	68.6	10	52.9	9	65.6	9	33.5	10	38.2	25.3
United States	73.7	6	59.6	5	76.8	4	52.4	3	41.7	35.2
<i>Average</i>	<i>68.4</i>		<i>47.6</i>		<i>68.0</i>		<i>35.7</i>		<i>39.5</i>	<i>30.2</i>

a) The adjusted employment rate is obtained by multiplying the employment rate by weekly hours worked and dividing by 40.

Source: OECD Labour Force Statistics and OECD Database on hours of work.

It is often argued that part-time work helps to accommodate work and family responsibilities. In particular, it is often regarded as a useful tool to raise the labour market participation of women. However, Finland has one of the lowest incidences of part-time work in the OECD area for both prime-age and older workers (Table 2.2). Moreover, at 15.9%, the incidence of part-time work among female older workers is particularly low, which may help explain the relatively large number of hours worked among female older workers. However, part-time employment of older men is more pronounced in Finland than in a number of other European countries, probably reflecting the subsidised part-time pension scheme (part-time work for older men is almost three times higher compared to the prime-age).

Table 2.2. **Part-time work by age and gender, 2001^a**

Percentages of total employment

	Age 50-64			Age 25-49		
	Total	Men	Women	Total	Men	Women
Austria	16.0	4.7	34.0	18.4	3.5	36.4
Canada	15.3	7.2	25.7	12.2	4.5	21.0
Finland	12.5	9.1	15.9	7.3	3.5	11.6
France	17.2	5.6	31.4	15.5	3.8	29.7
Netherlands	41.6	19.4	78.6	36.8	11.0	69.6
Norway	24.7	8.2	44.2	21.4	6.4	38.3
Spain	6.8	1.8	18.4	7.6	2.0	16.2
Sweden	22.2	11.2	34.1	19.1	5.4	34.3
United Kingdom	28.3	10.1	51.1	20.5	3.4	41.5
United States	16.6	10.1	24.3	11.1	4.2	19.1
EU-average	18.8	6.4	37.6	16.2	3.7	32.4
OECD-average	20.6	10.5	35.4	15.2	5.9	27.6

a) Part-time work is defined as less than 30 usual weekly hours of work in the main job. Data for the United States refer to individuals 25-54 and 55-64. For the calculation of OECD and EU averages, data for Germany and Sweden are from 2000.

Source: OECD Database on part-time work.

A. *Current job characteristics*

Future employment prospects for older persons will be influenced by the type of jobs they can attain and their workplace environment. In terms of their current job characteristics, older workers in Finland represent only 25% of all employed persons, but they represent almost 40% of those self-employed (Table 2.3). Nevertheless, around four fifths of all older workers are working as employees and are therefore likely to have a permanent contract.

Table 2.3. **Finnish older workers by employment status by industry and occupation, 2001**
In percentages

	Older workers (aged 50+) in each category:					
	As a share of all employed persons in each category			As a share of all older workers		
	Total	Men	Women	Total	Men	Women
All employed	26.4	25.5	27.3	100.0	100.0	100.0
By employment status:						
Self-employed	38.5	39.2	37.0	18.1	24.7	11.4
Family worker	52.2	53.0	51.2	0.0	1.3	0.9
Employee	24.5	22.7	26.3	80.8	74.0	87.8
Permanent employee	27.1	24.5	30.0	74.7	69.4	80.2
Temporary employee	11.1	10.7	11.3	6.0	4.5	7.5
By industry:						
Agriculture, hunting, forestry and fishing	38.0	39.0	35.9	8.0	11.2	4.8
Mining and quarrying, electricity, gas and water supply	35.0	36.3	30.3	1.4	2.2	0.5
Manufacturing	24.4	23.4	26.8	18.1	23.8	12.2
Construction	26.5	26.6	25.3	6.5	12.1	0.8
Wholesale and retail	22.8	21.3	24.5	10.0	9.6	10.5
Transport, storage and communication	24.8	24.9	24.7	6.7	9.6	3.7
Financial and real estate activities	24.9	25.1	24.6	11.9	12.5	11.2
Public administration, defence, education, social security, health, social work, and other community, social and personal services	28.9	27.8	29.4	34.7	17.8	52.1
Hotels and restaurants	17.1	11.6	25.1	2.2	0.9	0.7
Other	26.0	27.3	19.4	0.5	0.4	3.6
By occupation:						
Legislators, senior officials and managers	32.4	32.8	31.3	11.1	16.0	6.1
Professionals	24.4	24.8	24.0	18.2	15.7	20.9
Technicians and associate professionals	25.3	25.2	25.4	15.6	13.6	17.7
Clerks	27.1	20.8	28.5	8.3	2.3	14.5
Service, shop and market sales workers	24.2	15.0	27.0	11.1	3.2	19.2
Skilled agricultural and fishery workers	38.8	41.0	34.5	7.8	10.7	4.8
Craft and related trades workers	25.0	24.9	26.1	11.9	21.3	2.3
Plant and machine operators and assemblers	23.6	22.4	28.5	7.9	11.9	3.9
Elementary occupations	27.5	20.6	33.3	8.0	5.3	10.7

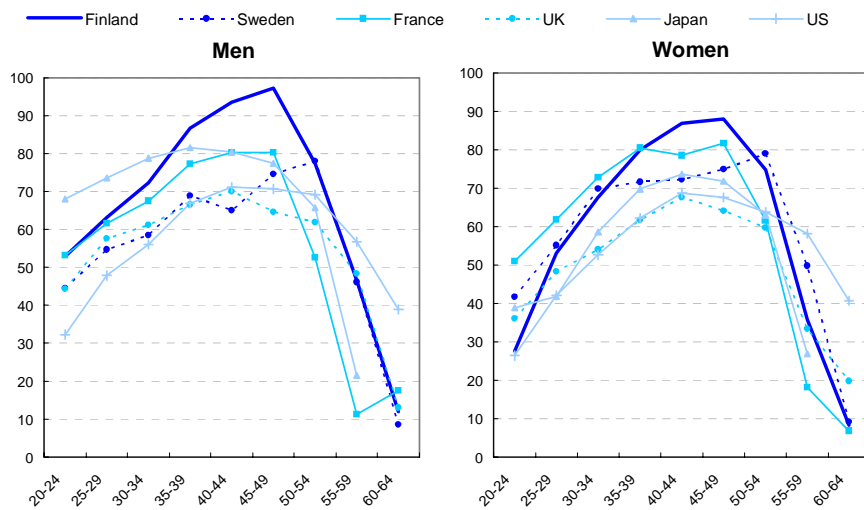
Source: Finnish Labour Force Survey.

By industry, older workers are overrepresented in “agriculture and fishing” but also in “mining and quarrying” (yet only 8% and 1.4% of all older workers are employed in these industries, respectively). They are also slightly overrepresented in “public administration and education” (almost 18% of all older men and 52% of all older women are employed in this sector). On the other hand, older workers are underrepresented in the “hotel and restaurant” industry. Overall, older men are more evenly distributed across industries compared with women, although a higher proportion of men are employed in the primary sector industries, “manufacturing” and “construction”.

With respect to occupation, altogether some 49% of all employed older men are working in manual occupations. The comparable figure for older

women is 22%. Since manual occupations usually are more physically demanding with a larger hazard of injury, the risk that older men leave the labour market before the official retirement age due to health reasons is higher than for older women.

Figure 2.5. **Retention rates by age and gender in selected OECD countries, 1995-2000^a**



- a) Retention rates refer to the proportion of workers in 1995 (1996 in the United States) who were still in the same job five years later (four years later in the United States). The age groups refer to a worker's age in 1995 (1996). The data for Japan refer to regular workers in enterprises with ten or more regular workers, excluding the agricultural, hunting forestry, fishing and general government sectors. The data for the other countries are based on labour force surveys covering all workers.

Source: Japanese Basic Survey on Wage Structure; European Labour Force Survey; Job Tenure supplement to the US Current Population Survey.

In an attempt to measure job stability, five-year retention rates, *i.e.* the proportion of all workers who are still in their jobs five years later, were calculated.⁴ In general, retention rates tend to be hump-shaped with age (Figure 2.5). Typically, they are low for younger workers, since they change jobs relatively frequently while making the transition from school to work and then rise with age as workers become more settled in their careers. They subsequently decline at older ages as workers either reach the official retirement age or, where this possibility exists, take

4. These retention rates are estimated using cross-sectional data on job tenure rather than from directly observing job retention. They are calculated by taking the ratio of the number of workers in any given five-year age group, with at least five years of job tenure, to the total number of workers in the preceding age group five years earlier.

advantage of an early retirement scheme. Of course, these retention rates will reflect both voluntary and involuntary quits and so, for older workers, the decline in their retention rates may also reflect involuntary job loss rather than just voluntary retirement.

Finnish retention rates are relatively high compared to other countries. In fact, among Finns aged 35-39 in 1995, almost 87% of the men and 80% of the women were still working in the same enterprise in 2000. This increases to around 97% for men and 88% for women in the age group 45-49. Between the ages 50-54 and 55-59, the rates drop sharply from 77% for men and 74% for women to around 47% for men and 36% for women. In fact, retention rates for both males and females start to drop at age 50-54 – five years earlier than in, for example, Sweden, which may in part be explained by the eligibility criteria for the various early retirement schemes that exist in Finland. In the age group 60-64, these rates have fallen to 12% for men and 8% for women – well below the rates in the United Kingdom and the United States, but very similar to the levels in Sweden. Thus, while the United Kingdom and the United States are generally noted for having highly flexible labour markets, there appears to be either greater job security for older workers or less generous exit routes before the official retirement age in these two countries than in Finland.

Table 2.4. **Reasons for job terminations in Finland by age and gender, 2001**

	Percentages				
	25-49	50-54	55-59	60-64	65+
Total					
Total	100.0	100.0	100.0	100.0	100.0
Fired or temporarily laid-off	10.1	13.8	27.1	20.7	6.1
Temporary job finished	55.1	44.9	29.8	8.7	3.2
Stayed home to take care of a child	13.7	1.1	0.2	0.1	0.0
Got sick or disabled	7.3	27.1	25.8	20.6	10.1
Retired	0.2	3.2	10.8	46.0	77.3
Other reason	13.5	10.0	6.3	3.9	3.2
Men					
Total	100.0	100.0	100.0	100.0	100.0
Fired or temporarily laid-off	14.8	13.3	29.7	21.9	4.7
Temporary job finished	58.5	42.6	26.0	9.0	3.3
Stayed home to take care of a child	1.0	0.3	0.1	0.1	0.0
Got sick or disabled	10.8	30.4	27.0	22.7	10.9
Retired	0.4	5.5	11.9	42.9	78.2
Other reason	14.4	7.8	5.2	3.5	2.9
Women					
Total	100.0	100.0	100.0	100.0	100.0
Fired or temporarily laid-off	7.1	14.3	24.7	19.7	7.4
Temporary job finished	53.0	47.3	33.4	8.5	3.1
Stayed home to take care of a child	21.8	1.9	0.3	0.1	0.0
Got sick or disabled	5.1	23.6	24.7	18.8	9.5
Retired	0.1	0.7	9.7	48.7	76.5
Other reason	12.9	12.3	7.3	4.3	3.5

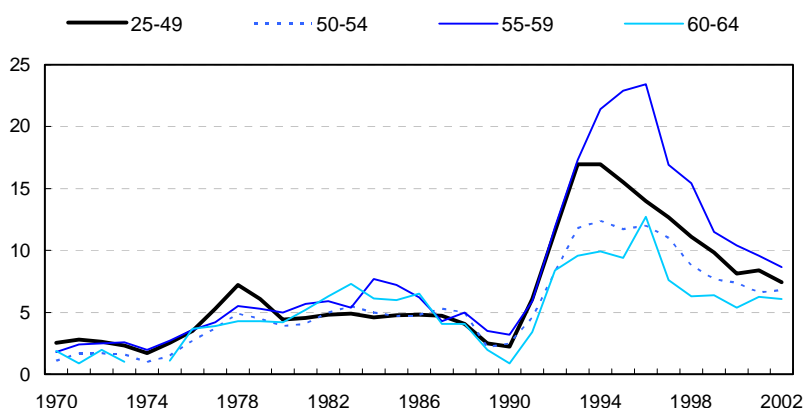
Source: Finnish Labour Force Survey.

Whether the decline in retention rates for older workers represents a rise in the rate of voluntary quits or not is difficult to say. However, there are distinct differences between the reasons for job separations between prime-age and older workers (Table 2.4). Generally, the most important reason for both men and women in the age groups 25-49, 50-54 and 55-59 is that they finished a temporary job, except for men aged 55-59 for whom the main reason was that they were fired or temporarily laid off. For men and women aged 60 and over, the main reason is retirement. Another important reason for job termination among older workers aged 50 and over is sickness or disability.

3. Key issue II: The unemployment rate for older people has to be reversed

During the recession in the early 1990s, unemployment rates rose to record levels for all age groups but especially so for the age group 55-59. For several years, the rate for this group was well above 20%, peaking at 23.4% in 1996 (Figure 2.6). Even when unemployment started to decline in the mid to late 1990s, the rates in the age group 55-59 continued to remain high. Again, this is probably explained by the unemployment tunnel that enables older people to stay on unemployment benefits (the reasons for this pattern are discussed in detail in Chapter 3). Moreover, in 2002, the rates for all age groups were still substantially higher than in the 1970s and about three times higher than in 1990.

Figure 2.6. **Unemployment rates in Finland by age, 1970-2002^a**
Percentages



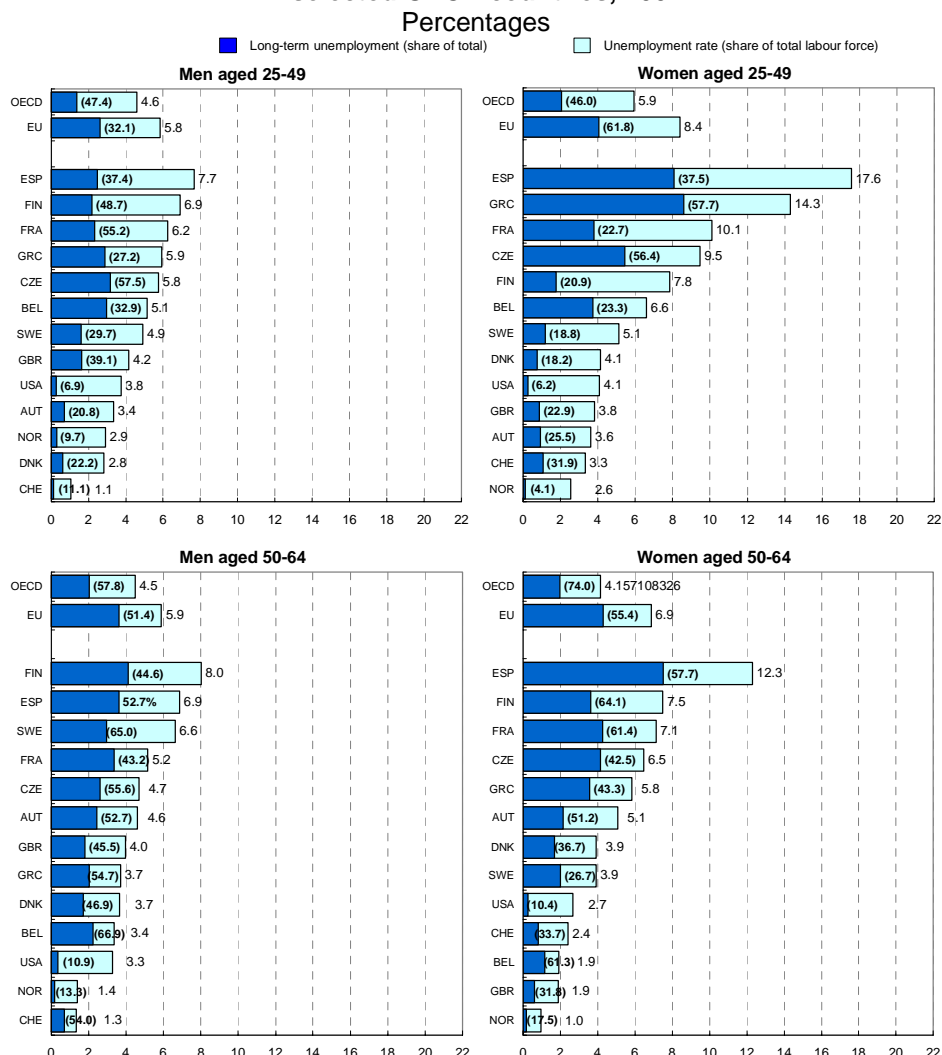
- a) There is a break in these series because of a change in the classification criteria in 1997 after which date the rates are somewhat lower than they would be had the pre-1997 criteria been applied.

Source: OECD *Labour Force Statistics* and Finnish Labour Force Survey.

In 2001, the unemployment rate for older workers in Finland was 8% for men and around 7.5% for women – significantly higher compared to many of their counterparts in other OECD countries (Figure 2.7). Moreover, the rate of

long-term unemployment for older Finns (around 4% of the labour force) is nearly double that of prime-age Finns, but also relatively high compared to other countries.

Figure 2.7. **Unemployment rates and duration by age and gender in selected OECD countries, 2001^a**



a) Long-term unemployment is defined as one year or longer (as a percentage of total declared durations). Data for the United States refer to individuals aged 25-54 and 55-64.
Source: European Labour Force Survey and national labour force surveys.

4. Key issue III: Reducing inactivity by strengthening work incentives

While reducing unemployment among older people will help mobilise their labour supply, tackling inactivity is potentially even more important as a much higher proportion of older people are inactive than unemployed.

A. *Identifying pockets of mobilisable labour resources*

The extent to which potential labour supply is under-utilised in Finland compared with other OECD countries is shown in Table 2.5. The first three columns present the estimates of total mobilisable labour resources and how this is divided between excess inactivity and excess unemployment. The subsequent columns show the contributions to the total mobilisable labour resources attributable to three different age groups.⁵

Finland has a rate of mobilisable labour resource amounting to 7.6% of its population – of which 5.8 percentage points (76%) is attributable to inactivity. This is the tenth highest level of mobilisable resources in the OECD area. Those aged 50-64 account for nearly two-thirds of this excess inactivity. Moreover, men aged 50-64 account for over half of *all* excess inactivity, identifying them as one of the groups that policy should focus on in particular. Those aged 50-64 also contribute 25.4% to excess unemployment in Finland, over four times higher than the OECD average. Overall, 4.3% of older people are considered to be mobilisable, of whom three-quarters are older men.

This illustrative exercise reveals that there is scope for large improvements in participation rates. This is especially true for older men and is mainly explained by the significant drop in their labour market participation during the past three decades.

5. Excess inactivity is defined as the difference in inactivity rates between each country and the country with the third lowest inactivity rate in the OECD area. Excess unemployment is defined as any positive excess of unemployment above 5%. The countries used as benchmark in the inactivity exercise are the following: For men aged 15-24, Denmark and Luxembourg, for men aged 25-49 Iceland and Mexico, for men aged 50-64, Switzerland. For women aged 15-24, Norway, for women aged 25-49 the Slovak Republic, and for women aged 50-64, Norway.

Table 2.5. **Benchmarking of mobilisable labour resources
in OECD countries, 2001^a**
Percentages

	Mobilisable labour resources	Form of non-employment		Mobilisable labour by age group		
		Excess inactivity	Excess unemployment	15-24	25-49	50-64
Iceland	0.0	0.0	0.0	0.0	0.0	0.0
Norway	2.8	2.8	0.0	0.0	1.8	1.0
Sweden	2.9	2.9	0.0	0.2	1.5	1.1
Switzerland	3.0	3.0	0.0	0.5	1.7	0.8
Denmark	4.4	4.4	0.0	0.0	1.5	2.8
United States	6.6	6.6	0.0	0.7	3.7	2.3
Portugal	6.9	6.9	0.0	0.5	2.1	4.2
Japan	7.0	7.0	0.0	0.3	4.6	2.1
Canada	7.5	6.8	0.7	0.6	3.2	3.8
Finland	7.6	5.8	1.8	0.8	2.5	4.3
United Kingdom	8.1	8.1	0.0	0.8	3.5	3.8
Czech Republic	8.9	7.3	1.7	1.3	2.1	5.5
Netherlands	9.8	9.8	0.0	0.2	3.2	6.4
France	9.9	7.8	2.1	0.4	3.5	6.0
Australia	10.4	10.3	0.2	0.6	5.3	4.5
Ireland	10.6	10.6	0.0	0.3	5.3	5.0
Germany	11.7	10.0	1.7	0.9	3.2	7.6
Austria ^b	12.1	12.1	0.0	1.0	2.7	8.3
Belgium	14.3	14.3	0.1	0.7	4.2	9.4
Luxembourg	14.4	14.4	0.0	0.1	5.4	8.9
Spain	16.6	14.0	2.6	0.9	8.8	6.9
Hungary	17.7	17.7	0.0	1.7	6.3	9.7
Greece	17.8	15.2	2.6	1.5	7.3	9.0
Poland	18.1	10.8	7.3	2.2	7.8	8.1
Slovak Republic	19.2	9.7	9.5	5.8	6.1	7.3
Mexico	19.8	19.8	0.0	5.4	11.2	3.2
Italy	21.0	19.0	2.1	1.9	9.0	10.2
Turkey ^c	35.1	32.7	2.4	10.4	18.2	6.5
OECD ^c	12.3	11.3	1.0	1.9	7.2	3.3

a) Mobilisable labour resource is the sum of excess inactivity and excess unemployment, both relative to international benchmarks. Youth (aged 15-24) enrolled in school were not included in the calculation of excess inactivity or excess unemployment, even if they were classified as inactive or unemployed by the national labour force survey.

b) The data for Austria refers to year 2000.

c) Population-weighted average for the 28 countries shown above.

Source: The calculations are based on OECD's *Labour Force Statistics* and OECD Database on labour market status by educational participation.

B. Reason for inactivity

Levels of inactivity in Finland differ quite significantly between gender and age group, but also in comparison to the OECD average (Table 2.6). First, in the age groups 50-54 and 55-59, the share of inactive Finnish women is almost half of that for women in the OECD area, and the opposite holds for Finnish men. In the age group 60-64, the inactivity rate for Finnish women exceeds the OECD average, while the inactivity rate for Finnish males is around 13 percentage points above the OECD average.

Table 2.6. Inactivity status in Finland and average in OECD countries, 2001^a

Percentages

	25-49			50-64			50-54			55-59			60-64		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
FINLAND															
Active	92.3	85.1	88.7	65.7	64.7	65.2	85.8	86.1	86.0	67.8	70.5	69.2	30.1	23.6	26.9
Employed	85.9	78.4	82.2	60.4	59.8	60.1	79.8	80.4	80.1	60.6	64.1	62.4	28.3	22.0	25.2
Unemployed	6.4	6.7	6.6	5.3	4.9	5.1	6.0	5.7	5.9	7.2	6.4	6.8	1.8	1.6	1.7
Inactive	7.7	14.9	11.3	34.3	35.3	34.8	14.2	13.9	14.0	32.2	29.5	30.8	69.9	76.4	73.1
Discouraged	0.6	0.5	0.6	1.5	1.6	1.6	0.7	0.8	0.8	2.1	2.6	2.4	2.1	1.5	1.8
Retired	..	..	..	11.7	12.7	12.2	0.7	0.1	0.4	4.5	2.9	3.7	38.2	44.6	41.5
Illness or disability	3.7	2.4	3.1	16.9	14.4	15.7	10.0	7.5	8.8	17.9	14.3	16.1	27.1	25.3	26.2
Family responsibilities	0.3	7.4	3.9	0.2	1.7	1.0	0.2	1.8	1.0	0.1	1.6	0.9	0.2	1.6	0.9
Other	3.1	4.6	3.8	4.0	4.9	4.5	2.6	3.7	3.0	7.6	8.1	7.7	2.3	3.4	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
OECD^a															
Active	92.7	76.9	84.8	68.1	47.3	57.7	87.3	68.5	77.8	72.7	48.7	60.4	42.8	28.5	35.4
Employed	87.8	71.4	79.6	64.9	45.1	55.0	84.1	65.5	74.7	69.7	47.1	58.1	41.7	28.0	34.6
Unemployed	4.9	5.5	5.2	3.2	2.2	2.7	3.2	3.0	3.1	3.0	1.6	2.2	1.0	0.5	0.8
Inactive	7.3	23.1	15.2	31.9	52.7	42.3	12.7	31.5	22.2	27.3	51.3	39.6	57.2	71.5	64.6
Discouraged	0.3	0.5	0.4	0.7	1.0	0.9	0.6	1.1	0.8	1.0	1.3	1.2	0.8	0.6	0.7
Retired	..	..	..	18.6	22.1	20.3	3.5	3.6	3.6	13.8	18.1	16.2	44.2	40.1	42.2
Illness or disability	2.8	2.9	2.9	9.0	9.0	9.0	6.3	7.2	6.8	9.5	8.7	9.1	10.0	8.7	9.3
Family responsibilities	0.3	14.6	7.4	0.4	17.9	9.2	0.3	15.9	8.1	0.3	18.8	9.7	0.3	17.9	9.4
Other	3.9	5.1	4.5	3.2	2.7	3.0	2.1	3.7	2.9	2.6	4.4	3.5	1.9	4.1	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

a) The OECD average excludes data from Australia, Canada, Korea, Japan, Mexico, New Zealand and Turkey.

Source: OECD Labour Force Statistics.

The reasons for inactivity also differ dramatically between Finland and the OECD area. Overall, shares of discouraged workers (which vary between 0.3% and 2.6%) are low for all males and females in Finland and OECD. Nonetheless, the incidence of discouraged workers is nearly twice as high in Finland as in the OECD area. Furthermore, there are large differences in retirement rates. For example, in Finland older people aged 50-54 and 55-59 reported retirement as a reason for inactivity in only 0.4% and 3.7% of the cases compared to 3.6% and 16.2% in the OECD area. One possible explanation for this difference lies in the incidence of disability in Finland which at 16% for the age group 50-64 is nearly double the OECD average of 9%. A final striking difference is that only around 1.7% of older women in Finland are inactive because of family responsibilities compared to the OECD average of around 18%.

Of course, there are several possible explanations for these differences in activity between Finnish older workers and their OECD average counterparts. The more obvious explanations are differences in social security systems and definitions of, for example, disability and early retirement. However, what is clear is that most other countries have a relatively larger potential labour reserve consisting mainly of women, since on average around 23% of women aged 25-49 and 53% aged 50-64 are not in the labour force in the OECD area compared with 15% and 35%, respectively in Finland.

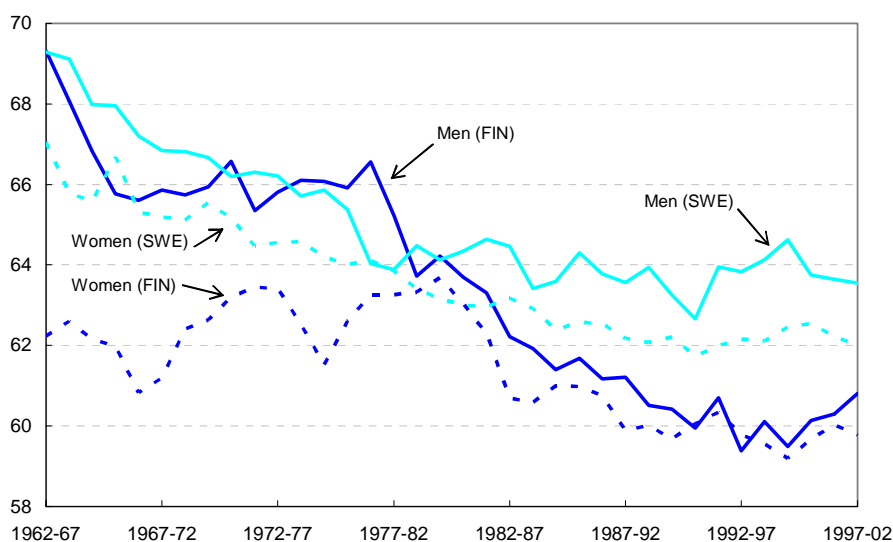
C. *The trend towards early retirement may continue*

The past few decades have witnessed a fall in the *effective age of retirement*.⁶ Since the late 1960s, the effective retirement age of Finnish men has fallen nearly nine years to 60 years of age (Figure 2.8). For Finnish women, the effective retirement age has fluctuated to some extent but since the early 1980s has fallen from almost 64 years to just under 60 years. The decline is a result of the introduction of several early retirement schemes between the early 1970s and late 1980s, but also the relaxation of the eligibility requirements for receiving a disability pension.

6. Estimated average age at which individuals older than 40 left the labour force during any given five-year period. The estimates are derived using pseudo-cohorts by five-year age groups for persons initially aged 40 and over. They are calculated by weighting the average age of each cohort over a given five-year period by its share of the total decline in participation rates for all cohorts between the beginning and end of the period.

The comparison with Sweden is striking, both in terms of trends and levels. While there has been a clear downward trend for Finnish males over the period, the effective retirement age of men in Sweden began to stabilise in the early 1980s. Moreover, the large difference in the effective retirement age between men and women in Finland at the beginning of the period has decreased gradually over time. In Sweden, this gap has more or less remained constant over time and since about 1985, the effective retirement age of both men and women in Sweden has been consistently higher than the levels witnessed in Finland.

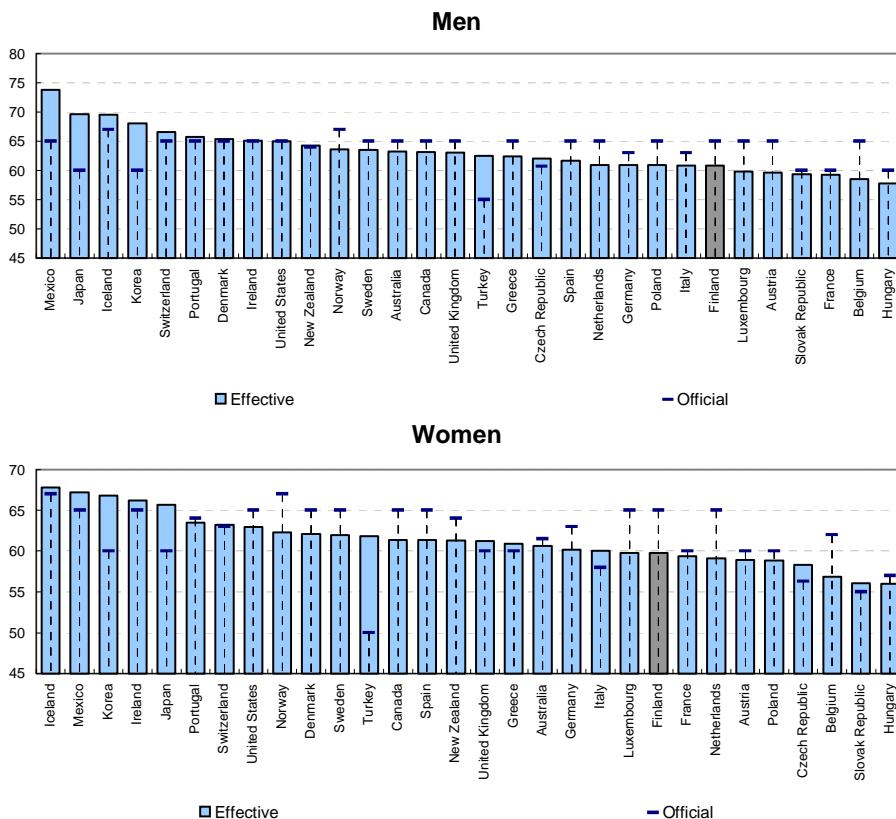
Figure 2.8. Average effective retirement age in Finland and Sweden, 1967-2002^a



a) Average age of withdrawal from the labour force for individuals older than 40 years based on changes in participation rates by five-year age cohorts over five-year intervals.
Source: OECD estimates.

Although the overall trend in Finnish effective retirement ages over the past four decades has not been favourable, in recent years small increases have occurred for both men and women. If this recent trend was to continue, it would bode well for the future. Nevertheless, the current effective retirement age in Finland is low in comparison with other OECD countries, especially so for men (Figure 2.9).

Figure 2.9. **Effective and official retirement ages in selected OECD countries, 1997-2002^a**



a) Average age of withdrawal from the labour force for individuals older than 40 years based on changes in participation rates by five-year age cohorts over five-year intervals.
 Source: OECD estimates.

Thus, reversing the trend in effective retirement ages is of utmost importance in Finland. In order to do this, among many other things, the financial incentives to continue working in older ages have to be enhanced. Indeed, the role of the welfare system and the delicate balance between social protection and adequate incentives to work will be discussed in detail in the next chapter.

Chapter 3

STRIKING THE RIGHT BALANCE: INCOME SUPPORT FOR OLDER PEOPLE AND WORK INCENTIVES

Finding a balance between guaranteeing an adequate income for the elderly while not undermining work incentives, is a challenge facing all OECD countries. The relative generosity of welfare systems is one important determinant of the actual retirement decisions of older people, but also a way to support vulnerable groups and to cover both temporary and permanent losses of labour income. Individual decisions to work depend, among other factors, on benefit levels and eligibility criteria in the public pension system and in other social security schemes. Therefore, the purpose of this chapter is to examine the details of the current income support arrangements for the older population in Finland and to assess the likely impact these arrangements may have on the labour supply decisions of older people.

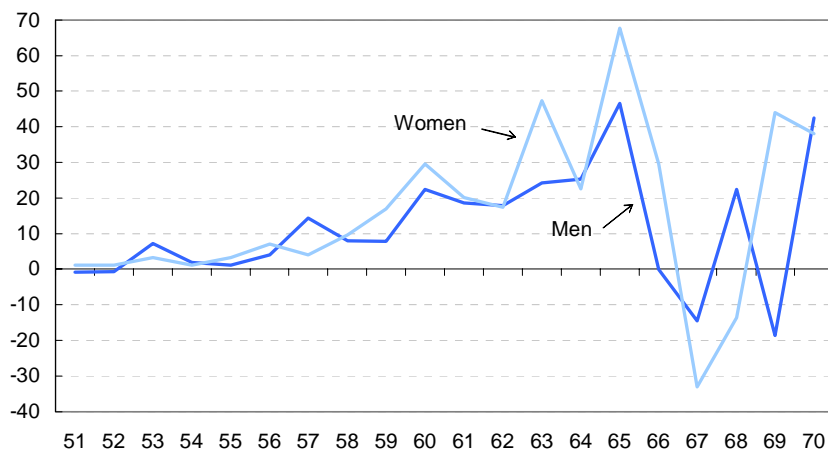
1. Welfare systems – a way out of the labour market?

An indication of how the welfare system influences retirement decisions can be gleaned from data on “retirement rates” by single year of age for older people (Figure 3.1). In Finland, there are noticeable spikes in the retirement rate for both men and women at the age of 56-57, 60, 63 and at 65. In fact, the welfare system in Finland contains a number of pathways that allow older people to exit the labour market long before the official retirement age at 65. These are: the disability pension, the so-called “unemployment tunnel”, the unemployment pension, the individual early retirement pension, the farmers’ pension and early old-age pension. There is also the subsidised part-time pension, which may have contributed to lower the effective labour supply of older workers in Finland.

The main exit routes from the labour market goes through either the disability pension scheme or unemployment benefits. The proportion of people on unemployment benefits increases from around 10% for 50-year olds to 24% for those aged 59 (Figure 3.2). At the age of 60, unemployed persons are eligible for the unemployment pension, which combined with unemployment benefits, continues to account for approximately 23% of all inactivity among older people. Moreover, the proportion of people on a disability pension amounts to nearly 8% at the age of 50 and at the age of 60 this figure almost trebles to 22%. For the age

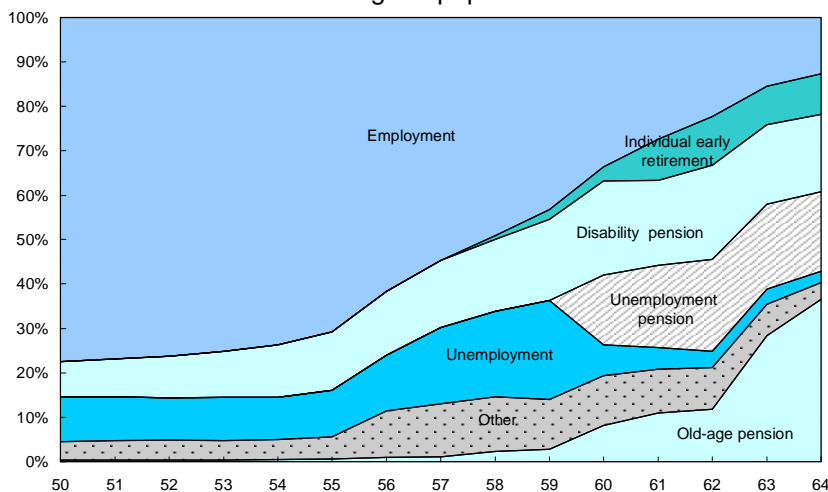
group 60-64, the use of individual early retirement is almost 10% but disability still accounts for nearly 20% of inactivity. Moreover, old-age pensions have a more pronounced role from the age of 60 on; and not surprisingly, at the official retirement age of 65 years, 94% of older people receive the old-age pension. In order to enhance work incentives these various pathways need redressing.

Figure 3.1. Retirement rate in Finland by age and gender, 2001^a
In percent



a) Percentage decline in the participation rate between successive years of age.
Source: Finnish Labour Force Survey.

Figure 3.2. Main activities of older people in Finland, 2000^a
Percentage of population



a) The category "Other" includes people receiving an agricultural pension, a part-time pension, participating in active labour market programmes and those persons not receiving any benefits at all.

Source: Statistics Finland, Employment Statistics.

2. Old-age pensions

Though in recent years the use of individual pension schemes has grown, the majority of people's retirement income is derived from public pensions.

A. *The current public pension system in Finland*

The current public old-age pension scheme in Finland consists of two parts: the national pension and the earnings-related pension. The national pension scheme guarantees a minimum income for all Finnish residents who are not entitled to an earnings-related pension, or to those for which the latter is small. Since 1996, the national pension has been earnings-tested with regard to earnings-related pension benefits, and therefore is of minor importance for most people.

The earnings-related pension consists of all the pension rights an individual has accrued from each employment contract including self-employment. Benefits are based on the number of years in employment, the accrual rate and "pensionable income", which is based on the gross income net of employee's pension contributions. At the end of the career, the pension rights earned from each employment contract are indexed (wages 50% and price inflation 50%) to the current date and summed up. There is also a ceiling amounting to 60% of the highest income during the career.

The system is a defined-benefit scheme based on tripartite agreements and governed by several pension acts. It is financed by employers' and employees' contributions and consists of a mix of a pay-as-you-go and a funded system. The employers' and employees' contributions are used both to pay for current pensions and indirectly to fund future pension payments. Pre-funding is collective and, thus, has no impact on pension entitlements. However, it affects future contribution rates. Currently, about 25% of the contribution to the earnings-related pension scheme is funded.

Flexibility is low

To encourage employment of older workers, it is important that pension systems are flexible in terms of retirement age. The system should, among other things, leave room for combining work and pensions as well as the right to accrue new pension rights on work after the official retirement age. Currently, it is possible to defer the old-age pension in the private sector beyond the age of 65 but this gives rise to only an increase of pension entitlements of 0.6% per

month whereas no new pension rights can be accrued on this income. Moreover, though it is possible to retire completely from the age of 60, with the level of pension payments subject to an actuarial reduction of 0.4% for every month below age 65, a smooth transition from work to retirement is only possible through the partial pension system.

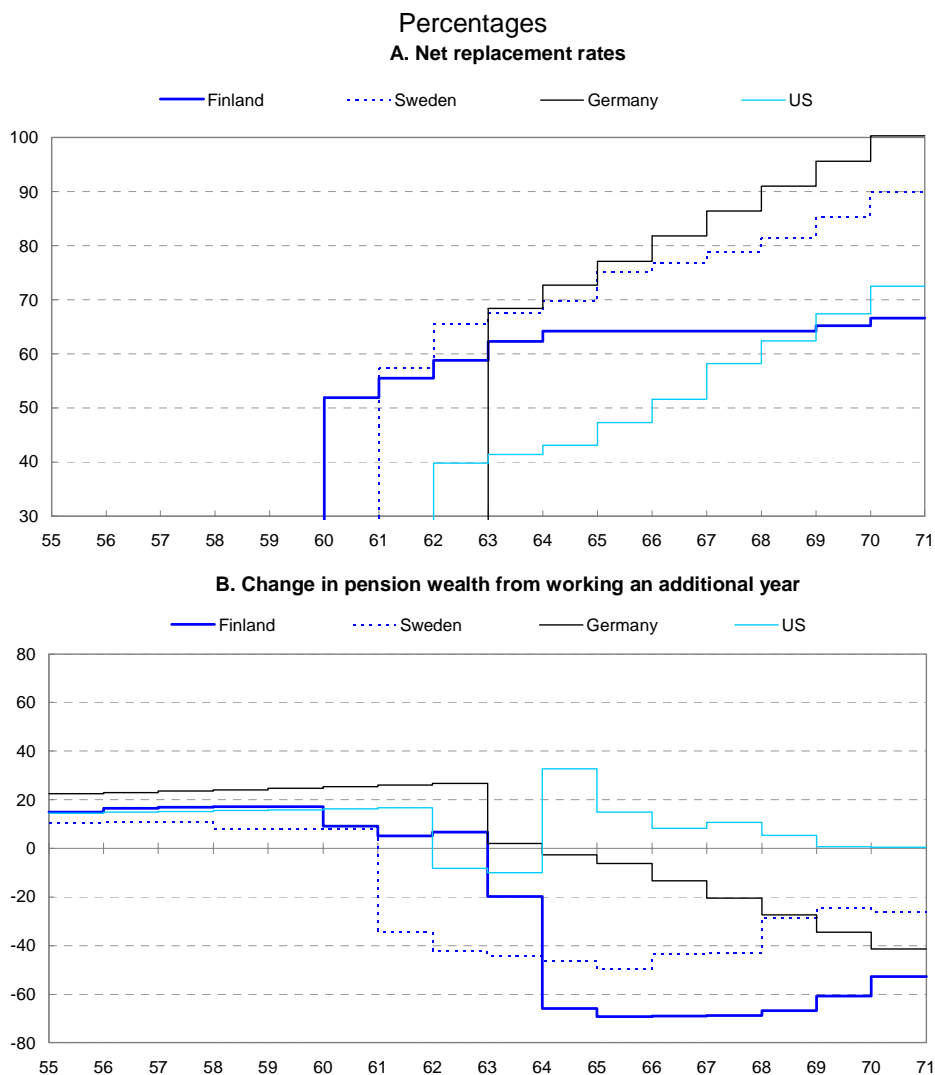
Incentives to continue working are weak

The replacement rate, *i.e.* the level of pension benefits relative to former earnings associated with working an additional year, can be used as an indicator of whether public pension systems are constructed in such ways that they provide incentives to continue working after a certain age (OECD, 2001c). High replacement rates provide a greater incentive to retire, all else equal, than low replacement rates. But retirement decisions will also depend on the pension wealth, *i.e.* the size of the wealth that would be lost if retirement is postponed. In essence, the accrued pension wealth measures whether the individual gains or loses from continued work. Thus, even if replacement rates were only modest, workers may still choose to retire rather than work an additional year if continuing to work would effectively result in a large drop in their pension wealth.

Generally, incentives to continue working in terms of net replacement rates are low in Finland (Figure 3.3). From the age of 63, the replacement rate of 62% increases only 2 percentage points at the age of 65 and 3 percentage points at the age of 70. Thus, continuing to work another seven years (from the age of 63) results in a very modest increase in replacement rates of 5 percentage points. Compared to the other countries in the figure, Finnish replacement rates are remarkably flat.

The Finnish pension system also gives a lower return in terms of pension wealth compared to the other countries. At the age of 63, the loss in pension wealth turns negative (-20%) and thereafter stabilises at a level around -70%. Thus, the Finnish pension system strongly penalises those who still work at this age. This is mainly explained by the heavy pension tax on those persons working after the age of 65. However, in most countries workers are losing pension wealth beyond the age of 65.

Figure 3.3. **Retirement incentives in Finland and other OECD countries^a**



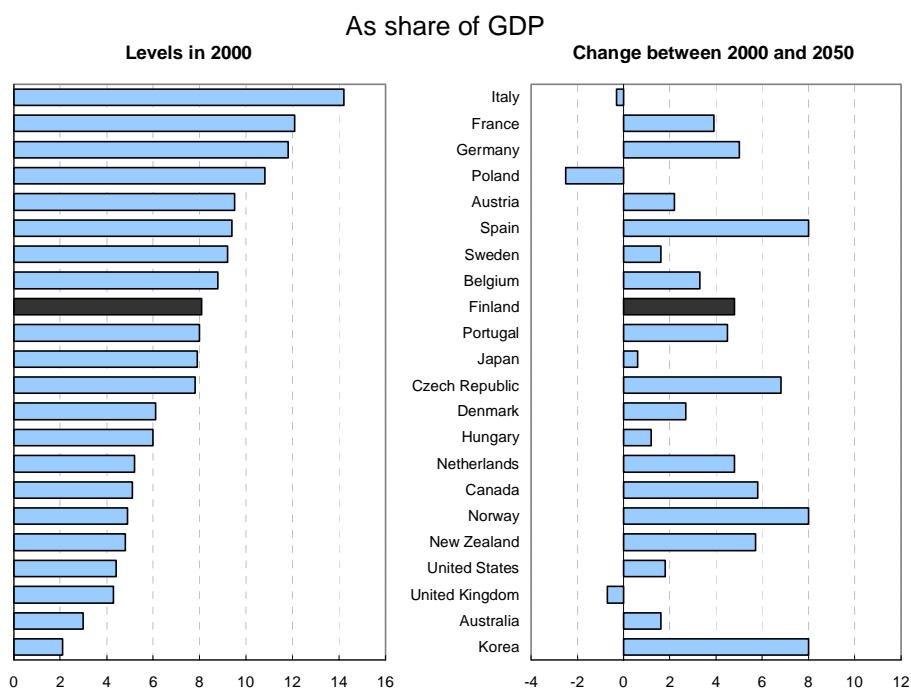
a) Net replacement rates from public pensions including occupational pensions, where relevant, for workers earning the equivalent of Average Production Worker (APW) earnings in each country. For Finland, these calculations are based on the current pension system.

Source: OECD estimates.

B. *Public expenditures on old-age pensions will increase*

Expenditures on public pensions in Finland account for about 8% of GDP, somewhat above the average in the OECD area, and during the next five decades these expenditures are projected to increase by nearly 5 percentage points (Figure 3.4). In the light of demographic developments and these expected increases in pension expenditures, a reform of the Finnish pension system will take place in 2005 (this reform will be discussed in detail later in this chapter).⁷

Figure 3.4. **Public expenditure on old-age pensions in Finland and other OECD countries, 2000-2050^a**



a) For France, the estimates refer to the period 2000-2040.

Source: OECD (2001b).

7. Estimates from the Finnish Centre for Pensions suggest that pension expenditures as share of GDP will increase by 3.5 percentage points (instead of 5 percentage points) by 2050 as a result of the reform.

3. Alternative pathways to an early withdrawal

The social security system intends to protect individuals against a number of factors including the risk of work incapacity and unemployment but, as the experience of other OECD countries has shown, these benefits are sometimes used as a pathway into early retirement.

A. *Sickness and disability among older people in Finland*

Finland has a residence-based sickness insurance programme administered by the Social Insurance Institution. To be eligible for a *sickness benefit* after an absence of ten working days, the person is required to have an income history of at least three months and be in receipt of a doctor's certificate. During the first ten working days, the employer is required to compensate the employee in full. The amount of the Social Insurance Institution allowance depends on the taxable income of the recipient. In 2001, the allowance averaged 70% of annual earnings up to EUR 24 610. Following the collective agreements, employers generally also top-up the benefits from the social security scheme (about 30% of the salary) for another four to eight weeks in addition to the ten days required by law. The allowance is paid for a maximum of 300 work days (Saturdays included). Nonetheless, sickness absence is quite low in Finland compared to other Nordic countries. In fact, only 2% of older working Finns are absent for one day or more per month compared to 3% of prime-age workers (Table 3.1).

Table 3.1. **Sickness incidence in Finland by age and gender, 2001^a**

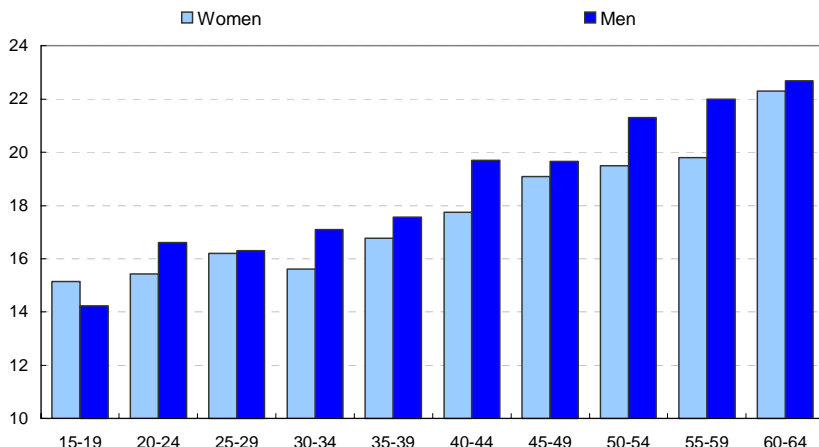
	Percentage of employed		
	15-24	25-49	50-64
Total	1.0	3.3	2.1
Men	0.9	2.9	2.1
Women	1.1	3.6	2.2

a) Measured as the number of people with at least one day of sickness per month as a percent of the total number of people employed, by age group.

Source: Finnish Labour Force Survey.

However, sickness spells are quite long and the duration increases with age (Figure 3.5). Thus, while older workers are sick less often than prime-age workers, the average duration of an illness spell is longer. Moreover, from the age of 20, the average number of sick days for women is systemically lower than for men.

Figure 3.5. Average number of days sick in Finland by age and gender, 2001^a



a) The average number of days shown are only for people who were sick. The incidence of sickness is reported in Table 3.1.

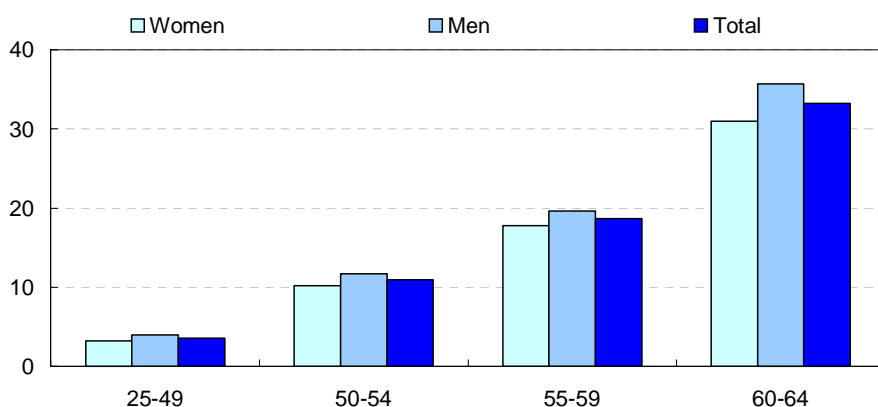
Source: Finnish Labour Force Survey.

However, the disability rate amongst older workers is high

Receipt of an ordinary *disability pension* in Finland usually follows one year of sick leave. Disability pension is payable to people between 16 and 65 who are unable to support themselves by regular work, taking age, occupation, education and place of residence into consideration. The pension can be granted either indefinitely or for a specified period, in which case it is referred to as a “rehabilitation subsidy”.

Figure 3.6. Share of people on disability pension in Finland, 2001^a

As a percentage of population in each age group

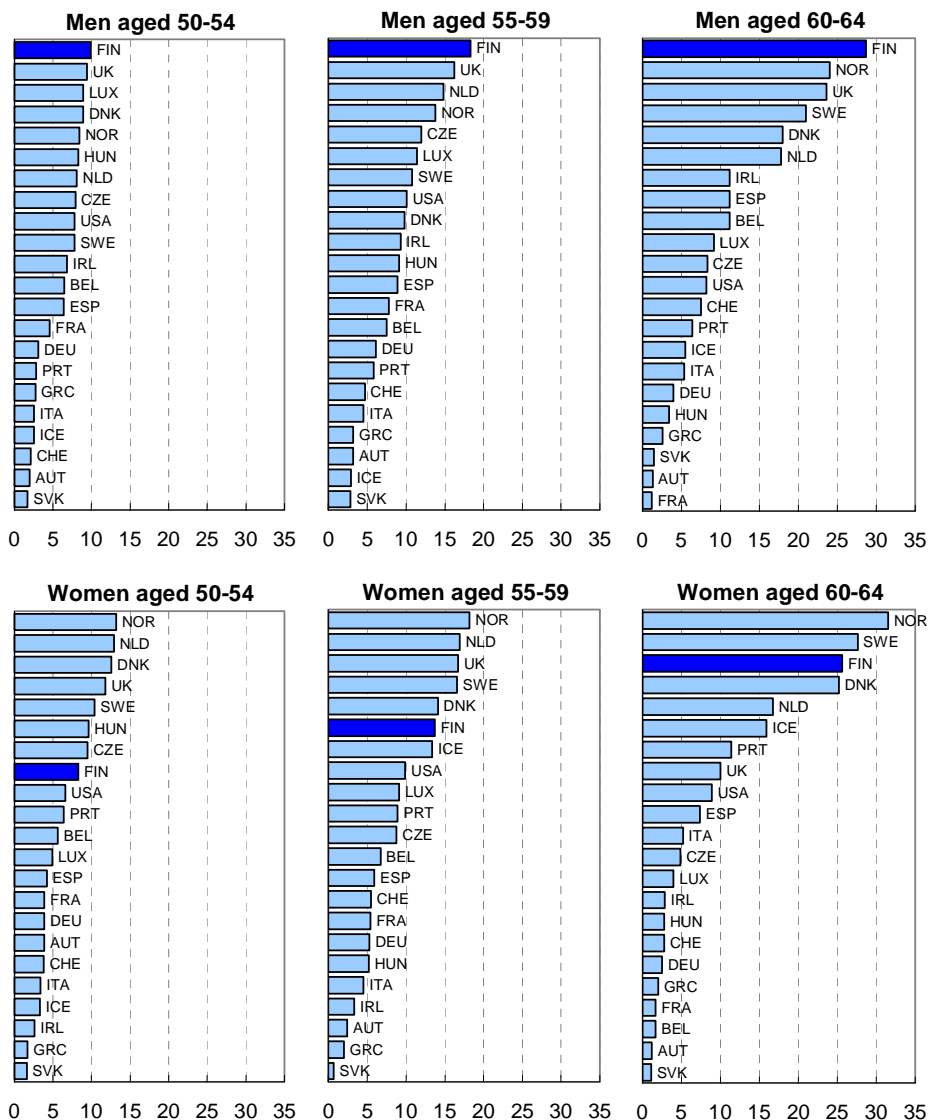


a) The share includes both ordinary disability pension and individual early retirement (available to people aged 60-64).

Source: Statistic Yearbook of Pensioners in Finland.

Figure 3.7. Inactivity because of illness or disability in Finland and other selected OECD countries, 2000

As a percentage of population in each age group



Source: European Labour Force Survey.

Moreover, a special type of disability pension, the *individual early retirement pension* is payable to people aged 60-64 whose capacity has been permanently reduced. The determining factors are: age, length of service, deterioration of health, and working conditions. This implies that the individual early retirement pension is awarded on less strict medical criteria than the ordinary disability pension. If a person who receives an individual early retirement pension returns to work, the pension is either cut in half or put on hold. As a result, the share of older people in Finland receiving a disability pension is quite high (Figure 3.6). While only 3.5% in the age group 25-49 receive a disability pension, this increases to 11% for the age group 50-54 and reaches 20% and 33% for the age groups 55-59 and 60-64, respectively.

Furthermore, in many countries there appears to be a correlation between generous early retirement schemes and age profiling in the disability benefit regulations. This creates an early exit culture which increases the burden on both the retirement and disability schemes, because it makes it easier for employers to suggest to employees about to lose their job to request a disability benefit or an early retirement benefit (OECD, 2003a). With one of the highest incidences of disability among older people in the OECD area, Finland seems to be a particularly telling example in this context (Figure 3.7).

B. *Unemployment – a route out of the labour force in Finland*

The Finnish *unemployment benefit* insurance is partly compulsory and partly voluntary. The compulsory part consists of the unemployment allowance and labour market support administered by the Social Insurance Institution. The compulsory unemployment benefit is financed by the unemployment insurance contributions and direct transfers from the state budget. The voluntary part consists of the unemployment insurance administered by a number of unemployment funds.

To receive the earnings-related unemployment allowance, the person has to be a member of an unemployment fund (or a trade union) and fulfil the so-called employment criteria, *i.e.* have worked at least 10 months during the past two years. Eligibility for the basic unemployment allowance requires Finnish residency, but no membership in the unemployment fund. The basic unemployment allowance and the earnings-related unemployment allowance can be received for a maximum of 500 working days, *i.e.* two years. Labour market support, in contrast, has no upper limit in duration.

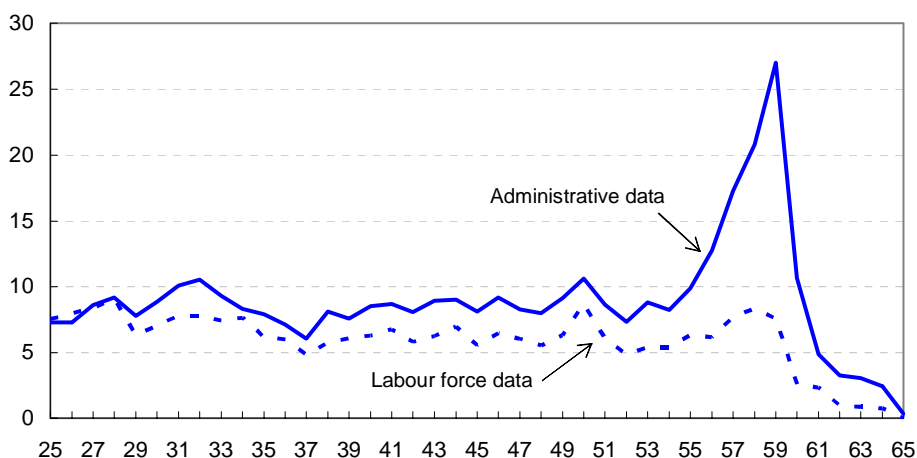
Benefit levels for the basic unemployment allowance and the labour market support are the same and amounted to EUR 115 per week in 2003.

However, the labour market support is basically means-tested against spouse's income over a certain limit. The earnings-related unemployment allowance equals 45% of the difference between former income (up to a certain ceiling) and the basic allowance. Incomes exceeding this ceiling are compensated by 20%. Hence, there is no absolute maximum on the earnings-related unemployment allowance that can be received.

In order to receive unemployment benefits in Finland, those without a job have to register at the Public Employment Office. Loose job-search requirements and low mobility of persons above 55 years of age result in much higher unemployment rates in the administrative data than those reported in Chapter 2 based on Labour Force Survey (LFS) data (Figure 3.8). The LFS counts only those individuals who actively seek work in the past four weeks and who are available to take a job in two weeks, while the Ministry of Labour registers all unemployed who are registered at the Public Employment Office.

Figure 3.8. **Unemployment rates by age in Finland, 2001**

As percent of population



Source: Finnish Labour Force Survey and administrative data from the Ministry of Labour.

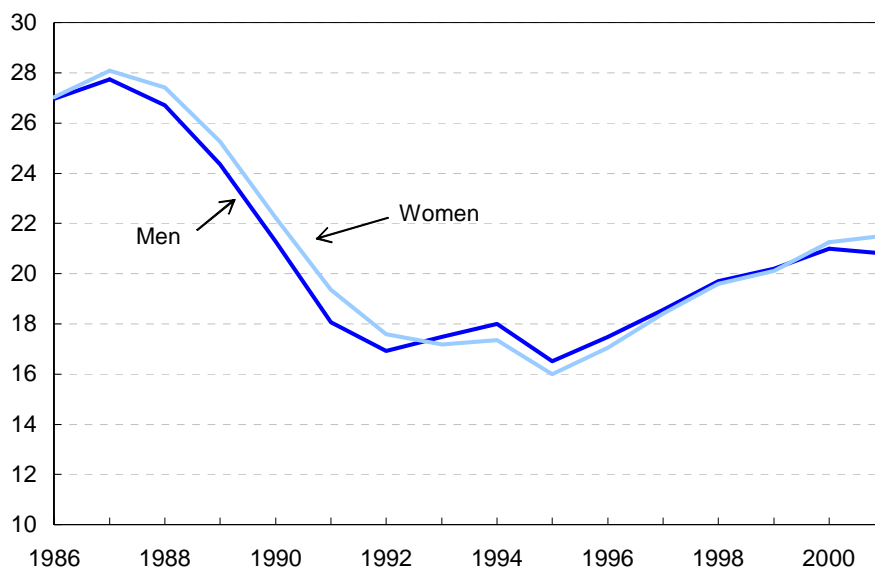
The difference in reported and actual unemployment starts to increase at the age of 55. This is an effect of the so-called “unemployment tunnel”, which leads to the unemployment pension at the age of 60. Since the older unemployed can be passive and still receive unemployment benefits, the difference between the two rates reaches 27 percentage points for 59-year-olds, almost 20 percentage points above the survey rate. It is therefore very important for the government to address the work and benefit incentives inherent in the unemployment system.

The unemployment pension scheme and the unemployment tunnel

Persons in the age group 60-64 who have received unemployment allowances for the maximum 500 days and have been employed at least five years during the previous 15 years are eligible for the *unemployment pension*. This pension is received up to the age of 65, when an old-age pension is received.

In practice, this exit route starts much earlier and is facilitated by the so-called “unemployment tunnel”. The tunnel refers to individuals who at the age of 57, after being on ordinary unemployment benefits for two years, can have their benefits extended to the age of 60. Thus, the unemployment pension effectively starts at the age of 55 – ten years before the official retirement age. This explains the sharp drop in unemployment rates between the ages of 59 and 61.

Figure 3.9. **Recipients of unemployment pensions, 1986-2001**
As percentage of the population 60-64



Source: Statistic Yearbook of Pensioners in Finland.

Consequently, the unemployment pension is, together with disability pension, the most common way to exit the labour market. Figure 3.9 illustrates that during the period of economic growth in the late 1980s, there was a sharp reduction in the number of unemployment pensions. However, since the onset of the recession in the early 1990s, the number of recipients has continued to

increase. Moreover, during the first part of the 1990s, approximately 50% of all jobs for 55 to 59-year-olds vanished (Huovinen and Piekola, 2002), which helps explain the continuing growing shares of people using the unemployment pension despite the economic recovery during the second part of the 1990s. Another explanation is that these schemes have given rise to a culture of early labour market withdrawal, which may be much more difficult to reverse.

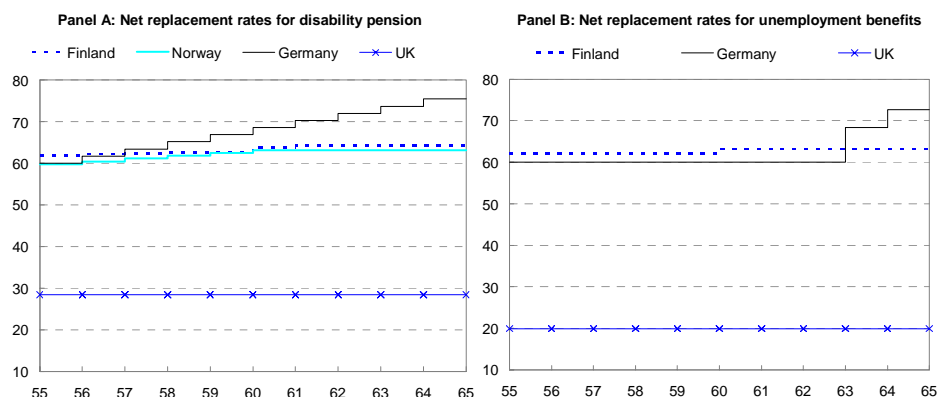
C. Generosity of the disability and unemployment schemes

There is no doubt that high benefit levels can create disincentives to work as well as put upward pressure on public expenditures. Gruber and Wise (1997) conclude that: “Social security programme provisions have indeed contributed to the decline in the labour force participation of older persons, substantially reducing the potential productive capacity of the labour force.” Moreover, high benefit levels in combination with loose eligibility criteria and the absence of random checks increase the further risk of large inflows. Given that 33% of all persons in the age group 60-64 in 2001 were recipients of a disability pension and another 20% were receiving benefits under the unemployment pension scheme, it is important to review the incentive structure in these systems.

Designing proper incentive structures for unemployment and disability benefits is difficult. It is necessary to take into account the need to provide sufficient income levels for those on the scheme, while still being able to encourage a return to work. To investigate the incentives in the unemployment and disability pension schemes, the *net replacement rates* for different ages in Finland are compared to unemployment and disability schemes for older people in some other OECD countries (Figure 3.10).

Replacement rates for a disability pension (Panel A) range between 60% and 75% in all countries examined except for the United Kingdom, which replaces only around 30% of the income. Finnish replacement rates are very flat at around 65%. Under the unemployment insurance scheme and unemployment pension in Finland (Panel B), replacement rates follow the same pattern as for disability benefits, *i.e.* replacement rates in Germany are similar to those in Finland while the system in the United Kingdom only replaces around 20% of the income. Moreover, replacement rates in the unemployment insurance in Finland are very similar to those in the disability pension scheme.

Figure 3.10. **Net replacement rates for disabled and unemployed in Finland and other OECD countries^a**



a) Net replacement rates for an average income earner. Replacement rates for unemployment benefits in Norway are not available.

Source: OECD estimates.

D. *Do part-time pensions raise or lower participation rates?*

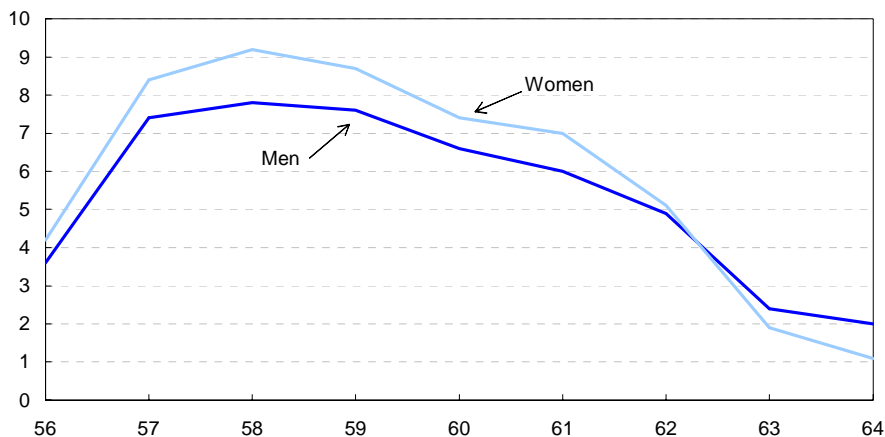
Finland has a *part-time pension scheme* but, measuring its effect on labour supply is complicated. The main question that has to be answered is whether it helps older people to continue to work instead of withdrawing fully, or if it only subsidises a reduction in working time that otherwise would not have occurred. Furthermore, if total hours of work do increase as an effect of the scheme, does this increase in hours worked actually compensate for the cost of the scheme?

Rules of part-time pensions in Finland

The part-time pension in Finland is an increasingly popular way to achieve a smooth transition from work to retirement. As part of the Finnish old-age pension scheme, people above 56 years of age can choose to work part-time and be compensated for their loss in income. Eligibility to the scheme requires earnings that are between 35% and 70% of previous full-time earnings, and working hours that correspond to 16-28 hours per week. The system compensates 50% of the income loss due to the reduction in working time and old-age pension rights accrue as if the person was working full-time at the previous level of earnings. The programme is part of the old-age pension scheme and financed through a pay-as-you-go principle. This scheme is very generous and about 6% of the population aged 56-64 avail of it, with women slightly more likely to use it than men up to the age of 62 (Figure 3.11).

Figure 3.11. Recipients of part-time pensions in Finland by age and gender, 2001

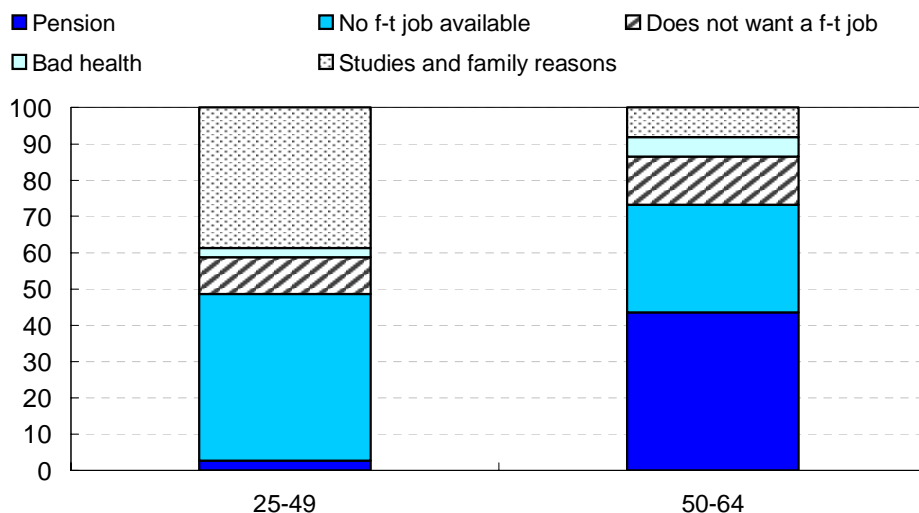
As a percentage of the population aged 56-64



Source: The Central Pension Security Institute.

Around 45% of all older part-time workers actually work part-time because of the possibility to combine it with the generous part-time pension (Figure 3.12). In contrast, only a small share responded that they do not want to work full-time. This suggests that a large share of the part-time work amongst older workers is due to the subsidy arising from the part-time pension scheme.

Figure 3.12. Reason for working part-time in Finland by age, 2001
In percent



Source: Finnish Labour Force Survey.

In fact, a survey by Takala (2003) reveals that about 50% of those part-time pensioners who were still on a part-time pension in 2001 responded that they would have continued working full-time if the part-time pension had not existed. Further, about 60% of those who terminated the part-time pension would have continued working full-time in the absence of the part-time pension scheme. Moreover, 30% of those still receiving a part-time pension and 20% of those whose part-time pension had ended, responded that they would have continued in full-time work a little longer, but not until the old-age retirement. Only about 10% said that they would have sought a full-time pension.

The fact that a large share of part-time pensioners would have continued in full-time work in the absence of a part-time pension scheme suggests that the system may reduce effective labour supply. Some indication of this can be obtained by looking at how the part-time pensions were terminated. Table 3.2 reveals the shares of the labour market status of those individuals who were on part-time pension in 1999 but not in 2000.

Table 3.2. **Transition into and out of the part-time pension system, 2000**

Percentages	
Part-time pension in 1999 but not in 2000	
<i>Labour market status in 2000:</i>	
Employment (no part-time pension)	16.8
Unemployment	13.7
Out of the labour force, but no pension	1.2
On pension (excluding part-time pensions)	65.3
old-age pension	51.3
disability pension	4.0
individual early retirement	10.5
unemployment pension	0.0
Death	2.1
Part-time pension in 2000 but not in 1999	
<i>Labour market status in 1999:</i>	
Employment (no part-time pension)	99.9
Unemployment	0.1
Out of the labour force, but no pension	0.0

Source: Statistics Finland, Employment statistics.

A majority (over 51%) of those people receiving part-time pensions in 1999 transferred to a full old-age pension. Moreover, 15% used the disability route and another 14% became unemployed. Only 17% actually returned to work after receiving the part-time pension. If part-time pensioners are compared to those persons in full-time work of the same age, transitions to unemployment

and full pension are around 4% and 10%, respectively. Thus, the part-time pension scheme is fulfilling the objective of encouraging older workers to exit the labour force gradually. However, it is far from obvious that the state needs to subsidise the scheme so generously.

4. Combating early retirement in Finland

In order to reverse the trend in early retirement and public expenditures, Finland has decided to reform the old-age pension scheme while addressing the numerous early exit pathways that exist.

A. Addressing the problem of the public pension system

In March 2001, the Finnish government appointed a pension commission to decide on the major objectives and principles for a new pension system. The reform was agreed in autumn 2002 by the social partners in the private sector and passed into law by the parliament in 2003. It will be effective from 2005. Agreements on the reform to date include the earnings-related pensions for those working in the private sector, although reform of public sector pensions is likely to be agreed in 2003 and is expected to be along similar lines. A major aim of the reform is to raise the effective average age of retirement.

The core aim of the reform is to strengthen the incentives to continue working. As well, a number of other reforms were agreed: funding levels were increased; a coefficient to adjust entitlements to increases in life expectancy was introduced; age limits for some of the early retirement schemes were raised; and, most importantly, some early pension schemes were abolished. Specific parts of this reform package are summarised in Box 3.1. As most of the reforms will be effective in 2005 or later, the baby-boom cohorts will not be affected by a number of reforms (for example, the abolition of the unemployment tunnel). Therefore, there is still scope for further reform.

Raising replacement rates for various income earners

Under the new Finnish pension system, incentives to continue working, measured in terms of net replacement rates, are in line with those in Sweden and Germany (Figure 3.13). Between the ages of 62 and 63, the replacement rate increases from 62% to almost 67%. At the age of 63, the replacement rate continues to increase a little more than 3 percentage points a year for each additional year of work such that by the age of 70 the replacement rate reaches 90%. However, in terms of pension wealth the new Finnish pension system penalises those who continue to work, but to a lesser extent than in the old system (see Figure 3.3). Hence, the reform takes the Finnish pension system in the right direction.

Box 3.1. Reforming the Finnish old-age pension system – a summary

A flexible retirement age between 62 and 68 will be introduced, with a sharp rise in the accrual rate after 62: From the age of 63, pensions will be calculated according to accrued rights. Between ages 62 and 63 the pension will be reduced by 0.6% for each month of early retirement prior to age 63. The accumulation rate will remain at 1.5% per year between ages 18 and 52, increase to 1.9% between ages 53 and 62 and then rise to 4.5% between 63 and 67 years of age (this compares to the current rates of 1.5% between ages 53 and 59 and 2.5% for those aged over 60). The ceiling of 60% of the highest income during the career will be abolished.

Entitlements will be based on life-time earnings: Instead of basing entitlements on the last ten years of each employment relationship, entitlements will now be based on life-time earnings (although the system will still be a defined-benefit scheme). As well as being actuarially fair, this should also promote labour market flexibility, particularly since change of jobs – in the current system – is likely to penalise the final pension if wages were rising over the course of a career. Pensions will accrue also during some non-working periods, e.g. for students, unemployed and during maternity and paternity leave.

Pension entitlements will adjust to future changes in life expectancy: From 2009, a coefficient will be introduced that takes into account changes in life expectancy. This coefficient will ensure that pension expenditures remain constant with respect to increases in life expectancy.

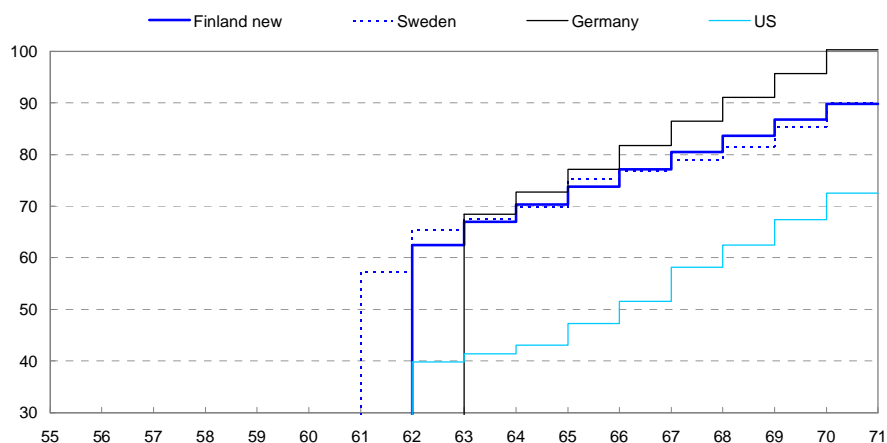
The method of indexation will change: In the current system there exists one index that adjusts pensions from one year to another (“retiree index”) and one that increases pension rights while working (“working-age index”). The “retiree index” was based on 80% of the cost-of-living index and 20% of the wage index, while the “working-age index” was based on 50% of the cost-of-living index and 50% of the wage index. In the new system that adjusts past earnings to the present level when computing the pension at the time of retirement, one index will be based on a weight of 80% of the wage-index and 20% of the cost-of-living index. The other index will adjust pensions from one year to another and be based on 80% of the cost-of-living index and 20% of the wage index.

The structure of employees' pension contributions will change: Pension contributions for employees aged 53 and over will increase from 4.6% of their earnings to 5.8%. Currently, the employee contribution does not vary with age.

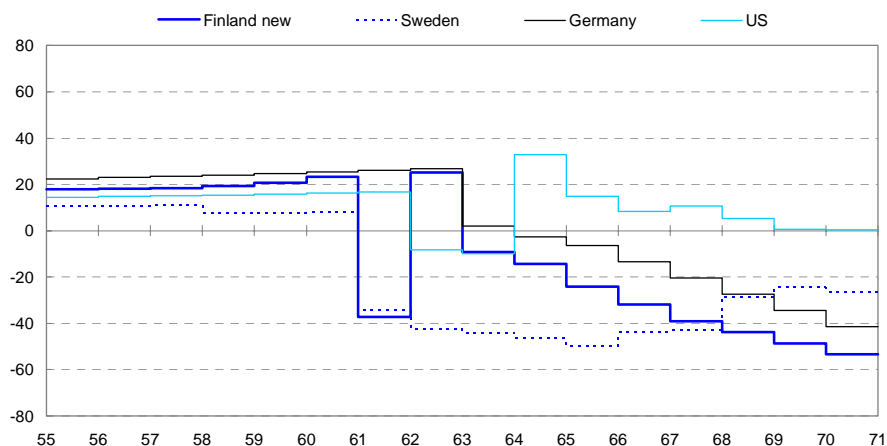
Pension funding will be strengthened from 2003 onwards: This means that an additional funding of 7.5% of the employees' wage sum will be available by 2013.

Part-time pensions will be restricted: The minimum age for a part-time pension will be raised from 56 to 58 and at the same time the old-age pension rights accumulated during part-time retirement will be halved.

Figure 3.13. **Retirement incentives in Finland and other OECD countries^a**
Percentages
A. Net replacement rates



B. Change in pension wealth from working an additional year



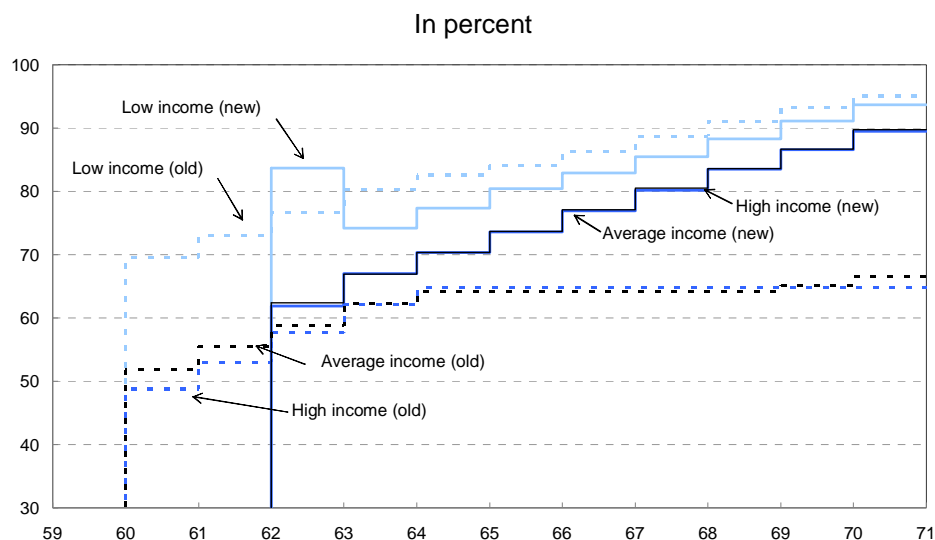
- a) Net replacement rates from public pensions including occupational pensions, where relevant, for workers earning the equivalent of Average Production Worker (APW) earnings in each country. For Finland, these calculations are based on the new pension system.

Source: OECD estimates.

Incentives to continue working under the new and old pension system can be measured by comparing net replacement rates for low-income earners, *i.e.* earning 50% of Average Production Worker (APW) earnings, average-income earners, *i.e.* 100% of APW earnings, and high-income earners, *i.e.* 150% of APW earnings (Figure 3.14). For low-income earners, replacement rates will always be higher than for workers in the other two income levels. Moreover, incentives will not change significantly for this group of workers

under the new pension system compared to the old one. For average and high-income earners in the old system, pension entitlements were constrained by a ceiling – resulting in a cut in pensions at a level slightly above 60% of former earnings. Since the ceiling is abolished in the new system, entitlements will continue to grow and thereby create strong incentives for this group to continue working. In fact, for these two income groups, at the age of 65, the reform will increase net replacement rates from around 65% to around 74% and at the age of 70 from 65% to 90%. Because replacement rates continuously increase with age, incentives to continue working have been substantially strengthened in the new system for people with average or higher incomes.

Figure 3.14. Net replacement rates in the new and old Finnish pension system for people with high, average and low incomes^a



a) High, average and low incomes correspond to, respectively, 50%, 100% and 150% of an average production worker's annual earnings.

Source: OECD estimates.

Because pension entitlements will be calculated on the basis of lifetime earnings, these will be less closely linked to wages prior to retirement. This implies that incentives to continue working with perhaps a lower salary (instead of withdrawing totally) might increase.

B. Recent reforms of the early retirement schemes

In addition to reforming the old-age pension system, the social partners in the private sector also agreed to the following four reforms of the early retirement schemes: i) to gradually abolish the unemployment pension scheme between 2009 and 2014 and replace it with additional unemployment benefit

days for older unemployed until the age of 65; *ii*) to increase the minimum qualifying age for the unemployment tunnel from 55 to 57; *iii*) to abolish the individual early retirement pension, but at the same time relax the medical assessments required to receive an ordinary disability pension for workers 60 years and older; and *iv*) to raise the eligibility age in the subsidised part-time pension scheme from 56 to 58 (Table 3.3).

Table 3.3. Changes in the Finnish early retirement schemes^a

	<i>Target group</i>	<i>Current rules</i>	<i>Rules after reform</i>
Early old-age pension	Older workers	60-64	62+
Disability pension	Disabled	16-64	Relaxing rules for people aged 60+
Individual early retirement	Sick and aged	60-64	Abolished
Part-time pension	Part-time workers	56-64	58-68
Unemployment pension	Long-term unemployed	60-64	Phased out from 2009 - 2014
Unemployment tunnel	Long-term unemployed	55-64	57-65
Farmers' pensions	Agricultural workers	55-64	No change

a) These changes will only affect workers in the private sector. However, negotiations regarding similar reforms for the public sector are underway. Most changes will take place in 2005, when the reformed old-age pension system will take effect.

Source: Central Pension Security Institute.

Prior to 2005, the time between the onset of disability pension and an old-age pension was considered as if the person had been working and receiving the salary of their last employment. After 2005, this period is still considered as working time, but the salary is calculated as the average of the income of the last five years. Moreover, the deterioration of the index-linking of disability pensioners below the age of 65 (from 50/50 index to 80/20 index) will be compensated by an age-dependent multiplier. Before 2000, the unemployment pension consisted of the part accrued up to the beginning of the pension and the above mentioned projected pensionable service part (from the beginning of the unemployment pension to the old-age). After 2000, the accrual during unemployment pension was added to the old-age pension awarded to the pensioner at the age of 65, but not to the unemployment pension itself.

C. *More could be done*

Although Finland deserves praise for reforming its early retirement schemes, more effort is required to avoid some of the carousel effects that will become apparent. That is to say, the curtailing of other pathways to early retirement may put further pressure on the remaining schemes such as disability. In particular, a link between disability and unemployment pensions in Finland was established during the 1990s, with the number of disability pensions declining while the number of persons in the unemployment pension tunnel increased (Gould and Nyman, 2002). If this link also works the other way round, the effects of the reform on raising both the average effective retirement

age and aggregate employment could be significantly dampened. This may be accentuated by the fact that the medical requirements to receive an ordinary disability pension for workers 60 years and older have been relaxed.

Moreover, the phasing out of the unemployment pension could have been set somewhat earlier than 2009 to include the baby-boom generation. As well, since the system is replaced by additional unemployment benefit days, the effectiveness of the change must be carefully monitored – especially in terms of the strictness with which job-search availability criteria are enforced. Further, while the individual early retirement scheme will be abolished, the relaxing of the medical assessments to receive an ordinary disability pension for workers 60 years and older will probably result in an increased influx to this system and hence no or only a marginal reduction of early withdrawals. Finally, the subsidised part-time pension system should have been abolished (as was done in Sweden, see OECD, 2003*b*). Instead, the new old-age pension system should offer the flexibility to combine an old-age pension with income from work – without a subsidy.

It is also interesting to note that the increased flexibility in the new old-age pension system (an option to use it from the age of 62) and the possibility to use the subsidised partial pension scheme from the age of 58 was not recognised as a viable alternative to tightening eligibility in the remaining schemes. As an example, the extended unemployment allowance (replacing the unemployment pension) can be received until the age of 65, with the option of receiving the old-age pension benefits at the age of 62 – without an actuarial reduction. Instead, the new old-age pension scheme should have worked as arguments for strengthening eligibility rules in both the disability and unemployment schemes while abolishing the other schemes somewhat faster. Hence, the net outcome of these reforms as a way to raise the effective retirement age and participation rates in older ages is uncertain.

Disability benefits and unemployment benefits should return to their original purpose, where a first step should be to separate these benefits from the old-age pension scheme and instead have them integrated with the sickness insurance and unemployment scheme, respectively. This would make it easier to have a clearer link between medical assessments and receipt of a disability pension and joblessness and receipt of an unemployment benefit while, at the same time, signalling that disability benefits and unemployment benefits should not be used or considered as early retirement schemes.

Thus, in order to raise participation rates, additional supply-side actions will be needed. But as the next chapter shows, these will have to be complemented by a wide range of demand-side measures.

Chapter 4

CHANGING EMPLOYER PRACTICES IN REGARD TO OLDER WORKERS

Factors influencing employers' decisions to hire or retain workers may further hamper employment rates for older people compared to prime-age people. In general, employers' willingness to hire older people depends on a number of factors such as their perceptions about the adaptability and productivity of older people, but also the wages and labour costs they have to pay for older workers relative to younger ones. Moreover, different wage subsidies of older workers, employment protection legislation and labour laws may also affect employers' decisions. This chapter examines how attitudes to older people and institutional settings might affect employers' practices. It also looks at measures introduced to influence employers' behaviour with the aim of improving labour market outcomes for older people.

1. Employment practices of firms

Some of the barriers to firms retaining or hiring older workers may be found in employer practices concerning human resource management. Negative attitudes towards older people will affect the time and money spent on training them and in turn influence their labour market outcomes.

A. *Attitudes towards older people*

At the end of the 1990s, as information and computer technology became more widespread, a belief that older people could not cope as well as younger ones with jobs involving this new technology gained momentum. Linked with this were existing doubts about older people's ability to learn new things. For instance, highly trained younger line managers tend to harbour a great deal of prejudice against older workers (*e.g.* Juuti, 2001). Although it would appear that top-level managers are, in general, more positive to older people than mid-level

managers, recruitment often occurs at the mid-manager level and therefore a negative bias may exist towards the hiring of older people.

One objective of the National Program on Ageing Workers in Finland was to influence general attitudes on ageing, partly by raising awareness more generally through the media but also through campaigns directed at the work place. The programme uses “peer discussions” as its main method for disseminating information where corporate leaders explain the favourable aspects of age-related issues in the workplace to other corporate leaders, while employee representatives talk with workers. From the evaluation of the programme, results indicate that around 50% of adult Finns were familiar with the programme, while 20% of all Finns above 50 years had detailed knowledge of it (Finnish Ministry of Social Affairs and Health, 2002a). More than half of all adult Finns viewed the programme positively and thought that it would be likely to enhance employment and wellbeing at work. However, information alone cannot overcome certain very real problems, such as reduced working capacity due to physical illnesses and other age-related developments (the National Programme on Ageing Workers is described in detail in Chapter 6).

The presence of age discrimination

Despite these campaigns, results from the Working Life Barometer Survey carried out by the Finnish Ministry of Labour in 2002 indicate that 15% of older workers (this number increases with age) feel that their workplace discriminates against older workers (Table 4.1).

Table 4.1. Perceptions of discrimination and support at the workplace in Finland, 2002

Percent of workers in each age group agreeing with the question						
	<24	25-49	50-54	55-59	60-64	50-64
Workplace discriminates against older workers	7.3	9.3	14.4	15.2	19.0	15.2
Received support and encouragement from management	20.0	15.6	14.8	14.7	23.3	15.8
Received support and encouragement from colleagues	20.7	14.1	11.7	12.5	9.3	11.7
Thinks that they will be laid-off in the next 12 months	15.2	7.9	8.9	6.8	5.6	7.8

Source: Finnish Ministry of Labour, Working Life Barometer Survey 2002.

As a measure of more general attitudes, 9% and 7% of prime-age and young workers, respectively, also believe that the workplace discriminates against older workers. On the other hand, around 16% of the older workers report that they receive support and encouragement from their managers – a figure comparable to prime-age individuals. In sum, though it appears that there is a higher perception among older workers of workplace discrimination against

them, the perceived levels of management support and co-worker support are comparable to those reported by prime-age workers.

Other studies (*e.g.* Kouvonen, 1999), however, suggest that age discrimination at work in Finland is much lower. Only about 4% of 45-54 year olds and 8% of those aged 54 and above claim to have experienced age discrimination at work (shares of younger workers are of about the same magnitude).⁸ Moreover, age discrimination seems to occur when there are considerable changes at the work place, such as downsizing.

Kouvonen (1999) also surveyed small and medium-size employers to find out their views on age discrimination. About 14% of the firms – mostly in the service sector – expressed the opinion that there were jobs in the firm where workers over 45 years of age would have difficulties. Only about 6% of all interviewed employers indicated that current pension rules were a hindrance in recruiting older people. Moreover, employers maintained that the accepted reasons for discrimination in recruitment, at work and in layoffs related mainly to health problems, but also to physical aspects of the job along with inadequate computer skills.

Anti-age discrimination legislation in Finland

The law on age discrimination in Finland is based on the ILO convention of equal treatment at work, *i.e.* the employer has to treat all employees equally irrespective of their age (among other things). In 1987, the law was amended to deal also with recruitment. Accordingly, anyone who puts someone in a clearly unequal or essentially worse position than others on the basis of age, for example, should be convicted for discrimination. If the action is not punishable as work discrimination, there is a risk of being fined or imprisoned up to six months.

As well, the Employment Contracts Act (55/2001) obliges the employer to treat employees and job seekers equally. The act governs the announcement of vacancies, as well as the recruitment and treatment of employees. Employers that, for unjustifiable reasons, place a job seeker or an employee in an inferior

8. The difference between these findings and those of the Working Life Barometer Survey indicate the difficulty in measuring the prevalence of age discrimination. They also reflect the fact that Kouvonen's results refer to self-experienced age discrimination and not to perceptions of age discrimination more generally at the work place, as in the Working Life Barometer Survey.

position shall be charged with work discrimination and in turn compensate for the losses caused by the discrimination.

Responsibility for supervising the observance of the Employment Contracts Act rests with the occupational safety and health authorities. If an employee is of the opinion that an employer has violated the prohibition of discrimination or acted contrary to the requirement of equal treatment, the employee has to present probable evidence or reasons that the employer has discriminated against him or her. After the employee has proved that the employer acted on discriminatory grounds, the employer has to prove having had justified cause for doing so.

Although the Finnish legislation against discrimination is fairly wide, a proposal for an act on securing equality is currently under consideration in Parliament. The objective of the proposed act and associated amendments is to enforce the Directive EU 2000/43/EC on the enforcement of the principle of equal treatment regardless of race or ethnic origin, and the EU Directive 2000/78/EC on the general framework concerning equal treatment at work and in trade.

However, legislation alone will not be sufficient to change attitudes and practices. First, the law applies to the employer-employee relationship only and consequently, older workers may continue to experience discrimination from colleagues or recruitment agencies. Secondly, proving the case of discrimination at recruitment is very difficult, since employers are relatively free to choose the “best person for the job”. For example, explicit mention of age in recruitment ads in newspapers does not remove the possibility of discarding the applications of older people or discrimination in interviews. Finally, even if the discrimination act exists, about one third of all small to medium-sized enterprises have no knowledge of it (Kouvonen, 1999).

Nevertheless, legislation sends an important message that discrimination should not be tolerated. Therefore, measures to combat age discrimination in all aspects of the recruitment and retention of older workers should be developed, for example, by prohibiting age restrictions in job advertisements and combating downgrading of work tasks for older persons. As an example, the United Kingdom government has sought to change the climate of opinion by issuing a voluntary “Code of Practice for age diversity in employment”, which seeks to reduce age discrimination by employers (OECD, 2000). Also the United States has taken action by banning firms from setting a mandatory age of retirement.

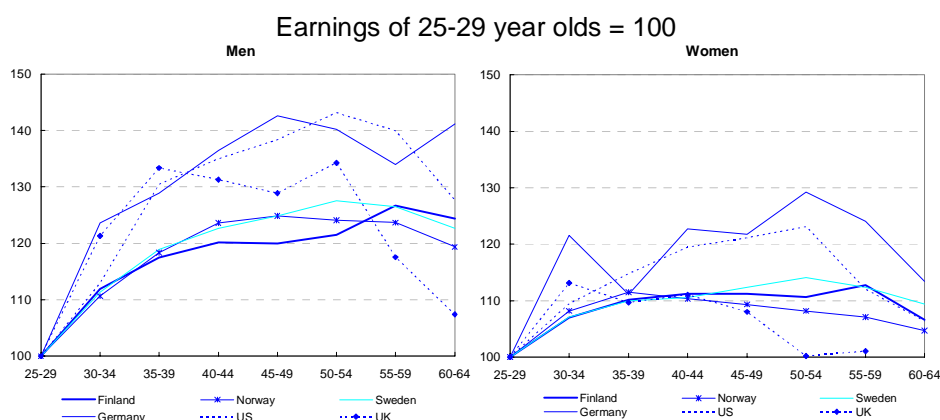
2. Labour costs

Employers generally face two large items of expenditures for their employees: wages and social security contributions. Wages are usually decided through negotiations between social partners; social security contributions are set by the government with an aim to, at least partly, finance the public welfare system. On the one hand, both seniority-wage systems and high social security contribution rates may make employers more reluctant to hire older persons. On the other hand, steep age-earnings profiles also act as an incentive for workers to stay at work longer. Thus, differences in these profiles may only partly be reflected in employment rates of older people.

A. *The impact of high relative wages for older workers*

In many countries, wages tend to increase with age – a pattern that may reflect productivity gains associated with experience (Figure 4.1). However, the age-profile of earnings may also be the result of an implicit contract between the employer and the employee. Accordingly, wages would increase with seniority in order to enhance the employee's commitment to the firm. Beyond a certain age, however, the wage will exceed the employee's productivity, which would explain the employer's incentive to encourage early retirement. Assuming that age-productivity profiles between countries are similar, some conclusions can be drawn from comparing these profiles across countries.

Figure 4.1. **Age-earnings profiles in Finland and selected countries**



Source: For Finland, Statistics Finland, Structural Statistics on Wages and Salaries, 2000; for the US, Current Population Survey; and for the other countries, Blöndal and Girouard (2002).

Among the six countries in Figure 4.1, age-earnings profiles in Germany and the United States are steeper for both men and women than those in Finland. Moreover, women's profiles seem to be flatter than their male counterparts, and hence, the cost disadvantage of older women is presumably smaller than that for older men (*i.e.* assuming the age-productivity development is the same for both sexes). In the case of Finland, age-earnings profiles for both men and women are very flat in comparison with the other countries, including Sweden. These comparisons suggest that seniority wages not corresponding to changes in productivity may be less of a problem in Finland than elsewhere.

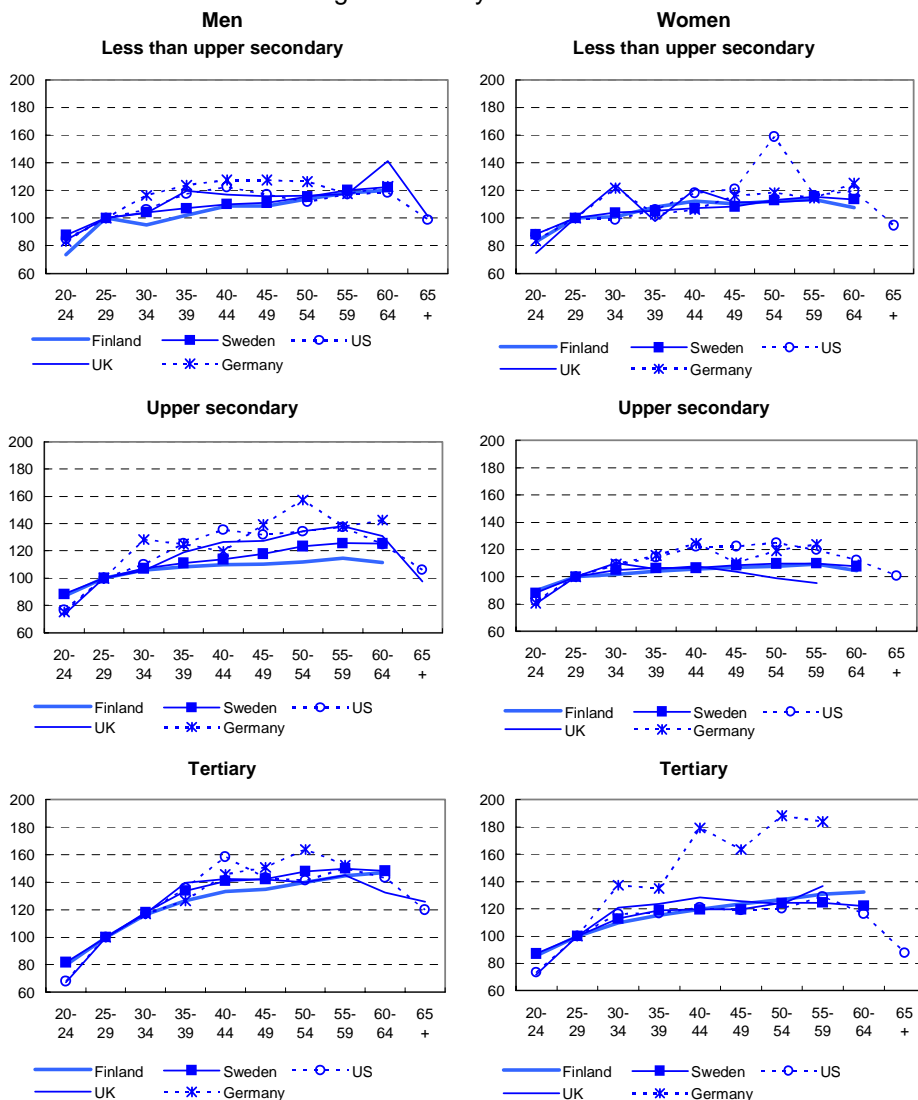
Wages depend strongly on education. If there are larger differences in education levels between different cohorts in some countries compared to others, this should affect the age-earnings profiles presented above. Controlling for education results in a more compressed wage structure for the less educated than for those highly educated (Figure 4.2). Moreover, it also appears that the wage gaps between countries decline when workers with similar levels of education are compared. Nevertheless, there is still a marked drop in wages (especially for men) from the age of 50-54 onwards. This drop is, however, much less pronounced in Finland than in the other countries; in fact wages do not seem to fall for older Finns. Thus, age-earnings profiles by education confirm the earlier picture of a relatively compressed wage structure in Finland.

Age-earnings profiles also differ significantly between industries (Figure 4.3). For example, in the education sector, salaries for workers aged 55-59 are almost 50% higher compared to the age group 25-29 and only fall back in the age group 60-64. In public administration, there is also a strong relationship between earnings and age – the curve does not decline and, for the age group 60-64, wages are more than 40% higher than in the reference age group. On the other hand, in the financial industry, earnings start to decline already at the age of 35 and from the age of 45 and onwards earnings are on average lower than for 25 to 29-year-olds. Thus, the public sector tends to have steeper age-earnings profiles than the private sector. However, the majority of these profiles are quite flat in terms of age.

If these age-earnings profiles do not reflect true productivity differences by age, older workers are more costly in those industries with steeper age-earnings profiles. Moreover, if the incentive effect for the employee does not outweigh the cost effect for the employer, the share of older workers in those industries with the steepest profiles should be the lowest. Comparing these profiles to the employment share of older workers in the respective industries, however, reveals no clear pattern.

Figure 4.2. **Age-earnings profiles by level of education in selected countries**

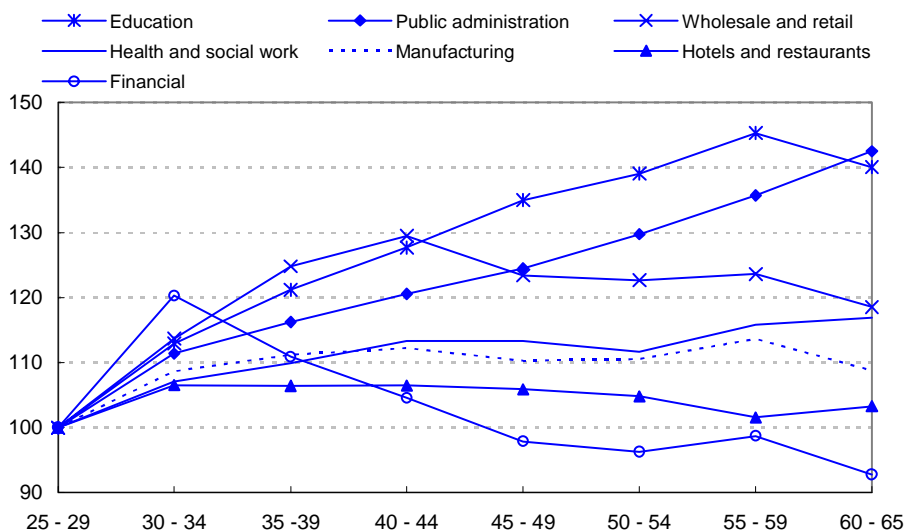
Earnings of 25-29 year olds = 100



Source: For Finland, Statistics Finland, *Structural Statistics on Wages and Salaries*, 2000; for the US, Current Population Survey; and for the other countries, Blöndal and Girouard (2002).

Figure 4.3. **Age-earnings profiles by industry in Finland, 2000**

Earnings of 25 to 29-year-olds = 100



Source: Statistics Finland, Structural Statistics on Wages and Salaries, 2000.

B. *Social security contributions*

For most countries the social security contribution rate is a fixed percentage of the employee's salary and varies considerably across countries. This means that the actual amount employers have to pay increases with the salary level, thus the higher the salary, the higher the contribution. Together with a seniority wage system, this would raise costs for hiring and retaining older workers further.

Age-dependent contribution rates increase the labour costs of older workers

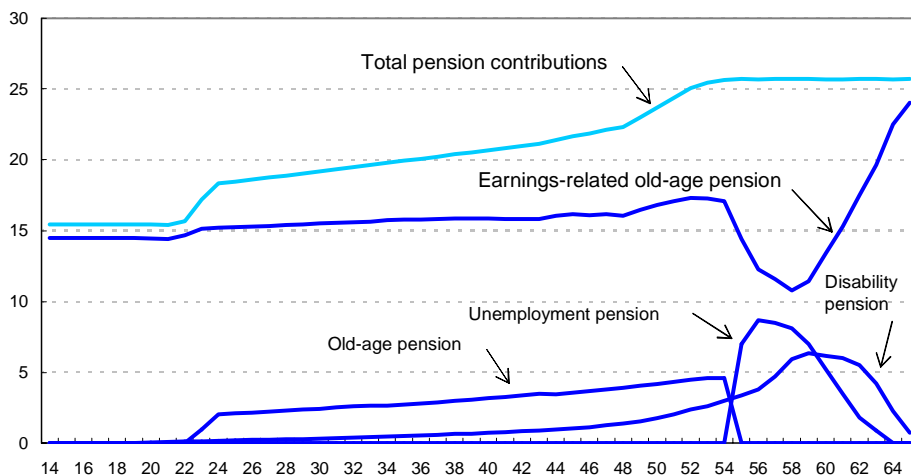
The contribution rate in Finland is the 9th highest in the OECD area and increases both with the age of the employee and the size of the firm, making older people in large firms relatively more expensive to hire and retain. In 2003, employers' contributions consisted of earnings-related pension contributions ranging from 15.4% to 25.7% of salary, an unemployment insurance contribution between 0.6% and 2.45% and a social security contribution of between 2.96% and 6.06%. Moreover, the employer also pays a work-injury insurance contribution of between 0.3% and 4.1% of the salary. The total contribution per employee paid by the employer therefore varies between 19.3% and 38.4%. Since the disability risk increases significantly with age, so does the

disability pension contributions. Finally, the unemployment pension contribution is only paid for those persons who are entitled to the unemployment tunnel, *i.e.* workers aged between 55 and 64.

If these insurance principles were to be followed strictly, this would lead to very steep age-contribution profiles. Thus, the Finnish pension insurance makes a number of important exceptions. First, small companies (less than 50 employees) pay a fixed insurance fee on each employee, irrespective of their age (21.7% of wages in 2002). Second, old-age pension contributions are not paid for workers over 54 years of age. Third, both the old-age pension contribution and the disability risk component are partially shifted to the younger age groups. This means that the fee for the disability pension is somewhat higher in the younger age groups than the corresponding risk for disability. Fourth, as the age dependency of the contribution payment in large companies is highly dependent on the degree of experience rating, there are exceptions to the contribution rules for new hires of older people (see below).

Figure 4.4. Pension contributions by age in a private company with 50 employees in Finland

In percent of the workers salary



Source: Finnish Centre for Pensions.

Figure 4.4 shows the pension contribution rates by age for a company with exactly 50 employees. A company of this size pays an age-related contribution rate (in contrast to a small firm where the contribution rates are fixed and age-independent). As is clear from the figure, contribution rates increase with age. As an example, contributions for a worker at the age of 50 are around 4 percentage points above contributions for a 40-year old (an increase of 18%)

and at the age of 55, contributions increase by another 1.5 percentage points (*i.e.* 12% higher than for a 49-year old). Since wages also tend to rise somewhat with age, this would further increase the relative cost of older workers compared to prime-age workers.

Experience-rating further raises the costs of older workers

Experience-rating is generally applied to both disability and unemployment pensions in companies with more than 50 employees.⁹ Experience rating implies that the employer pays the cost of the benefit stream that is received by those employees who retire from that company. The idea is to link the cost-burden to the source, *i.e.* where the cost was incurred. This is thought to create incentives for firms to invest in a better work environment and to take preventive measures to avoid the cost of disability, but also to reconsider lay-offs of their older employees.

Medium-sized companies (51-799 employees) pay pension contributions that are partly tariff-based (calculated from the averages, presented in Figure 4.4) and partly experience-rated. Large companies (800 and more employees) pay the maximum experience-rating which is 80% of the cost of the incurred pensions and 20% of the tariff-rate. Whether experience-rating makes the pension contribution-age profile steeper or flatter than the tariff-rate contribution-age profile depends on the actual early retirements in that specific company. If there are more early retirements than the average, the contribution-age profile is steeper and vice versa (the exact shape depends on the specific ages when the early retirements occur).

The degree of experience-rating in different-sized companies in the private sector, before and after the reform in 2000 of the rules for experience-rating, is given in Figure 4.5.¹⁰ Firms with 51 to 799 employees pay a growing share of the full cost implied by strict experience-rating. For example, a firm with 525 employees pays 50% of the costs that are due to the early retirements that actually happened in that firm.

-
9. About 33% of all private sector employees are employed by firms affected by experience-rating, which further raises the costs of older workers compared with prime-age workers.
 10. Experience-rating for the unemployment pension in Finland was introduced in 1991. The disability pension has had experience-rating since the initiation of the system. The ratings of the two systems were harmonized in 2000. Prior to this, the disability pension was experience-rated in full for firms with at least 1000 employees and the unemployment pension was experience-rated to half of the cost for companies with more than 300 employees.

Figure 4.5. **Experience-rating by firm size in the private sector in Finland pre and post 2000 reform**



Source: Finnish Centre for Pensions.

Before the reform in 2000, experience-rating was more heavily applied to social security contributions for disability pensions than for unemployment pensions in larger firms. Thus, in the old system, if a large firm wanted to get rid of older workers it had an incentive to lay-off older workers rather than let them become disabled. The situation was the opposite for the small-medium sized companies. In 2000, contributions to both disability and unemployment pensions were made equal. Thus, the total contribution rate declined for large companies (800 and more employees) and companies with 51-524 employees. However, contributions to the unemployment pension increased for companies with 525-799 employees, making the total contribution rate higher.

Hakola and Uusitalo (2001) examined whether firms take these cost structures into account in their decision making. They found that larger firms that had larger incentives than the smaller firms to lay-off their older workers also did so once the disability risk increased. Their conclusion was that firms laid off older workers either because the cost-productivity ratio of the young versus the old was unfavourable to retaining the latter, or with the implicit approval of Finnish society and the older workers themselves to be laid-off.¹¹

11. The claim that there was implicit approval by the workers themselves is supported by the fact that there were no lawsuits claiming age discrimination even if the lay-offs in the recession seem to be concentrated in the older age groups.

The drawback of experience-rating is the resulting age profile of expected social security costs. Since disability and unemployment pension risks rise strongly with age, and if full experience-rating were observed, the expected social security costs of older workers would then be very high and result in disincentives for the company to hire people above a certain age. Thus, in order to boost the recruitment of the older people, there have been a number of exceptions to the basic rules of experience-rating. Accordingly, employment contracts that have lasted for less than three years and started after the age of 50 incur no experience-rating in the private or municipal sectors.¹²

Despite modifications, exceptions and cost transfers to younger ages, total social security contributions paid by the employers tend to be increasing with age. Thus, adding social security contributions to the age-earnings profiles implies that age-productivity profiles would also need to be clearly rising in order for older workers to remain competitive in the labour market. Most likely, experience-rating creates further disincentives to hire older workers, especially since these are quite pronounced in comparison to younger workers. Finally, experience-rating implicitly means that the last employer takes on a larger responsibility for future entitlements of the worker, adding to the disincentive to hire older workers.

3. Employment protection – obstacle or security?

The relationship between employment protection legislation (EPL) and employment of older workers is complex. In general, stricter legislation tends to reduce labour turnover but its impact on employment levels is less certain (OECD, 1999a). In other words, it is not obvious whether restrictive employment legislation increases employment rates of older workers or not. Restrictive employment legislation may protect workers who already have a job (insiders), but at the expense of those without a job (outsiders).

A. The role of EPL in Finland

The specific rules of EPL in Finland depend on the employment contract. About 75% of employees aged over 50 had a permanent employment contract in 2001 (see Chapter 2). Therefore, most of the older employees are affected by the rules for permanent employees. Permanent employment contracts can be terminated with a notice. Acceptable grounds for dismissals could be either individual specific or production-related. Notices cannot be given for illness,

12. In the government pension law (VEL), the limit of employment is one year.

disability or accidents, unless the contractual relationship would be made unreasonable.

Most terminated contracts are, however, terminated on production-related and financial grounds. In these cases, work that is offered by the employer has diminished significantly and permanently. The firm is not allowed to terminate contracts on these grounds if before, or soon after, terminating the contract, it hires a new employee for similar duties. The employer also has an obligation by law to explore the opportunities to offer other employment from an alternative source. In practice, however, these rules are not strictly followed.

The period of notice increases with tenure

Required periods of notice do not depend on age, but on the length of the employment contract. Hence, the longer the person has been employed, the longer is the required period of notice (Table 4.2). Since the length of employment is strongly linked to age, there is an implicit extension of notice period for older workers. The shortest duration for the notice period is 14 days, and it applies to those employees who have been working for less than a year. The longest required period of notice is six months, and it applies to those individuals who have been employed in the same company for over 12 years. Thus, this could work as a disincentive to retain older workers but should not affect hiring decisions with respect to older workers.

Table 4.2. Notice period for dismissals in Finland, 2002

Uninterrupted duration of employment	Notice period
No more than 1 year	14 days
1-4 years	1 month
4-8 years	2 months
8-12 years	4 months
> 12 years	6 months

Source: Finnish Ministry of Labour.

The legislation does not specifically mandate any particular rule or order when choosing workers for lay-off. Nevertheless, the right to choose the order is restricted by the Employment Contracts Act. This law is also supplemented by collective agreements. In general, these agreements state that the last to be laid-off are qualified employees and employees who have lost part of their working capacity in the service of the same employer. Some attention is also paid to the duration of the employment contract and the degree of liability for maintenance. Although the requirement to take tenure into account gives greater

protection to older employees, it is not put into practice very often. This may reflect a clear understanding among the social partners that older workers facing lay-off will be able to benefit from the use of the unemployment tunnel and the unemployment pension.

4. Subsidising labour costs for older workers

One way to help older workers to remain longer in the labour market is by making it more attractive for employers to hire and retain these workers. This can be achieved by providing employers with subsidies that reduce the cost of hiring or retaining older workers. These subsidies can take various forms, but two common methods are through a direct wage subsidy or through a reduction in employer's social security contributions. Indeed, a number of OECD countries have implemented such schemes (Box 4.1).

Box 4.1 Wage subsidy schemes for older workers in selected OECD countries

Austria: Employer's unemployment insurance contributions are halved for hiring workers between 50 and 55 years of age and eliminated for those hired over the age of 55. This subsidy is one part of Austria's Bonus-Malus system, where the "malus" is a penalty payment for dismissing a worker over the age of 50. It is staggered according to the age of the dismissed worker.

Belgium: Employers hiring long-term unemployed people aged 45 and over are partially exempted from paying their social security contributions during five years. In addition, as these newly hired workers are entitled to an employment subsidy under the programme "Activa", employers may reduce their wages by up to EUR 500 per month.

Denmark: Under the Service Jobs Scheme, municipalities hiring individuals who are more than 48 years old and have been unemployed for at least 18 months are paid an indefinite wage subsidy of DKR 100 000 per year.

France: Companies hiring an unemployed person aged 50 or above can take advantage of the "Contract to promote employment" (Contrat Initiative Emploi). The subsidy consists of a total reduction in employer's social security contributions at the level of the minimum wage, *i.e.* amounting to around 40% of gross minimum wages. The subsidy is normally paid for 24 months in the case where a permanent employment contract is offered and indefinitely in the case of a person aged 50-64 who is disabled or has been either unemployed or on social assistance for more than one year.

Germany: There is an "integration" subsidy (*Eingliederungszuschüsse*) available for hiring long-term unemployed persons aged 55 and over. The subsidy corresponds to 50% of wages.

Sweden: The Special Employment Subsidies programme encourages employers to recruit persons above 57 years who have been unemployed for at least two years. The subsidy is paid to employers during a maximum period of 24 months and up to 75% of the wage costs to a maximum of SEK 525 per day, *i.e.* SEK 10 500 per month (roughly half of the average salary of a full-time worker).

A. *Wage subsidies to employers in Finland*

In Finland there are basically three different subsidies directed to employers.¹³ The two most important are the “employment subsidy” and the “combined subsidy”.

The employment subsidy

An employment subsidy can be paid to a company, which offers a permanent employment contract to an unemployed person. However, a company can also receive the subsidy on the basis of a fixed-term employment contract or if it arranges an apprenticeship as an introductory work opportunity in order to improve the chances of an unemployed person with limited employability. The amount of the subsidy in the private sector varies between EUR 20 and 36 per person per day. In the state sector, the subsidy compensates wage costs fully up to a certain grade. The subsidised worker’s working time must amount to at least 85% of regular working hours and the subsidy is paid for a maximum of five days per week.

The combined subsidy

The combined subsidy is targeted at the long-term unemployed over 500 days. In order to prevent marginalisation and to promote a return to the labour market, combination subsidies must be used primarily to hire persons who during their periods of unemployment have not been employed at all, or have worked in the regular labour market for limited or irregular periods. The subsidy amounts to a maximum EUR 20 per person per day and can be combined with the labour market support benefit of EUR 22.75 per day. When the combined subsidy is used, the subsidy can be paid even if working hours are less than 85% of the regular working hours. In 2002, the maximum period for receiving the subsidy was extended to two years.

Older workers hired through wage subsidies

The main purpose of these wage subsidies is to reduce unemployment particularly among young people, long-term unemployed and disabled. Thus, there is no special wage subsidy directed to employers for hiring older unemployed. Nevertheless, given that many of the older unemployed are long-term unemployed or disabled they account for a significant proportion of

13. Measures directed towards individuals themselves are discussed in Chapter 5.

the potential target group. In 2002, older people accounted for 23% to 29% of all persons with either an employment subsidy or a combined subsidy (Table 4.3). These shares are quite similar in both the private and public sectors.

Around 60% of all older workers in these programmes are in the age group 50-54, which indicates that, when people become eligible for the unemployment tunnel or the unemployment pension, they are much less actively engaged in job search and thus less likely to be employed under a wage subsidy. Therefore, in 2000, the state budget earmarked EUR 11 million for municipalities and private sector employers with the aim of hiring 1 300 unemployed persons aged 55-59. In the year 2000, the total number of employed was 993 and in the year 2001 approximately 1 200.

Table 4.3. Number of people under employer subsidies in Finland, 2002

	Total	50-54 years	> 55 years	% of older workers
Employment subsidy for municipalities	9 722	1 440	1 387	29.1
Employment subsidy for private employer	3 700	504	333	22.6
Employment subsidy for state	2 720	548	248	29.3
Combined subsidy for private employer	9 352	1 725	738	26.3
Combined subsidy for municipalities	3 342	625	260	26.5
Employer subsidy for apprenticeship contracts, private employer	1 538	27	6	2.1
Employer subsidy for apprenticeship contracts, municipalities	319	12	3	4.7

Source: Finnish Ministry of Labour.

Outcomes of wage subsidies

The effectiveness of these measures differs significantly. First of all, the net effect of employer subsidies in the public sector was found to be low and was further found to be linked with the demand for low-productivity labour. Only the private sector clearly promoted the chances of employment. The regional differences in labour demand also had an impact on participants' chances of finding work after the subsidy was ended. In general, the regional analysis indicates that the displacement effect has been milder in the Helsinki region than elsewhere (Kangasharju. and Venetoklis, 2002). Further, the effectiveness of these measures appears to be relatively better for the long-term unemployed, for those with primary education levels and for older workers (Ministry of Labour, 2001). Moreover, 54% of all firms that received wage subsidies had less than ten employees and only 9% of the firms had more than 50. Thus, it seems as if small firms were more likely to use wage subsidies.

Chapter 5

BETTER ACCESS TO BETTER JOBS

Employability can be defined as having the necessary skills and ability to either remain in a job, to switch easily between jobs or to find a new job in the case of job loss. More generally, it means ensuring that there is a good match between the type of jobs on offer and the types of jobs that are being sought. Thus, the degree of employability of each person depends crucially on his or her personal characteristics in terms of level of formal education and having up-to-date skills and relevant work experience, as well as on the types of jobs available. It will also depend on appropriate incentives being in place for jobseekers to take up available job opportunities. This chapter analyses older people's employability and how it could be enhanced in Finland.

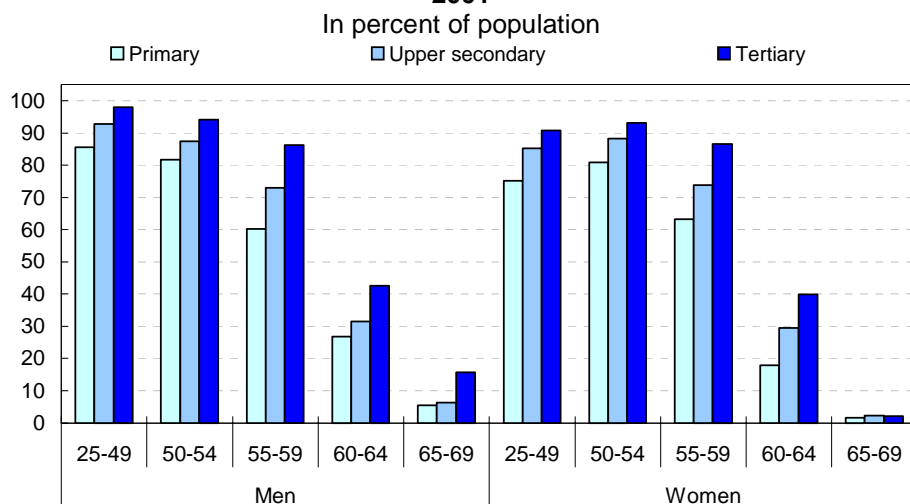
1. Education and labour market status of older workers

The ongoing shift away from the production of goods to the production of services, together with technological change has increased the need for more skilled and flexible workers. Thus, there is considerable pressure on the education system to adapt to new demands, on employers to continuously upgrade their employees' skills and on individuals themselves to engage in lifelong learning.

A High education – a key to higher participation rates

As in most other countries, participation rates in Finland are clearly linked with education levels and especially so for older people (Figure 5.1). In 2001, while participation rates were higher for more highly-educated people at all ages, the gap was more pronounced from the age 55 onwards. With respect to education level, participation was almost the same for men and women in the age group 50-54, but in the age group 55-59, women had slightly higher participation rates than men, irrespective of education level.

Figure 5.1. **Participation rates in Finland by age and education level, 2001**



Source: Finnish Labour Force Survey.

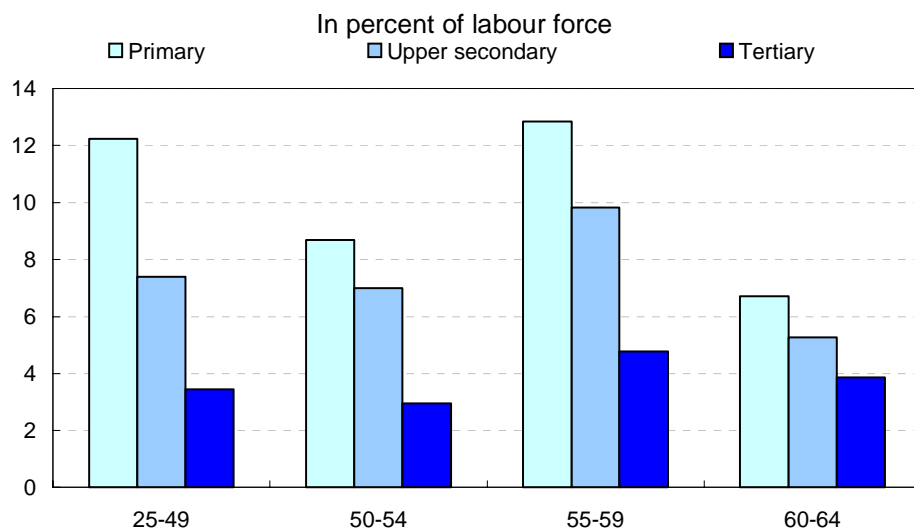
B. Low education – a reason for unemployment in Finland

Unemployment rates are also often strongly linked with education levels and this appears to be especially true in Finland (Figure 5.2). In 2001, unemployment rates in the age group 50-54 ranged from 9% for people with primary education down to 3% for those with a tertiary education; in the age group 55-59, they ranged from 13% for people with primary education to 5% for those with tertiary education; and in the age group 60-64, they ranged from 7% for people with a primary education to 4% for those with a tertiary education. Since a large share of older people are either in the unemployment tunnel or are receiving the unemployment pension these figures may underestimate the gap in unemployment rates by education.

C. Older workers' education levels will increase in the future

Almost 35% of prime-age Finns have a tertiary education while only 17% have less than upper secondary education, which places Finland in a relatively good situation compared to many other OECD countries. For older people nearly 25% have a tertiary qualification, which is also relatively high by OECD standards. However, as much as 45% have an education level lower than upper secondary, which places older people in Finland in the bottom half among OECD countries and significantly below the other Nordic countries (except for females in Iceland).

Figure 5.2. **Unemployment rates in Finland by age and education level, 2001**



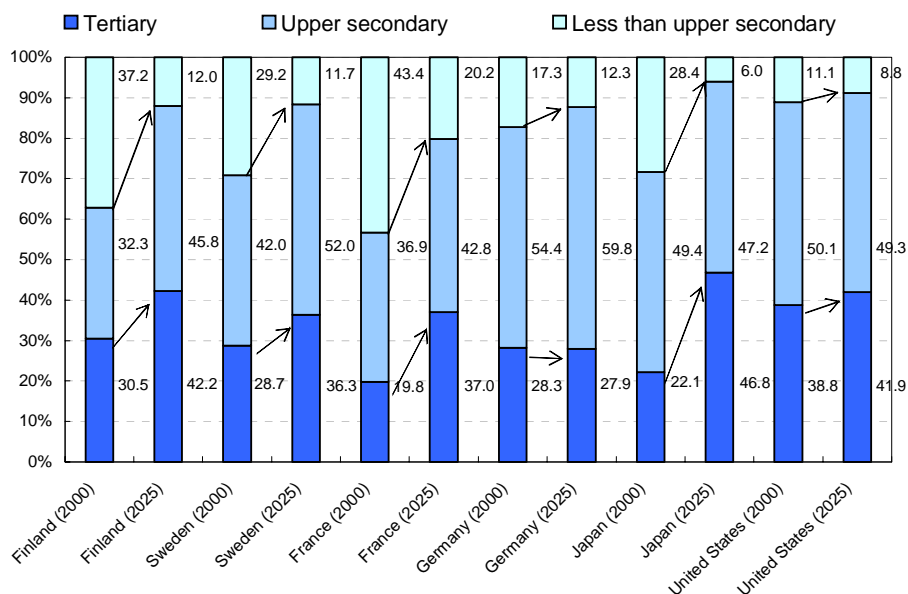
Source: Finnish Labour Force Survey.

Since educational attainment generally has been rising rapidly among the younger generations, there is likely to be a dramatic improvement in the average education level of older workers in the future (Figure 5.3). By 2025, the results suggest that only around 12% of all older workers in Finland will lack an upper secondary education level and around 42% will have a tertiary education. The fall in the share of the older work force in Finland with less than an upper secondary degree (of around 25 percentage points) is the largest among the countries shown in Figure 5.3. This would place Finland near the top of the OECD league in terms of older workers with a tertiary education.¹⁴ The rapid rise in educational attainment could be an important source of future gains in productivity (Bassanini and Scarpetta, 2001), and should further improve employment prospects for older workers.

14. These extrapolations are based on data for 2000 and obtained by applying participation rates by educational attainment, gender and five-year age groups between the ages 50-64 to the corresponding population aged 25-39.

Figure 5.3. Projected rise in the education level of older workers in selected OECD countries between 2000 and 2025

Percentage of labour force aged 50-64 by level of educational attainment



Source: For 2000, OECD, *Education at a Glance*; for 2025, OECD extrapolations of the 2000 data.

Formal education tells only part of the story and the skills of older workers more generally needs to be considered. Low levels of formal education of older workers may be compensated for by experience obtained on the job or elsewhere. Hence, the relative disadvantage of older workers, in terms of formal education could in fact be smaller than it appears.¹⁵ Moreover, changing job requirements mean that individuals regularly have to acquire new skills and upgrade their existing skills. Hence, adult learning and training can play a fundamental role in addressing the lack of formal education for the older working population. It can significantly enhance older workers' employability and productivity, not to mention wages and firm profits (OECD, 2001c and 2001d).

15. Studies by several authors (e.g. Akerlof and Stiglitz) indicate that formal education actually has little to do with productivity, but merely acts as a signalling or screening device for potential employers. Hence, if older and younger workers were equal in productivity terms, this signalling effect would still place older workers at a disadvantage in the labour markets.

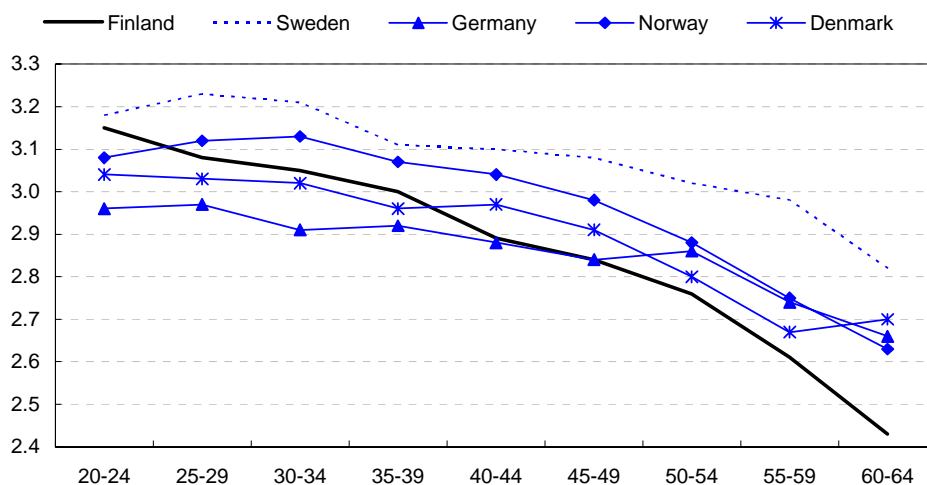
2. Skills and training of older workers

Firms are often reluctant to train older workers because it might be more efficient to concentrate training on younger workers since economic returns may be larger because of the longer payback time. However, older workers are less mobile and are therefore more likely to stay on the job longer, which, in fact, should encourage employers to continuously provide older workers with relevant training and skills. In any case, less training results in lower employability and thus a greater risk of unemployment or early withdrawal from the labour market. This should therefore be factored into the social returns on training and skill upgrading.

A. *Older people's skills could be improved further*

The International Adult Literacy Survey (IALS) tested the literacy skills of a random sample of individuals in several OECD countries. The skill categories were prose reading, documentary reading and quantitative skills. All of these three types of literacy are considered important in order to function effectively in society. The results for Finland indicate that the average level of these skills falls clearly with age in all of the three literacy categories (Figure 5.4). This fall occurs in all countries, but in Finland it is particularly severe.

Figure 5.4. **Literacy scores in Finland and selected countries^a**



a) Data for Finland and Norway refers to 1998, while data for the other countries refers to 1994.

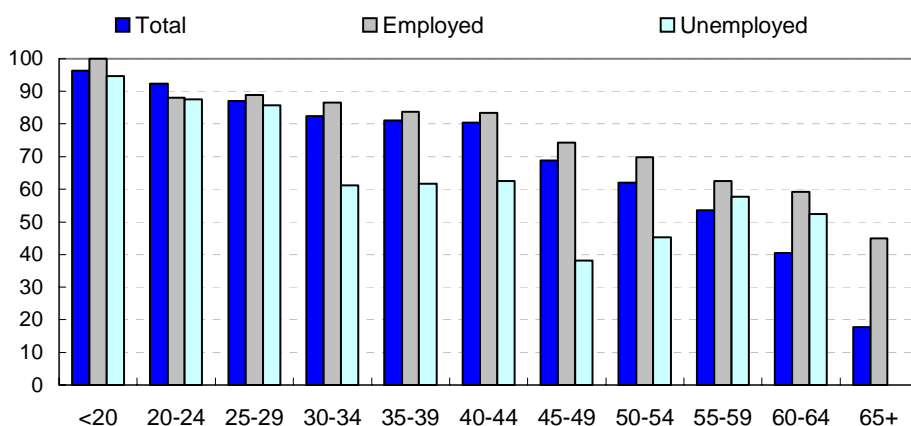
Source: International Adult Literacy Survey (IALS).

Part of this decline can be explained by differences in formal education. Blomqvist and Nyssönen (2001) controlled for these differences in education, but still found a decline in literacy skills with age. Thus, an increase in education levels of older people would not seem to be sufficient. Moreover, the literacy skills of the early retired as well as the younger unemployed are considerably lower than the literacy skills of their employed counterparts.

The importance of literacy skills in the labour market has been growing. When employers are asked about the types of skills required in the labour market today apart from educational or vocational qualifications, language skills and computer skills usually rank high. Like education levels and average literacy test scores, English-language skills fall sharply by age in Finland. However, older people have less of a disadvantage when other “foreign” languages such as German and Swedish are considered.

The share of people that use a computer also declines by age (Figure 5.5). A significant change in the use of computers occurs at the age of 45. The use of computers also differs between the employed and the unemployed. In the younger age groups this difference is negligible, while it is larger among the prime-age individuals. Interestingly, this difference is considerably smaller for those age groups (55-59 and 60-64) that are entitled to either the unemployment tunnel or the unemployment pension. Their computer literacy seems to be higher than those of the retired (not shown in the figure), and almost as high as the computer literacy of the employed. Correspondingly, people in these older age categories (55-64) felt that they had less need for computer skills training than those in the other age groups (Blomqvist and Nyssönen, 2001).

Figure 5.5. **Computer use by age**
Percentage share of persons in each age group that use a computer

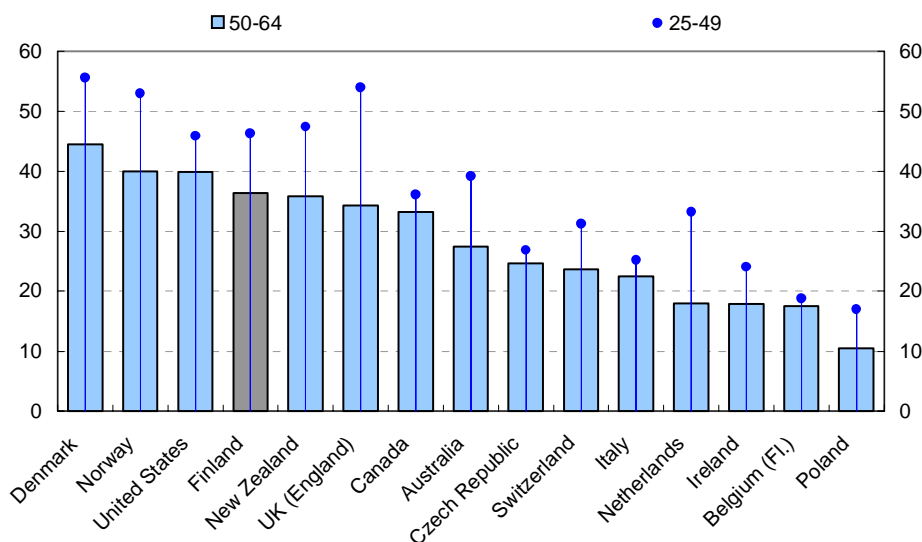


Source: Statistics Finland, Adult Education Survey 2000.

B. *Incidence of training declines with age*

Although the level of training differs significantly across countries, the incidence of training for older workers is always lower than the incidence for prime-age workers (Figure 5.6). In Finland, around 36% of workers aged 50-64 receive job-related training, which places Finland fourth in the cross-country comparison, compared with 46% for prime-age workers.

Figure 5.6. **Incidence of job-related training for workers by age in selected OECD countries, 1994-1998^a**



a) Refers to training received at some stage during the 12-month period prior to the survey.
Source: International Adult Literacy Survey (IALS).

The definition of training in the Figure 5.1 includes a large variety of training programmes and only reveals the incidence of training – not the average duration of a training spell. Hence, Table 5.1 shows the participation in employer-paid training and the average number of training days for prime-age and older workers in Finland and Sweden in 2000. In Finland, prime-age workers participated most in employer-paid training; while the participation of workers aged 50-54 was close to the average. However, employees aged 55-59 participated somewhat less than the average and those 60-64 considerably less. Also the days spent in training fell by age. Those older workers who participated in training did so for 4.5-5.5 days in the previous 12 months, whereas prime-age workers averaged 6.3 days in the previous 12 months. Thus, prime-age workers not only have a higher incidence of training, but also more days of training. Overall, in 2000, Finnish workers participated less in employer-paid training and for fewer days than their Swedish counterparts.

Table 5.1. **Participation in employer paid training in Finland and Sweden, 2000^a**

	Share of workers participating in employer paid training (in %)		Days of employer paid training per worker		Days of employer paid training per worker participating in employed paid training	
	Finland	Sweden	Finland	Sweden	Finland	Sweden
25-49	47.6	58.1	3.0	5.0	6.3	8.6
50-54	45.2	56.0	2.5	4.2	5.5	7.5
55-59	40.5	54.3	1.8	3.8	4.5	7.0
60-64	33.0	42.6	1.7	2.9	5.3	6.8
Total	43.5	53.8	2.6	4.3	6.1	8.0

a) Refers to training received at some stage during the 12-month period prior to the survey.

Source: Finnish and Swedish Labour Force Surveys.

C. *Training is more important for older people*

The impact of training on employment outcomes is difficult to evaluate. Nevertheless, some indication can be obtained from workers' own assessment of the usefulness of the training they received (Table 5.2). All in all, it seems that training is important for workers in all age groups, but in the Finnish Adult Education Survey for 2000 older workers who received training were more likely to report that it was useful in a number of respects than either prime-age workers or younger workers who received training. For example, older workers reported more frequently that training had helped them to get a higher wage and to keep their job. Furthermore, one fourth of older workers answered that they had obtained a permanent job as a result of training.

Table 5.2. **Importance of job-related training by age in Finland, 2000**

Percent in each age group of participants

	<25	25-49	50-64
Training resulted in new tasks at work	49.4	50.9	45.8
Training resulted in possibility to keep the job	22.1	30.9	44.4
Training resulted in a promotion	36.9	41.3	42.9
Training resulted in higher salary	14.7	24.0	31.6
Training resulted in a permanent job	13.5	21.9	23.1
Training resulted in a changed of work place or of occupation	7.6	16.6	15.4

Source: Statistics Finland, Adult Education Survey 2000.

Although training is considered useful, some individuals choose not participate in employer-paid training. The main reason in Finland seems to be lack of time (Table 5.3). In 2000, around 46% of older Finns and 47% of the prime-aged responded that they were too busy at work to participate in training. However, about 20% of the older and prime-age workers responded that the employer does not offer any training opportunities, which makes this reason the second largest. The third largest reason for not participating was that the training supplied was not suitable. Thus, if access to training is to be facilitated, employers may need to re-organise work tasks so that both older and younger workers have the necessary time to participate in training.

Table 5.3. Reasons for not participating in the employer paid training by age groups in Finland, 2000

	<25	25-49	50-64
Busy at work	35.5	47.1	45.7
Employer does not organise training	26.0	18.6	20.2
Suitable training not available	16.9	13.1	12.2
Other	5.9	6.1	5.3
Lack of information on training opportunities	4.3	2.1	1.9
Employer does not value training	3.4	2.5	2.1
Lack of interest	2.6	4.6	6.0
Training offers no benefits	2.6	2.4	3.0
Training is of poor quality	0.9	1.3	0.8
Fear of failure	0.0	0.3	0.5

Source: Statistics Finland, Adult Education Survey 2000.

To the extent that older workers learn differently compared with younger workers, more attention should be devoted to:

- The learning strategy, *e.g.* to make greater use of experience for older workers.
- The conditions and methods used in training to take into account the importance of learning-by-doing and that older people may have a weaker mechanical memory but a stronger connective memory.
- The speed of training since both the time required for learning and understanding new terms and finding information from manuals takes longer for older people (Ilmarinen, 2002).

Clearly, employers need to tailor training more towards the different needs and skills of each employee.

3. Helping older people to find new jobs

As shown in Chapter 2, the incidence of long-term unemployment is significantly higher for the older unemployed than for the younger unemployed. Thus, it is important to help older unemployed people find new jobs as early as possible following job loss. This may require improving employment services for older job seekers – including their access to active labour market programmes (ALMPs) – with a stronger emphasis on helping them to return to work.

A. Active labour market programmes

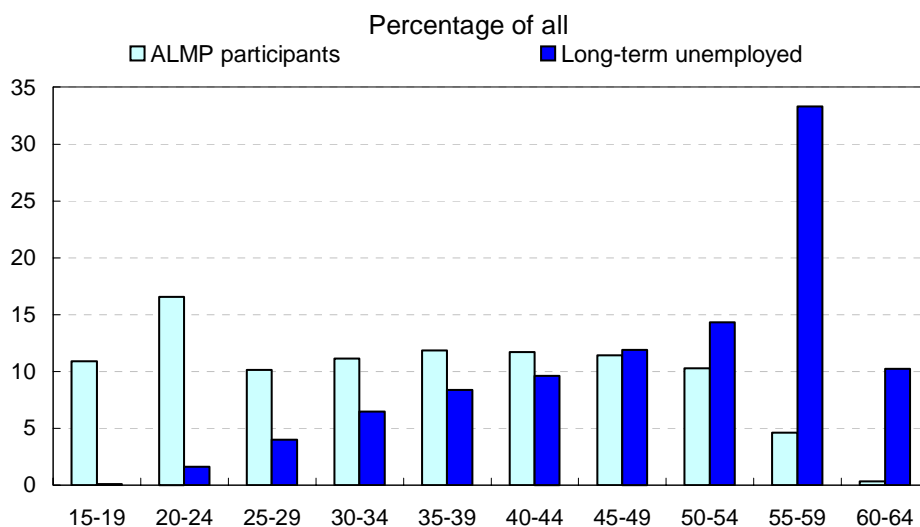
In Finland, ALMPs are designed to improve the employment potential of young persons, the long-term unemployed and disabled. Hence, no programmes are specifically targeted towards older workers. However, both the long-term unemployed and the disabled consist largely of older people.¹⁶ Nevertheless, older people participate much less frequently in these programmes than younger and prime-age people.

When the share of older people in ALMPs is compared with the share of older long-term unemployed, the representation of older people in the ALMPs is strikingly low (Figure 5.7). In 2001, only about 15% of all participants in ALMPs consisted of older people, while they accounted for almost 60% of all long-term unemployed. Moreover most older participants in ALMPs were in the age group 50-54 and, after the age of 60, participation is virtually non-existent. As discussed earlier, the main reason for this is that the unemployment insurance scheme does not in practice require any active job search for people aged 55 years or older.

In 2001, ALMPs were categorised in four different groups: *i*) wage-related measures; *ii*) labour market training; *iii*) training with labour market support; and *iv*) job-rotation schemes. Wage-related measures consist of employer subsidies and subsidies that are paid to the unemployed job seeker. Labour market training and training with labour market support consist of either short-term or long-term on-the-job training while job-rotation schemes consist of the job-alternation leave and the part-time supplement. The latter two schemes build on the notion of job-sharing, which occurs when an unemployed person replaces an employed person on leave.

16. Over 45% of the disabled unemployed in 2002 were aged 50 or above. In the same period, over 56% of the long-term unemployed (exceeding 12 months) were more than 50 years old and over 41% were at least 55 years of age (Ministry of Labour, 2003).

Figure 5.7. **Long-term unemployed and ALMP participation by age, 2001^a**



a) Long-term unemployment is defined as unemployment lasting for 12 months or more based on administrative data.

Source: Finnish Ministry of Labour.

Overall, in 2001, two thirds of older ALMP participants benefited from wage-related measures and around one fourth took part in labour market training; the other two measures were negligible for older people (Table 5.4). In other words, those older unemployed individuals that actually participate in ALMPs mainly do so through wage subsidies to the unemployed or employer subsidies (subsidies to employers were discussed in Chapter 4; subsidies to employees are reviewed below).

Table 5.4. **Participation in different types of ALMPs by age in Finland, 2001^a**

Percent in each age group of participants				
	15-24	25-54	55-64	Total
Wage-related measures	19.5	44.6	67.5	38.8
Labour market training	25.2	48.6	28.4	41.1
Job rotation	3.9	6.8	4.1	5.9

a) The same individual can take part in several programmes.

Source: Finnish Ministry of Labour.

Wage subsidies to the unemployed

Wage subsidies to unemployed job seekers consist of three different programmes: the “Part-time supplement”; the “Start-up grant”; and the “Coaching for working life” (see Box 5.1 for a description of each of these subsidies). The number of people using each of these measures is quite similar and in 2002 amounted to around 2000 (Table 5.5). However, the part-time supplement is the most popular one among older people who accounted for about 23% of all recipients of this supplement. The reason for the relatively high share of older workers in this programme is that it is quite generous since it actually subsidizes a reduction in working hours. The other two measures account for even smaller share of older unemployed.

Table 5.5. **Receipt of wage subsidies by age in Finland, 2002**

	15-64 (1)	50-54 (2)	55-64 (3)	(2+3) as a % of (1)
Part-time supplement	2232	291	227	23.2
Start-up grant	2107	227	78	14.5
Coaching for working life	1719	151	45	11.4

Source: Finnish Ministry of Labour.

Box 5.1 Wage subsidies to employees in Finland

Part-time supplement: The part-time supplement is a job-sharing model. It means that persons who transfer voluntarily from full-time to part-time work can be granted compensation for their reduced income. The compensation is about half of the income loss. In practice, net incomes usually reach 80% to 90% of former full-time income. The only precondition for this measure is that the employer agrees to hire a person registered in an employment office for the remaining time. The unemployed persons should be unemployed for at least five out of the previous six months or be over 55 years old. There is no compensation for this person except the part-time wage received from the job.

Start-up grant: The start-up grant is supposed to secure an individual's livelihood during the time estimated for starting a business. The grant can be received by an unemployed job seeker if the public employment office considers the person to be suitable, e.g. the applicant should have experience of self-employment or received a minimum of training for entrepreneurship. However, training can also be arranged during the period when the subsidy is paid. The daily amount of the subsidy ranges from EUR 20-36. The maximum period for receiving the subsidy is 10 months and for a maximum of five days per week.

Coaching for working life: The purpose of this support is to improve and maintain an unemployed person's professional skills. Unemployed job seekers can be granted the subsidy for the period they spend in the on-the-job training programme (coaching). The amount of the subsidy is the same as for the start-up grant and is granted for each training day up to a maximum of five days per week but for no longer than ten months.

The effectiveness of active labour market programmes

Studies of the effectiveness of ALMPs in Finland confirm the positive employment effects of labour market training and, to some extent, the positive effects of subsidised employment (Ilmakunnas *et al.*, 2001). Many studies also seem to find that labour market training is more effective for the older unemployed (Aho *et al.*, 1999). However, because of the low participation among older people, these outcomes may not be very reliable. Further, those older people who actually participate in these programmes may also be significantly more motivated than those who do not participate. Hence, general conclusions for all older unemployed people may be difficult to draw.

With respect to the effectiveness of wage subsidies, the results are somewhat contradictory. Some researchers (Aho *et al.*, 1999; Aho and Kunttu, 2001) claim that wage subsidies are effective in alleviating unemployment for older people. Hämäläinen (1999), on the other hand, finds that the effectiveness of wage subsidies for older workers is lower than for other age groups, and even negative in some programmes. He concluded that if the aim is to help the older unemployed, the best results could be obtained by using self-employment support (*e.g.* the start-up grant) and by subsidising private employers. These two programmes at least give positive effects, although not very strong.

These studies were carried out with data from 1998 as the latest year. It would therefore be timely to update these results and examine what type of programmes would be considered most effective for older people today.

B. Active job search among older people in Finland

As discussed earlier, long-term unemployment remains a severe problem for older people in Finland. Once older workers lose their jobs, their re-employment is almost negligible. Therefore, it is important to examine how active older people are in their job search, what methods they use and whether these methods differ from those used by other age groups. Successful job search depends of course also on the availability of suitable jobs, the willingness to take a job, discrimination by the employer, the generosity in the unemployment insurance scheme and other factors.

Job-search methods

The Labour Force Survey reveals that different age groups use different types of job-search methods. For example, older people do not contact employers directly as frequently as younger people do and they answer fewer newspaper advertisements than their younger counterparts. Overall, older people use less “active” search methods than people in other age categories. This “passivity” in job search is especially noticeable for those entitled to the unemployment tunnel. Instead, the primary job-search method for older people is through public employment offices.

Many of the older unemployed are not actively seeking work

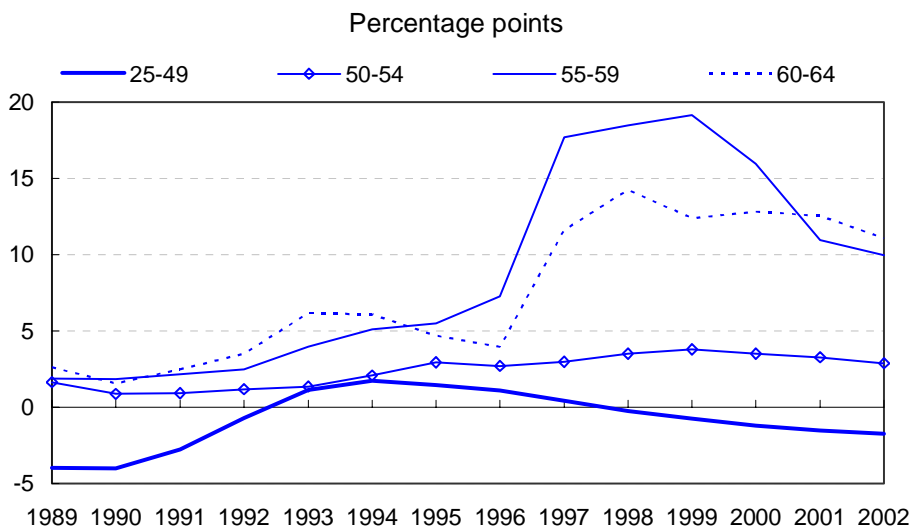
A comparison of the unemployment rates reported by the Labour Force Survey with the registered unemployment rate based on administrative data from the Ministry of Labour provides another indication of the extent to which unemployed older workers are actively seeking work (Figure 5.8). The Labour Force Survey registers only those individuals who actively seek work as unemployed, while the Ministry of Labour requires all persons wishing to receive unemployment benefits to register at the Public Employment Office. There are significant differences in the unemployment rates from the two different data sources both by age and over time.

The greatest differences between the two unemployment rates occur after 1996 for those aged 55 and over. In the late 1990s, the difference between the share of older people registered and those actively searching for a new job reached almost 20 and 15 percentage points for the age groups 55-59 and 60-64, respectively. By 2002, these gaps had narrowed significantly, but still amounted to more than 10 percentage points. It seems likely that the relaxation of job-search requirements from the age of 55 on is contributing to the relatively high number of older recipients of unemployment benefits who are not actively looking for work.

Older unemployed are more reluctant to accept job offers

The unconditional availability of unemployment benefits also appears to affect the willingness of the older unemployed to accept job offers (Figure 5.9). In fact, only 30% in the age group 55-59 are willing to take up a temporary job that does not correspond to their qualifications compared to 75% in the age group 50-54. Thus, the relaxation of job-search requirements for the older unemployed aged 55 and over also enables them to be much more selective in the job market.

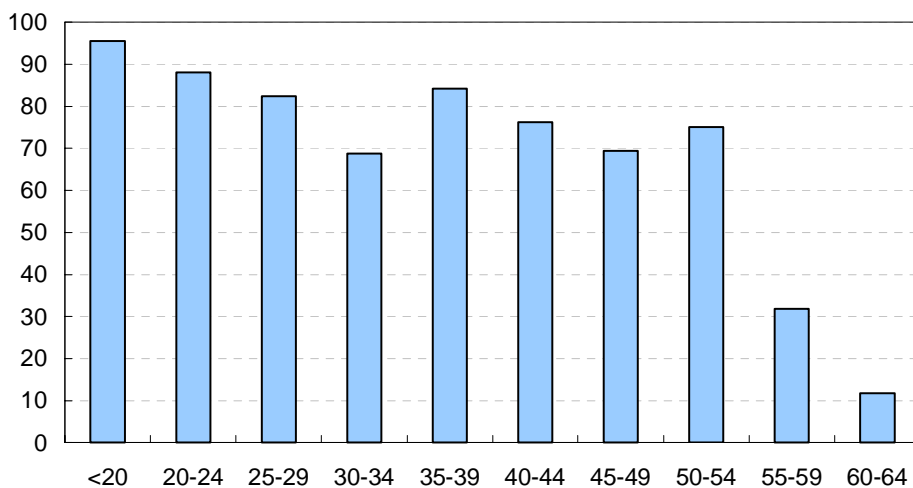
Figure 5.8. **Difference between the registered- and survey-based unemployment rate by age in Finland**



Source: Administrative data from the Finnish Ministry of Labour; Finnish Labour Force Survey.

Figure 5.9. **Willingness of the unemployed to accept a temporary job below their qualifications in Finland, 2000**

As a percentage of all unemployed in each age group



Source: Statistics Finland, Adult Education Survey 2000.

Many older people are also discouraged to take up a job

Over 70% of older inactive persons who are receiving disability benefits cite sickness as the main reason why they are not seeking work (Table 5.6). Almost 13% of those on disability benefits believe that there is no work available. Almost 20% of the older people who are retired abstain from job search because they believe employers think that they are too old. A bit less than a third of the retired also believes that there is no work available. However, the discouraged worker effect is strongest in the group “other”. Most of these people are likely to be on unemployment benefits even if they are effectively inactive. About half of this group believes that there is no work available, and therefore do not engage in active job search. Another 20% in this category also believe they face age discrimination. Generally, people do not consider their qualifications to be a problem.

Table 5.6. Reasons for not seeking work among the older inactive in Finland, 2001^a

	Disability pension or sickness	Retired	Other
Sickness	71.9	7.5	7.5
Believes that no work is available	12.7	30.4	47.8
Believes that employers think they are too old	3.9	18.5	19.4
Believes that qualifications do not meet demand	1.5	0.0	2.2
Other	10.0	43.7	23.1
Total	100.0	100.0	100.0

a) The data refer to all inactive older people who were not looking for work even though they would like to work.

Source: Finnish Labour Force Survey.

Helping older unemployed or inactive people to find a new job is a major challenge in Finland. Not only is unemployment for older people relatively higher compared to other age groups, but it is also higher than in many other countries. More research should be carried out on outcomes of active labour market programmes and rehabilitation methods to establish what works and what does not. Further, older peoples' job-search methods could be improved, for example, by increased support from public employment offices with a stronger emphasis on helping the older unemployed back into work. Finally, there is probably also a large share of older people that do not want to work or do not have to look for it. To turn this situation around, actions are needed in several areas but since changing attitudes and perceptions is difficult this may take time.

4. The work environment in Finland

Apart from improving skills and helping workers finding new jobs, it is also important that older people feel appreciated at the work place and that the work environment is safe and adapted to their needs. The shift away from the production of goods to the production of services has tended to decrease the number of jobs with unpleasant working conditions such as jobs requiring heavy lifting and exposure to impure air. But, in order to promote longer working lives more generally, it is important that working conditions improve further for all age groups.

A. *There is large scope to improve working conditions in Finland*

Overall, working conditions for older workers appear to be worse in Finland compared with the average in the European Union. According to the Third European Survey on Working Conditions (2000), a higher proportion of older workers in Finland report unpleasant working conditions and work tasks and limited time-flexibility than in the European Union (Table 5.7).

Relatively poor working conditions may partly explain the result that 17.1% of older working men in Finland have been absent for five days or more during the last 12 months because of work-related health problems (compared to the European Union average of 6.8%). Moreover, older working Finns report a worse working environment compared to prime-age working Finns, which contrasts with the situation in most of the other countries reported in Table 5.7. Finally, older workers in Finland report a significantly worse working environment than their Swedish counterparts.

In addition, there are also national surveys on working conditions in Finland. The results of the Working Life Barometer in 2002 (Table 5.8) suggest that older workers tend to have more flexibility in terms of their own work tasks than younger workers but less influence over the pace of their work. Employers appear to pay high attention to health issues and safety at work, especially so for older workers.

The other survey of working conditions in Finland is the Quality of Working Life Survey from 1997 (Table 5.9). The results indicate that while relatively few older workers (13%) have monotonous jobs, around 57% reported that their jobs were psychologically demanding. However, only around 30% of older workers felt reluctant about going to work or mentally tired before going to work. On the other hand, over 35% of older workers found their jobs physically demanding. However, the rate of accidents at work was more than twice as high for youths than for both

prime-age and older workers. At the same time, 47% of all older workers experienced an occasional risk of an accident at work compared with 55% of prime-age workers and 57% of youths who were working.

Table 5.7. Incidence of poor working conditions in Finland and selected EU countries by age, 2000

Percentage of workers in each category

	Men			Women		
	Total 15-64	25-49	50-64	Total 15-64	25-49	50-64
Unpleasant working conditions^a						
Denmark	34.2	35.7	28.7	31.0	29.9	30.4
Finland	45.4	42.7	48.7	30.6	28.8	33.8
France	52.8	53.9	43.0	32.0	33.0	20.9
Germany	44.1	45.3	39.4	21.3	19.9	23.3
Sweden	45.9	45.6	45.5	29.9	33.3	22.0
EU-average	47.9	48.1	42.7	28.0	27.9	26.4
Unpleasant work tasks^b						
Denmark	50.9	48.9	40.1	52.8	53.1	47.8
Finland	67.7	65.9	65.7	70.1	69.7	71.1
France	71.8	69.9	72.4	69.6	70.6	69.5
Germany	63.0	64.6	53.8	51.5	52.9	51.5
Sweden	65.3	63.4	64.1	64.3	66.7	58.9
EU-average	66.3	65.4	60.8	58.9	59.1	57.1
Limited working-time flexibility^c						
Denmark	58.7	57.5	51.9	71.4	68.9	68.1
Finland	73.7	72.6	78.7	83.5	83.4	87.3
France	75.5	74.7	68.5	80.6	77.0	88.7
Germany	81.9	80.2	84.7	86.1	84.8	89.9
Sweden	68.7	69.0	66.3	76.3	75.6	76.9
EU-average	76.7	75.1	76.7	81.6	80.1	81.4
Work-related health problems^d						
Denmark	1.6	1.8	2.9	3.8	4.8	3.8
Finland	6.2	4.1	17.1	4.5	5.1	3.3
France	4.9	3.8	10.5	4.2	4.4	5.8
Germany	3.0	3.4	3.4	4.2	4.6	5.1
Sweden	5.3	4.1	8.9	6.2	6.4	5.6
EU-average	4.1	3.7	6.8	3.8	4.1	4.0

- a) Workers reporting unpleasant working conditions refer to all workers who report that they are exposed during at least half of their working time to one or more of the following conditions: vibrations from hand tools or machinery; loud noise; high or low temperatures; breathing in vapours, fumes, dust or dangerous substances; handling dangerous products; or radiation such as X-rays, radioactive radiation, welding light or laser beams.
- b) Workers reporting unpleasant working tasks refer to all workers who report that they are exposed to one or more of the following situations: painful, heavy lifting, repetitive tasks, repetitive movements of the hand or arm, wearing protective equipment.
- c) Workers reporting irregular working hours.
- d) Workers reporting absence of five days or more during the last 12 months because of work-related health problems.

Source: Third European Survey on Working Conditions (2000).

Table 5.8. Job satisfaction in Finland by age, 2002^a

Percentage of all workers in each age group

	<24	25-49	50-64	50-54	55-59	60-64
The workplace pays attention to employees' safety at work	78.6	74.5	79.5	78.1	81.5	79.1
The workplace pays attention to employees' health	47.3	61.4	68.6	67.4	66.9	79.1
Received paid on-the-job training the last year	21.1	49.4	47.4	47.6	50.4	37.2
Can influence pace of work	37.5	47.0	42.7	40.7	41.9	53.5
Can influence own work tasks	25.0	37.3	41.2	41.8	39.4	44.2
Has flexible working time	35.7	35.6	33.5	30.0	36.3	40.5

a) Some care should be taken when interpreting the results for the age groups 55-59 and 60-64 as the number of observations are very small in some cases.

Source: Finnish Ministry of Labour, Working Life Barometer Survey 2002.

Table 5.9. Work characteristics in Finland by age, 1997

Percentage of age group

	<24	25-49	50-64
Has a psychologically demanding job	22.3	51.9	57.1
Experience occasional risk of accident at work	57.4	54.7	47.0
Has a physically demanding job	45.0	34.5	35.6
Has a monotonous job	33.9	16.9	12.7
Had a work accident, which resulted absence from work	11.6	5.1	5.4

Source: Quality of Work Life Survey 1997, Statistics Finland.

Clearly, the results of the working conditions surveys reveal that older workers in Finland are likely to suffer from sample selection bias since those who still work are probably more likely to be happy at work than those who took advantage of available early retirement schemes. Moreover, it is difficult to compare results across age groups given differences in worker characteristics in terms of occupation and industry. For example, many older women work in the health-care industry where heavy lifting and uncomfortable working positions and undesirable conditions may still form part of everyday working life. On the other hand, older men are overrepresented in the industrial sector (e.g. manufacturing and construction), which may be more accident-prone (see Chapter 2).

Thus, improvements in the working environment for all age groups should be assigned a high priority at the work place by both the social partners and the government. Indeed, several government programmes have been introduced in recent years to achieve the goal of a better work environment and these are discussed in the following chapter.

Chapter 6

A GENERAL FRAMEWORK FOR THE FUTURE

If the Finnish economy is to meet the demographic and economic challenges ahead, an overall increase in the utilisation of potential labour supply is needed. As discussed in the previous chapters, this can be achieved by increasing employment rates, increasing actual average hours of work and increasing the average number of years spent in the labour market. Other potential solutions include raising immigration levels and encouraging higher fertility rates. In any case, reversing the trend to early retirement will be vital for improving Finland's future economic prospects.

The recession in the early 1990s, resulted in a sharp drop in the overall participation rate of the population aged 15-64. It only began to recover towards the end of the decade, reaching 74.5% in 2002 – still below its pre-recession level. On the other hand, between 1994 and 2002, the employment rate increased from around 60% to 67% – one of the largest increases in the OECD area. Despite the fact that the employment rate in 2002 is currently in line with the OECD average, it still falls short of the 70% target specified by the government in 1999, which is also identical to the EU-wide Lisbon target.

More recently, the Finnish government aims to increase the effective retirement age by three years from its present one of 59 years.¹⁷ Within the next five years two other targets to raise the overall employment rate to 75% and to lower the overall unemployment rate to 5% have been set.

Meeting these targets will require action on a number of fronts and, therefore, this chapter begins with an assessment of the coherence and comprehensiveness of the measures that Finland has taken to boost the labour supply of older people. In particular, a number of cross-cutting measures taken by Finland to improve the labour market prospects of older workers are

17. Because of different methods used to calculate the effective retirement age, this figure does not correspond to the figure calculated by OECD reported in Chapter 3.

examined. Alternative avenues for boosting labour supply more generally are then briefly discussed. The chapter concludes with the message that it is essential that Finland maintains the momentum for reform.

1. Policy coherence and ageing programmes

Reforming the pension system is an important step to strengthening work incentives. However, as discussed in Chapter 3, it is not enough to reform the old-age pension system if other avenues to early retirement, *e.g.* through the unemployment insurance scheme and the disability pension scheme, are still open. At the same time, older workers need to be given more flexibility in how they work. In this context, close co-operation between the social partners and government bodies should be encouraged. In addition, attention has to be paid to the interactions and complementarities between policies. For example, it is clear that the “return” to active labour market policies will be all the higher when demand-side barriers to employment (*e.g.* hiring and firing costs) are addressed.

Ensuring that older persons, who can work, effectively look for a job becomes of paramount importance in this respect. This is why it is urgent to enhance the effectiveness of active labour market programmes and improve the functioning of public employment services. Still, public employment services tend to focus attention on re-employment of younger or prime-age workers. Quality employment services need to be made available to older workers and, in turn, unemployed individuals should be required to actively look for a job.

This should go hand-in-hand with putting in place a well-functioning system of job-related training so as to ensure that lifelong learning becomes a reality for all. Programmes carefully targeted and monitored at displaced unskilled workers can help but are far from sufficient. Given the rapid improvement in educational attainment in Finland, future generations of older workers will have better chances of prolonging their careers. Still, it is important to have effective systems that maintain and upgrade the skills acquired through initial education. This is the best guarantee against the risk that firms continue to target lay-offs on older workers.

More generally, to boost employment chances for older workers, a well-functioning labour market must be in place in the first instance. The OECD *Jobs Strategy* provides a blueprint for reform in this area (OECD, 1999b). Thus, it is important to act on all fronts through a comprehensive reform strategy in order to meet the challenges raised by population ageing. Finland has, compared to many other OECD countries, made progress in this area. For more than a

decade, Finland has tried to change the work climate and labour market prospects for older workers by using comprehensive programmes targeting both workers and employers.

A. *Promoting workplace changes and work ability*

Because Finland has had a long tradition of early retirement through disability pensions, many of the early government programmes were largely directed to health-related matters (Gould and Saurama, 2003). Some examples of these were “Respect for Work Ability” and “Work Ability for Tomorrow” introduced by the Federation of Employment Pension Institutes (TELA), “Respect for the Ageing” introduced by the Finnish Institute of Occupational Health and “Fitness for All Ages” introduced by the Ministry of Education and the Ministry for Social Affairs and Health. Although, compared to most other countries, the need for a range of measures to reverse the trend towards early retirement was identified and acted upon relatively early, the majority of these efforts came to a halt because of the major recession in the early 1990s. More recently, a number of programmes have been introduced that focus on work ability and working conditions.

The Workplace Development Programme

In 1996, the Ministry of Labour, together with the social partners, launched the Workplace Development Programme with the aims of promoting workplace changes, disseminating knowledge and expertise in workplace development and strengthening the structures of workplace development. The programme provided expert support to workplaces striving to improve the quality of working life. There exists now a broad consensus among the social partners to continue the programme beyond 2003.

The programme covers all sectors of the economy and workplaces of all sizes. The total number of funded development projects at workplaces are nearly 500, with 122 000 employees involved. Promoting the functioning of work organisation from the point of view of the aging workforce is one of the main target areas. Improving work ability has been an explicit goal in about 25% of the projects. In many other projects, the main goal has been to improve work processes, teamwork and personnel management.

The Well-Being at Work Programme

The Well-Being at Work programme aims to promote work capacity and maintain well-being in the workplace. The programme was launched in response to early retirement and demographic trends, plus the high figures for workload and stress indicated by various surveys of the working climate. The programme ran from 2000 to 2003.

The programme operates at four levels: information provision and the promotion of good practices; research and the utilisation of research findings; support and funding for development projects; and legislation monitoring. The major goal of the programme is, however, to encourage people to stay on at work for at least two to three years longer than at present.

Some of the most recent projects within the programme examine the obstacles that prevent older unemployed from finding work and identify what actions are needed to promote employment. In addition, various models have been collected on how the experience and skills of older workers can be passed on to younger colleagues. Another focus has been on models to help management to better utilise staff in order to avoid an excessive burden of work.

The National Programme on Ageing Workers

To date, the most well-known programme outside of Finland is the National Programme on Ageing Workers. The programme aims to ensure that an increasing share of older persons can be re-employed and that those who want to work can do so until they reach pensionable age. In particular, the programme seeks to improve employment opportunities and work ability for people aged 45 years and over (Box 6.1).

VETO programme

To increase the attractiveness of working life and improve the health and fitness of the working-age population, a new programme called “VETO” was introduced by the Ministry of Social Affairs and Health in 2003. This programme is based on the experiences of the National Programme on Ageing Workers and the Well-Being at Work programmes. The goals of the VETO programme are to ensure that people can fully participate in working life, encourage them to stay on longer at work and enhance the attractiveness of work. The programme is divided into four parts: attitudes to safety; occupational health care and rehabilitation; diversity and equality at work; and income security and time in work. The programme will continue up to 2007.

Box 6.1. The National Programme on Ageing Workers

Background: During the 1990s, the Finnish economy went through dramatic changes. Not only did the recession result in historically high unemployment rates, but at the same time there was a substantial change in the demand for labour. The situation called for radical change, especially for older people. As a result, in 1996, the IKOMI committee proposed a 40-point programme to improve employment conditions (over a five-year period) for people above 45 years of age.

The committee proposal resulted in the National Programme on Ageing Workers that was conducted over the period 1998-2002. The programme was implemented jointly by the Ministry of Social Affairs and Health, the Ministry of Labour and the Ministry of Education. The programme was funded by the state budget to the sum of EUR 4.2 million.

Objectives: The IKOMI committee grouped their 40-point programme into three main areas: *i)* development of working life; *ii)* promoting a return to work; and *iii)* reforms of pension and other social protection. The objectives of the programme were framed at several levels: the individual level (e.g. work ability); the work place (e.g. workplace characteristics and working environment); working life and labour market (e.g. employment requirements and reasons for unemployment); and system factors (e.g. pensions, labour market legislation, occupational health and safety). Overall, the programme sought to help people aged 45 years and over to stay in work and to be better equipped to find a job if unemployed.

Measures taken: Since the objectives cover both individuals, employers and the society as a whole, it was important to use a very broad range of measures. However, the focus of these measures has varied during the programme period. In the initial phase, measures were concentrated on legislative amendments and information campaigns. The middle phase (1999-2000), focused on research and development projects while the final phase concentrated on management training and development of the workplace.

More specifically, the programme used:

- *Information campaigns* to influence the whole population, but especially older people and employers by using easily read information in public areas, newspapers, radio, TV and internet. Two examples of these campaigns are the programme "Experience is a national asset" and the publication "Prime Years".
- *Training* to improve skills of adults with an incomplete basic education. However, other efforts such as raising vocational skills and tailored training programmes for older people were also used as well as age-management training.
- *Improving working capacity* of the labour force also played an important role. Measures such as developing health and safety at work, new rehabilitation methods and combating age discrimination were frequently used.
- *Research programmes* were developed to provide enterprises with tailored development plans to produce good practices and models for general use, but also to create new training methods for older workers.
- *Legislative measures* to defer retirement were also used. The most important change is the pension reform (described in Chapter 3). However, also a new Occupational and Health Care Act came into force in early 2002. The major reason for reviewing the act was to meet the needs of older employees. Among other things, it specifies that working arrangements – in terms of working hours, rest periods, fixed-term contracts, part-time work and safety at work – must be based on the needs of the workplace.

Outcomes of these programmes

The National Programme on Ageing Workers has been evaluated by a number of institutions. First of all, the programme itself monitored the results of actions taken to maintain the working capacity of older people. For this purpose, a Workplace Health Promotion (WHP) barometer was developed. It reveals generally small changes in working conditions for older employees between 1998 and 2001. And, some positive trends can be seen in, for example, the increased share of managers having undertaken age-management training.

Second, the programme was reviewed under the European Commission's system of peer review of measures taken in different countries in order to implement the European employment strategy. In October 2001, eight other European countries evaluated Finland's National Programme on Ageing Workers and in January 2003, eleven other European countries followed up the national programme. The overall outcome of this review was that delegates were impressed by the programme's broad range of measures and coverage, but also by the consensus among all responsible actors involved in the programme. However, it seemed difficult to draw any direct conclusions about the impact of the programme on the labour market performance of older workers in terms of indicators such as employment rates and the average age of retirement.

Clearly, it is extremely difficult to evaluate the effects of programmes that rely heavily on information dissemination about good practices and changing attitudes among employers, older workers and society at large. However, some quantitative improvements during the past five years include faster growing employment rates and declining unemployment rates in the age groups 55-59 and 60-64, but also a change in the downward trend of the effective retirement age.

However, quantitative effects, as in many programmes of this kind, are difficult to distinguish from each other but also from the effects of economic cycles and general improvements of the work environment etc. Moreover, some of these programmes overlap each other, which may give rise to coordination problems between all institutions involved. In general, the programmes should try to set quantitative goals that are possible to measure, evaluate and follow-up. This would not only enhance the efficiency of the measures used, but could also be cost-saving.

B. *Experience at the firm level*

There are indications in Finland that the working capacity of older workers has improved and that there has been a slight increase in hiring of older permanent staff (perhaps due to the fact that fixed-term employment and inadequate staffing levels were clearly identified as stress factors at work). Further, a larger share of work places have introduced measures to help older workers to stay on longer in employment by adapting the work environment to the needs of older workers. One such positive example is provided by the paper and pulp company, UPM, in Finland (Box 6.2).

Box 6.2. Good practice at the firm level in Finland: the case of UPM

Background: In 1997, a survey of the age structure at the company was conducted (based on 20 000 workers) and they found that in their Finnish plants the average age was 44 years and the average retirement age was 56.6. If this pattern had continued when the baby-boom generation approached retirement, the firm would have faced a significant shortage of skilled labour – perhaps as early as 2005. Thus, for these reasons, an action plan was created which aimed to raise the average retirement age to 60 by 2005 and to slow down the rise in the average age of the personnel. The plan involved maintaining and improving skills, increasing physical capacity and motivating older employees.

Measures taken: Based on these challenges, the company focused on how to maintain a high work capacity for its older workers. To succeed, the following measures were taken: i) Improving work satisfaction by increasing the possibilities to influence the planning and development of their own work environment and followed-up by continuous working-climate surveys; ii) Extensive medical examinations at five-year intervals for workers over 40 years of age and every second year for workers above the age of 50, associated with the establishment of an individual fitness and health programme; and iii) Personal progress discussions to address the needs for additional on-the-job training and vocational training. However, other actions have been taken such as rewarding workers who have 25 years of job tenure with two weeks at a spa (increased to four weeks after 35 years of tenure).

Outcomes: The goal of raising the retirement age to 60 has so far progressed fairly slowly. Nevertheless, the average retirement age has risen by 1.9 years during the period 1997 to 2001, i.e. from 56.6 years to 58.5 years and attitudes have changed in favour of staying on longer in working life. Thus, management believes that they will reach the goal of 60 years in 2005, which will enable new goals to be set. The management also learned that their former campaign “Wisdom increases with age” (focused on 55-year-olds) was successful as to content, but focused on an age group that were already planning their retirement. Thus, the present programme “Experience creates resources” focuses on workers 45 years and over. However, younger employees are also involved in the process to capture the views of different age groups.

A number of companies have also undertaken recruitment actions that favour older workers. The best-known example in Finland is the department store Stockmann which seeks to have a workforce as diversified as its customers. Therefore, in the light of the age diversity in its clientele, older job seekers are specifically encouraged to apply for jobs at the company.

2. Alternative ways to boost labour supply

A. *In the short-term: Increasing immigration*

An increase in immigration has sometimes been put forward as a way to help solve the ageing problem. By providing an immediate increase in the working-age population, it could help to alleviate the risk of labour shortages and other pressures arising from rapid population ageing. However, immigrants often lack suitable qualifications and consequently suffer from problems of joblessness and under-employment. Moreover, future labour shortages are expected to be most evident in high-skilled professions. The magnitude of the impact that immigration would have on the Finnish labour market, therefore, depends critically upon the skill composition of migrants. Moreover, even if immigration can play a complementary role to help solve the situation ahead, “it cannot be expected to have more than a marginal impact on the projected disequilibria in the age structure” (OECD, 2001*a*). This is because fertility and death rates of immigrants and their descendants are likely to converge to the levels of the non-immigrant population.

B. *In the long term: raising fertility rates*

Another possibility for boosting future labour supply would be to encourage higher fertility rates. Since the beginning of 1960s, the total fertility rate has fallen from 2.7 children per woman to 1.73 in 2002. Fertility rates are projected to stabilise at 1.73 for the coming decades – clearly above the OECD average. While higher fertility rates would eventually lead to an increase in labour supply, this would only begin to have an impact on labour supply after 2025. Moreover, increasing the number of children would initially raise public expenditures and increase the pressure on public finances further.

3. Maintaining the momentum

Finland has already taken important measures to address the major challenges ahead. Although these achievements should be acknowledged, there is still room to improve further employment prospects for older workers. While reforming the pension system is an important and necessary measure, it will not be sufficient to deal with future challenges. Hence, a comprehensive reform strategy is needed. This should encompass not only measures to enhance work incentives and to remove work disincentives that are embedded in the welfare system, but also action on the demand-side. It is essential that the current momentum for reform should be maintained and strengthened in several areas, notably in terms of restricting further the existing pathways to early retirement, in enhancing the employability of older workers and in changing the attitudes of employers, unions, and older workers themselves.

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