



Ageing and Employment Policies

Austria

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 older workers continuing to work. 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 longer given appropriate incentives, 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 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 Austria is one in a series of around 20 OECD country reports that will be published as part of the older workers thematic review, which has been developed by Raymond Torres. It has been prepared by Christopher Prinz from the OECD and a consultant, Gudrun Biffel, from the Austrian Institute for Economic Research (WIFO), under the supervision of Mark Keese (team leader). Technical and statistical assistance was provided by Alexandra Geroyannis and Clarisse Legendre. A draft of the report was discussed at a seminar in Vienna on 18 February 2005, which was organised by the Austrian Federal Ministry of Economics and Labour. Discussants at the seminar included representatives of the national authorities, the social partners and non-governmental organisations, including the Labour Market Service and Statistics Austria. 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 (p. 25).

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EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

The challenges facing Austria

Austria faces major challenges in relation to population ageing and the employment of older workers. Declining mortality and persistently low fertility look set to shift the age structure of the Austrian population, and the shift is not likely to be affected by future migration levels. The share of the population over age 65, for example, is projected to double from 15% in 2001 to 30% in 2050, and the working-age population could decline from 2018 onwards. Thus, while labour supply will continue to rise in the immediate future, in the longer run this trend is likely to reverse – a situation that may lower economic growth even as public social expenditures continue to grow. At 14.5% of GDP, public pension outlays in Austria are already among the highest in OECD member countries.

Older workers in Austria are faced with several labour market problems. They have higher unemployment rates than younger workers, they are overrepresented in declining industries, and they have a much lower level of educational attainment than younger generations. Consequently, at around 30%, employment rates for men and women aged 55-64 are among the lowest in OECD countries – while they are relatively high for prime-aged workers of both sexes up to and including the 50-54 age group.

Reversing this situation has been made more difficult by past policy measures. In Austria, more than in most other OECD countries, such measures have contributed to an excessive culture of early retirement. As a result, by the early 1990s, the average effective age of retirement declined to 56-57 for men and women alike. Despite a recent slight recovery – to around 60 years for men and 58 years for women – the retirement age is still some 3.5 years below the OECD average and 1.5 years below the EU average.

The trend decline in the effective retirement age has gone hand in hand with a rapid increase in life expectancy and a more-than-proportional increase in years spent in good health. Consequently, the average duration of retirement has risen

significantly over the past few decades, and the quality of life during retirement has improved – also due to an improved income position of retirees. Over the coming decades, mortality is expected to continue to decline. Thus, a major challenge for the future is to align the average effective age of retirement more closely with recent and expected future rises in life expectancy and quality.

Policy has begun to respond

Since the mid-1990s, attitudes of policy makers towards older workers have been changing. This is reflected in an increasing reform intensity, with more and more radical reforms especially in the past five years, and in efforts by the government as well as the social partners to collect and disseminate information on good employer practices.

While the Austrian government fully supports and is committed to the EU policy of setting labour market targets, it admits that it will be very difficult to achieve either the Barcelona or Stockholm employment objectives for older people (*i.e.* to raise the employment rate of older workers to 50% and to increase the age of labour market exit by five years) until 2010. Nevertheless, targets are seen as an important signal of a paradigm shift – from passive social protection of older unemployed workers to empowerment and labour market integration of older workers – and as a means to promote change.

Social security reform to strengthen work incentives

While early retirement has long been promoted by pension rules in Austria, recent reform in this area is an unmistakable sign of the change in policy stance. The main objective of the pension reforms of 2000 and 2003 was to make the system more sustainable, financially as well as socially, by increasing the linkage between individual contributions and benefit payments and by raising the effective age of retirement. The most recent pension reform of 2004/05 went a step further by introducing quasi-pension accounts and by harmonising the different pension schemes for different groups of workers under the age of 50 (private sector employees, public sector employees, the self-employed and farmers), with gradual phase-in of the new scheme.

However, the most recent reform has partly reversed the 2003 reform by reintroducing an early retirement “corridor” – *i.e.* the possibility of receiving a reduced pension as from age 62 instead of 65 (the statutory retirement age). Certain ambiguities in terms of policy signals have also arisen from the disability pension reform in 2000 – aimed at cushioning the abolition of special early

retirement on the grounds of reduced work capacity – and from the modification of the old-age part-time employment scheme in the same year. The latter allowed so-called “blocking”, *i.e.* working full-time during the first half of the agreed period and zero hours in the second period, thereby enabling *de facto* early labour market exit. In response to the blocking reform, the numbers entering the old-age part-time work scheme have soared. Further reform in 2004 to render blocking less attractive has led to some reversal of the rise in take-up, which will alleviate the ambiguity.

The incentive to use the unemployment insurance system as a pathway to early retirement has also seen some change in 2004: it is now harder for the (older) unemployed to refuse a job offer.

Labour market policies to complement pension reform

In addition, various measures to complement pension reform have been taken to help improve labour market opportunities for older workers. As an incentive for employers to hire or retain older workers, non-wage labour costs for *all* female workers over the age of 56 and male workers over the age of 58 have been reduced, implying a reduction in non-wage labour costs for workers over the age of 60 of 12.7%.

A bonus-malus incentive scheme was introduced in 1996 to penalise employers firing a worker over the age of 50 and to reward those hiring an unemployed worker over that age. In 2004 the penalty was increased (and the bonus left unchanged) and the scheme was adjusted to the different retirement ages for men and women. Furthermore, regardless of the size of the company, since 2000 employers are obliged to notify the Labour Market Service (LMS) of any dismissal of five or more persons over the age of 50. Recently hired older workers can appeal against socially unjustifiable termination of their contract after they have been re-employed for at least two years (prior to 2003 this was six months). The severance pay scheme was overhauled completely in 2002 to secure greater fairness for both employees and employers, and to ensure consistency of entitlements; this should promote the mobility of workers in the long run.

The LMS has developed a longer-term strategy in recent years to raise the employability of older workers and to prevent them from becoming long-term unemployed. Most notably, the LMS places greater emphasis on retraining the older unemployed and on intensive intervention in the first few months of an unemployment spell (with an individual action plan being drawn up in the very first month). Furthermore, in the case of repeated unemployment spells,

recipients older than 45 are entitled to an unemployment benefit based on their earnings level at age 45 (if this results in a higher benefit).

Finally, the social partners are embarking on efforts to reduce automatic biannual wage increases for white-collar workers and civil servants in collective agreements, in view of the steep seniority-wage profile in Austria compared to other OECD countries.

Further reform is needed

Despite these reforms, attitudes of employers and employees appear to be changing very slowly: the latter typically expect to retire soon after the age of 55, and employers share these expectations. Accordingly, existing pathways into early retirement (including disability pensions and the “blocked” old-age part-time employment scheme) are still used extensively. In order to bring about the necessary change in the mindsets of employers and employees alike, a comprehensive, whole-of-government approach is needed.

Completing pension reform and enabling gradual retirement

Further reform of the pension system should aim to strengthen work incentives in three ways. First, it is still possible to retire well before the statutory age of 65 – a possibility which has been opened again with the introduction of the pension corridor from age 62 onwards and through special, albeit restrictive, rules allowing workers with physically demanding jobs and those with a very long insurance record to retire at age 60. In order to change employee and employer behaviour, it is vital to ensure that financial incentives to retire through those schemes are fully eliminated.

Second, under the recent pension reforms, partial retirement has been abolished. This is unfortunate when major efforts are required in both employment policies and management practices, supplemented by reforms of the pension scheme, to tap the potential for later retirement by increasing opportunities for part-time employment.

Third, ongoing comprehensive reform of the pension scheme has not been complemented by a reform of the disability pension scheme. Such reform is pressing given that recent measures to restrict some pathways into early retirement will further increase the pressure on the disability benefit scheme. This pressure is already considerable, with almost one in two men in Austria retiring on the grounds of disability.

To respond to these three challenges, the following measures could be envisaged:

Old-age pension scheme and retirement policy

- *Monitor early retirement incentives.* To raise the labour supply of workers aged 55-64, early retirement incentives have to be eliminated. The current 4.2% reduction rate for each year of early retirement is probably sufficient to ensure actuarial neutrality from the pension system's perspective. Simulations by the OECD, however, suggest that from an individual's point of view a more appropriate rate could be around 6% a year. These are complex technical issues, and it is vital to keep monitoring them closely. If the impact of the early retirement corridor on the labour supply of older workers turns out to be substantially negative, additional reforms will be required.
- *Adjust the retirement age in line with demographic developments.* At this stage, it is unclear how the newly introduced sustainability factor will operate. In view of large expected further increases in life expectancy, the plan to share the risk of demographic change with equal effect on all pension parameters is likely to result in an insufficient increase in the retirement age. Automatically adjusting the statutory retirement age in line with rising life expectancy would seem more appropriate. The minimum age of early retirement would have to be adjusted accordingly. If this adjustment fails to raise the effective retirement age sufficiently, additional measures aimed at reducing the actual choice of retirees may also be necessary. Raising the minimum entry age by an extra year, further reducing income replacement ratios, and allowing early retirement before the statutory age only on a part-time basis would be three possible options.
- *Restrict or abolish the special rules for very long insurance.* The temporary special regulation according to which men with 45 and women with 40 years of contribution continue to be entitled to retire at age 60 (men) and 55 (women) should be abolished or at least restricted to those who have actually worked for such a long period. Other contribution years, like purchased years in schooling, should not be taken into account in determining claims.
- *Reconsider the introduction of special rules for strenuous work.* In view of large social inequalities in mortality, it may seem appropriate to let workers in physically demanding jobs enjoy earlier retirement.

However, to all intents and purposes, introducing a special early retirement option for these workers is yet another attempt to absorb the potential large inflow of workers into the disability pension scheme. While the exact definition of “strenuous work” has yet to be decided, it would appear difficult to devise an appropriate definition that restricts coverage to a limited number of workers. Moreover, not all of those workers eligible will be incapable of working. At a minimum, employers of workers entitled to a benefit under the new system should be requested to make a financial contribution to the scheme that fully covers the additional costs.

- *Consider raising the minimum and the statutory retirement age of women earlier.* Women can still retire five years earlier than men. This difference has promoted age discrimination of women in the labour market, as they are often treated as older workers earlier than men, implying that they receive less training from an earlier age onwards. The statutory retirement age for women will gradually be equalised with that of men between 2023 and 2033, and the difference in the minimum age for an early pension will be reduced to two years by 2017 and eliminated by 2028, but this seems too slow a pace. More rapid adjustment should be considered.
- *Monitor the impact of the old-age part-time employment scheme.* The possibility to block full-time and no-work phases in using the subsidised old-age part-time work scheme has become a substitute for other early retirement arrangements previously in place. Recent changes that have made using the block option less attractive are welcome. Nevertheless, as the system is very costly and future take-up uncertain, the impact of these changes should be monitored closely. Gradual retirement should be possible and is often a key factor behind workers’ decisions to carry on working, but it is debatable whether this should be publicly subsidised.
- *Facilitate non-subsidised gradual retirement.* With the increase in the minimum official age of early retirement, gradual retirement as a means to extend rather than to shorten careers could increase substantially. This requires addressing the two main obstacles to gradual retirement: the fact that the pension is lost if earnings exceed the marginal earnings limit, and the disproportionate negative impact of part-time work in the last years before retirement on the pension entitlement. The first is solved by eliminating earnings limits for pensioners, which are unnecessary in an actuarially neutral pension system. The second obstacle could be

addressed by envisaging continued payment of social security contributions on the basis of full-time earnings for older workers switching to part-time work at the end of their career.

Disability pension scheme and disability policy

- *Review the possibility of introducing partial in-work disability benefits.* Partial disability benefits are another means of accommodating reduced employability of (older) workers. Proposals for reform along those lines put forward by the Pension Reform Commission in 2002 should be reviewed urgently. However, to avoid further increases in the disability benefit inflow, partial disability benefits should be designed as in-work payments rather than out-of-work benefits. Part-time work possibilities in case of sickness should also be considered.
- *Eliminate “own-occupation” assessment in determining a person’s disability status.* Steps should be taken to ensure that disability pensions are only used for people unable to work (fully or partially) and not as an alternative pathway into early retirement. Currently, for workers over the age of 57, eligibility for a disability pension only requires that they are incapable of working in their former job. This type of “own-occupation” assessment has been abolished in most OECD countries. In view of the changed work environment, it should also be abolished in Austria. Instead, and mirroring recent reform in Austria’s unemployment insurance system, work requirements should be linked to a minimum earnings level.
- *Improve access of older workers to medical as well as vocational rehabilitation.* The pension insurance works on the so-called “rehabilitation-before-pension” principle, but the structure of the process implies that rehabilitation sets in only *after* disability benefit application (*i.e.* at a time when workers have often decided that their working career is over), and that older workers rarely receive rehabilitation services. This should be changed by: *i)* decoupling rehabilitation from benefit application and linking it with employment services; *ii)* strengthening rehabilitation of mental and psychological (often stress-related) diseases which are increasing rapidly; *iii)* improving the transparency of rehabilitation selection criteria so as to make sure that (in view of scarce resources) the right cases are selected and a general age bias is ruled out; *iv)* promoting evaluation

of rehabilitation outcomes by the pension insurance in order to render transparent the degree of sustainability of different interventions; and v) improving co-ordination and ensuring early and comprehensive flows of information from the health insurance system (which is responsible for treatment) to the pension insurance system (which is responsible for medical and vocational rehabilitation) and further to the LMS (which provides bridges into work).

Removing employment barriers and changing employer attitudes

Raising the low employment rate of older workers will require changing the attitudes of managers and reducing the cost of older workers to the employers, particularly at the lower and medium end of the skill level. Unfortunately, evidence on the impact of demand-driven labour market measures introduced more recently, such as the reduction of non-wage labour costs for older workers and the modification of the bonus-malus incentive system, is lacking. These measures may have contributed to the encouraging developments over the past three years, as may have the increased focus of the LMS on older workers in those years (even though the LMS is still spending a less-than-proportional part of its budget on the older unemployed). Measures taken by the social partners in recent years in relation to collective bargaining certainly do not go far enough. There are reasons for further efforts, which could include the following elements.

Active labour market policy and employment regulations

- *Improve the targeting of payroll tax cuts.* Permanently reducing social security contributions will help to overcome the productivity trap, but doing so for *all* older workers is costly and considerable deadweight loss likely. Such a measure would be more cost-efficient if targeted on those groups with low chances of reintegration, *i.e.* older unemployed workers with low or obsolete skills. It could also be more effective if in exchange the level of the targeted tax cut was increased.
- *Evaluate the bonus-malus scheme for hiring and firing older workers.* This scheme aims to confront employers with a greater part of the social costs of layoffs of older workers and to provide incentives to hire older unemployed. Experience-rating of this kind has few counterparts in other OECD countries. However, there is no evidence as to the impact of the scheme on the hiring and firing behaviour of employers. An evaluation of the costs and benefits should be

undertaken. Drawing conclusions is difficult without evaluation, but due to the age-targeting of the scheme, there is a risk that employers dismiss workers before the age of 50.

- *Explore the potential of make-work-pay policies.* Subsidies to employers – be they direct wage subsidies or reductions in social security contributions – help to close the productivity gap of certain groups of older workers. However, they will not suffice to overcome the unemployment trap older unemployed workers may fall into as a consequence of their lower prospective market wage (in particular, in relation to their often higher unemployment benefit entitlement which results from seniority wages). Additional instruments to make work pay for those workers may be needed, be it in the form of in-work benefit payments or through income tax credits.
- *Take a balanced approach to employment protection.* Age-related employment protection is likely to hamper re-employment of older workers more than protect their employment by (among other things) lowering mobility. To make dismissal procedures fairer and more consistent, one could consider placing a larger part of the burden of proof upon the employer rather than the employee.
- *Spread new activation approaches to older workers.* Increasingly, new measures of the LMS are directed towards finding a job first and then to training the unemployed worker on that job. Such efforts (like the apparently very successful so-called “implacement foundations” measure) are laudable, but coverage of low-skilled older workers is low and should be increased. For older workers with multiple disadvantages (such as low skills and long-term unemployment and/or disability), a combination of ALMP measures (e.g. a wage subsidy plus counselling plus training) in exchange for accepting work, i.e. increased mutual responsibilities as introduced with recent legislation, would seem to be most appropriate for reducing unemployment.
- *Reconsider the rule that unemployed workers who fulfil the criteria for early retirement have to apply for a pension.* This rule suggests that employees can be dismissed at this age. As long as older people want to work and continue to look for a job actively, they should be treated like every other unemployed person and receive active support and training. Recent changes in this regard are a step in the right direction but do not go far enough.

Collective bargaining issues and employer attitudes

- *Speed up reform of seniority-based wage regimes.* Steep age-wage profiles are part of the reason to lay off older workers as early as possible. From an international perspective, the profile of wages by age is particularly steep in Austria and may be having a negative impact on the retention of older workers and the hiring of the older unemployed. The wage bargaining system needs to be more sensitive to this issue. Ongoing change in collective agreements in some industries to flatten age-wage profiles should be strengthened and spread to other sectors as quickly as possible.
- *Monitor closely the effects of anti-discrimination legislation.* Anti-discrimination legislation has only just been introduced in response to EU directives. To make sure that it achieves its stated objectives, the government should continue disseminating information about the new legislation through various channels, and should closely monitor its effects on older workers.
- *Promote and monitor age diversity programmes.* Age discrimination legislation on its own will not be sufficient to change employer attitudes and practices. Age diversity programmes are also required. These programmes should promote an age-balanced workforce, age-appropriate job design, intergenerational knowledge transfer, the integration of older workers into innovation processes, and an ongoing focus on lifelong learning and health promotion. Such programmes should be developed and promoted vigorously by the government and social partners in tandem, and monitored carefully. Age diversity management will be a key response to an ageing workforce, as it will raise workers' employability and productivity.

Improving the employability of older workers

The poor employment prospects of lower-skilled older workers is a key problem, partly because of the lack of financial incentives for employers to improve their workers' health and skills, but also because of a range of generous early retirement options. As a consequence, older employees themselves have not attached much value to updating and upgrading their skills or maintaining their work capacity. A comprehensive approach to lifelong learning, complemented by health-and age-conscious employment promotion, has not yet been sufficiently developed. In view of this, the following measures to improve the situation could be considered:

Lifelong learning and education policy

- *Improve the coherence of the multifaceted continued education and training system.* The various different training areas (upgrade training, second chance courses, and vocational as well as non-vocational programmes) function well enough individually but suffer from a lack of consistency – with one another, throughout the country, and at all levels of government. Coherence could be improved through better co-operation between the different layers of training provision. Joint provision of information and guidance, amounting to system-wide counselling, would be a first step. In the longer run, possibilities for joint service provision should be explored, whereby each entity could bring in its particular competitive advantages.
- *Promote lifelong learning.* Continuous lifelong learning is essential to raise the employability of older workers. Important policy objectives here are to reach those who are not accustomed to participating in training, *i.e.* workers with low skill levels, and to develop age-adequate training tools and methods (*e.g.* by supporting innovative pilot projects) to promote motivation and thus higher take-up of continued training at all ages. As the shorter payback period of training investments for older workers will remain an obstacle in the future, smoothing out the volume of investment by shifting (public as well as private) funds from younger ages to mid-career ages, *i.e.* to those between 35 and 50, would be an important first step.
- *Develop instruments to validate on-the-job competences.* Currently, on-the-job skills of the unemployed are rarely assessed or measured. Efforts of the LMS tend to build on the initial training of an unemployed person and do not sufficiently take “soft” skills and competencies acquired on the job into account. This is a particular disadvantage for the older unemployed whose initial qualifications may be outdated. Validation is necessary to be able to recognise skills acquired on the job and render them transparent.

Sickness prevention and health promotion

- *Monitor the actual implementation of industrial safety and health regulations.* The Austrian Protection of Workers Act is very broad and includes various aims related to the prevention of work-related psycho-social and mental problems. A stronger focus should be given on

the monitoring and control of the actual implementation of these rules. The current plan to install an evidence-based and impact-oriented monitoring system for local work inspectorates should be followed vigorously.

- *Improve lifelong work ability.* Working conditions must be adapted to an age-diverse workforce to avoid undue productivity declines with age. The focus should be on healthy workplaces and healthy jobs – which will in turn help to sustain healthy workers. Sickness prevention through active health management, *e.g.* firmly establishing industrial medicine, has enormous potential but has yet to be developed. Regulation can also help to a certain extent. Early identification of potential cases for rehabilitation through notification from the health to the pension insurance authority should be closely monitored, better enforced and quickly acted upon by the LMS in view of potential reinsertion into the labour market.
- *Develop horizontal career options.* Some occupations are difficult to pursue over a whole life, for reasons of stress as well as hazards or physical strain. More emphasis should be placed on coping with and possibly also reducing stress in these jobs. In addition, for people working in such jobs, horizontal career options should be explored to ensure that the type and extent of stress and physical strain vary over the working life.
- *Consider financial incentives for employers to invest in prevention.* Currently, while employers are obliged to continue wage payments in case of sickness for a relatively long period, they do not directly bear the costs of work injuries. This does not help promote the prevention of work accidents and occupational diseases. To that end, risk-rated work injury insurance premiums (which exist in most OECD countries) should be introduced. Similarly, an alternative funding of benefits for general disabilities could be developed. Many of these disabilities are work related, resulting from poor working conditions or from workplaces that ignore workers' well-being. A contribution to the costs of disability pension programmes from employers who generate a disproportionate number of recipients could be envisaged.
- *Promote the health status of the unemployed.* Unemployed workers have twice as high morbidity rates as employed workers. This is a key challenge for public health policy and for the LMS. Health promotion for the longer-term unemployed, *e.g.* through the introduction of health-awareness measures into active labour market programmes, should become a priority to raise their re-employment opportunities. This will be particularly important for older unemployed.

More generally, it will be important to tackle the low employment rates of older workers through a broader strategy comprising a set of balanced, coherent and complementary policy measures. Putting together that strategy will require better co-ordination of interventions of government and other players, notably the social partners. Frameworks for policy action in other countries might offer a useful benchmark. The Finnish experiences and programmes seem particularly relevant because of their strong focus on health-related matters and because these programmes are built with the social partners. Like Finland, Austria has a long tradition of disability-related retirement that has to be broken – as well as the civil society and social partnership competency needed for running a whole-of-society programme.

RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS

Les défis de l’Autriche

Le vieillissement démographique et l’emploi des travailleurs âgés représentent des défis majeurs pour l’Autriche. Compte tenu du déclin de la mortalité et de la faiblesse persistante des taux de fécondité, la structure par âge de la population autrichienne va connaître de profonds bouleversements et il est peu probable que les niveaux futurs de migration puissent beaucoup infléchir cette tendance. Ainsi, la part de la population âgée de 65 ans et plus devrait doubler entre 2001 et 2050, passant de 15 à 30 %, tandis que la population d’âge actif pourrait décliner à partir de 2018. L’offre de travail va continuer à augmenter dans les quelques années à venir, mais au-delà, la tendance devrait s’inverser et pourrait freiner la croissance économique, d’autant plus que les dépenses sociales iront croissant. A 14.5 % du PIB, les dépenses publiques consacrées aux retraites en Autriche figurent déjà parmi les plus élevées des pays de l’OCDE.

Sur le marché du travail autrichien, les travailleurs âgés sont confrontés à des problèmes multiples : leur taux de chômage est plus élevé que celui des travailleurs plus jeunes ; ils sont surreprésentés dans les secteurs en déclin ; et leur niveau d’études est beaucoup plus faible que celui des jeunes générations. De ce fait, le taux d’emploi des hommes et des femmes de 55 à 64 ans se situe autour de 30 % – un des plus bas des pays de l’OCDE – alors que le taux d’emploi des travailleurs dans la force de l’âge (homme et femmes) est relativement élevé, y compris pour les 50-54 ans.

Cette tendance est d’autant plus difficile à inverser que l’Autriche a adopté par le passé des mesures qui ont encouragé – plus que dans la plupart des autres pays de l’OCDE – le développement excessif d’une culture de la retraite anticipée. Ainsi, au début des années 90, l’âge effectif moyen du départ en retraite était tombé à 56-57 ans pour les hommes et pour les femmes. Bien que l’âge de départ en retraite ait augmenté récemment, pour atteindre environ

60 ans chez les hommes et 58 ans chez les femmes, il reste inférieur de quelque 3.5 ans à la moyenne de l'OCDE et de 1.5 an à la moyenne de l'Union européenne.

Le déclin tendanciel de l'âge effectif de départ en retraite est allé de pair avec un accroissement rapide de l'espérance de vie et une augmentation plus que proportionnelle du nombre d'années vécues en bonne santé. Par conséquent, la durée moyenne de la période de retraite a beaucoup augmenté durant les dernières décennies et la qualité de vie pendant la période de retraite s'est améliorée – un résultat également imputable à la hausse des revenus des retraités. Au cours des décennies à venir, la mortalité devrait continuer à diminuer. Par conséquent, un défi majeur pour l'avenir consistera à aligner plus étroitement l'âge effectif de départ en retraite sur les gains et la qualité d'espérance de vie récents et attendus.

Les pouvoirs publics ont commencé à agir

Depuis le milieu des années 90, les décideurs ont modifié leur approche vis-à-vis des travailleurs âgés. Ce changement se reflète dans une intensification croissante des réformes (notamment depuis cinq ans) et dans les efforts mis en œuvre par le gouvernement tout comme par les partenaires sociaux pour recueillir et diffuser des informations sur les bonnes pratiques des employeurs.

Bien que le gouvernement autrichien adhère totalement à la politique de l'UE consistant à fixer des objectifs en matière d'emploi, il admet qu'il sera très difficile pour l'Autriche d'atteindre les objectifs de Barcelone ou de Stockholm concernant l'emploi des plus âgés (à savoir, porter le taux d'emploi des travailleurs de 55 à 64 ans à 50 % et relever l'âge de départ en retraite de cinq ans) d'ici 2010. Néanmoins, ces objectifs sont perçus comme le signe manifeste d'un changement d'orientation – l'abandon d'une protection sociale passive des chômeurs âgés au profit de la prise en compte et de l'intégration sur le marché du travail des travailleurs âgés – et comme un moyen de promouvoir le changement.

Réformer la sécurité sociale pour renforcer les incitations au travail

Alors que la retraite anticipée a longtemps été encouragée en Autriche, les réformes récentes témoignent indubitablement d'un changement d'approche. Le principal objectif des réformes des retraites de 2000 et 2003 était de rendre le système financièrement et socialement plus viable en renforçant le lien entre les

cotisations versées et les prestations perçues par les individus et en relevant l'âge effectif de départ en retraite. La réforme la plus récente en matière de retraite (2004/05) est allée plus loin encore en introduisant des comptes de quasi-retraite et en harmonisant les régimes de retraite des différents groupes de travailleurs de moins de 50 ans (salariés du secteur privé, salariés du secteur public, travailleurs indépendants et agriculteurs), avec une introduction graduelle du nouveau régime.

Néanmoins, la dernière réforme en date a partiellement annulé la réforme de 2003 en réintroduisant une option de départ en retraite anticipée – la possibilité de toucher une pension réduite à partir de 62 ans au lieu de 65 ans (l'âge légal de départ en retraite). Par ailleurs, certaines mesures ont donné des signaux ambigus : c'est le cas de la réforme des pensions d'invalidité de 2000, qui visait à atténuer l'effet de la suppression du régime spécial de retraite anticipée lié à une capacité de travail réduite, et de la modification, la même année, du régime d'emploi à temps partiel des âgés, qui a introduit la possibilité pour les participants de travailler à temps plein pendant la première période de l'accord et de cesser complètement de travailler pendant la seconde période (principe du « blocage »), ce qui revient *de facto* à un départ en retraite anticipée. Suite à cette dernière réforme, le nombre de participants au programme d'emploi à temps partiel des âgés a grimpé en flèche. Toutefois, une nouvelle réforme en 2004 a rendu l'option de « blocage » moins intéressante, et l'on note d'ores et déjà un infléchissement de la hausse de la participation à ce programme devenu moins ambigu.

De même, depuis 2004, les possibilités d'utiliser le régime d'assurance-chômage pour partir en retraite anticipée ont été réduites car il est désormais plus difficile pour les chômeurs (âgés) de refuser un emploi.

Les politiques du marché du travail : un complément de la réforme des retraites

En complément de la réforme des retraites, les autorités autrichiennes ont pris diverses mesures pour améliorer les opportunités d'emploi des travailleurs âgés. Pour inciter les employeurs à embaucher des travailleurs âgés ou les garder dans l'entreprise, elles ont réduit les coûts de main-d'œuvre non salariaux pour l'ensemble des femmes de plus de 56 ans et l'ensemble des hommes de plus de 58 ans. Cela a entraîné une réduction de 12.7 % des coûts non salariaux pour les travailleurs de plus de 60 ans.

Une mesure de bonus-malus instituée en 1996 pénalise les employeurs qui licencient un travailleur de plus de 50 ans et récompense ceux qui embauchent un chômeur de cette tranche d'âge. En 2004, la pénalité a été accrue (le bonus restant inchangé) et la mesure a été ajustée aux âges différents de retraite des hommes et des femmes. De plus, depuis 2000, tous les employeurs qui licencient au moins cinq personnes de plus de 50 ans sont tenus d'en informer le Service du marché du travail (SMT). Les travailleurs âgés récemment recrutés peuvent invoquer la résiliation socialement injustifiable de leur contrat après avoir été réemployés pendant au moins deux ans (avant 2003, la période de réemploi minimum était de six mois). Le régime des indemnités de licenciement a été complètement revu en 2002 pour rétablir davantage d'équité entre les salariés et les employeurs et rendre plus cohérents les droits pour les deux parties. À terme, ce changement devrait favoriser la mobilité des travailleurs.

Ces dernières années, le SMT a adopté une stratégie à long terme visant à améliorer l'employabilité des travailleurs âgés et à leur éviter le chômage de longue durée. Le SMT a mis plus qu'avant l'accent sur la formation de reconversion des chômeurs âgés et l'intensification des interventions lors des premiers mois de chômage (un plan d'action individuel étant élaboré dès le premier mois). Par ailleurs, en cas de chômage récurrent, les allocataires de plus de 45 ans ont droit à une indemnité de chômage basée sur leur niveau de gains à 45 ans (s'il leur donne droit à une prestation plus élevée).

Enfin, les partenaires sociaux s'efforcent désormais de réduire les augmentations de salaires automatiques bisannuelles dont bénéficient les employés et les fonctionnaires dans les conventions collectives, afin de modérer la composante des salaires liée à l'ancienneté, plus marquée en Autriche que dans les autres pays de l'OCDE.

De nouvelles réformes sont nécessaires

Malgré ces réformes, les attitudes des salariés et des employeurs n'évoluent que très lentement : les salariés escomptent toujours prendre leur retraite rapidement après 55 ans, et les employeurs partagent les mêmes attentes. C'est pourquoi les dispositifs qui permettent aux individus de partir en retraite anticipée (y compris les pensions d'invalidité et le régime « bloqué » d'emploi à temps partiel des âgés) sont encore largement utilisés. Pour amener le changement de mentalité requis chez les employeurs comme chez les salariés, il y a lieu d'adopter une approche globale impliquant tous les secteurs du gouvernement.

Mener à terme la réforme des retraites et permettre un départ progressif en retraite

La réforme des retraites doit se poursuivre et renforcer les incitations au travail par trois biais différents. Premièrement, il est encore possible en Autriche de partir en retraite bien avant l'âge légal de 65 ans – grâce à l'option autorisant un départ en retraite anticipée à partir de 62 ans et aux règles spéciales (quoique restrictives) qui permettent aux travailleurs exerçant un emploi pénible et ceux ayant cotisé sur une longue période de prendre leur retraite à partir de 60 ans. Pour que le changement requis ait lieu, il faut s'assurer de l'élimination complète des incitations financières à la retraite fournies par ces dispositifs.

Deuxièmement, les réformes récentes ont supprimé la possibilité pour les travailleurs de prendre progressivement leur retraite. C'est une erreur puisqu'il faut au contraire déployer des efforts majeurs au niveau des politiques de l'emploi et des pratiques de gestion – efforts complétés par la réforme des régimes de pension – pour faire reculer l'âge de départ en retraite en facilitant l'emploi à temps partiel.

Troisièmement, la vaste réforme du régime de retraite en cours n'a pas été accompagnée d'une réforme du régime de pensions d'invalidité. Or, cette dernière réforme est urgente car la restriction récente des possibilités de départ en retraite anticipée va nécessairement alourdir les pressions qui pèsent sur le régime de pensions d'invalidité. Ces pressions sont déjà considérables, étant donné que près d'un homme sur deux en Autriche part en retraite pour cause d'invalidité.

Pour relever ces trois défis, on peut envisager l'adoption des mesures suivantes :

Régime de pensions de retraite et politiques de départ en retraite

- *Évaluer l'impact des incitations au départ en retraite anticipée.* Pour accroître l'offre de travail des personnes âgées de 55 à 64 ans, il faut éliminer les incitations au départ en retraite anticipée. Le taux de réduction actuellement appliqué à chaque année de retraite anticipée (4.2 %) est probablement suffisant pour garantir la neutralité actuarielle du régime de pension. Cependant, les simulations effectuées par l'OCDE donnent à penser que du point de vue de l'individu, un taux annuel de l'ordre de 6 % serait plus approprié.

Ces questions sont complexes et il est crucial d'en faire une analyse précise. Si l'impact des options de départ en retraite anticipée sur l'offre de travail des plus âgés s'avérait très négative, il faudrait envisager des réformes supplémentaires.

- *Ajuster l'âge de départ en retraite en fonction des évolutions démographiques.* A ce stade, il est difficile de dire comment opérera le facteur de viabilité financière récemment introduit dans le régime de retraite. Face à un nouvel accroissement substantiel attendu de l'espérance de vie, la solution consistant à ajuster uniformément tous les paramètres des pensions pour garantir la viabilité financière risque de ne pas amener d'augmentation suffisante de l'âge de départ en retraite. Il semble plus judicieux de caler l'âge légal de départ en retraite sur l'espérance de vie. Parallèlement, il faudra revoir l'âge minimum de départ en retraite anticipée. Si ces ajustements se révélaient insuffisants pour accroître l'âge effectif de départ en retraite dans des proportions suffisantes, il faudrait prendre des mesures supplémentaires visant à limiter les possibilités de choix pour les retraités. Trois options peuvent être envisagées : relever l'âge minimum d'entrée d'une année supplémentaire, continuer à réduire les taux de remplacement des revenus et n'autoriser les départs en retraite anticipée que sur la base de temps partiels.
- *Restreindre ou abolir les règles spéciales pour les très longues périodes de cotisation.* La réglementation spéciale temporaire qui maintient, pour les hommes (femmes) ayant cotisé pendant 45 (40) ans, le droit de prendre leur retraite à 60 (55) ans, devrait être supprimée ou tout au moins limitée aux personnes ayant effectivement travaillé toutes ces années. Les autres années de cotisation, tout comme le rachat des années d'études, ne devraient pas être pris en compte dans le calcul des droits.
- *Reconsidérer l'introduction de règles spéciales au titre de la pénibilité du travail.* Compte tenu des fortes disparités sociales des taux de mortalité, il peut sembler judicieux de permettre aux travailleurs exerçant un emploi pénible de prendre leur retraite plus tôt. En fait, l'introduction d'un régime spécial de retraite anticipée pour ces travailleurs n'est pas autre chose qu'une tentative supplémentaire d'absorber les flux potentiellement importants de travailleurs dans le régime de pensions d'invalidité. La notion de « travail pénible » n'a pas encore été définie avec exactitude, et

il paraît difficile de trouver une définition appropriée qui restreigne la couverture à un nombre limité de travailleurs. Par ailleurs, tous les travailleurs éligibles ne seront pas forcément inaptes à l'emploi. Au minimum, il faudrait exiger que les employeurs de personnes pouvant prétendre à une prestation dans le cadre du nouveau régime versent une contribution financière couvrant l'intégralité des coûts supplémentaires.

- *Envisager de relever plus tôt l'âge minimum et l'âge légal de la retraite pour les femmes.* Les femmes ont toujours la possibilité de prendre leur retraite cinq ans plus tôt que les hommes. A cause de cette différence, les femmes se heurtent à une discrimination liée à l'âge sur le marché du travail car elles sont souvent considérées comme « âgées » plus tôt dans leur carrière que les hommes, ce qui signifie qu'il leur devient difficile d'accéder à la formation à un âge plus précoce que les hommes. L'âge légal de la retraite chez les femmes se rapprochera progressivement de celui des hommes entre 2023 et 2033, et l'écart de l'âge minimum de la retraite anticipée entre hommes et femmes sera ramené à deux ans d'ici 2017 et aura disparu d'ici 2028. Ce processus semble trop lent et devrait être accéléré.
- *Suivre l'impact du programme d'emploi à temps partiel des âgés.* La possibilité pour les participants au programme d'emploi à temps partiel des âgés de travailler à temps plein pendant la première période puis d'arrêter complètement de travailler pendant la seconde période remplace finalement les autres régimes de retraite anticipée qui existaient auparavant. Des changements ont été introduits récemment pour rendre l'option de blocage moins intéressante, ce qui va dans la bonne direction. Néanmoins, comme le système est très coûteux et son utilisation future incertaine, l'impact de ces changements doit être suivi de près. Les travailleurs devraient avoir la possibilité de prendre leur retraite progressivement, car c'est souvent de cette condition que dépend leur décision de continuer à travailler. Toutefois, la question de savoir si l'État doit subventionner ce choix est discutable.
- *Faciliter des départs progressifs et non subventionnés en retraite.* Avec l'augmentation de l'âge officiel minimum de départ en retraite anticipée, un nombre croissant de travailleurs pourraient être amenés à utiliser la retraite progressive pour prolonger leur carrière – et non plus pour la raccourcir. Pour ce faire, il faut éliminer les deux principaux obstacles à la retraite progressive : le fait que la pension

soit retirée dès lors que le niveau de gains dépasse un plafond et l'impact négatif disproportionné qu'exerce sur les droits à pension le passage au temps partiel durant les dernières années d'activité avant la retraite. On peut supprimer le premier obstacle en éliminant les plafonds de gains pour les retraités, qui deviennent inutiles dans un système de retraite neutre du point de vue actuariel. Pour surmonter le second obstacle, une solution serait de continuer à faire payer aux travailleurs âgés qui optent pour un temps partiel en fin de carrière des cotisations sociales correspondant à leur emploi à temps plein.

Régime de pensions d'invalidité et politiques en matière d'invalidité

- *Examiner la possibilité d'introduire des prestations d'invalidité partielles associées à l'exercice d'un emploi.* Le versement de prestations d'invalidité partielles est un autre moyen de faire face à l'employabilité réduite des travailleurs (âgés). Les propositions de réforme émises dans ce sens par la Commission de réforme des pensions en 2002 doivent être examinées de toute urgence. Néanmoins, pour éviter l'augmentation du nombre de demandeurs de prestations d'invalidité, il faudra conditionner ces prestations à l'exercice d'un emploi. L'emploi à temps partiel pourrait être envisagé également pour les personnes qui perçoivent des indemnités de maladie.
- *Supprimer la notion « d'impossibilité d'exercer son emploi antérieur » pour déterminer le degré d'invalidité d'une personne.* Il faut veiller à ce que les pensions d'invalidité soient réservées aux personnes entièrement ou partiellement inaptes au travail et qu'elles ne constituent pas une voie détournée vers la retraite anticipée. A l'heure actuelle, il suffit aux travailleurs de plus de 57 ans de démontrer qu'ils ne peuvent plus exercer leur emploi antérieur pour pouvoir prétendre à une pension d'invalidité. Ce critère de « l'emploi antérieur » a été supprimé dans la plupart des pays de l'OCDE. Compte tenu de l'évolution de l'environnement professionnel, il devrait l'être également en Autriche. En fait, à l'image de la réforme introduite récemment dans le système d'assurance-chômage, il y aurait lieu de lier les exigences professionnelles à un niveau de gains minimum.
- *Améliorer l'accès des travailleurs âgés à la réadaptation médicale et à la réinsertion professionnelle.* Le régime des pensions d'invalidité obéit au principe selon lequel « la réinsertion passe avant la pension ».

Pourtant, la structure du système est telle que la réinsertion ne commence qu'une fois déposée la demande de prestations d'invalidité (c'est-à-dire à un stade où le travailleur a souvent déjà décidé que sa carrière professionnelle était terminée) et les travailleurs ont rarement accès aux services de réinsertion. Il faut remédier à cette situation par les moyens suivants : *i*) en dissociant la réinsertion de la demande de prestations et en liant la première aux services de l'emploi ; *ii*) en renforçant la réadaptation liée aux maladies mentales et psychologiques (souvent dues au stress), qui sont en augmentation rapide ; *iii*) en améliorant la transparence des critères de sélection des candidats à la réinsertion, pour s'assurer que les cas retenus sont les bons (compte tenu des ressources rares disponibles) et que la sélection n'est pas biaisée en fonction de l'âge ; *iv*) en incitant le régime de pensions à évaluer les résultats de la réinsertion pour rendre manifeste le degré de viabilité des différentes interventions ; et *v*) en améliorant la coordination et en veillant à ce que le système d'assurance-maladie (responsable des traitements) transmette en temps utile des informations complètes au régime de pensions d'invalidité (responsable de la réadaptation médicale et de la réinsertion professionnelle) puis au SMT (qui assure la transition vers l'emploi).

Supprimer les obstacles à l'emploi et changer les habitudes des employeurs

Pour relever le faible taux d'emploi des travailleurs âgés, il faut inciter les gestionnaires à changer de comportement et réduire les coûts de main-d'œuvre associés à l'emploi de travailleurs âgés, en particulier les travailleurs faiblement à moyennement qualifiés. Malheureusement, on ne dispose guère de données sur l'impact des mesures liées à la demande introduites récemment sur le marché du travail, telles que la réduction des coûts de main-d'œuvre non salariaux pour les travailleurs âgés et la modification du système de bonus-malus. Il est possible que ces mesures aient quelque peu amélioré la situation au cours des trois dernières années et que le SMT, en accordant une priorité accrue à cette catégorie de travailleurs, ait exercé le même type d'influence pendant cette même période (même si le SMT continue de consacrer une partie moins que proportionnelle de son budget aux chômeurs âgés). Il est certain que les mesures introduites ces dernières années par les partenaires sociaux dans les conventions collectives ne vont pas assez loin. Cela justifierait notamment des changements sur les points suivants :

Politiques actives du marché du travail et réglementation de l'emploi

- *Améliorer le ciblage des abattements de charges sociales.* La réduction permanente des cotisations de sécurité sociale est un moyen de contourner le piège de la faible productivité. Cependant, l'application de ces réductions à l'ensemble des travailleurs âgés serait très coûteuse et représenterait probablement un effet d'aubaine considérable. Il serait plus efficace de cibler cette mesure sur les groupes ayant peu de chances de se réinsérer, c'est-à-dire les chômeurs âgés peu qualifiés ou aux qualifications obsolètes. La mesure serait aussi plus efficace si, en échange, l'abattement de charges sociales était augmenté.
- *Évaluer l'impact du système de bonus-malus sur l'embauche et le licenciement de travailleurs âgés.* Ce système vise à faire supporter aux employeurs une plus grande part des coûts sociaux des licenciements de travailleurs âgés et à les inciter à embaucher des chômeurs âgés. Cette forme de tarification selon l'expérience (*experience-rating*) a peu d'équivalents dans les autres pays de l'OCDE. Néanmoins, on ne connaît pas l'incidence de ce système sur le comportement des employeurs en matière d'embauche et de licenciement. Il faudrait donc évaluer ses coûts et ses avantages. En l'absence d'évaluation, il est difficile de déterminer précisément l'utilité du dispositif, mais compte tenu de son ciblage sur l'âge, le risque existe que les employeurs cherchent à se séparer de leurs salariés avant qu'ils n'atteignent 50 ans.
- *Explorer le potentiel des politiques de valorisation du travail.* Les subventions aux employeurs (subventions directes de salaires ou réduction des cotisations de sécurité sociale) permettent de combler le déficit de productivité dont souffrent certains groupes de travailleurs âgés. Cependant, elles ne peuvent pas à elles seules résoudre le problème du piège du chômage pour les travailleurs âgés, dont les gains potentiels sur le marché du travail sont inférieurs au montant de leurs allocations de chômage souvent plus élevées car calculées sur la base des salaires liés à l'ancienneté. Pour ces travailleurs, il faudrait introduire de nouveaux instruments de valorisation du travail sous la forme d'indemnités accompagnant la reprise d'un emploi ou de crédits d'impôt sur le revenu.

- *Adopter une approche équilibrée de la protection de l'emploi.* Une protection de l'emploi liée à l'âge risque plus d'entraver l'embauche des travailleurs âgés que de protéger leur emploi. En particulier, elle réduit la mobilité des travailleurs. Pour rendre les procédures de licenciement plus équitables et cohérentes, il faudrait confier une part plus importante de la charge de la preuve à l'employeur, par opposition au salarié.
- *Généraliser les nouvelles mesures d'activation en direction des travailleurs âgés.* De plus en plus, les nouvelles mesures du SMT accordent la priorité au placement des chômeurs, puis, seulement ensuite, à leur formation dans l'emploi. Ces efforts – ainsi que les « fondations de placement » (*Implacement Stiftungen*), visiblement très efficaces – sont louables mais ils concernent peu de travailleurs âgés faiblement qualifiés, ce à quoi il faut remédier. Aux travailleurs âgés souffrant de désavantages multiples (par exemple, un faible niveau de qualification et une longue période de chômage et/ou un handicap) qui acceptent de travailler, il faudrait proposer, pour réduire le risque de chômage, une combinaison de mesures actives, telles qu'une subvention salariale associée à une formation ou des conseils d'orientation, c'est-à-dire renforcer les responsabilités mutuelles comme l'a fait la législation récente.
- *Revoir la règle selon laquelle les chômeurs admissibles à une retraite anticipée sont tenus de demander leur pension de retraite.* Cette règle implique que les salariés peuvent être licenciés dès qu'ils atteignent l'âge de la retraite anticipée. Or, un travailleur âgé qui souhaite continuer à travailler ou à chercher activement un emploi devrait être traité comme tous les autres chômeurs et bénéficier d'un soutien actif et d'une formation. Les changements amorcés récemment dans cette direction sont louables mais insuffisants.

Conventions collectives et comportement des employeurs

- *Accélérer la réforme des pratiques salariales basées sur l'ancienneté.* L'importance du critère de l'ancienneté dans la détermination des salaires est l'une des raisons qui peut inciter les employeurs à licencier les travailleurs âgés aussi tôt que possible. Par rapport aux autres pays de l'OCDE, la pente du profil des salaires selon l'âge est particulièrement forte en Autriche, ce qui exerce probablement un

effet négatif sur le maintien des plus âgés dans l'emploi et l'embauche des chômeurs âgés. La négociation salariale doit porter sur cette question. Dans certains secteurs, les conventions collectives ont été modifiées de manière à aplanir la pente du profil des salaires selon l'âge. Cette tendance doit être renforcée et étendue aux autres secteurs aussi rapidement que possible.

- *Surveiller étroitement les effets de la législation anti-discrimination.* La législation interdisant la discrimination n'a été introduite qu'en juillet 2004 en réponse aux directives de l'UE. Pour être sûr d'atteindre ses objectifs déclarés, le gouvernement doit continuer à diffuser l'information sur la nouvelle législation par différents canaux et surveiller étroitement ses effets sur la situation des travailleurs âgés.
- *Promouvoir et suivre les programmes encourageant la mixité intergénérationnelle.* La législation sur la discrimination liée à l'âge ne suffira pas à elle seule à infléchir les comportements et les habitudes des employeurs. Il est également nécessaire de promouvoir la mixité intergénérationnelle, ce qui passe par les mesures suivantes : encourager une représentation des différentes tranches d'âge dans la main-d'œuvre, adapter le profil des postes à l'âge des titulaires, favoriser le transfert intergénérationnel des savoir-faire, intégrer les travailleurs âgés dans les processus d'innovation et accorder une attention permanente à l'apprentissage tout au long de la vie et à la promotion de la santé. Ces mesures devront être conçues et défendues avec vigueur par les pouvoirs publics et les partenaires sociaux. Elles devront faire l'objet d'un suivi rigoureux. Ces mesures peuvent apporter une réponse clé au vieillissement de la population active en améliorant l'employabilité et la productivité des travailleurs.

Améliorer l'employabilité des travailleurs âgés

La faible employabilité des travailleurs âgés peu qualifiés est un problème majeur, d'une part parce que les employeurs ne sont pas incités financièrement à améliorer l'état de santé et les compétences des travailleurs, et d'autre part parce que ceux-ci disposent de possibilités de départ en retraite avantageuses. Par conséquent, les travailleurs âgés eux-mêmes ne tiennent pas particulièrement à actualiser et améliorer leurs qualifications et à préserver leur capacité de travail. Le gouvernement doit élaborer une stratégie globale de promotion de l'apprentissage tout au long de la vie et promouvoir en parallèle la

prise en compte des critères d'âge et de santé dans la politique de l'emploi – les efforts menés dans cette direction étant pour l'instant insuffisants. Dans cette perspective, les mesures suivantes pourraient se révéler utiles :

Mesures pour l'apprentissage tout au long de la vie

- *Améliorer la cohérence du système au sens large d'éducation et de formation continue.* Les différents types de formation existants (perfectionnement, formations de la deuxième chance et programmes de formation professionnelle et non professionnelle) sont utiles à l'échelle des individus mais souffrent d'un manque de cohérence au niveau national entre les programmes, entre les régions géographiques et entre les différents échelons du gouvernement. On peut améliorer cette situation en encourageant la coopération entre les différents acteurs du secteur de la formation. La mise en commun des services d'information et d'orientation au sein d'une structure générale de conseil constituerait une première étape. A long terme, on pourra examiner les possibilités d'action conjointe, qui permettraient à chaque intervenant de faire profiter les autres de ses avantages compétitifs.
- *Promouvoir l'apprentissage tout au long de la vie.* L'apprentissage tout au long de la vie est essentiel pour améliorer l'employabilité des travailleurs âgés. A cet égard, un objectif important des autorités doit être de sensibiliser les catégories qui ne participent habituellement pas aux formations – c'est-à-dire les travailleurs peu qualifiés – et d'élaborer des outils et méthodes de formation adaptés à l'âge (par exemple en soutenant les projets pilotes innovants), afin de motiver les individus et, ce faisant, les inciter à suivre continuellement des formations à tous âges. La période d'amortissement des investissements en formation étant nécessairement plus courte pour les travailleurs âgés, une première étape importante sera d'égaliser le volume des investissements en transférant une partie des fonds (publics et privés) consacrés aux formations des travailleurs jeunes vers les travailleurs en milieu de carrière (de 35 à 50 ans).
- *Élaborer des instruments qui permettent de valider les compétences acquises dans l'emploi.* A l'heure actuelle, les compétences acquises par les chômeurs dans leurs emplois antérieurs sont rarement évaluées ou mesurées. Le SMT met surtout l'accent sur la formation initiale des chômeurs et ne prend pas suffisamment en compte les compétences non

techniques et les qualifications acquises dans l'emploi. Cela est particulièrement handicapant pour les chômeurs âgés dont les qualifications initiales sont parfois obsolètes. Pour être reconnues et rendues plus transparentes, ces compétences acquises au travail doivent être validées.

Prévention des maladies et promotion de la santé

- *Vérifier l'application des réglementations sur la santé et la sécurité au travail.* La loi autrichienne sur la protection des travailleurs est très large et inclut plusieurs objectifs liés à la prévention des problèmes psychologiques et de stress au travail. Néanmoins, il faudrait renforcer le suivi et la vérification du respect de ces règles. Le projet actuel consistant à créer un système de suivi basé sur des preuves et axé sur les résultats à l'échelon des inspections locales du travail devrait être appliqué énergiquement.
- *Améliorer l'aptitude au travail tout au long de la vie.* Les conditions de travail doivent être adaptées aux différentes catégories d'âge représentées dans la population active pour éviter que la productivité des travailleurs ne décline indûment à mesure qu'ils vieillissent. L'innocuité et la salubrité des lieux de travail et des tâches effectuées doivent être une priorité, car elles contribueront à préserver la santé des travailleurs. La prévention des maladies qui passe par la gestion active de la santé, par exemple grâce à l'intégration étroite de la médecine du travail, dispose d'un potentiel énorme qui n'a pas encore été exploité. La réglementation peut être utile dans ce contexte. Il faut vérifier que l'organisme d'assurance-maladie communique rapidement au SMT ses informations sur le résultat des réadaptations, améliorer le respect de cette obligation et contraindre le SMT à entamer rapidement une démarche de réinsertion potentielle dans le marché du travail.
- *Développer les possibilités de carrière horizontale.* Certains métiers peuvent difficilement être exercés toute une vie pour des raisons de stress et de pénibilité. Il faut accorder davantage d'attention à la prise en compte mais aussi à la diminution potentielle du stress au travail dans ces métiers ainsi qu'à l'amélioration des conditions de travail en général. En outre, pour les personnes qui exercent ces métiers, il faudrait promouvoir les carrières horizontales assurant la diversité des formes et des degrés de stress et de contraintes physiques tout au long de la vie professionnelle.

- *Mettre en place des incitations financières pour que les employeurs investissent dans la prévention.* A l'heure actuelle, les employeurs ne supportent pas directement le coût des accidents du travail (même s'ils continuent à payer les salaires des travailleurs en congé de maladie pendant une période relativement longue). Cela n'aide pas la prévention des accidents du travail et des maladies professionnelles. A cette fin, il faudrait envisager l'introduction de primes d'assurance contre les accidents du travail tarifées en fonction du risque (comme il en existe dans la plupart des pays de l'OCDE). De même, les prestations versées au titre de l'invalidité en général pourraient être financées par d'autres sources. Bon nombre de formes d'invalidité sont liées au contexte professionnel et résultent de conditions de travail médiocres ou de la non-prise en compte du bien-être des travailleurs sur le lieu de travail. Les employeurs comptant parmi leur personnel un nombre disproportionné de bénéficiaires de pensions d'invalidité pourraient par exemple verser une contribution pour financer le coût des pensions d'invalidité.
- *Promouvoir la santé des chômeurs.* Les taux de morbidité sont deux fois plus élevés chez les chômeurs que chez les travailleurs. Il s'agit d'un défi de taille pour les autorités sanitaires et pour le SMT. Celles-ci doivent accorder une attention prioritaire à la promotion de la santé des chômeurs de longue durée – par exemple en introduisant des mesures de sensibilisation à la santé dans les programmes actifs du marché du travail – pour accroître leurs perspectives de réemploi. Cela est particulièrement important pour les chômeurs âgés.

Plus généralement, pour relever le faible taux d'emploi des travailleurs âgés, il sera nécessaire d'adopter une stratégie globale basée sur des mesures équilibrées, cohérentes et complémentaires. La mise en œuvre de cette stratégie passe par une meilleure coordination des interventions des pouvoirs publics et des autres parties prenantes, notamment les partenaires sociaux. Les programmes d'intervention établis dans d'autres pays sont des exemples utiles. Les programmes et les expériences de la Finlande pourraient inspirer l'Autriche compte tenu de l'importance accordée aux questions de santé et à l'implication des partenaires sociaux. Comme la Finlande, l'Autriche a une longue tradition de départ à la retraite par l'invalidité qui doit être remise en question ainsi qu'une expérience de partenariat avec la société civile qui est nécessaire pour mettre en place un programme pourtant sur toute la société.

INTRODUCTION

The population in Austria will age considerably over the next forty years, and the size of the working-age population will decline after 2020. By 2050, one-third of the population will be over the age of 65. This development could result in a slowdown in labour force growth – and, consequently, slower economic output and growth, increased pressure on the sustainability of social protection systems, and labour shortages in certain occupations.

In order to avoid such outcomes, it is of the utmost importance that labour force participation rates increase and that older workers are retained longer in employment. These workers should be given better incentives to continue working in terms of pension entitlements, suitable training opportunities, and improved working conditions. Employer attitudes towards hiring and retaining older workers will also have to change, and radically. The main purpose of this report is to reflect on the avenues for improvement that will need to be pursued – in addition to the comprehensive pension and labour market reforms undertaken recently – so as to meet this objective.

Chapter 1 sets out the scale of the challenges ahead. It highlights the importance of improving the employment chances of older workers as the key to meeting the ageing challenge. *Chapter 2* describes the labour market situation for older workers, identifying areas where action is required to improve outcomes. *Chapter 3* discusses the role of supply-side factors in influencing the participation rates of older people and how incentives to work are affected by benefit levels and eligibility criteria in the welfare system. But removing supply-side barriers to employment is not enough; actions on the demand side are also needed. Thus, *Chapter 4* examines factors that 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 to remaining in these jobs longer. Finally, *Chapter 6*, putting the findings of the previous chapters together, argues for a co-ordinated, coherent, comprehensive and balanced policy strategy to address the dilemmas of and obstacles to the employment of older workers in Austria.

Chapter 1

THE CHALLENGE AHEAD

1. Background projections on population ageing

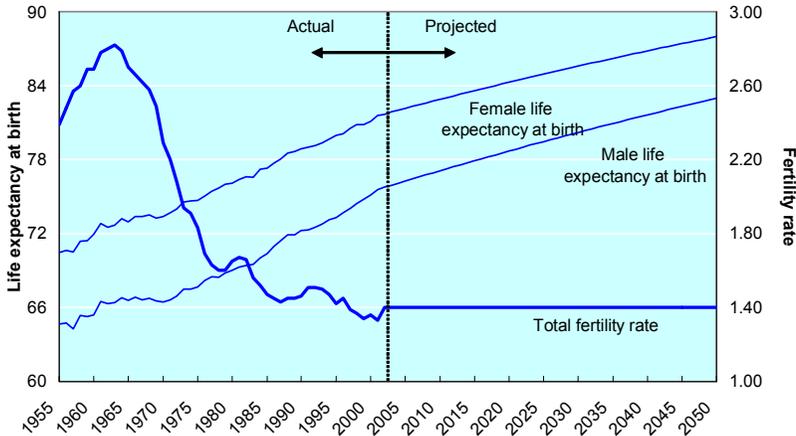
Future population trends in Austria will be marked by considerable shifts in the age structure. Both the *intensity* of population ageing and the *extent* of change will reach levels never before observed. The shift will be uneven, with the years 2020-40 likely to be the period of fastest change.

Population ageing is an inherent long-term consequence of development. Socio-economic progress through medical advances first reduced infant mortality; this was followed by a decline in fertility that created a new equilibrium with the changed mortality rate. In Austria, this *demographic transition* took place roughly over the century 1870-1970, and led to the gradual ageing of the population. From 1920 to 1970, the share of the population aged 60 years and over increased from 10% to 20%.

Trends since 1970 were driven by the changing birth rate, which fell to sub-replacement level as early as 1973 and has never recovered (Figure 1.1). The number of children has declined by some 20% from the mid-1970s to 2000 (Figure 1.2). Meanwhile however, the total population of Austria increased from 7.5 million (1970) to 8.0 million (2000). Population growth in this period has mainly been the consequence of net immigration, which peaked in the early 1990s (in the course of the Balkan crisis) at an annual level of around 1% of the population.

Until 2001, persistently low birth rates and the large inflow of migrants led to an increase in the share of the working-age population. The share of the elderly population has remained largely unchanged during the past three decades, despite significant mortality improvements (see Figure 1.1), because relatively smaller cohorts have reached that age.

Figure 1.1. **Life expectancy at birth and total fertility rate in Austria, 1955-2050**



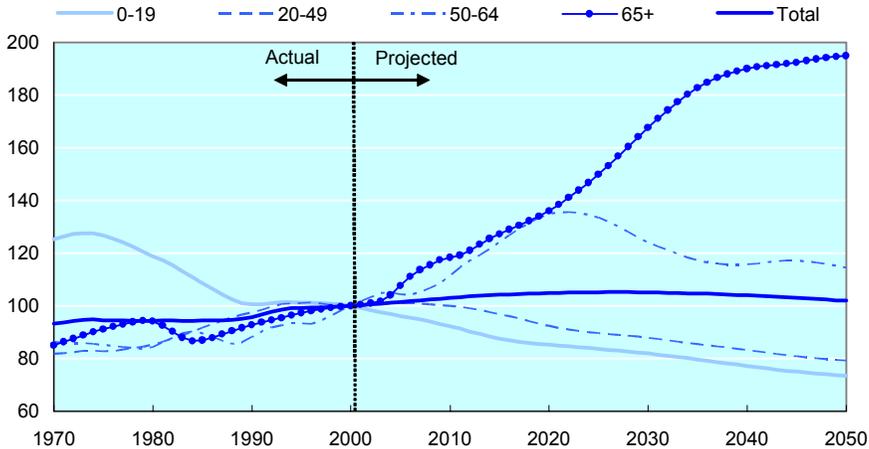
Source: Statistics Austria.

While there is considerable uncertainty regarding the future course of fertility, mortality and migration rates, the future *age structure* of Austria can be predicted with high certainty – not only in the medium term (the next twenty years) but also in the longer term (the next fifty years or so). Age structure changes in this period are primarily determined by the current age structure of the population and to a lesser extent by projected changes in demographic parameters. The actual size of the population is more volatile, and depends strongly on immigration assumptions.

According to the *main* scenario of the most recent official Austrian population projections, the total population size is expected to remain rather stable in the next five decades, peaking at 8.43 million in 2027 (ÖROK and Statistics Austria, 2004). In this main variant, the total fertility rate is assumed to stabilise at 1.4 children per woman, life expectancy is expected to continue to increase (Figure 1.1), and total net immigration is assumed to fluctuate at around 0.25% of the population or 20 000 people annually.

However, the age composition of the population is projected to change considerably: until 2050, the number of children and youth will decline by 25% and the size of the population aged 20-49 years by 20%. During this period the population aged 65 and over will gradually double (Figure 1.2). These changes imply that the share of the population aged 65 and over will double, from 15.5% in 2001 to around 30% in 2050. The number of potential older workers aged 50 to 64 years will develop in waves, increasing rapidly at first by some 40% until 2020 and decreasing again to around its 2010 level thereafter.

Figure 1.2. **Population trends by broad age groups in Austria, 1970-2050**
2000=100



Source: Statistics Austria.

The six alternative population scenarios published by Statistics Austria demonstrate the range of projected age structure changes. By 2020, the proportion of the population aged 65 years and over will in all cases reach 20-22%. And only under extreme assumptions (with a further decline in fertility, a more rapid decline in mortality and very low levels of immigration) will that share fall outside the range of 28-32% in 2050.

The particular course and pattern of future population ageing in Austria will to an important degree be shaped by two independent developments in the second half of the last century (see also Figure 1.1):

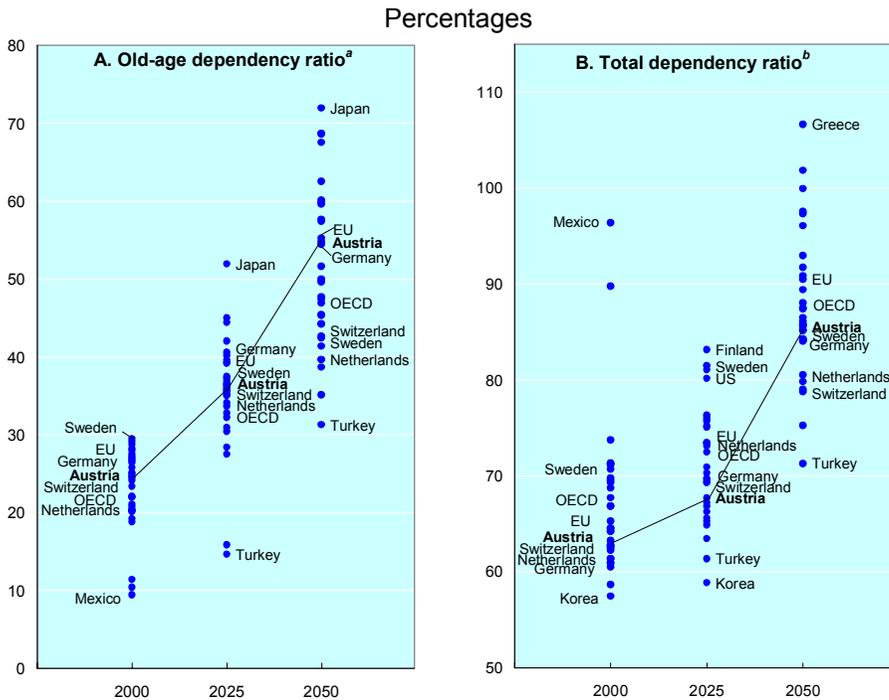
1. The ten-year post-war baby boom in the late 1950s and 1960s and, even more so, the subsequent baby slump.¹
2. The fast decline in mortality among older people since around 1975.

The ageing of the baby boom generation – people currently aged 35-45 years – determines the age structure of the entire population. Currently

1. Austria experienced the baby boom later than most other industrialised countries because it took the country some ten years to recover from the economic ruin of the Second World War.

they determine the large size of the group of prime-age workers; around 2020 they will mark the peak in the number of older workers; and from 2025 onwards they will create the largest-ever inflow into retirement.

Figure 1.3. Demographic dependency ratios in OECD countries, 2000-2050



All in all, Austria's current population age structure and recent and projected patterns in fertility, mortality and migration rates will lead to a steep increase in the *old-age dependency ratio*, *i.e.* the ratio of the population aged 65 and over to the population aged 20 to 64 (Figure 1.3, Panel A): from 25% in 2000 to 37% in 2025 and further to 55% in 2050.

In the coming two decades, the additional economic burden on the working-age population stemming from the growing size of the retired population is partly counterbalanced by the shrinking size of the population aged less than 20 years. After 2025, however, the *total dependency ratio*, *i.e.* the ratio of the population aged less than 20 and that aged 65 and over to the population aged 20 to 64, increases in parallel to the old-age dependency ratio, with no further changes in the ratio between the younger and the working-age population (Figure 1.3, Panel B). While the total demographic burden is significantly lower than for the OECD average both in 2000 and in 2025, it will reach that average by 2050.

2. Potential social and economic implications

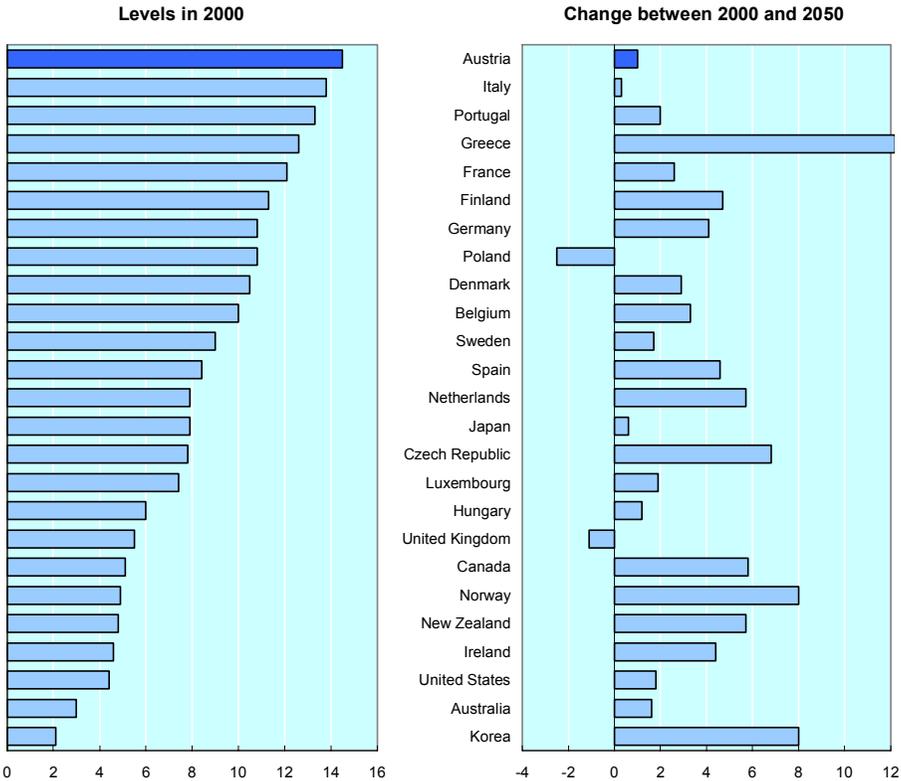
Future demographic changes pose a great challenge for Austria. From around 2035 onwards, there will be more people aged over 75 than children younger than 15. The social and economic implications are significant. With the current age structure, public pension outlays in Austria are already, at 14.5% of GDP, among the highest in the OECD (Figure 1.4).² Despite major pension reforms in 1997, 2000, 2003 and 2004/05 – and assuming that these reforms are effective in delaying the retirement age (see Chapter 3 for details) – changes in the population age structure could increase pension spending by almost another 2% of GDP until 2035, when spending relative to GDP will start to fall.³ Added

2. This figure includes spending for civil servants' pensions, often left out in international comparison. Currently, spending for this group accounts for around 4% of GDP or 28% of total pension spending.
3. With the 2003 pension reform, public pension spending increases were projected to be around one percentage point lower by 2035 and by 2050 compared with the pre-reform situation. The latest pensions account reform, effective from early 2005, will result in additional spending gains of around one-third of a percentage point of GDP by 2035, with the wedge increasing to two-thirds of a percentage point of GDP by 2050 when compared to the situation after the 2003 reform (most of this difference is due to the new inflation adjustment of pension benefits). At the same time, some of the savings that would have been achieved with the 2003 reform during the next twenty years were reversed with the latest reform, through which gains are being built up more gradually in the beginning. The two reforms taken together imply substantial long-term improvements in the fiscal stance of the

to this potential burden is a projected increase in public spending on health and long-term care, from less than 8% today to more than 10% of GDP by 2050.

Figure 1.4. **Public expenditure on pensions in Austria and other OECD countries, 2000-2050**

Levels as a percentage of GDP, changes in percentage points



Source: National source for Austria, European Commission (2003c) for EU-15 countries and *OECD Economic Outlook* (No. 69, 2001) for all other countries.

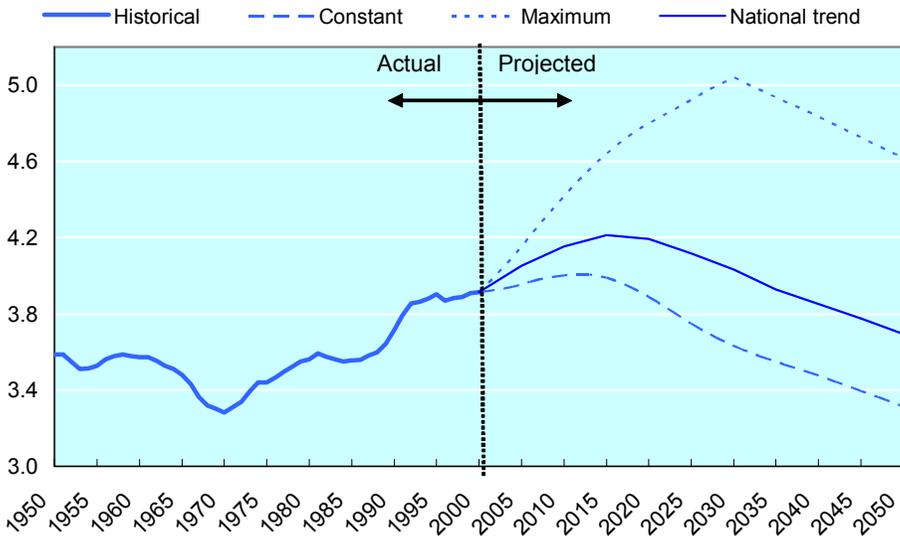
The extent to which the inherent demographic burden will translate into an economic burden depends mostly on the evolution of age- and gender-specific labour force participation rates. These are more difficult to predict than the age structure of the population. There is nonetheless a risk that demography will

Austrian pension system (see OECD, 2005f). In its peak years in the mid-2030s, however, total pension spending could still grow to around 16% of GDP.

have a negative impact on labour force growth and (thus) economic growth in the longer run. Under the pessimistic assumption that participation rates remain constant in the future, the total labour force would start contracting soon and eventually fall sharply to its 1970 level of only 3.3 million by 2050, compared to almost 4 million today (Figure 1.5, Constant scenario).

Figure 1.5. **Labour force growth in Austria, 1950-2050^{a,b}**

Millions, projections after 2000



- a) The constant scenario assumes that participation rates by five-year age groups and gender remain constant at their 2000 levels. The Maximum scenario assumes that participation rates by age and gender converge, by 2030, to the corresponding maximum rate observed across OECD member countries in 2000 and remain constant thereafter. The National Trend scenario is the most recent projection from Statistics Austria (ÖROK/Statistics Austria, 2004) until 2030; it assumes significant increases in participation rates of older workers in response to recent pension reform and in those of women aged 25 years and over. Participation rates are also assumed to remain unchanged after 2030.

b) National trend scenario figures adjusted to the 2000 OECD Labour Force Survey.

Source: ÖROK/Statistics Austria (2004) and OECD estimates based on labour force surveys.

The latest official Austrian labour force projection, based on the main variant of the demographic projection and taking into account recent pension and labour market reforms, is much more optimistic (ÖROK/Statistics Austria, 2004). If Austria manages to keep older workers, on average, three years longer in work and to bring prime-age women into work to a larger extent, the labour

force will stay at or above its current level for the next 30 years (Figure 1.5, National Trend scenario). Also in this scenario however, with no further change in participation rates after 2030, the labour force would eventually fall by half a million to reach its 1990 level in 2050. This is, on average, a 0.4% annual percentage decrease during the period 2020-2050 – compared to a 0.5% decrease in the Constant scenario.

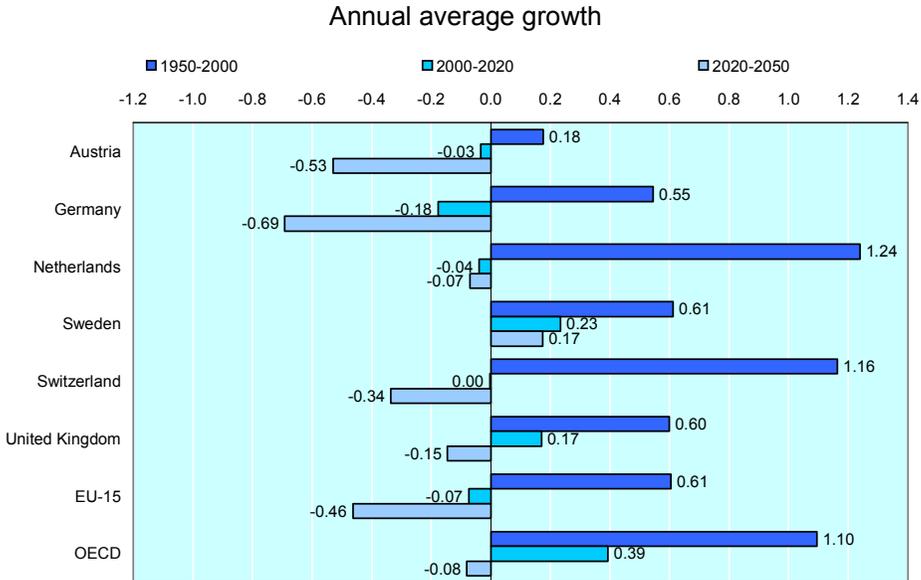
In the unlikely case that between 2000 and 2030, in each five-year age group, gender-specific participation rates converge to the maximum rate observed across the OECD (which implies a very fast increase in some age groups), the total labour force could continue to grow rapidly, even faster than in the past thirty years: by around 1% annually. Even in this case, however, it would decline quickly after 2030, though it would still be almost 20% higher in 2050 than it was in 2000 (Figure 1.5, Maximum scenario).

These scenarios show how important it will be for Austria's future economic potential to keep older workers in the labour market to a much larger degree. With a three-year increase in the average retirement age in the next 25 years, the official Austrian labour force projection seems highly optimistic in this regard when compared to the historical trend. The latest labour force projections of the European Commission, however, are even slightly more optimistic (European Commission, 2004a).⁴ One consequence of this "optimism" is a considerable ageing of the labour force. Today, 16% of the labour force are older workers, of whom 6% are over age 55 and only 1% over age 60. Under the National Trend scenario, by 2050 these shares would increase to 29%, 17% and 6%, respectively. The average age of the workforce would increase by 3.5 years.

The Maximum scenario shows how much scope there is for policy and institutional settings that affect participation rates. At constant participation rates, in the next fifty years labour force growth would be much slower in Austria than in most OECD countries (Figure 1.6), comparable only to other low-fertility countries such as Germany, Japan and Italy.

4. The latest of these projections, which is based on a cohort approach, foresees even higher labour force participation rates for women aged 50-59 and for men aged 55-64, resulting in a further increase in the average age at retirement of around one year for men and around half a year for women compared to the National Trend scenario of the Austrian projection.

Figure 1.6. **Annual labour force growth in selected OECD countries, 2000-2050^{a,b}**



- a) Projections of labour force growth over the period 2000-2050 assume that participation rates by five-year age groups and gender remain constant at their 2000 levels.
- b) Throughout this publication, Austrian evidence is at times compared with that in five other European countries. Germany, the Netherlands, Sweden, Switzerland and the United Kingdom have been chosen as interesting benchmarks for various reasons, including geographical proximity and relevance in terms of social and employment policy settings and trends.

Source: OECD estimates based on labour force surveys.

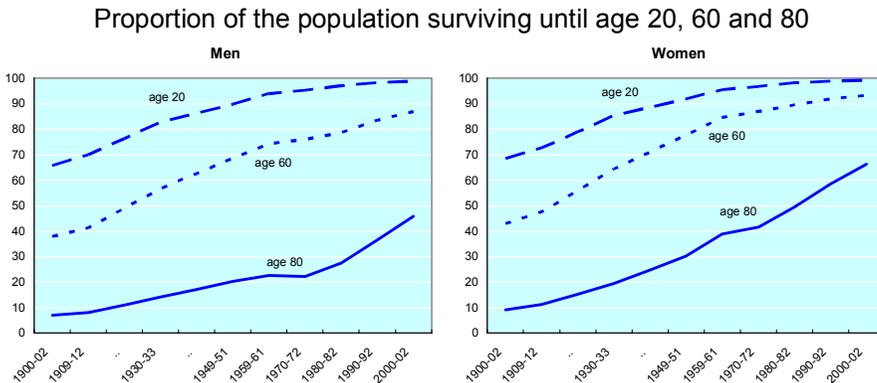
Faster growth in capital inputs or in total factor productivity can compensate for slower or even negative labour force growth. Demography could, however, hold back future growth in economic output in the long run, and a shrinking labour force could lead to severe labour shortages, at least in certain labour-intensive occupations. So far this has not been the case except for certain specialised jobs, especially in the IT sector (e.g. Leo, 2000; Walterskirchen and Biffi, 2001; IBW, 2002), but there is increasing concern about a lack of labour in the nursing and long-term care sector: labour demand there will also increase, and rapidly so, as a consequence of population ageing. One of the challenges, therefore, will be to prepare workers of all ages so that they can transfer from shrinking sectors of the economy to growing sectors.

3. Key challenges for the future

A. Living longer but retiring earlier

In the first place ageing is good news for Austrians, who will (almost) all reach the retirement age and the majority of whom will survive until age 80 (Figure 1.7). This was not the case thirty years ago, when only around three in four men lived to age 60 and no more than one in five to age 80.

Figure 1.7. Long-term mortality trend in Austria, by gender, 1900-2000

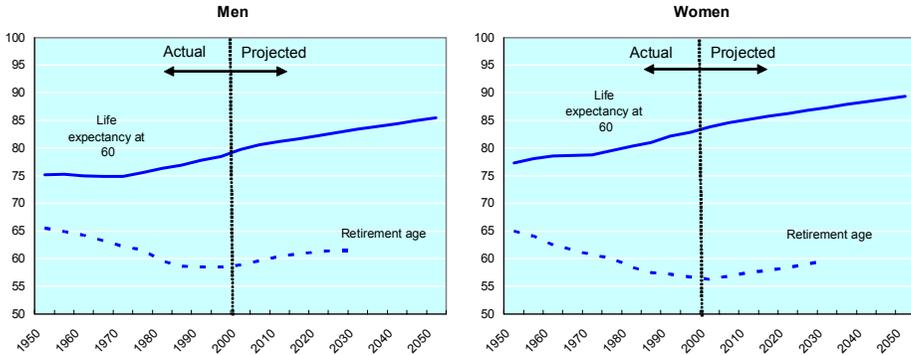


Source: Statistics Austria.

Not only has mortality been pushed down the line very rapidly at old age, but the proportion of elderly people describing their state of health as *bad* or *very bad* has fallen continually over the past twenty years (Doblhammer and Kytir, 1999). Together, these trends have led to significant growth in the number and the proportion of years spent in good health. For women aged 60 years, for instance, further life expectancy in good health has increased by almost five years between 1978 and 1998 (from 14.5 to 19.2 years), while life expectancy in bad health has declined by two years over the same period (from 4.8 to 2.8 years). The share of the latter thus declined by half, from 25% to 12.5%. This suggests considerable improvements in the quality of life during retirement.

Living longer and in better health is obviously a great opportunity. The problem for society arises from the fact that living longer and being healthy longer has not, during the past fifty years, translated into *working* longer. Quite the contrary: in parallel to the increase in life expectancy, the effective age of retirement has fallen. The expected retirement duration has, therefore, increased rapidly: it more than doubled from 9.6 years in 1950 to 20.9 years in 2000 for men, and from 12.3 to 27.6 years over the same period for women (Figure 1.8).

Figure 1.8. **Long-term retirement trend in Austria, by gender, 1950-2050**
Life expectancy at age 60 and average retirement age



Source: Statistics Austria and Secretariat estimates on the basis of age-specific labour force participation rates. The retirement age projection is based on the national labour force trend scenario.

There are many explanations for this early retirement trend. Apart from a deteriorating general economic and labour market situation, two factors are fundamental (see also Chapter 3):

- Increasing wealth in what has become the modern leisure society enabled an increasing number of Austrians to reduce the share of their lifetime devoted to paid work, both on a daily and weekly basis and over their life cycle.
- The rise in unemployment during the 1970s and 1980s has led many governments (not just the Austrian government of that time) to believe that reducing labour supply growth through early retirement would help to reduce overall unemployment and increase labour market chances for new entrants.

The longer-term implication of this is well known. In many countries, Austria among them, early retirement became extremely popular – which is not surprising given that it was (and in most cases still is) economically rational for the individual to retire as early as possible (Chapter 3). Through an alliance between employees and employers – the latter supported this policy for the sake of workforce restructuring at almost no cost – and backed up by the social partners, the early retirement policy was maintained until recently.

The great challenge today is to reverse what is now a well-established social trend. The Austrian government has made several efforts to reduce the incentives and close the pathways to early retirement. Whether this has had an effect and the other policies in place or necessary are discussed elsewhere in this publication. If policy proves as successful as postulated in the newest national labour supply projection, the average retirement age will increase by roughly three years until 2030, to around 62 among men and around 60 among women – which is still below the current OECD average, but slightly above the *current* EU average.

Would such a sizeable change – if it could be achieved – be sufficient? Due to the further mortality improvements expected, even under these circumstances the average retirement duration could continue to increase, maybe even more than the underlying assumed increase in working life. Between 2000 and 2050, further life expectancy at age 60 is projected to increase by another six years (Figure 1.8). That is the minimum increase in effective retirement ages required in the long run to keep the retirement duration constant. This might seem an unattainable target for Austria, but it should be noted that the average retirement age of men is already 65 years (or higher) in one-third of all OECD countries, including for instance Switzerland, Portugal, Denmark and Ireland.

B. Intergenerational aspects of population ageing

The future shape of population ageing in Austria, given the combined factors of baby boom cohort and the early retirement culture that has emerged in the past few decades, will create very specific – and hitherto unknown – challenges (Prinz, 1999a). Today, the youngest members of the large baby-boom cohorts have reached age 35-40; hence, the group of prime-age workers is larger than ever before. This has probably created some “generational crowding” against older workers: firms have opted to substitute better-educated prime-age workers. Hence, demography has almost certainly contributed to the undesirable downward trend in older workers’ labour force participation rates. It will most likely continue to be a barrier for major improvements in those participation rates for the next ten years or so.

Therefore, a first major challenge is to keep the large baby boom cohorts in the labour market longer once they themselves reach retirement age. Subsequent generations will not be sufficiently numerous to support such a large group of early retirees, nor will the labour market fifteen years from now easily adapt to

such a sudden outflow of workers. As these cohorts, on average, entered the labour market at a much later age than previous cohorts (due to prolonged education), in principle it should not be a problem to expect them to work until a later age.

However, even if this goal is achieved, there is a second intergenerational challenge that cannot be ignored. If the members of the large baby boom cohorts remain in work until age 65 in great numbers, they will stay in their career jobs longer and thus potentially hamper the career progression of the subsequent, much smaller baby slump generation. If the pattern of age-wage profiles were to adapt to the changing demographics, *i.e.* if the baby boom generation were to experience flatter wage growth and the baby slump generation steeper growth, this would facilitate labour market adjustment and career progression. Designing career paths that facilitate sideways mobility and that allow for a gradual labour market exit will also be important.

Finally, however long the baby boomers stay in work, at some stage around 2030 they will eventually retire in great numbers. It is important that structural pension reforms be fully effective by that time (or even earlier) in order to avoid an unbearable burden for the next generations. In this regard, recent pension reform efforts are in the right direction (Chapter 3), but will have to be augmented by workplace reforms and institutional change to promote the employment of older workers (Chapters 4 and 5).

Chapter 2

OLDER WORKERS IN THE AUSTRIAN LABOUR MARKET

The previous chapter concluded that it will be very important for Austria to align the low average retirement age with a rapidly growing life expectancy at age 60. Most policy actors now agree that actions need to be taken to bring about that alignment. The long-held belief that older workers hamper the employment opportunities of youth has been abandoned as a fallacy. However, labour market behaviour and policy are not yet in step with today's thinking. The purpose of this chapter is to locate those areas where actions will be needed most to improve the labour market situation of older workers. The first section looks at characteristics and trends of age-specific participation, unemployment and inactivity rates, and examines the impact of economic developments on the latter. In the second section, the employment conditions of older workers are discussed in more detail.

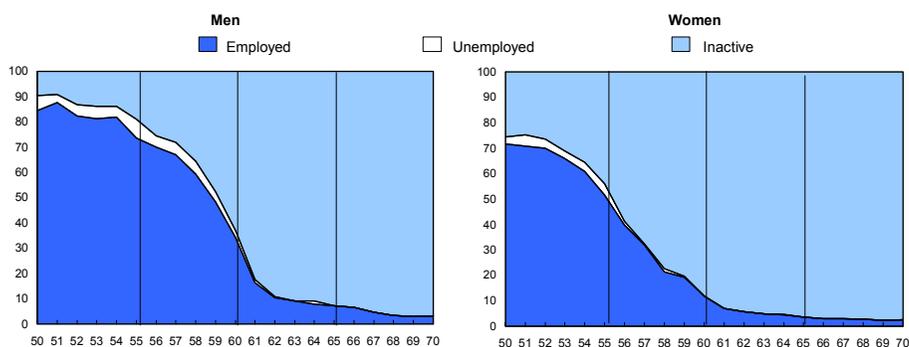
1. Employment, unemployment and inactivity of older people

A. *Where Austria stands in comparison with the OECD*

Employment rates of Austrian men decline significantly from age 54 onwards, dropping to 10% at age 62 (Figure 2.1). Already at age 59, six years before the statutory retirement age and 2.5 years before candidacy for early retirement, men are inactive and employed in equal numbers. The situation is similar with women, for whom the decline starts two years earlier and from a lower initial employment rate.

The consequence of this age-specific employment pattern is that labour force participation rates of older workers aged 50-64 are very low in an international perspective: the sixth-lowest for men and the eighth-lowest for women among the 30 OECD countries. Austria thus lags far behind the current lead countries in Europe – Iceland, Sweden, Norway and (for men) Switzerland, which have rates over 80% for men and 70% for women. In contrast, the participation rates of prime-age workers are among the highest in the OECD (Figure 2.2). The huge difference in the relative positions of older and prime-aged workers suggests that policy and institutions play a large role in determining employment rates over the life cycle in Austria.

Figure 2.1. **Labour force status of older male and female workers in Austria by single years of age, 2003**



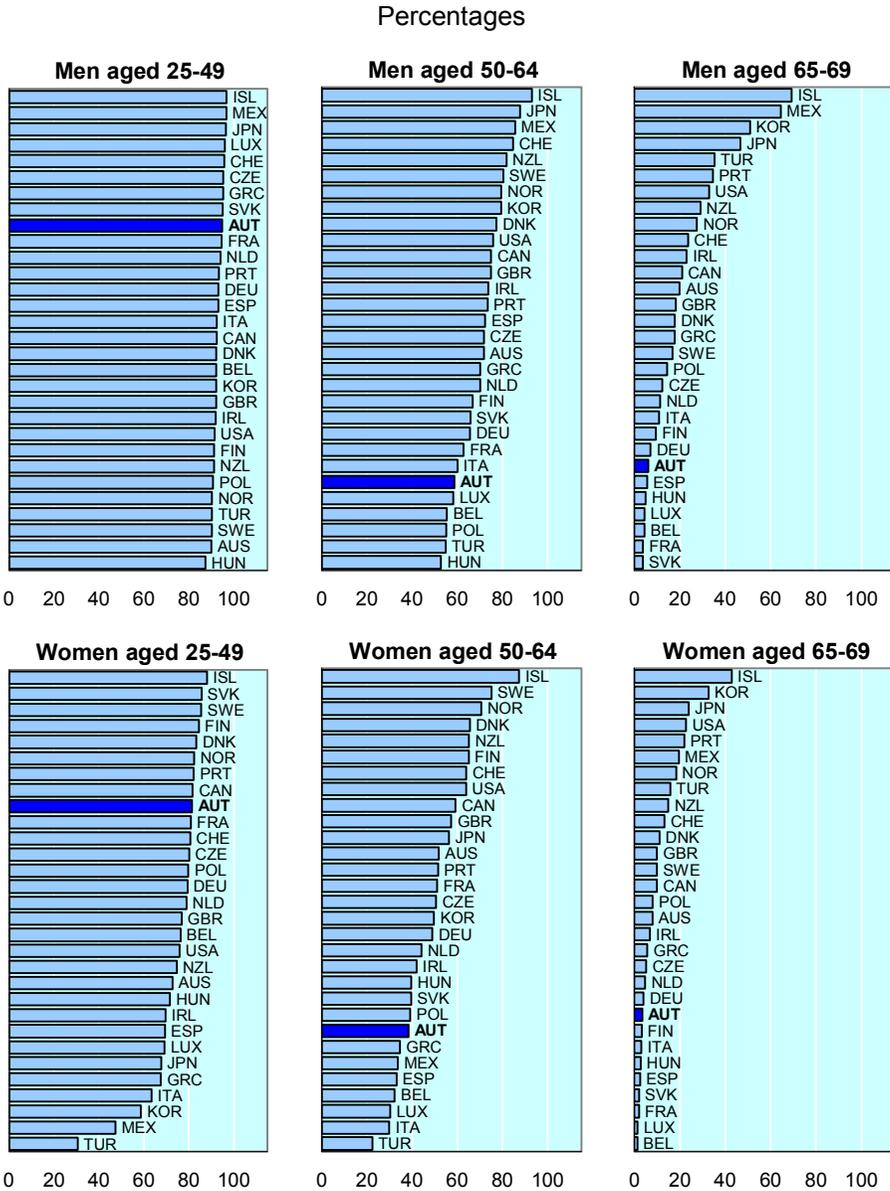
Source: Statistics Austria (labour force survey).

In line with this finding, OECD calculations indicate that Austria has a high rate of mobilisable labour resources (when measured relative to international benchmarks), amounting to 12.1% of its total population (OECD, 2003a).⁵ The untapped resources are a result of excess inactivity, 69% of the total being attributable to excess inactivity of *older* workers. This is the highest share attributable to this age group across the entire OECD, significantly higher than the 46% unweighted OECD average and the 27% population-weighted average. This reinforces the argument that the reduction of early retirement is a key labour market issue in Austria.

At the same time, while many OECD countries have succeeded in reversing the declining trend in older workers' participation rates over the past decade, gains in those rates in Austria were rather mild given the low initial level in 1995. Among the 28 countries for which data is available, 19 have seen at times substantial increases in participation rates of the entire 55-64 age group during the period 1995-2003, irrespective of the 1995-level (Figure 2.3). In particular, Austria is among those countries that have not seen any increase in those participation rates for men – noting that the continued increase for women all over the OECD is to a considerable extent a cohort phenomenon.

5. In OECD (2003a), mobilisable labour resources are defined as the sum of excess inactivity and excess unemployment, both relative to international benchmarks. Excess inactivity is defined as any excess in the country's inactivity rate as compared with the inactivity rate of the third-best performing countries. Excess unemployment is defined as any excess in the country's unemployment rate above 5% of the labour force. Youth enrolled in school were not included in the calculation of excess inactivity or excess unemployment, even if they were classified as inactive or unemployed in the national labour force survey.

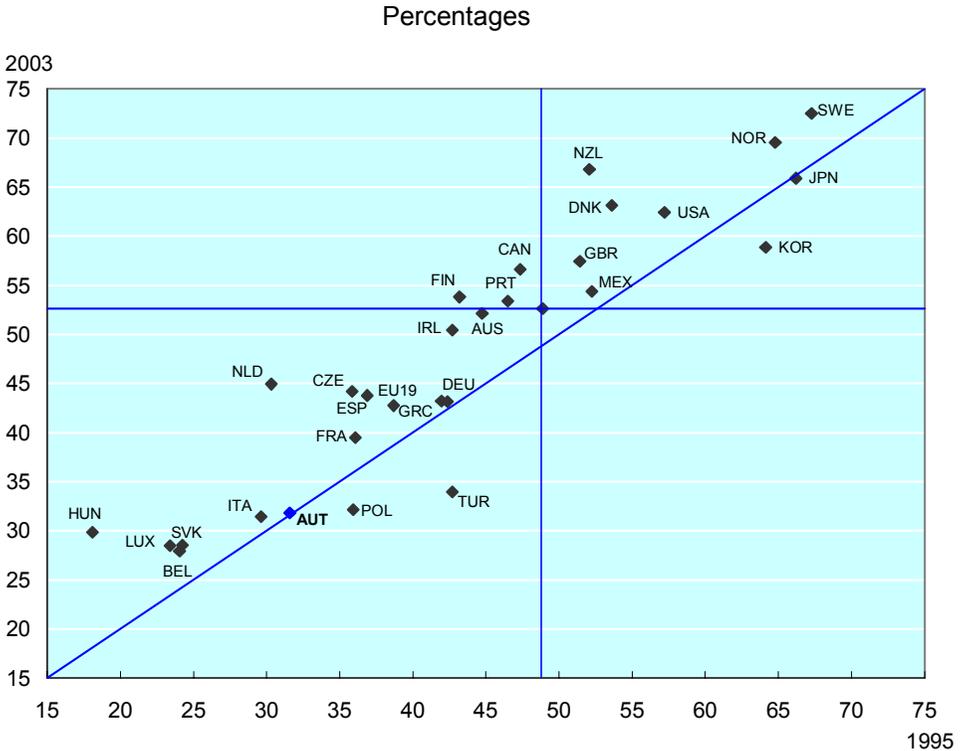
Figure 2.2. Participation rates by age and gender in OECD countries, 2003^a



a) 2002 data for Iceland and Luxembourg.

Source: European Labour Force Survey (Austria, Netherlands and Switzerland) and national labour force surveys.

Figure 2.3. Evolution of participation rates of workers aged 55-64 in OECD countries, 1995-2003^a



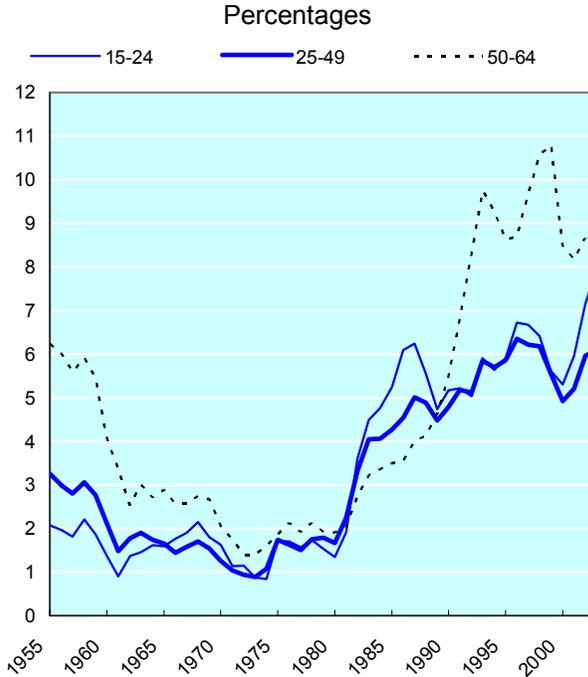
a) 2002 data for Luxembourg.

Source: European Labour Force Survey (Austria and the Netherlands) and national labour force surveys.

In this regard, the Stockholm and Barcelona targets on employment and participation recently approved by the European Council will be a major challenge for Austria. In accordance with the so-called Lisbon process, the EU aims at raising the average EU employment rate of men and women aged 55-64 to 50% by 2010 (Stockholm target, agreed in March 2001) and the effective average age at which people stop working in the EU by about five years until the same year (Barcelona target, agreed in March 2002). Austria is committed to these targets. However, as with some other EU countries, it will be difficult for Austria to reach them as early as 2010: recent labour force projections suggest it might be as late as 2030 before they are achieved.

The economic downswing of the early 1990s did not lead to a further decline in participation rates of older workers, with the exception of men aged 50-54. It did, however, go hand in hand with a significant rise in unemployment, at that time from a much higher initial level. The rates for older workers in particular crept up to an historical high of 10% by 1993 (Figure 2.5).

Figure 2.5. **Unemployment rates in Austria by age, 1955-2003**



Source: Statistics Austria and WIFO.

This leap in the unemployment rate was partly due to older workers being crowded out by a higher immigration level following the political crisis in the Balkan region. In the five-year period 1989-93, net immigration into Austria reached 340 000 people, mostly from Croatia and Bosnia. The majority of the refugees settled in Austria, as former migrants from these regions who were now established provided effective support structures that facilitated integration. Many of the new immigrants were skilled and ready to work for low pay, often below their skill level. This led to considerable substitution of workers, spurring the unemployment rate especially among the less-skilled and older workers. In particular, substitution of “new” foreign workers for “old” foreign workers

meant that, much more than during the 1980s, the unemployment rate of older migrant workers increased rapidly.

The economic decline between 2000 and 2003 was accompanied by rising unemployment of young and prime-age workers, but not with that of older workers (Figure 2.5). Nor was there a further drop in the latter's participation rates. Quite the contrary: participation rates of men aged 55-64 and women aged 55-59 increased for the first time in fifty years (Figure 2.4). It appears that recent labour market policies – in particular the closure of early retirement routes and introduction of the old-age part-time employment scheme – were responsible for that result (see Chapter 3).

Rapid improvements in the skill level of older workers in the past decades should help close the age gap in participation rates. Austria is among those countries in which the share of low-skilled in the 50-64 age group declined rapidly in the past decade, especially among women – bringing the educational distribution of that age group much more in line with that of prime-age workers (Table 2.1). There is no doubt that the combination of old age and low skill levels is placing older workers at a labour market disadvantage.

Table 2.1. **Share of low-skilled population in selected OECD countries by age group and gender, 1997 and 2002^a**

	25-49				50-64			
	Men		Women		Men		Women	
	1997	2002	1997	2002	1997	2002	1997	2002
Austria	15.9	13.4	26.8	22.4	29.4	23.1	49.5	39.4
Germany	10.1	12.1	14.1	16.6	..	13.0	..	26.9
Netherlands ^b	29.0	27.7	33.0	29.1	36.6	35.3	57.4	53.5
Sweden	19.4	13.9	16.2	10.6	38.8	31.1	36.3	26.7
Switzerland	11.3	11.4	19.5	14.4	14.8	15.7	37.2	25.4
United Kingdom	12.3	10.8	18.3	14.3	25.0	21.9	38.6	30.2
OECD	29.9	28.9	32.4	30.3	44.7	38.3	50.1	44.5

a) Low-skilled is defined as less than upper secondary educational attainment.

b) 1998

Source: OECD (2004), *Education at a Glance – OECD Indicators*, Paris.

Labour force participation rates tend to rise with educational attainment for men and women alike, independently of age. The sizeable differences in Austria (larger than in most other OECD countries) in the rates of older workers by skill level are indicative of the disproportionate job losses among un- and semi-skilled older workers over the past decade (Table 2.2).

Table 2.2. **Participation rates by age, gender and level of education in selected OECD countries, 2002**

Percentages

		Men		Women		Total	
		25-49	50-64	25-49	50-64	25-49	50-64
Austria	Primary	88.4	49.2	68.8	30.4	76.2	37.2
	Secondary	94.9	58.9	82.4	40.0	89.0	49.9
	Tertiary	97.0	74.0	90.1	61.7	93.9	70.1
Germany	Primary	88.8	55.4	62.8	35.9	74.0	42.2
	Secondary	93.5	63.9	80.9	50.5	87.2	57.2
	Tertiary	97.4	77.8	88.5	67.7	93.6	74.5
Netherlands	Primary	88.0	60.5	60.5	32.0	74.1	43.5
	Secondary	95.5	71.1	81.2	51.9	88.4	62.8
	Tertiary	97.9	81.4	89.5	65.9	94.0	75.6
Sweden	Primary	84.1	73.2	72.2	60.3	79.1	67.3
	Secondary	91.6	80.0	86.7	76.8	89.2	78.4
	Tertiary	91.5	88.1	88.6	87.0	89.9	87.5
Switzerland	Primary	89.7	81.4	73.2	52.7	80.6	63.4
	Secondary	95.3	83.4	81.3	63.7	87.6	72.5
	Tertiary	99.4	89.4	87.2	79.0	95.1	86.5
United Kingdom	Primary	74.0	57.4	51.6	49.6	61.4	53.5
	Secondary	93.3	76.0	77.5	72.6	85.7	74.7
	Tertiary	96.9	79.6	89.0	80.8	93.0	80.1
OECD	Primary	87.7	63.8	49.0	38.0	67.8	50.0
	Secondary	92.2	71.0	75.0	57.4	83.8	64.3
	Tertiary	94.7	81.8	82.3	71.7	88.4	77.4

Source: OECD (2004), *Education at a Glance – OECD Indicators*, Paris.

C. *Persistent unemployment*

The previous section provided evidence of above-average unemployment among older workers during the past decade. There is concern among unions that the abolition of early exit options will raise the level even further. So far, though, this has not happened.

Currently there are about 50 000 unemployed older workers in Austria, who comprise 21% of the total stock of unemployed. This is larger than their 16% share among employees, but – due to the low participation rate – much less than their current 27% share of the total working-age population. A key problem of older workers appears to be a certain lock-in in both employment and unemployment. Older workers are less likely to become unemployed, but once unemployed they have great difficulties in getting back into work. The rate of outflow from unemployment into employment is 25% lower than for prime-age workers, and it falls rapidly with age (Table 2.3).

Table 2.3. Unemployment dynamics in Austria by age, 2003^a

	Unemployment rate	Unemployment inflow over employment	Unemployment work outflow over total inflow	Unemployment duration of the stock (in days)	Unemployment duration of the outflow (in days)
15-24	7.3%	40.5%	51.5%	84	61
25-49	6.5%	24.7%	58.0%	117	102
50-54	7.5%	22.5%	48.6%	140	152
55-59	10.3%	20.9%	35.5%	166	234
60-64	11.1%	11.6%	27.4%	192	480
65+	4.6%	4.0%	15.1%
Total	7.0%	26.6%	54.6%	120	123
Older workers	8.7%	21.1%	43.3%	157	221
50+ / 25-49	133%	85%	75%	134%	218%

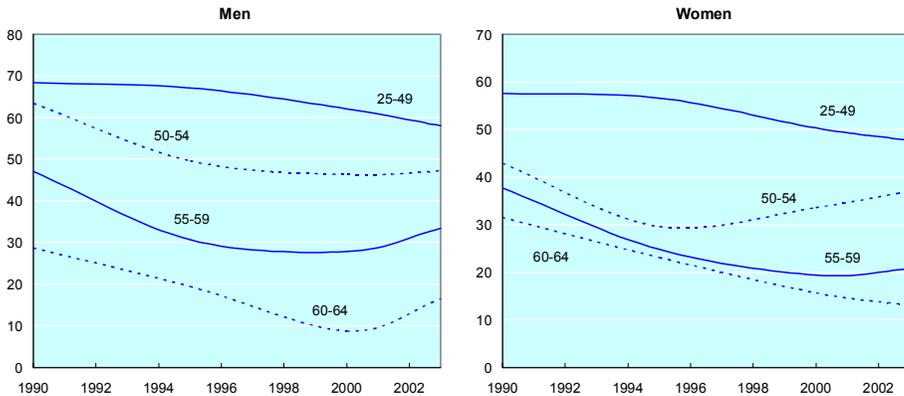
a) The second column gives the ratio of the total annual inflow over average annual employment. The third column gives the ratio of the total annual outflow into work over the total annual inflow. The last two columns give average unemployment durations, for the stock of unemployed (fourth column) and for the annual outflow (fifth column).

Source: Austrian Labour Market Service.

As a consequence, older workers are unemployed over a much longer period than prime-age workers (partly promoted by the right to a longer period of benefit receipts): 221 days vis-à-vis 102 days for prime-age workers, on average, when measured as the completed duration for those leaving the status unemployed, and 157 versus 117 days on a current stock measurement (Table 2.3). The situation is exactly the opposite for young workers below age 25; they become unemployed twice as frequently as older workers but the average unemployment duration is only about half, or just a quarter – again depending on the choice of the indicator – of that of the 50-64 age group. It has been shown that the difference in duration of unemployment by age is partly related to the longer payment duration for older workers, at least for men, although the effect is less pronounced than has been shown for other countries (Winter-Ebmer, 1998; and Lalive *et al.*, 2004).

In the past few years, measures of unemployment dynamics reveal a reversal of longer-term trends. The proportion of the unemployed terminating unemployment through work has recently increased among men and women aged 50-59 and also among men aged 60-64, while it has continued to decline for the prime-aged unemployed (Figure 2.6). This is another indication of the success of recent reform efforts. The direct transition of older workers from unemployment into retirement is, slowly, becoming less frequent – even if it is still more frequent than it was in until the mid-1990s.

Figure 2.6. **Proportion of the unemployed terminating unemployment through work by age and gender, Austria, 1990-2003**



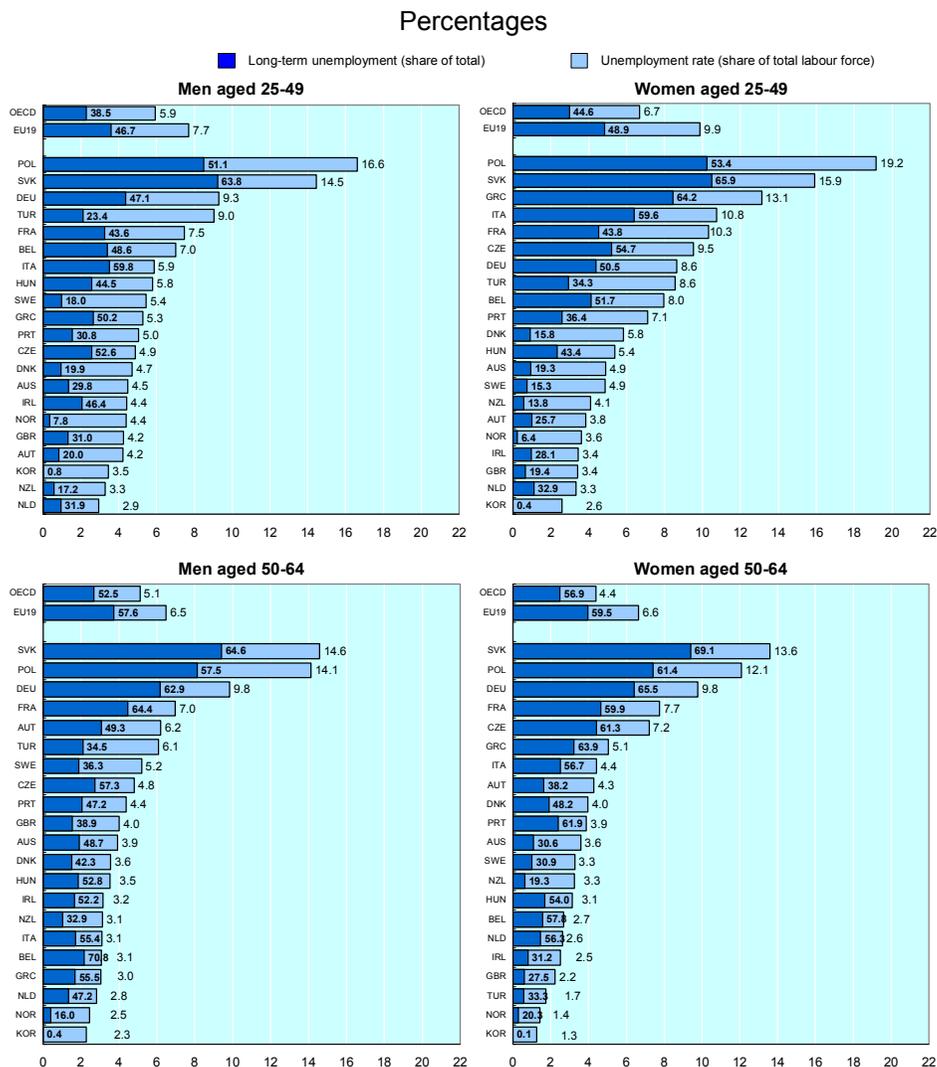
Source: Austrian Labour Market Service.

One consequence of the longer average unemployment duration is a high incidence of long-term unemployment, especially among older men (almost 50%). A disproportionate share of long-term unemployment among older persons is a typical feature across the OECD (Figure 2.7). However, a couple of peculiarities of the Austrian pattern should be mentioned. Firstly, in the majority of OECD countries older workers have lower unemployment rates than prime-age workers; this is not so in Austria. Secondly, the difference in the proportion of long-term unemployed between older and prime-age workers is large in Austria, especially among men (20% at age 25-49 vis-à-vis 50% at age 50-64). This indicates that older workers in Austria, particularly older men, have significant labour market disadvantages. Recent interventions of the Labour Market Service for the long-term unemployed and older workers aim to correct that situation (see Chapter 5).

2. The employment structure of older workers

So far this chapter has focused on the labour market status of the older workforce, and on how that status has changed over time. Equally important are the occupational mix and the conditions under which older workers are employed, and how these conditions – *e.g.* working hours and employment relationships – differ from those for prime-age workers.

Figure 2.7. Unemployment rates and long-term unemployment shares in selected OECD countries by age and gender, 2003

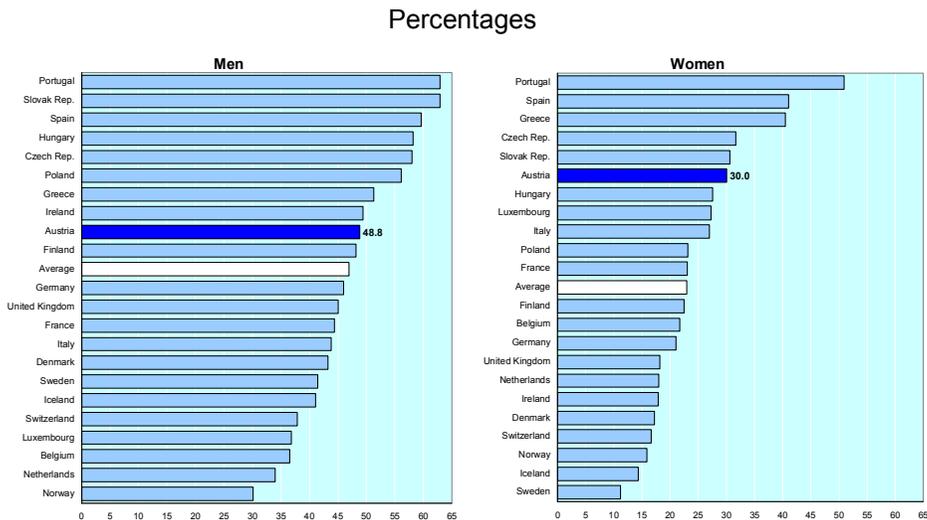


Source: European and national labour force surveys.

A. *Restructuring and occupational segregation*

The structure of the Austrian economy is changing rapidly. In 2003, 71% of all employees worked in the service sector – up from 38% in 1950 and 55% in 1980. Between 1965 and 2003 the number of employees in the service sector doubled, while the workforce in industry and agriculture declined by 30% and 75%, respectively. In the light of the doubling of service-sector employment but limited growth of total employment between 1965 and 2003 (only some +13%), substantial reallocation of labour between sectors and industries took place (Biffl, 2001). This rapid structural change is a challenge for Austria, a country in which initial education plays an important role and continued education and training is not yet sufficiently developed (Chapter 5).

Figure 2.8. **Share of older workers in manual occupations in selected OECD countries, 2002^{a,b}**



- a) Workers in manual occupations are defined as the persons working as skilled agricultural and fishery workers, those in craft and related trades, plant and machine operators and assemblers, and those in elementary occupations.
- b) Weighted average of the countries shown in the figure.

Source: European Labour Force Statistics.

The distribution of workers across economic sectors, industries and occupations varies with age. Within Europe, Austria has a relatively high proportion of older workers, both men and women, engaged in manual occupations (Figure 2.8). These high shares – almost one in two men and one in

three women – indicate that older workers tend to remain in their original occupations, while younger workers tend to move into growth industries and occupations, particularly services. The comparatively low educational attainment level of older workers and the limited upgrading of skills in their working lives are impediments to their remaining in employment.

At a more detailed level, the age distribution across occupational groups shows that older workers are overrepresented in some declining manufacturing industries – particularly consumer goods such as textiles, clothing and leather industries; in the higher skill segment of agriculture and forestry; and in high-level management positions, public administration, education and health services. In addition, Austria exhibits a significant gender segmentation of employment by industry and occupation.

B. *Continuous employment throughout working life?*

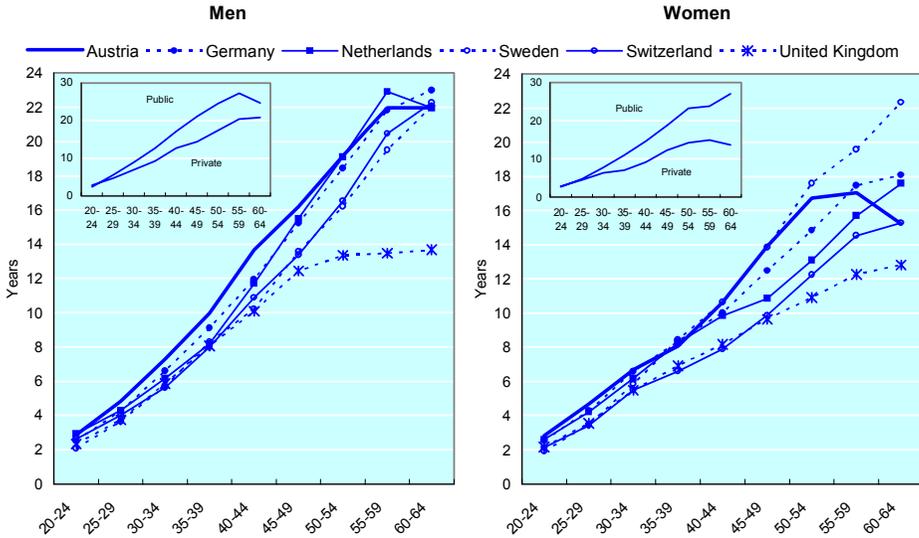
The employment dynamics over the life cycle differ significantly among groups of workers, but above all among industries. Some workers experience frequent episodes of unemployment (reflected in large flows in and out of employment; see Table 2.3), while others stay with the same employer for most of their working lives. An indication of the latter is given in Figure 2.9. Average job tenure for men in Austria is high in comparison with other OECD countries, and in fact is close to that in Japan, a country known for its system of lifetime employment. Job tenure increases get flatter from age 45 onwards, indicating a relative decline in job security from that age (in contrast to, *e.g.* The Netherlands). On average, men over age 55 (*i.e.* close to retirement) have worked for the same employer for around 22 years. This signals considerable job security until (early) retirement.

Women have significantly lower job tenure, in Austria as elsewhere. Relative to other countries, however, Austrian women seem to have substantial job security, at least according to data from the Austrian Labour Force Survey; social security data show a somewhat different picture – *e.g.*, only about one in four mothers tend to continue employment with the same employer after returning from parental leave (OECD, 2003b).

Among both men and women, the favourable position of workers in Austria vis-à-vis those in other OECD countries is largely explained by high job security for public sector employees. Women aged 50-54, for example, have 23 years' average tenure in the public sector, compared to 14 years in the

private sector; the latter figure is close to that in other countries (see the inserts in Figure 2.9). The relative advantage of public sector employees increases with age, especially for women.

Figure 2.9. **Average job tenure of employees in selected OECD countries by age and gender, 2004^a**



a) 2003 data for Austria.

Source: Austrian Labour Force Survey and European Labour Force Survey.

The conflicting evidence on job security between the Labour Force Survey and the social security data needs to be clarified. According to the latter, job fluctuations are frequent and substantial due to large seasonal and/or business cycle fluctuations. However, workers tend to remain in the local labour market, often with the same employer, and to accept intermittent periods of unemployment. Limited regional and occupational mobility of Austrians, driven largely by high mobility costs (Huber, 2005)⁶, and a co-ordinated regional and industrial policy (*Standortpolitik*) promote the regional stability of production sites. In turn, Austria has a comparatively small degree of urbanisation. As there

6. According to Huber (2005), interregional net migration in Austria is amongst the lowest in the EU(15); while on average across the EU net migration reached 0.1% of the regional population each year, the share was only half that in Austria. The major part of mobility of labour in Austria is commuting, without a change of permanent residence.

is no experience-rating in unemployment insurance contributions, employment fluctuations may be high while *de facto* allowing a stable employer-employee relationship in the long run, interrupted by unemployment periods (Chapter 4).

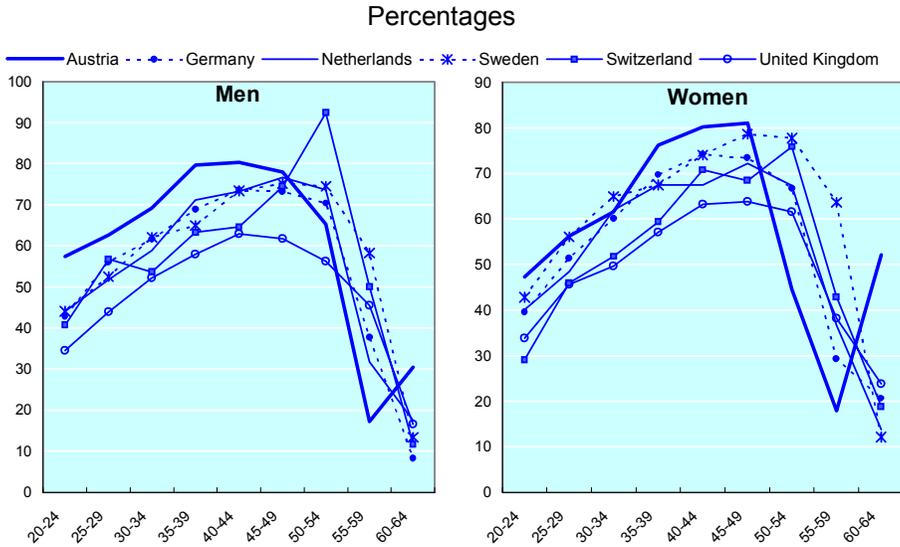
A drawback of average job tenure as an indicator of job stability is its masking of compositional effects (and changes). Five-year job retention rates that take the proportion of all workers who are still with the same employer five years on are a better indicator of job security.⁷ A comparison of retention rates across selected OECD countries confirms the relatively high job stability up to age 50 in Austria. Some 80% of all workers in their late 30s and 40s in 1998 were still working for the same employer in 2003 (Figure 2.10). This is a much higher proportion than in the neighbouring countries Germany and Switzerland, and very much higher than in the United Kingdom with its more flexible and less regulated labour market and significantly higher employment growth rates (Chapter 4).

For older workers, however, job retention rates drop very sharply below those in other OECD countries, especially for women. This is essentially a reflection of the very low retirement age in Austria. Five-year job retention rates have increased significantly during the past three years – especially for workers in the 50-54 age group – and much more for women than for men. The latter may be a response to the recent changes in (early) retirement regulations. It seems that the gradual closing of early labour market exit options has contributed to the prolongation of employment with the same employer.

To a certain extent, high job security of older workers may give rise to an insider-outsider problem. While the retained older workers profit in terms of income and job security, those older workers who become unemployed find it very hard to get a new job. This trade-off is difficult to resolve in the context of labour supply policies (such as closing early retirement pathways) and explains why they have to be complemented by demand-side policies. These issues are discussed in depth in Chapters 4 and 5, in the context of seniority wages and non-wage labour costs on the one hand and employment and wage subsidies on the other.

7. Retention rates used in this chapter are estimated using cross-sectional data on job tenure, not from directly observed 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.

Figure 2.10. **Retention rates of employees in selected OECD countries by age and gender, 1999-2004^{a,b}**



a) 1998-2003 data for Austria.

b) Retention rates refer to the proportion of workers in 1999 who were still in the same job five years later in 2004. The age groups refer to a worker's age in 1999. The data are based on labour force surveys covering all workers.

Source: Austrian Labour Force Survey and European Labour Force Survey.

C. *Increasing the flexibility of work*

Full-time and life-time employment is gradually losing ground in the various industries in Austria. The same may be said of standard gendered work-sharing between paid and unpaid work in a household context (Sorrentino, 1990). The changing pattern of family life, *i.e.* the supply side, is as much an explanatory factor for more flexible work patterns as the increasing pressure from employers to adapt to new work arrangements, *i.e.* the demand side. The two forces interact and result in significant growth in flexible, hitherto atypical or non-regular types of employment (Fink *et al.*, 2001).

Enterprises have several, not mutually exclusive, options to adapt to changes in market demand and new technology, and to changes in the composition of labour supply:

1. *Numerical flexibility* refers to the adjustment of the level and composition of the workforce to facilitate the introduction of new technology and production processes.
2. *Working time flexibility* refers to the implementation of more flexible working hours, thus reducing the fixed-cost element of employment and using machinery more continuously.
3. *Functional flexibility* refers to the up-skilling of the workforce, in particular the adaptation of vocational skills to the requirements of new technology, and the promotion of flexible work practices.
4. *Wage flexibility* refers to the adjustment of pay systems to new socio-economic circumstances, such as an ageing workforce giving rise to fewer seniority wage benefits.

Often firms use a mix of all four types of flexibility to increase their productivity and competitiveness. However, the institutional environment may tend to favour one specific form. For instance, due to relatively strict employment protection legislation (Chapter 4), hire and fire are less of an option in Austria than, for instance, in the less regulated English-language labour markets. The choice of flexibility measure depends on a variety of factors both internal and external to the firm, *e.g.* industry, size, and locality of the enterprise.

In Austria, flexibility of working hours appears to be the employers' preferred instrument for adjusting to demand fluctuations. The large amount of overtime work indicates that transaction costs associated with recruitment and training are high, and that they constitute a barrier to labour market entry. Strong corporatism and an effectively structured system of industrial relations favour both functional and working-hour flexibility (Biffl, 2000). On the basis of an indirect measure of the incidence of overtime work (which is known to underestimate the true incidence of overtime work), 9% of all male workers in Austria are found to work more than their usual hours (Table 2.4). This is the second highest proportion among the 18 European countries for which comparable data are available for 2003. In Austria, overtime work is unusually frequent among older workers, especially for men.

The statutory normal weekly working time in Austria is 40 hours, but some industries have reduced the time to 38.5 in collective agreements. Currently, 82% of men and 60% of women have a 38- to 40-hour normal work week. A fairly high proportion of women work less than 38 hours (32% compared to

4% of men), while a fairly large proportion of men work more than 40 hours (14% compared to 8% of women). For both men and women, it is mostly older workers who work long hours (Table 2.5) – reemphasising that the number of workers aged 65 and over is very small. Among men only, the proportion working less than 38 hours also rises with age. More generally, university graduates have above-average working hours (27% of males and 11% of females), while unskilled labourers, *i.e.* persons who have not completed compulsory schooling, have short weekly working hours (17% of unskilled men and 47% of unskilled women).

Table 2.4. **Incidence of overtime work in European OECD countries by age, 2003^a**

Proportion of male full-time wage-earners working overtime hours

	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	Total
Sweden	8.3	11.4	11.5	11.4	10.5	11.0	9.4	8.6	7.0	10.1
Austria	6.2	8.7	10.6	9.8	10.2	9.6	8.4	9.3	8.2	8.9
Finland	8.5	11.0	11.0	9.1	8.8	7.9	7.2	6.5	7.3	8.8
Netherlands	8.1	12.2	11.7	9.8	9.0	7.3	5.7	4.2	2.5	8.6
Czech Republic	7.0	6.9	9.2	7.0	7.7	6.4	6.0	7.0	3.9	7.1
Denmark	7.2	8.5	8.2	5.0	5.6	4.6	5.6	5.7	1.7	5.9
United Kingdom	3.8	5.1	4.6	5.2	4.9	4.2	3.7	4.1	4.6	4.5
Hungary	3.7	4.3	3.4	3.4	3.5	4.1	2.9	2.6	1.0	3.6
Italy	2.8	3.3	3.4	3.8	3.9	3.2	3.4	2.9	1.7	3.4
Slovak Republic	5.1	4.8	3.9	3.2	2.4	1.6	2.5	3.7	0.0	3.4
France	3.3	3.9	3.1	2.6	2.4	1.9	1.6	1.5	0.0	2.6
Ireland	2.1	2.0	3.2	2.8	3.5	2.2	1.4	2.5	1.8	2.4
Portugal	1.8	1.8	2.3	1.4	0.9	1.2	0.7	0.4	0.5	1.4
Poland	1.1	1.8	1.4	1.4	1.0	1.9	0.4	1.3	1.6	1.4
Belgium	2.0	2.4	2.0	0.7	0.5	0.4	0.6	1.2	0.0	1.2
Norway	0.5	0.3	0.6	0.9	0.5	0.8	0.4	0.4	0.4	0.6
Spain	0.5	0.5	0.5	0.3	0.2	0.2	0.1	0.2	0.0	0.3
Greece	0.2	0.4	0.1	0.5	0.1	0.5	0.1	0.4	0.3	0.3
Unweighted average	4.0	5.0	5.0	4.3	4.2	3.8	3.3	3.5	2.4	4.1
In % of the average	56%	75%	110%	126%	142%	149%	152%	167%	248%	115%
Rank for Austria	6	4	4	2	2	2	2	1	1	2

a) Indirect estimate of overtime work incidence based on information on usual hours and actual hours worked, corrected for leave of absence (sick leave, annual leave, holidays, etc.). Data are sorted by overtime shares for the total workforce (last column).

Source: European Labour Force Survey.

The long working hours and the large amount of overtime work of older workers in Austria requires explanation in view of the often assumed decline in work capacity with age. Apparently, older workers need to work hard to justify their high seniority wage – that would account for the high productivity of older workers implicit in the Austrian wage system (see Chapter 4). Those who cannot match this long-hours expectation are being pushed out of the labour market.

Table 2.5. **Distribution of normal working hours per week by age and gender, Austria, 2002**

Percentage

	Men					Women				
	< 38	38	39	40	40 +	< 38	38	39	40	40 +
20-24	3.8	28.1	5.5	58.2	4.4	11.8	29.3	4.3	50.8	3.7
25-29	4.2	26.6	6.5	53.5	9.2	23.2	19.8	4.4	47.1	5.5
30-34	3.8	26.3	5.9	51.1	12.9	37.2	17.6	2.6	37.3	5.3
35-39	3.9	25.0	4.9	51.1	15.0	41.9	13.9	2.3	34.0	7.9
40-44	3.7	23.9	5.2	50.5	16.8	37.4	13.1	2.0	39.4	8.0
45-49	3.2	23.2	5.4	51.7	16.6	35.2	13.4	2.3	39.5	9.5
50-54	3.1	23.5	5.3	51.5	16.6	30.2	13.2	2.3	40.5	13.8
55-59	4.6	20.9	4.0	49.5	21.0	31.2	12.2	1.6	40.4	14.6
60-64	6.6	13.2	2.4	46.5	31.4	28.3	4.8	0.8	41.4	24.8
65+	24.9	6.2	0.5	29.0	39.5	30.9	3.4	2.3	32.2	31.2
Total	3.9	25.1	5.3	51.7	13.9	31.5	16.9	2.8	40.7	8.1

Source: Statistics Austria (Microcensus).

The recent issue of the index of working conditions (IFES/SORA, 2004) draws attention to rising work pressure as a result of frequent overtime work and long working hours (see Chapter 5). In the first quarter of 2004, 47% of men and 20% of women were working more than 40 hours a week. The incidence of overtime is highest for full-time male and part-time female workers. Wage-earners are increasingly complaining about the deterioration of working conditions as a result of overtime, and stress is particularly high among persons working more than 40 hours.

In many OECD countries, Austria among them, much of the employment growth in the past two decades has been part time, particularly among women. With close to 40% of women working part time, Austria belongs to those countries with a high share of part-time employment. In contrast with most other countries, however, part-time work is less frequent among older workers than prime-age workers (Table 2.6). Much of the potential of older workers to work part-time is still untapped. Enabling gradual retirement could be one key to raising participation rates of older workers.

Table 2.6. **Part-time work by age and gender in OECD countries, 2003**
 Percentage of total employment^{a,b}

	Both		Men		Women	
	25-49	50-64	25-49	50-64	25-49	50-64
Switzerland	30.7	34.3	7.7	9.3	58.6	66.6
Netherlands	26.6	31.6	4.5	11.7	53.7	63.7
Australia	23.5	27.5	7.7	12.8	42.8	47.9
Germany	21.6	23.5	4.4	6.3	42.4	46.6
Iceland	21.4	18.8	6.1	4.4	38.8	34.3
Norway	21.2	25.0	7.0	8.5	37.2	43.7
Japan	21.1	27.3	8.5	14.8	39.8	45.8
United Kingdom	20.6	28.6	4.0	11.6	41.2	49.8
Belgium	19.9	23.4	4.1	10.1	39.5	45.7
Austria	19.6	17.6	3.5	4.0	39.7	38.6
New Zealand	19.1	21.9	5.9	9.9	34.4	36.8
Sweden	18.3	21.5	7.0	10.5	30.6	33.1
Turkey	16.6	31.0	11.8	25.8	31.3	43.1
France	15.3	16.4	3.7	5.4	29.1	29.8
Denmark	15.3	16.8	5.8	6.5	26.4	28.9
Ireland	13.7	20.3	2.9	6.6	27.8	44.7
Luxembourg	12.6	9.9	1.5	1.0	28.4	27.5
Canada	12.4	16.0	4.8	7.8	21.1	26.2
Mexico	11.5	14.4	4.2	6.6	24.4	33.0
Italy	8.8	6.8	2.7	3.2	18.3	13.8
United States	7.9	9.4	2.8	4.7	13.5	14.1
Finland	7.8	14.4	3.8	11.1	12.2	17.8
Spain	7.5	6.6	2.0	1.5	15.7	17.7
Poland	6.6	14.3	4.3	11.6	9.3	17.7
Portugal	6.3	16.0	2.2	8.2	10.9	25.9
Korea	5.4	9.6	3.1	7.9	9.1	12.0
Czech Rep.	3.7	6.6	0.9	3.7	7.3	10.6
Greece	3.5	3.8	1.4	1.8	6.6	7.8
Hungary	2.8	5.3	1.3	3.8	4.4	6.9
Slovak Rep.	1.8	4.3	0.7	2.3	3.0	7.1
Unweighted average	14.1	17.4	4.3	7.8	26.6	31.2

a) 2002 data for Austria, France, Iceland, Korea, Luxembourg, Mexico and the United States.

b) The countries are ordered by the total share for workers aged 25-49.

Source: OECD database on part-time work.

Chapter 3

PROVIDING SOCIAL PROTECTION WHILE ENHANCING WORK INCENTIVES

Old-age pension schemes and other social transfer programmes, such as disability and unemployment benefit schemes, are important factors in explaining labour supply. Providing an adequate income for older people while not undermining work incentives for them is a key policy challenge facing all OECD countries. This chapter discusses the extent to which the retirement decision – and thus, the low employment rate of older workers in Austria – is influenced by social protection arrangements. It then looks at what has been done recently to improve the situation, and discusses options for the future.

Any conclusive analysis of the Austrian pension system is difficult at this moment, because of the speed of the reform process recently (see Section 2).⁸ In this chapter, therefore, the long-term financial sustainability of the pension scheme and the fairness of the reform across different groups of the population are only touched upon very briefly. The main emphasis is on work incentives and on how the retirement age has been steered by hitherto existing regulations and is likely to be influenced by recent and forthcoming changes.

1. Retirement behaviour in Austria

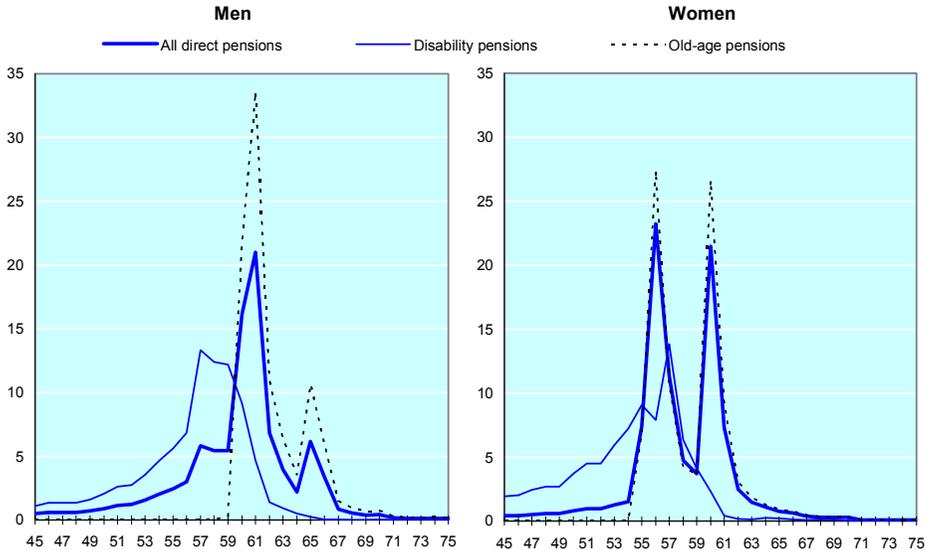
Previous chapters have drawn attention to the early retirement culture in Austria. In 2003, Austrian men “typically” retired at age 61 (Figure 3.1). This is a year later than used to be the case before the minimum early retirement age was gradually increased by 1.5 years. There is another, smaller peak at age 65, the normal statutory retirement age. Inflow into disability benefit occurs mainly at age 57-59: four in ten new recipients are in this age group, and two-thirds are between the ages of 54 and 61. This is a clear indication that disability benefits are primarily used as an early retirement programme (see also Section 4).

8. New regulations were built on the former without always overruling them, so that actual rules have become very complex.

The retirement pattern of women is quite different. Owing to the legal five-year difference in statutory and early retirement ages, in 2003 a first peak was at age 56, *i.e.* five years earlier than for men; this is when almost one in four Austrian women retire. Almost as many women retire at age 60 because, due to maternity breaks, women often do not have a sufficient insurance record to qualify for an early retirement pension (Figure 3.1). As with men, disability benefits are primarily another early retirement vehicle, although the increase with age is more gradual and the peak already reached at age 54-57 – largely because other early retirement pathways are available from that age onwards.

Figure 3.1. **Distribution of retirement ages by single year of age, gender and type of pension, 2003**

Percentage of the total inflow into retirement for each category



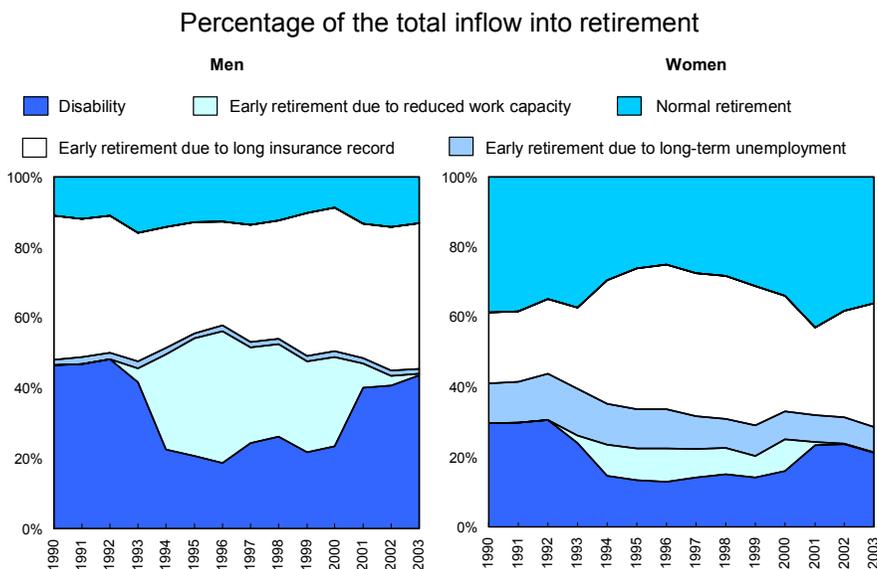
Source: Social Insurance Authority (*Hauptverband der Sozialversicherungsträger*).

A. *The reforms changing pathways*

Recent pension reforms aim to change the current early retirement “menu” drastically (see Section 2). A closer look at the composition of the inflow into retirement since 1990 shows that patterns have been quite stable over time, but also that behaviour has adapted quickly to any legal change.

For men, retirement at the statutory age of 65 has always been the exception. Over the period 1990-2003, roughly one in two men retired on the grounds of reduced work capacity (Figure 3.2). Policy had a clear impact. The introduction in 1993 of a special early retirement scheme for workers with reduced work capacity, which became available from age 55 onwards, increased disability-related retirement entry. (The entitlement age was raised to 57 years for men in 1997). Subsequent abolition of the scheme in 2000 was just as effective: it reduced the inflow to its previous level. Moreover, patterns show the high degree of substitution between disability pensions and early retirement due to reduced work capacity. Otherwise changes were small, with around 40% of all men retiring early on account of a long insurance record.

Figure 3.2. **Changes in the composition of the inflow into retirement by gender, 1990-2003**



Source: Social Insurance Authority (*Hauptverband der Sozialversicherungsträger*).

For women, the effect of introducing this new early retirement scheme in 1993 was smaller than that of another measure. That same year, a scheme came into effect that, by crediting up to four years of insurance for each birth, helped

women with child-related career breaks fulfil early retirement criteria – thereby boosting early (and suppressing normal) retirement.⁹

Austrian social insurance data also provide information on the status of pensioners *before* retirement. In 2003, more than two-thirds of all new retirees were employed before drawing a pension, and one in five were unemployed (Table 3.1). Compared with five years earlier, the proportion moving from employment into retirement increased remarkably, by around 20 percentage points for men and women alike. This is the consequence of changes in institutional arrangements (*e.g.* the closing of special pre-retirement schemes, the introduction of the old-age part-time employment scheme, and the harmonisation of labour law for blue-collar and white-collar workers) and the increase in participation rates of women at the ages of 50-54. Interestingly, only one-fifth of all disability pension claims occur via sickness benefit.

Table 3.1. **Transition to retirement by type of pension and gender, 2003 and 1998^a**

	Status before retirement (percentage)							
	Employment		Sickness benefit		Unemployment benefit		Non-employment and other	
	1998	2003	1998	2003	1998	2003	1998	2003
Men								
Disability pension	43	56	24	19	28	24	5	1
Old-age pension	56	77	2	1	35	17	8	4
All pensions	50	69	13	8	31	20	7	3
Women								
Disability pension	38	59	26	21	21	17	15	3
Old-age pension	45	70	2	2	33	22	19	7
All pensions	45	68	5	5	31	21	19	6

a) Early retirement due to reduced work capacity included under disability pensions, all other early retirement programmes under old-age pensions.

Source: Federal Ministry of Social Security and Generations.

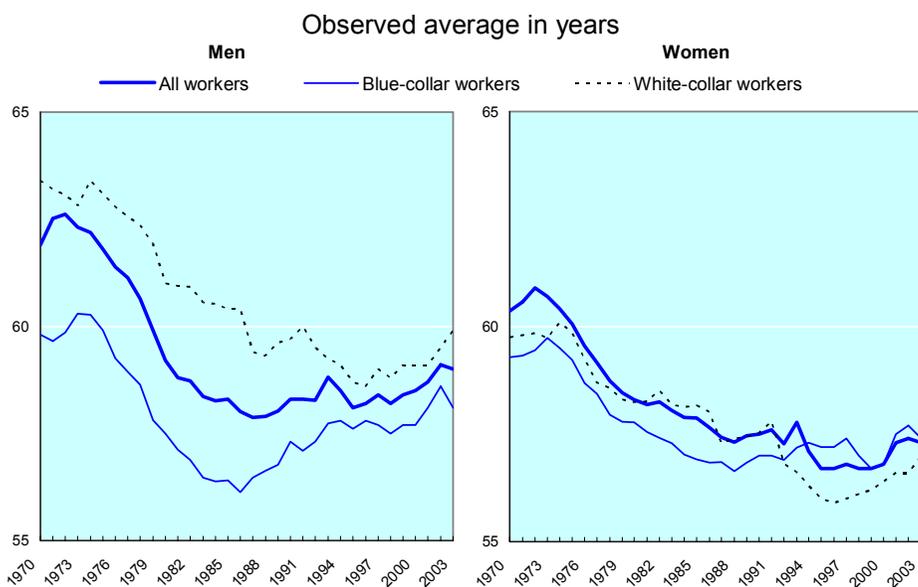
B. *Retirement ages slow to change*

Despite these changing paths to retirement in the past five years, the average age at entry is changing only slowly. For men, the average retirement age in 2002 and 2003 was 59 years – 0.8 years up from 1998 and indeed the

9. The drop in early retirement in 2001 is primarily a consequence of demography and thus transitory. That year, very few women reached age 55 (*i.e.* the small birth cohort of 1946) compared to the much larger number of women reaching age 60.

highest figure since 1980 (Figure 3.3). However, this is still two years below the minimum early retirement age, three years below the average retirement age of Austrian men in 1970, and four years below the current OECD average. For women, both the extent of decline in the retirement age since 1970 and the recent increase are smaller. At 57.3 years, the average retirement age in 2003 is as low as it was during the 1980s.

Figure 3.3. **Average age at retirement in Austria by occupational group and gender, 1970-2003**

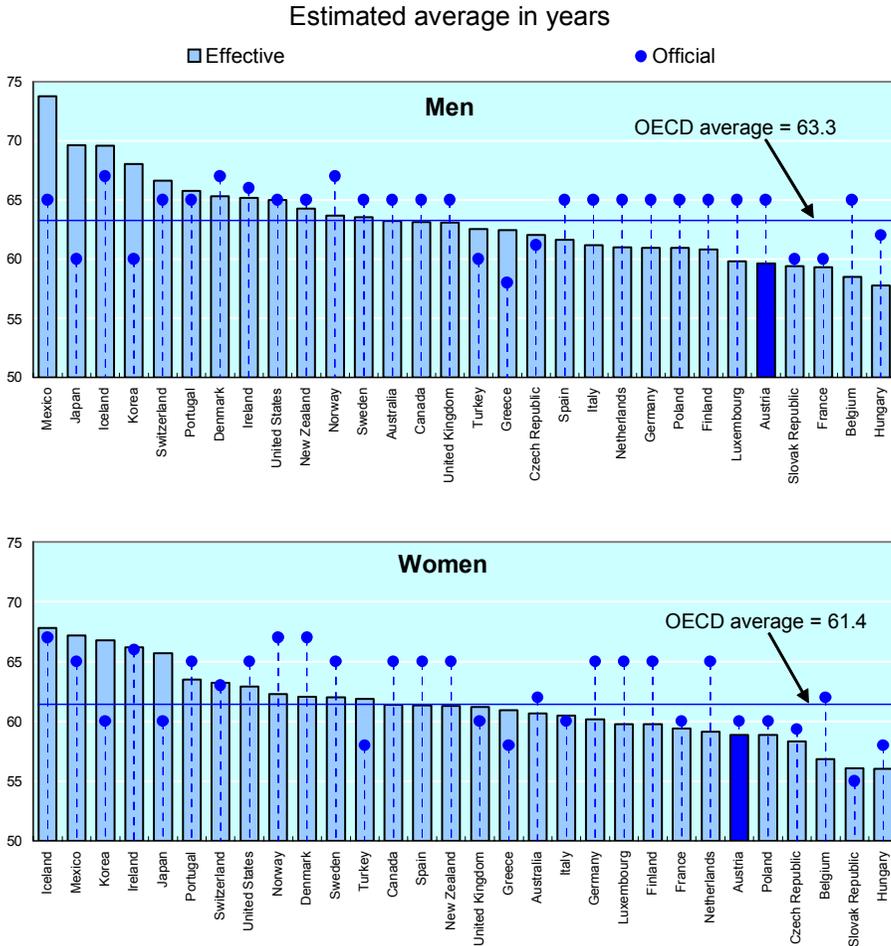


Source: Social Insurance Authority (*Hauptverband der Sozialversicherungsträger*).

A comparison of labour force exit across the OECD on the basis of participation rates rather than actual ages of entry into retirement confirms the laggard position of Austria. Only in Belgium, France (among men) and some of the Central European countries do workers retire earlier. Men and women in Switzerland, for example, leave the labour market around six-five years later than in Austria (Figure 3.4).¹⁰

10. With a different calculation approach leading to slightly different results for some of the countries, EU data on average retirement ages confirm this finding.

Figure 3.4. **Average effective age of retirement and statutory age, 1997-2002^a**



a) The average effective age of retirement is derived from the observed decline in participation rates over a five-year period for successive cohorts of workers (by five-year age groups) aged 40 and over.

Source: OECD estimates derived from the European and national labour force surveys.

C. *Replacement rates and work incentives*

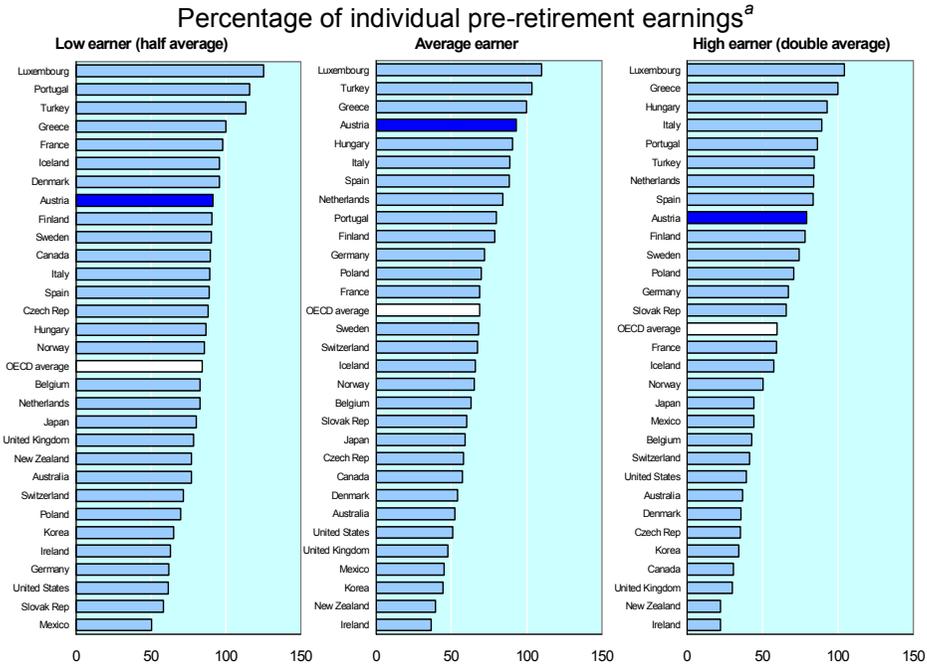
Retirement incentives and work disincentives are crucial factors in the individual retirement decision. Since its set-up in the mid-1950s, the philosophy of the Austrian public pension system has been to maintain everyone's standard of living. For this reason, the system provides an earnings-related old-age pension with a hitherto relatively high income replacement rate. The average *net* replacement rate of retirees has changed very little over time, fluctuating around 80% for men and increasing to around 75% for women.

High replacement rates provide a greater incentive to retire early, all else equal, than low replacement rates. Even after the latest pension accounts reform, at 93%, *net* pension replacement rates for a hypothetical full-career worker with average earnings and 45 insurance years upon retirement at age 65 will be the fourth highest in Austria throughout the OECD (Figure 3.5).¹¹ For low and high full-career earners Austria ranks in eighth and ninth position, due to the larger degree of redistribution to low-income groups in several OECD countries (as far as the low-income group is concerned) and the upper ceiling in Austria on insured earnings (as regards the high-income worker).

This finding is confirmed by calculations undertaken by the European Commission, and updated by the Austrian authorities, which are based on somewhat different assumptions (see below) and which also show the impact of recent pension reforms on prospective replacement rates. Accordingly, the *first pillar* of the Austrian pension system will continue to provide reasonably high earnings replacement rates. For full-time workers with 40 years of insurance at age 65 and average earnings throughout their career, the *gross* replacement rate of the first-pillar pension entitlement for 2050 was estimated at 68.5%, the fourth highest rate in the EU-15 (Table 3.2). However, these calculations also show that in several EU countries lower first-pillar replacement rates are or will be compensated by (in several countries, increasing) second-pillar benefits so that the *total* gross pension replacement rate can be higher than in Austria – though only for those workers entitled to a second-pillar benefit, who often represent a minority of the workforce. Hence, after the latest reforms, total replacement rates in Austria are generally around the EU-15 average.

11. This full-career worker assumption does not necessarily represent a very typical or frequent case, at least not for Austria, but the assumption does allow an adequate comparison of pure system parameters.

Figure 3.5. **Hypothetical net pension replacement rates across the OECD at different earnings levels**



a) Calculations refer to full-career workers with 45 years of insurance from age 20 to age 65. Results for Austria take the latest 2004/05 pension reform into account.

Source: OECD (2005e), *Pensions at a Glance – Public Policies across OECD Countries*, Paris.

Not only have the latest pension reforms in Austria lowered replacement rates quite significantly, but they will also result in very different trends over time for different earnings patterns. For a person with a flat earnings curve throughout working life (as assumed in both Figure 3.5 and Table 3.2), replacement rates will remain largely unchanged or may even increase, though not back to the level prior to reform. On the contrary, replacement rates will generally drop further for career workers with increasing earnings, *i.e.* those people who benefited most from the pre-2003 pension formula. The steeper the earnings career, the larger the loss will be (at least as long as earnings remain below the earnings threshold). This elimination of hitherto existing unjustified redistribution, caused by basing pension benefits on lifetime earnings rather

than average income during the best 15 income years, is an important reform element, especially in view of the rather steep age-earnings profiles in Austria.¹²

Table 3.2. **Current and prospective gross pension replacement rates for selected EU countries, 2003**

Percentage of individual pre-retirement earnings^a

	First pillar only		First and second pillar		Current second pillar coverage (in %)
	2003	2050	2003	2050	
Greece	108.0	94.7	108.0	94.7	minor
Luxembourg	89.5	89.5	89.5	89.5	minor
Spain	88.6	83.0	88.6	83.0	minor
Austria, post-2004 ^b	66.0	68.5	66.0	68.5	minor
Austria, post-2003	74.3	66.9	74.3	66.9	minor
Portugal	72.3	64.9	72.3	64.9	minor
Italy	79.6	64.6	79.6	84.1	14
France	65.0	56.8	65.0	56.8	minor
Finland	57.6	53.8	57.6	53.8	minor
Sweden	57.0	40.1	70.9	54.4	90
Germany	44.6	37.8	50.1	50.5	57
Belgium	36.5	36.6	40.0	48.4	45
Ireland	31.4	34.0	66.7	66.7	50
Denmark	41.7	33.6	45.1	68.9	80
Netherlands	32.6	32.6	70.0	70.0	91
UK	16.6	11.4	66.6	61.4	41

a) Calculations refer to full-time workers receiving average earnings throughout the working career, with 40 years of insurance upon retirement at age 65.

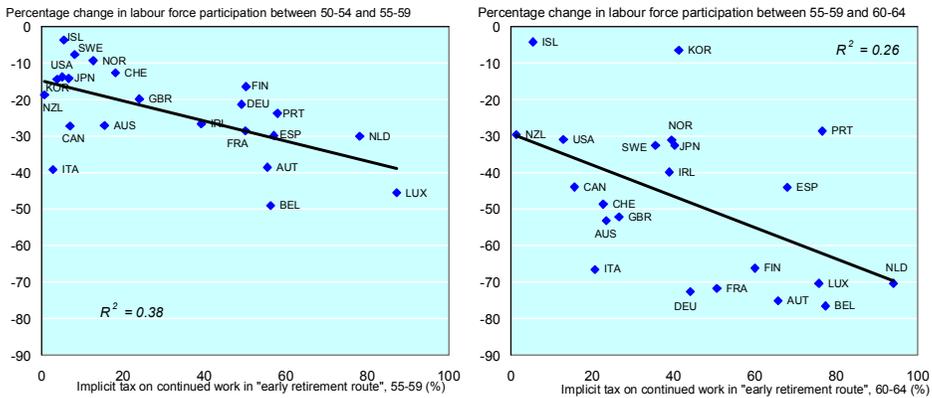
b) Data in the second and fourth column refer to the year 2004, not 2003. The large difference in replacement rates for 2004 (66%) and 2003 (74%) is partly explained by a slightly different method of calculation and partly a consequence of reform.

Source: European Commission (2004b) and Austrian authorities.

12. One of the many important aspects of this is the gender dimension. Women tend to have more moderate earnings increases, thus generally benefit from this change. On the other hand, they also often have (temporary) phases of part-time work following childbirth, which may lower benefits in a lifetime earnings-based system. The actual impact will therefore vary widely. Moreover, special measures have been introduced to counter disproportionate disadvantage for mothers who worked part-time when their children were young.

The recent reforms are important steps in the right direction (see below for details). Across the OECD it has been shown that participation rates of older workers are related to work disincentives through the pension scheme (Duval, 2003). For instance, a larger implicit tax rate on continued work over the next five years (an indicator of retirement incentives) will result in a steeper decline in the labour force participation rate from one five-year age group to the next. The Austrian residuals shown in Figure 3.6 are both negative; the drop in participation rates between age 50-54 and 55-59, and between 55-59 and 60-64, is larger than would be expected solely on the basis of the implicit tax.¹³ This suggests that additional factors are behind the large decline in Austrian participation rates before the statutory age of retirement, such as age discrimination and other employment practices (Chapter 4) as well as inadequate skills (Chapter 5).

Figure 3.6. **The relationship between retirement incentives and labour supply, 2002**



Source: OECD estimates based on Duval (2003), "The Retirement Effects of Old-age Pension and Early Retirement Schemes in OECD Countries", OECD Economics Department Working Papers, No. 370, Paris.

13. Results for Austria in Figure 3.6 take the 2003 pension reform into account, but not the reform of 2004/05. This does not reduce the value of this finding, because for at least another 10-15 years individual retirement incentives will be driven by 2003 and pre-2003 regulations.

2. Reforming the old-age pension system

Austria has a classic pay-as-you-go public pension insurance scheme, which was set up in its current form in 1956. The system has undergone constant adjustment since, but the structure has remained largely unchanged. It provides an earnings-related old-age pension for workers with at least 15 insurance years, accessible from age 65 for men and age 60 for women, various and changing forms of earlier retirement, and a derived survivor's pension for widows, widowers, orphans and divorcees with a judicial claim to alimony. Due to the almost universal coverage and generous benefits, occupational pensions are of minor relevance. More than 90% of all pensions are paid out of the public, first-pillar scheme. Because of a ceiling at around twice the average income (above which neither contributions are paid nor benefits received), however, high-income earners in the private sector have an incentive to provide for additional sources of income in their old age through private savings.¹⁴

A. *Half a century of pension reform*

The history of pension reform in Austria is a 40-year tale of continuous expansion of early retirement options (Box 3.1). This expansion was particularly swift between the mid-1970s and the mid-1980s, partly in response to rapidly growing unemployment (Chapter 3 Annex). Policy was highly effective in pushing older workers into retirement. In the decade 1974-84 alone, average retirement ages dropped by four years for men and almost three years for women (Figure 3.3). From the very beginning, early retirement was (*de facto*) mainly designed for men, not only because they were more likely to accumulate the required insurance years but also because the normal retirement age of women was five years lower. On several occasions – first in 1960, then in 1973, 1981, 1993 and (to a certain extent) in 2004/05 (see below), early retirement was introduced with a health policy objective in mind.

14. Occupational pension benefits and private savings of various types play a much smaller role in Austria than in most other OECD countries. While reform of the severance pay scheme in January 2003 (see Chapter 4) will contribute to the creation of a mandatory occupational pension pillar, recent pension reform ensures that the public first pillar will remain central in the future. As there is no indication that second- and third-pillar benefits have any impact on retirement behaviour – and since neither the reformed severance pay scheme nor the new private pension provision (“*Zukunftsvorsorge*”) includes regulations that would entail any particular retirement behaviour – the focus in this chapter is on the first-pillar scheme.

Box 3.1. Four decades of pension reform in Austria: 1960-2000

From 1967 onwards, older unemployed people became the main focus of reform. To counter structural problems in certain sectors, temporary pre-retirement programmes were introduced (Chapter 3 Annex). In 1979, in the course of this process, pre-retirement became available for all the older unemployed, and special disability pensions were introduced for miners and for heavy night work.

In the mid-1980s, the long-term financial stability of the pension system became a key issue, and policy signals became more ambiguous. With the 1993 pension reform, a partial pension was established to reduce the inflow into early retirement. That aim, however, has never been achieved (see Section 3). The 1993 reform was also the last to introduce a new early retirement scheme, on the grounds of inability to continue the main work activity of the preceding 15 years.

The mid-1990s marked a turning point. With the Austerity Programmes of 1995 and 1996, several smaller measures were implemented that were geared towards reducing benefits and increasing contributions in the short term. These measures were primarily driven by the need to constrain public expenditures in order to meet the Maastricht criteria. However, very soon it became clear that, in order to reduce spending in the short and stabilise it in the long term, more drastic changes or benefit cuts were necessary.

The 1997 pension reform that followed was ineffective and half-hearted *vis-à-vis* the far-reaching proposals that had been under discussion. However, it facilitated subsequent reforms. Deductions for retirement before the statutory age were introduced, though the reduction was only 2 percentage points for each year of premature retirement and effectively compensated by an increase in the return for each year of insurance. In addition, first steps were taken to harmonise the system of civil servants.

With the next pension reform in 2000, the new government went a step further. The deduction for premature retirement was raised to 3 percentage points per year and the bonus for working beyond the statutory retirement age was increased to 4 percentage points for each of the first three additional years. Early retirement due to reduced work capacity was abolished. At the same time, however, own-activity assessment for disability pensions was improved (*i.e.* access eased) for unskilled workers aged 57 and over. Most importantly, with this reform the minimum age for early retirement for the remaining programmes was raised from 60 years for men and 55 years for women to 61.5 years and 56.5 years, respectively, within a relatively short period (2000-2002). Temporarily, workers with very long insurance will be exempted from that increase. In addition, the old-age part-time employment scheme, launched in 1999 to encourage gradual labour market exit, was modified so as to allow “blocking” of work and leisure phases.

Only in recent years has policy been reversed. Many of the previously existing early exit programmes were or will soon be abolished (Chapter 3 Annex). This is now possible because in one important aspect pension policy until the mid-1990s was very successful: poverty among elderly people was, if not eradicated, at least reduced considerably. In the period 1985-95, for instance, when measured against a poverty threshold at 50% of median

equivalent household income, poverty among persons aged 60 and over declined from 8.6% to 5.5% – compared with a decline from 9.6% to 8.5% for the total population, and an increase among children and youth (Prinz, 2000).

With the pension reform of 2000, among other things early retirement age limits were raised by 18 months, one early retirement pathway was closed, and the old-age part-time employment scheme was broadened to allow for *de facto* early labour market exit (Box 3.1). There is heated debate in Austria over whether this reform has had a positive impact. Abolition of the special early retirement programme for workers with reduced work capacity has to a certain extent been offset by an increase in disability pensions, but not entirely (Figure 3.2). In a more detailed analysis on the retirement behaviour of workers in the construction sector, for instance, Guger *et al.* (2004) conclude that in this sector substitution between these two schemes was roughly 50%.

Available data on the old-age part-time employment scheme do not allow an exact estimate of the extent to which it is used as an early retirement tool. Apparently the numbers using that scheme soared after the change was implemented in October 2000. The fact that this coincided with a diminished inflow into early retirement suggests that the scheme has been used as a substitute.

Macro measures show that raising the minimum early retirement age by 18 months increased participation rates of older workers aged 55-64 years by 3.2% between 2000 and 2003, without much effect on unemployment rates (see Chapter 2). How much of this change is increased employment? According to estimates from the Chamber of Labour, 55% of the increase in participation rates is accounted for by real employment, 6% is increased unemployment, and the remaining 39% is “fake” employment: 28% corresponds to people who are on the old-age part-time scheme but no longer working, and 11% is due to the increase in advance pension payments. The latter refers to people who are entitled to and have applied for a pension, in most cases disability, but have not yet been awarded it. Thus, supply-side policies seem overall to be effective: substitution is substantial, but pension reform had a very positive impact on participation rates without a massive increase in unemployment.¹⁵

15. These estimates are based on data provided by Karl Wörister from the Austrian Chamber of Labour. A key assumption is that, due to blocking, one-third of the older workers on old-age part-time contracts are actually not in work any longer.

This finding is confirmed in Table 3.3, which shows the result of a similar calculation but excludes advance pension payments for which age-specific data are not available. Between 2000 and 2003, *real* employment increased from 41% to 42.2% at age 50-64, and from 25.5% to 27.6% at age 55-64. Some 40-50% of the decline in the early retirement to population ratio was substitution – predominantly disability pensions for workers aged 55-64, and more often blocked old-age part-time work for those in the 50-54 age group. About 10% of the decline in early retirement has translated into unemployment.¹⁶

Table 3.3. Changes in the activity status of older workers in Austria, 2000-2003

Shares in percentage of the total population in the respective age group

	Labour force	Employed	Actually employed	Old-age part-timers not in work	Unemployed	Disability pensioners	Retirement pensioners	Other inactive
Age group 50-64								
2000	44.1%	41.0%	41.0%	0.0%	3.1%	9.4%	26.5%	20.0%
2003	46.3%	42.9%	42.2%	0.7%	3.4%	9.9%	24.4%	19.4%
2000-2003	2.2%	1.9%	1.2%	0.7%	0.3%	0.6%	-2.1%	-0.7%
"Contribution" to the change 2000-2003			43%	26%	10%	21%	-76%	-24%
Age group 55-64								
2000	27.6%	25.5%	25.5%	0.0%	2.2%	11.4%	41.0%	20.0%
2003	30.7%	28.2%	27.6%	0.6%	2.6%	12.6%	37.2%	19.5%
2000-2003	3.1%	2.7%	2.1%	0.6%	0.4%	1.2%	-3.8%	-0.5%
"Contribution" to the change 2000-2003			49%	14%	10%	28%	-89%	-11%

Note: Employed totals people actually employed and people on an old-age part-time work contract who are no longer in work but continue to be counted as employed.

Source: OECD estimates based on data provided by the Social Insurance Authority and the Labour Market Service.

Pension reform in 2003 took the transformation process much farther, because it was clear that the 2000 reform will not lift the average retirement age much further (OECD, 2003d). Early retirement due to long-term unemployment was also abolished, as of 2004. A transitory benefit (a 25% increased

16. Were advance pension payments included in the calculation (which is not possible due to a lack of sufficiently detailed data) and all recipients of these benefits considered to be unemployed, the share of reduced early retirement that translated into unemployment would be larger, probably closer to around 20%. Alternatively, this group could be added to the group of (would-be) disability pensioners.

unemployment benefit) was introduced for those people who would have fulfilled the criteria for the abolished benefit in the period 2004-2006. Gradual retirement was also abolished, a decision that did not provoke much reaction because of the very low take-up (see Section 3). Early retirement because of long insurance will be phased out gradually until 2017. The reform also implemented major changes to raise contribution equivalence. Until 2028, the assessment period for calculating benefits will be raised gradually from the best 15 to the best 40 years. The return for each year of insurance was lowered back to its pre-1997 level (in this case with a five-year transition period). In addition, the old-age part-time work scheme was also modified to curtail its early retirement function. Reimbursement of costs in case of blocking and full reimbursement in other cases now requires hiring an apprentice or an unemployed replacement worker (at least during the “leisure” period in the case of blocking).

New conclusions of old-age part-time contracts almost stopped in early 2004 in response to reform, but this is an artefact caused by the interaction of that scheme’s reform with the early retirement reforms of 2000 and 2003. In the course of raising the minimum early retirement age, the eligibility age for old-age part-time work will also be raised. Temporarily, this implies that there ought to have been very low take-up in 2004, because the maximum duration of the scheme (increased to 6.5 years in 2000 to fit in with that year’s 1.5-year increase in the early retirement age) was again reduced, to five years. Actual take-up of the new scheme remains to be seen. With gradual abolition of other early retirement options, the old-age part-time employment scheme is likely to become a more important pathway into retirement. Further reform is thus on the cards (see Section 3).

Beyond that, it is too early to assess the behavioural effects of the latest reform. Its impact will also be obscured, for two reasons. Firstly, in order to sweeten the pill politically, the 2003 pension reform introduced an unlimited 10% cap on pension losses. For any future pension claim, therefore, pre- and post-2003 entitlements will have to be compared to determine the actual benefit. This weakens the reform significantly. It implies that, despite drastic measures, long-term sustainability of the system is not secured (a 10% cut in total spending will be insufficient) and that distributional inadequacies remain unchanged because each person’s claim is effectively cut by 10%. Secondly, yet another pension reform was implemented as of 2005. This new scheme will be implemented gradually over the next 45 years. It will require another parallel calculation for each pension claim, because according to its rules, only future insurance years will be treated. This makes for a heavy administrative burden,

unavoidable in any pro-rata solution. However, it also means that the weaknesses of the 2003 reform (such as the 10% cap and the very long transition periods) will be phased out gradually – or possibly replaced by any new weaknesses.

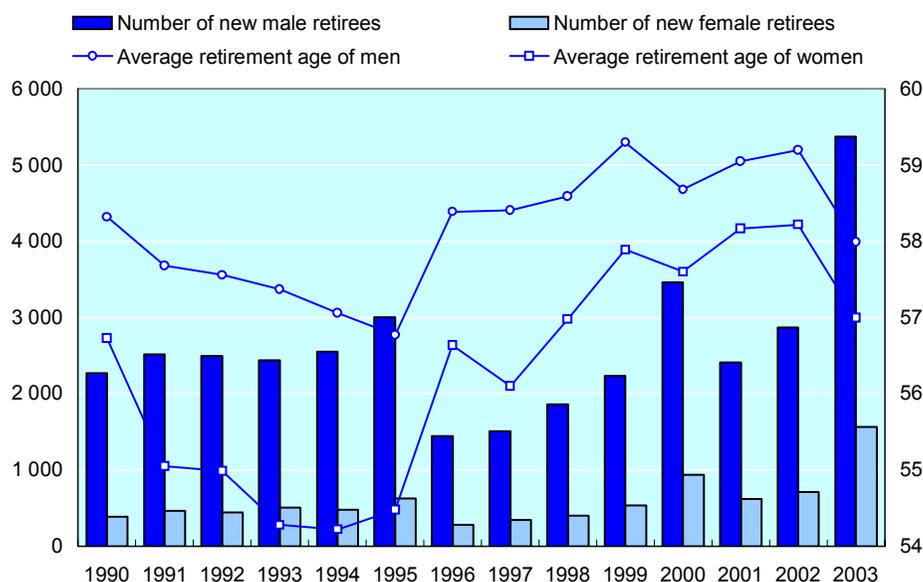
B. Public sector pensions

All retirement behaviour outcomes presented above refer to the general private sector pension scheme, which covers a large part of the labour force: private sector employees, state sector employees contracted under private law, the self-employed, farmers, and the unemployed. Essentially, only two groups are not covered: *professionals*, who have their own retirement systems managed by their own organisations, and *civil servants*, who are covered under a different and hitherto much more advantageous system. The latter group comprises roughly 10% of the current labour force.

Average retirement ages and retirement incentives for civil servants are different from those for other older workers. The legal retirement age was 60 years until 2000; it was then raised (in line with reform in the general scheme) to 61.5 years until 2002. There is no difference in statutory retirement ages between men and women, and no particular early retirement scheme. Early retirement occurs predominantly through the even more easily accessible disability benefit scheme, or through temporary premature retirement plans (see below). These schemes have been widely used, with the average retirement age falling far short of the legal age, especially for women (Figure 3.7). Large variation over time in both the numbers retiring and the average age suggest that behaviour responds quickly to the introduction and abolition of special schemes.

Until recently, pension benefits of civil servants were calculated on the basis of their final wage (this characteristic will slowly disappear over the next three decades). Together with the steep age-earnings profiles in this sector, the implication was and is that contribution equivalence is much lower than in the general pension scheme. Moreover, retirement incentives are large because replacement rates are high – with net income replacement ratios until today typically close to 100%. Until 1997 the trade union of civil servants was very successful in preventing any more structural reform of this special scheme. Differences will eventually disappear with the 2005 pension reform, but adaptation to the general scheme will be very slow.

Figure 3.7. **Average age at retirement and number of new retirees among Austrian civil servants by gender, 1990-2003^a**



a) Excluding postal, railway and telecommunication services and teachers.

Source: Personnel Information System of the federal government.

While emphasis on the need to bring the civil service pension scheme into line with the general pension scheme has been growing since the mid-1990s, policy signals in recent years have been highly ambiguous. At the same time that the private sector pension scheme was being considerably modified in the early years of this century, restructuring and downsizing of the public sector via premature retirement continued. In late 2001, new legislation established a “social plan” for civil servants, which included a temporary premature retirement scheme for public employees. In order to achieve the government’s targeted employment reductions in the public service, from January 2002 to December 2003 the following temporary exit options were offered. These extended similar options that had been introduced in 1997 for the tenured staff of formerly state-owned enterprises:

- Public employees aged 55 and over whose posts were suppressed in the course of administrative reform were entitled to paid leave, paid at 80% of former earnings, until actual retirement.

- All civil servants aged 55 and over were entitled to early retirement with entitlements reduced by 4 percentage points per year before the statutory age limit of 60 years.
- In addition, civil servants of any age leaving the public service on a voluntary basis in connection with the elimination of their post were entitled to a lump-sum payment equal to 9-12 monthly wages, and public employees seeking a career outside the public service were entitled to temporary unpaid leave between one and five years, with a right to return to their previous position.

Not surprisingly, the generous early exit options were widely used: the number of civil servants retiring doubled from 2002 to 2003, and the average retirement age fell by more than one year for men and women alike (Figure 3.7). Offering such generous early exit options for civil servants while aiming to make early retirement in the private sector less attractive if not impossible is likely to hold back the change in the mindset of employees and employers.

Finally, it is important to emphasise that the average age of entry into retirement is even lower in many of the special pension schemes for *regional* and *municipal* civil servants. Hard evidence on this and on work and retirement incentives in those schemes is virtually unavailable. The problem is likely to remain even after harmonisation of pension schemes (OECD, 2005f).

C. Reform in progress

The key objective of the latest pension reform, implemented in January 2005, is to establish a unified pension system that covers the entire labour force. The new scheme is based on the rules of the current scheme for private sector employees and the self-employed. However, it also contains a number of new elements, many of which are potentially very important for retirement timing (see Box 3.2). In particular, a new early retirement option will be introduced (now called the *retirement corridor*) that contradicts the gradual abolition of early retirement stipulated in the 2003 reform (Section 3). Effectively, further increase in the minimum age at early retirement for men will be halted at 62 years, while for women – who can still retire five years earlier than men – it will be continued. The difference in the *minimum* early retirement age for men and women will thus be progressively reduced from five years today to two years by 2017 (when women will no longer be able to retire before age 60). The gender difference in retirement ages will not be eliminated entirely until 2033, when the 1993 constitutional ruling to harmonise the ages takes effect.

Box 3.2. Key characteristics of the new Austrian pension accounts scheme

Coverage: Entire insured labour force (employed, self-employed, unemployed), including federal civil servants. It is hoped that special schemes for provincial and municipal civil servants will be adjusted accordingly. Only professionals will not be covered. A unified contribution rate is established, but the government will furnish portions of the actual contribution for self-employed and farmers.

Basic principle of the new scheme: Provide a pension equal to 80% of revalorised lifetime earnings to a person retiring at age 65 with 45 insurance years. Earnings are revalorised in line with the increase of the average contribution base. The minimum required insurance period for a pension entitlement is reduced to seven years.

Financial sustainability: Pensions will be adjusted in line with the consumer price index. A sustainability factor will be introduced that should secure the long-term financial stability of the scheme. Until 2015 the scheme will be based on the medium mortality forecast of Statistics Austria. Deviations from that path will be counterbalanced with equal effect for five parameters: the contribution rate, the state contribution, the value of each insurance year, the retirement age, and the annual adjustment of pensions.

Guarantees: A pension account will be established for each insured person so as to make valorised contributions and entitlements through non-contributory periods (such as unemployment or childcare) visible. The defined-benefit entitlements are guaranteed by the government, as are the risks of poverty, work incapacity and inflation. Periods with unemployment benefit and assistance (at 70% of the assessment basis), sickness benefit receipt (at 100%), and military service and parental leave up to four years per child (at average earnings) count as contribution years.

Retirement age: The reference age is 65 years for men and women. Retirement is possible as of age 62 (with 37.5 insurance years) with 4.2% reduction for each year below age 65. A corresponding 4.2% bonus is given for the first three years of retirement after the reference age. Special regulations apply for persons with a very long insurance record (temporarily) and for workers in physically demanding jobs (permanently).

Transition period: For present older workers, the current system (on the basis of the 2003 reform) applies. For the workforce under age 50 in 2005, the new scheme is phased in gradually. For both the old and the new system, benefits are projected on the basis of the person's entire insurance record; the actual entitlement is then calculated as the average of the two benefits, weighted according to the number of years worked under the old and the new scheme (pro rata).

There are (or will be) two other potential early retirement pathways. First, the government has decided to prolong the special regulation for workers with a very long insurance record until 2010. This rule implies that men aged 55 and over and women aged 50 and over with 45 and 40 contribution years, respectively, continue to be entitled to early retirement from age 60 (men) and 55 (women) onwards. Many men with uninterrupted carers will fall under this

regulation. Already in 2003 one in three early retirement claims among men and one in five among women (not taking disability pensions into account) has been made via this special rule, and the share continues to rise.

Second, the government has decided to introduce a new special regulation for workers doing strenuous activity, similar to the currently existing regulation for arduous night work. The exact details on the types of activities that will be classified as strenuous work are yet to be announced. Years of strenuous work should reduce the pension eligibility age (three months reduction for each year beyond 15 years of strenuous work, with age 60 the limit) as well as the benefit reduction (down to 50% of the normal deduction). The argument behind this regulation is that workers in physically demanding jobs have a shorter life expectancy on average, and so contribution equivalence requires that they can retire earlier and with reduced deductions. According to the only study on social inequalities in mortality available for Austria, the mortality risk of the male population aged 35-64 with only primary education was 100% higher than that for their peers with tertiary education. For women of the same age, the risk was 50% higher (Table 3.4).

Table 3.4. Additional mortality risk by age, gender and level of educational attainment in Austria, 1980s

Relative to the level of mortality of people with tertiary education

	Men		Women	
	Age 35-64	Age 65-89	Age 35-64	Age 65-89
Tertiary education	100	100	100	100
Secondary education	125	107	122	125
Incomplete secondary	144	116	132	128
Apprenticeship	179	140	137	141
Primary education	209	147	149	158

Source: Doblhammer, G. (1996), "Soziale Ungleichheit vor dem Tode. Zum Ausmaß sozio-ökonomischer Unterschiede der Sterblichkeit in Österreich", *Demographische Informationen* 1995/1996, Institut für Demographie, Vienna, pp. 71-81.

The data used in this study are twenty years old, but similar and more recent computations for other countries also suggest life expectancy differences between social classes of four to seven years. Despite such large differences, however, it seems very difficult to incorporate this in the pension scheme in an equitable manner. The government aims to define the regulation in a way that will cover some 5-6% of the workforce, but a larger share, including for

instance medical doctors and nurses, have already “declared” strenuous worker status. Recently announced plans to cover the entire police force under this regulation are counterproductive and will encourage other professions to insist on being included as well. Instead of going down this route, which due to the socialisation of costs is likely to weaken incentives for employers to improve work conditions, ways should be sought to avoid worker fatigue, *e.g.* by developing horizontal careers (Chapter 5). Introducing a special early retirement scheme for workers in physically demanding jobs is yet another attempt to absorb the large expected inflow into the disability pension scheme, and is thus very much in line with earlier attempts to cure labour market problems and weaknesses through the pension system. As a minimum, employers of workers involved in strenuous jobs and thus entitled to a benefit under the new system should be requested to make a financial contribution to the scheme that fully covers the additional costs.

3. Early or gradual retirement?

There is a key issue relating to pension reform and retirement behaviour that the Austrian government needs to monitor very closely: will a system that largely guarantees actuarial neutrality be sufficient in the long term, or will it be necessary to intervene in order to promote the highest possible labour supply? The former may be adequate to secure financial sustainability of the pension scheme but fall short of encouraging sufficient labour supply of older workers.

A. Closing and reopening early retirement

Even though only preliminary evidence is available on the behavioural impact of recent pension reforms, it may not be premature to draw the following tentative conclusions:

1. Supply-side policies are effective in raising employment without massively pushing older workers into unemployment.
2. Substitution between early retirement pathways is substantial.
3. Austrians wish to retire as early as possible.
4. The lower retirement age limits for women have hindered a more rapid increase in the employment of women aged 55 and over.
5. Ambiguous policy signals are detrimental in changing the mindset of employers and employees.

The success of the 2000 pension reform in not creating massive unemployment is partially related to the second policy lesson. Substitution was substantial in the 2000-2003 period, both in the form of disability pensions and the modified old-age part-time work scheme. For this reason, reform – if it is to be effective in raising the retirement age – must control *all* pathways simultaneously. The recent second modification of the old-age part-time employment scheme takes this into account, though not sufficiently. The disability pension scheme with its particularly easy access from age 57 onwards needs to be reformed to complement early retirement reform (Section 4). The newly introduced special regulation for workers in physically demanding jobs is a well-intentioned step in the wrong direction.

The third policy lesson is confirmed by the findings of the Population Policy Acceptance Survey. In 2002, the *desired* age of retirement of male workers was 58 years and that of female workers 55.5 years (Schimany and Zigová, 2004). This is roughly one year later than the finding in the previous round of this survey in 1991, but it is far below the statutory retirement age and even lower than the actual average retirement age in 2001 (59 for men and 57 for women).¹⁷ This distinct preference of Austrian workers to retire early implies that any new exit option will be used extensively by employees and employers alike.¹⁸ Thus, introducing a retirement corridor from age 62 will create the likelihood that Austrians stop working at this age. To avoid this, incentives to continue work beyond age 62 could be strengthened.

The last two policy lessons suggest that discriminatory and contradictory rules and actions hinder transformation. The different retirement ages for men and women have always resulted in women being regarded as “too old” for the

17. The same survey also reveals that Austrians do not believe that they will actually be able to retire that early. The expected retirement age is five years later than the desired age, for men and women alike, in both 1991 and 2002. Hence, workers seem to anticipate ongoing policy change in this regard and are, therefore, likely to have started adjusting their life plans accordingly.

18. Policy still encourages certain groups of workers to retire as early as possible. The quasi-work ban for the older unemployed who, if fulfilling the early retirement criteria, lose their unemployment benefit and are obliged to apply for an early retirement pension, is the best example. Rather than abolishing this rule, it is currently being applied to the new pension accounts scheme, under which the unemployed will lose their unemployment benefit upon reaching age 63.

labour market earlier than men, despite their higher life expectancy.¹⁹ With government as employer setting the wrong example by encouraging ever earlier labour market exit for public employees in recent years, it will be difficult to turn the early retirement culture round.²⁰

B. *Enabling gradual retirement*

Gradual retirement can help match reduced work capacity with continued employment. In Austria, *full* early retirement has always been so widespread that gradual retirement was almost nonexistent. The partial pension scheme, introduced in 1993 and abolished in 2004, has never been used by more than a few hundred workers. This is not because the scheme was unattractive. Rather, the key problem was that eligibility requirements were identical to those for early retirement due to long insurance – and the latter was always the preferred option, certainly for employers (whose agreement needed to be sought) but also for employees (because of work disincentives). It is surprising that this option was abolished at the moment when the government sought to eliminate most early retirement options; it could have begun to play a more important role.

With the introduction of the old-age part-time employment scheme in 1999 came another, even more heavily subsidised scheme designed to promote gradual exit from the labour market. Its use was very limited until it became possible to block work hours (allowing a full-time work phase followed by a full-time leisure phase of, for instance, 2.5 years each). In view of its sudden success once the block option was introduced in late 2000, it is reasonable to conclude that the scheme –

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19. This is apparent from the very low employment rates of women over age 60 despite work incentives that are much higher than those offered their male counterparts. Currently, due to the five-year gender difference in the statutory retirement age, a 62-year old woman, for example, would get an 8.4% bonus to her entitlement because she retired two years *after* the statutory age, while a 62-year-old man would have to accept a 12.6% reduction (not taking the cap into account) as he retired three years *before* the statutory age. Thus, at least part of the low rate of employment of women over the age of 60 is likely to be explained by gendered age discrimination in the labour market.
20. The government should also take action to avoid large-scale early exit in the railway sector. According to a special law, the previously public Austrian railway is allowed to pension off workers of *any* age should that be in the interest of the company.

which has provoked controversy in Austria – is used in many cases as a substitute to hitherto existing early retirement options (Box 3.3).²¹

Box 3.3. The Austrian old-age part-time work scheme reassessed

The subsidised old-age part-time employment scheme requires that the employee has worked 15 years in the last 25, has working hours reduced to 40-60% of the previous normal working hours, has worked for the employer for at least three months, and will reach the minimum early retirement age within no more than five years. The employer has to pay at least 50% of the difference between the previous wage and the reduced wage and has to continue to pay social insurance contributions on the basis of the previous income. The employer receives 50% reimbursement of the additional costs from the unemployment insurance, or 100% of the costs if hiring an unemployed replacement worker or an apprentice. In the case of blocking, it is sufficient to hire a replacement worker during the leisure phase to qualify for the full subsidy for the entire period of the contract, which can spread over five years at most.

Defenders of the scheme emphasise its employment stabilisation function. The system ensures that an older worker who might have lost work otherwise has an employment contract with full social insurance, bridging up to the last five years before retirement. The particular method of reducing work during this period (50% part-time over the entire period, or blocked work and leisure phases, or anything in between) is left to the discretion of the employee and employer.

Opponents of the scheme claim that it is yet another early retirement plan and even more heavily subsidised than other hitherto existing options. Thus it reduces labour supply and undermines the intentions of recent policy measures aimed at raising the average effective retirement age.

The key question for an adequate assessment of the scheme is its overall impact on the total volume of labour supply in terms of total hours, not just persons. Such evidence is lacking, because the scheme has never been evaluated in depth. Evidence can only be deduced indirectly through changes in take-up in response to reforms. It was introduced in 1999; in late 2000 the block option was introduced and the requirement to hire a replacement worker was dropped, boosting take-up from around 4 000 persons in 2000 to almost 22 000 in 2003. This figure compares with some 29 000 new early retirees and 22 000 new disability benefit recipients in that year. To curtail the use of that scheme as an early exit option, it was made more stringent in 2004 by (partially) reintroducing the requirement to hire an unemployed replacement worker. The full effect of this recent reform on take-up cannot be assessed before around mid-2005, when the particular transition conditions will end.

21. Around 50% of all old-age part-time employment was blocked in 2003, with a full-time leisure phase following a full-time work phase. While this is a high share, it is much lower a proportion than the 90% of such “blocked” cases found in Germany, which has a similar scheme (OECD, 2005d).

The 2004 reform of the old-age part-time work scheme is an attempt to make the block option less attractive. However, maintaining that option means that early exit will continue to be subsidised at 50% (if no replacement worker is hired) or even at 100%. As other early retirement programmes are gradually being abolished, use of this scheme for enterprise restructuring and workforce downsizing is likely to grow.

More generally the question arises why gradual labour market exit should be *subsidised*. Additional public finance costs could be offset by reduced costs for unemployment benefits and for active labour market programmes (including wage subsidies), if gradual retirement reduces unemployment. With no hard evidence on this but some indication that labour supply is reduced by the use of the old-age part-time work scheme, deadweight costs are likely to be very high. Under these circumstances, abolishing direct wage subsidies for part-time work of older persons should be considered.

Enabling non-subsidised gradual retirement as a means to career extension can, however, be an important element in promoting the labour supply of older workers, many of whom wish to have a gradual exit from the workforce rather than an abrupt exit (Schimany and Zigová, 2004). The lack of such a possibility also makes it considerably less likely that employers will begin to develop gradual end-of-career pathways. To ensure that pension rights (and potential unemployment benefit claims) are not disproportionately negatively affected by part-time work in the last few years before retirement, continued payment of social security contributions on the basis of full-time earnings (as in the current old-age part-time work scheme) could be envisaged.

C. *Making early retirement less appealing*

Even after recent reforms, a critical issue of the Austrian pension system is that the level of benefit adjustment in case of earlier or later retirement continues to pose work disincentives for older workers. This inference results from the different viewpoints on actuarial neutrality for individuals and for the pension system as a whole (Box 3.4), which is why throughout the OECD 6% is the most commonly used reduction factor for each year of early retirement. Effectively, from the standpoint of a worker, accrued pension wealth will be highest in Austria at age 62, and at an even younger age for women for quite a long period into the future. Implicitly, this reduces the need for employers to change their personnel policy and to develop suitable employment possibilities for older persons who wish to work longer and/or to slide out of the labour market. If the current rates of reduction/augmentation for early/late retirement

fail to produce the expected and necessary increase in labour supply of older workers, additional increases in these rates may become necessary.

Box 3.4. The different viewpoints on actuarial neutrality

There are at least two different ways of looking at actuarial neutrality. One is through the public finance implications for the pension insurance system. Here the objective would be to determine the deduction so that advance pension payments received before age 65 are balanced against pension payments obtained after that age. In this way, pension payments would be neutral, and the costs to the public purse would be independent from the insured person's decision on the age of retirement. A different way of looking at actuarial neutrality is through the eyes of the insured who tries to maximise gains by choosing the optimal retirement age. In this case, the objective would be to ensure an identical *lifetime* pension value irrespective of the age of entry into retirement. (In addition, benefit adjustments could also be determined to set incentives for a particular retirement behaviour, be they in the form of higher than actuarially neutral adjustments to promote later exit, or lower adjustments to make early exit attractive.)

The key difference between the two perspectives – that of the pension insurance system and that of the individual – is in the parameter values that ought to be used. Technically, determining an adequate or actuarially neutral reduction rate is a rather complex matter. The three key parameters involved in such a calculation are (future) mortality rates, the discount rate, and the rate of pension indexation. Lower mortality rates lengthen the benefit payment duration and, thus, lower the correct adjustment factor. A higher discount rate means a higher adjustment factor is necessary. And the higher the benefit indexation, the higher the lifetime pension value will be – and the lower the required correction factor. Agreeing on mortality rates is relatively easy, but to determine an adequate discount rate is far more complex; it is this parameter that differentiates the two approaches to actuarial neutrality.

From a pension system's perspective, the current 4.2% reduction factor is roughly actuarially neutral as long as the long-run discount rate is set around or below 1.5%. That roughly corresponds to the long-term real growth rate of the wage sum over the past decades (which seems an appropriate proxy to take). From the point of view of an insured individual, however, a 1.5% discount rate is quite low. The only other OECD country that has chosen to go the same route in this regard (with an even slightly lower benefit reduction rate of 3.6%) is Germany. There, it has been shown that with a 3% discount rate, corresponding to the long-run capital market interest rate, an actuarially neutral benefit adjustment would be around 5.5-6% (Börsch-Supan, 2004).

In addition, it will be indispensable to adjust the statutory retirement age – *i.e.* the age against which benefit adjustments are determined – in line with rising life expectancy. Several OECD countries have recently started to modify their public pay-as-you-go pension schemes along these lines. It is as yet unclear how the sustainability factor, to be introduced with the ongoing

Austrian pension reform to secure the long-term financial stability of the scheme, will operate. The aim of sharing the risk of demographic change with equal effect on the contribution rate, the state contribution, the value of each insurance year, the retirement age, and the annual adjustment of pensions is questionable. In view of large expected further increase in life expectancy, this will result in an undesirable increase of already high non-wage labour costs but only limited adjustment in the statutory retirement age, and thus a continued disproportionate increase in the average retirement duration.

Alternatively or in addition to further increases in benefit adjustment rates, restricting early retirement choices may be necessary in Austria to achieve an increase in the average effective retirement age. Phasing out full early retirement altogether, the original intention of the 2003 pension reform, may seem a harsh solution vis-à-vis the strong revealed preference of Austrian workers for leisure. Further lowering income replacement ratios, allowing early retirement before the statutory age only on a part-time basis, and raising the minimum age for early labour market withdrawal by an extra year would be three alternative options to reduce early retirement incentives by limiting the choice of older workers. Certainly it will be necessary to raise the minimum early retirement age limit in line with rising life expectancy, *i.e.* in parallel to the above-mentioned adjustment in the statutory retirement age.

4. Disability pensions: issues and solutions

A. *Is Austria different from the rest of the OECD?*

Austria's predominant use of the disability benefit programme as an early retirement scheme is striking. The age structure of the disability benefit inflow is indeed unique in an international comparison. In 1999, the most recent year for which comparable data are available for a large number of OECD countries, the *ratio* of the rate of inflow at age 55-59 over the rate of inflow at age 35-44 was much larger in Austria than in any other OECD country, five times higher than average across the OECD (Table 3.5). While the Austrian ratio has changed over time, it stayed at or above this very high level throughout the entire period 1980-2003.

At 35 per 1 000 people in the respective age group, the *rate* of inflow into disability benefit at age 55-59 itself was more than twice as high in 1999 as the

average across the other 14 OECD countries.²² On the contrary, inflow into disability benefits in Austria was far below the OECD average for workers at age 20-44 and just about average at age 45-54 (Table 3.5). Between 1999 and 2003, inflow rates fell at all ages (although that trend reversed sharply in 2004), but the age pattern remained unchanged.

Table 3.5. In Austria, inflow into disability benefits is concentrated at age 55-59

Age-specific disability benefit inflow rates, and ratio over age group 35-44, 1999

	Inflows per 1000, by age group				Ratio over age group 35-44			
	20-34	35-44	45-54	55-59	20-34	35-44	45-54	55-59
Australia	3.2	5.1	8.6	17.7	0.6	1.0	1.7	3.5
Canada ^a	0.4	1.0	2.4	4.7	0.4	1.0	2.3	4.6
Denmark	1.6	3.1	7.0	11.1	0.5	1.0	2.3	3.6
France ^a	0.2	0.7	1.9	4.7	0.2	1.0	2.8	6.9
Germany	0.6	2.3	6.9	18.5	0.3	1.0	2.9	7.9
Netherlands	8.3	11.6	15.6	12.0	0.7	1.0	1.3	1.0
Norway	3.3	8.5	18.2	36.9	0.4	1.0	2.1	4.3
Poland	1.6	7.1	18.1	11.7	0.2	1.0	2.5	1.6
Portugal	1.2	2.0	7.7	19.8	0.6	1.0	3.8	9.9
Spain ^a	0.4	1.6	3.6	8.4	0.3	1.0	2.3	5.3
Sweden	1.9	5.0	9.6	19.8	0.4	1.0	1.9	4.0
Switzerland	2.4	4.4	8.5	14.1	0.5	1.0	1.9	3.2
United Kingdom	9.7	12.4	17.8	22.3	0.8	1.0	1.4	1.8
United States	2.7	4.5	7.8	13.9	0.6	1.0	1.7	3.1
<i>OECD (14)</i>	<i>2.7</i>	<i>5.0</i>	<i>9.6</i>	<i>15.4</i>	<i>0.5</i>	<i>1.0</i>	<i>1.9</i>	<i>3.1</i>
Austria								
1980	0.6	1.6	6.8	23.4	0.4	1.0	4.4	15.0
1985	0.6	2.2	10.1	42.2	0.3	1.0	4.6	19.4
1990	0.6	1.9	8.3	37.3	0.3	1.0	4.3	19.4
1995	0.6	1.7	8.5	44.9	0.3	1.0	5.0	26.3
1999	0.7	2.2	9.5	34.9	0.3	1.0	4.2	15.6
2003	0.5	1.4	5.7	23.0	0.4	1.0	4.0	16.3

a) Contributory disability benefit programme only.

Source: Adapted from Table 4.9 in OECD (2003c), *Transforming Disability into Ability – Policies to Promote Work and Income Security for Disabled People*, Paris.

Such a distinct age pattern of new claimants of this type of benefit must at least partly be related to institutional characteristics of the scheme.²³ At around

22. Norway is the only country with a slightly higher inflow rate at this age in 1999. However, Norway had much lower rates of unemployment (especially at this age) and no other early retirement option for workers at this age.

23. On the basis of subjective self-assessment, disability prevalence at age 20-64 is not higher in Austria than in other OECD countries. However, together with Italy,

60% for claims at age 55-59, income replacement rates are *not* higher than in most other European countries. Replacement rates increase with age, which is not the case in several other countries, and do not exhibit a particular break at a particular age. Nor are replacement rates, *i.e.* benefit levels, higher than for other early retirement programmes in Austria. They therefore cannot alone explain the unusual age pattern of new claimants.

Probably the most important distinctive institutional characteristic of the Austrian disability benefit scheme is its strong focus on own-occupation assessment (*Berufsschutz*). In most other countries, narrowly determining work incapacity by the ability to continue to work in one's own or usual occupation has either been abolished, if it ever existed (*e.g.* Italy in 1984, Norway in 1991, the Netherlands in 1994 and Germany in 2001), or it is only used to grant a partial benefit (*e.g.* Italy, Poland and Spain). In another group of countries, the entire assessment process was tightened recently (*e.g.* Australia in 1998 and 2002, Portugal in 1997, Sweden in 1997 and the United Kingdom in 1995 and 2000). One of several effects of the continued use of own-occupation assessment in Austria is that, although on the rise, mental illnesses are far less often the cause of entry into disability benefits than elsewhere in the OECD. One-sixth of all new recipients claim a benefit on this basis compared to one-third on average across the member countries (OECD, 2003c).

The meaning of own-occupation assessment in Austria varies with the level of occupational attainment and, broadly speaking, guarantees more protection for skilled and white-collar workers than for unskilled workers and the self-employed (see for example Prinz, 1999b; and Wörister, 2003). For instance, skilled workers are expected to work only in their own profession, provided they have worked in this profession during most of the last 15 years. Unskilled workers, on the other hand, have to accept any job, but income may not fall below the collectively agreed minima.

Own-occupation assessment is particularly stark from age 57 onwards. From this age on no one, employed or self-employed, skilled or unskilled, has

Poland and Spain, it is among the few countries in which the ratio of the disability prevalence of older workers is particularly high relative to that of prime-age workers. Across 19 OECD countries, disability prevalence at age 50-64 was found to be 27%, exactly the same value as for Austria. For prime-age workers, at less than 8%, disability prevalence in Austria is relatively low compared to 11% across the 19 countries analysed. For further details see OECD (2003c).

to accept any other than the same or a similar occupation actually held in the last 15 years. This rule was introduced in 1981 for workers aged 55 and over (and embedded into the special early retirement programme based on reduced work capacity in the period 1993-2000); the age limit was raised to 57 in 1997 (for men) and in 2000 (for women). A similar interpretation of own-occupation assessment is used for public employees of *all* ages in the special pension scheme for civil servants. This rigid application is crucial in understanding the high inflow into disability pensions at age 55-59, and the very high inflow even at lower ages in the civil servants' pension schemes. Workers are advised not to accept work in another field or occupation: if they do so, eligibility for a full disability pension will be lost.

At the same time, the Austrian disability pension scheme has a number of strengths, which partly explain the comparatively low inflow among people *under* age 45. In particular, vocational rehabilitation – which is both compulsory (each benefit claim is treated as a request for vocational rehabilitation) and a right – is quite effective. The programme aims to restore or improve the work capacity of the insured. It is implemented if the present job cannot be resumed but there are reasonable prospects that another job commensurate with the person's qualifications can be performed. More than in other OECD countries, however, there is a dramatic mismatch between disability benefit inflow and vocational rehabilitation offers by age. At age 20-34, for every 100 people moving onto disability benefit, there are 170 people undergoing vocational rehabilitation. This ratio drops to 44 at age 35-44, and to only four for 45- to 59-year-old workers (OECD, 2003c).

These figures reflect a considerable age bias in the selection process for vocational rehabilitation, contributing to the age bias in the disability benefit inflow. Older workers are in most cases not offered any vocational measures. Economic efficiency arguments – the younger the person, the larger the long-term returns from vocational investments – may play a role, although no hard evidence on costs and returns by age is available. With limited budgets for vocational intervention, targeting rehabilitation services to those with the best reintegration potential is a reasonable approach. It is questionable, though, whether age alone is an adequate indicator for that purpose.²⁴

24. According to the pension insurance authority, age is only one of five criteria in selecting people for rehabilitation. The others are: duration of the health problem; number of stays in a hospital; duration of an already granted temporary disability benefit; and degree of mobility.

B. *Why reforms are needed*

There are a number of reasons why it is of the utmost importance to reform the disability pension scheme. First, pure own-occupation assessment in the scheme is in sharp contrast to fairly harsh work testing in the unemployment insurance scheme. Since 2004, reasonable jobs for recipients of unemployment benefit are all jobs paying at least 75% of the previous job. Only during the first 100 days of unemployment can jobs unrelated to the previous occupation be refused, and during the first 120 days jobs paying less than 80% of previous insured earnings. Unemployment assistance benefit recipients in principle have to accept any job offered to them. The large difference in the definition of reasonable employment between the (disability) pension insurance and the unemployment insurance is particularly relevant for older workers, who, upon reaching age 57, have strong incentives to avoid the strict work test in the unemployment insurance through application for a disability pension, where work testing is own-occupation related.

In the course of gradual abolition of the various early retirement schemes and of raising the minimum early retirement age, the tendency to test application for a disability benefit will increase. The doubling in the number of recipients of an advance pension payment (unemployed people waiting for a decision of the disability pension authority) between 2000 and 2003, and the increase of almost 50% in the number of disability benefit inflows in 2004 (over its 2003 level), are an indication of this. There is a related increasing tendency for LMS caseworkers to mention the possibility of disability pension application to their clients, partly in response to recent prescribed targets for the LMS to keep the unemployment rate of workers aged 50 and over at the 2000 level.

Disability benefit rejections have increased greatly in the decade 1990-2000, from around one-third to more than half of all applications. This high share of rejected applicants in international comparison (OECD, 2003c) points to an intensification of the problem of people oscillating between disability (*i.e.* pension) and unemployment insurance. In most cases rejected applicants return to the unemployment insurance system, and as the majority are unable to find stable employment they often file a new claim soon afterwards (though, generally, they cannot do so within a year). The pension insurance has no institutional interest in the large (and increasing) number of people filing repeated claims, although those people need particular support. Renewed applications are treated like first applications, so it is unclear how many second (or more) applications are rejected again or accepted.

All those problems will build up further in the course of the gradual abolition of early retirement programmes. In particular for workers aged 60-65, who until now can either draw on early retirement (men) or normal retirement (women), disability pensions will also become an important early exit pathway. There is also a need for disability benefit reform along with reform of the old-age pension system into a quasi-pension-accounts scheme. OECD countries that have transformed their defined-benefit pay-as-you-go pension schemes into (usually defined-contribution) pension accounts, like Sweden, were or still are in a similar situation. Finally, ongoing harmonisation of different pension schemes is incomplete without broad harmonisation of disability pension rules and procedures across occupational groups. This is especially true with regard to the system for civil servants; company physicians still play a key role in assessing their work incapacity and the (non-)existence of reference jobs.

C. Options for the future

To tackle the problem of high (and in 2004, rapidly increasing) inflow into retirement through disability benefits, partly caused by stricter work-testing in the unemployment insurance scheme, own-occupation assessment for disability pension claims should be eliminated. In particular, steps should be taken to ensure that disability pensions are only used for people unable to work and to oblige candidate claimants to accept work in another occupation that is feasible on health grounds. Instead of own-occupation assessment, in the course of the necessary harmonisation of disability pension rules a specified post-disability income should be guaranteed for all disabled workers – either (and ideally) through a job that effectively guarantees such income, or through (if necessary, permanent) in-work top-up payments.

The modus operandi of rehabilitation will also need to be improved to ensure that those people able to work (can) successfully continue to do so. Austrian pension insurance is responsible for medical as well as vocational rehabilitation. In this function, it works on the “rehabilitation-before-pension” principle. While that principle is commendable, the structure of the process implies that rehabilitation sets in only after disability benefit application. This is often too late. At this stage, rehabilitation with a view of returning to work is not seen as a viable alternative to retirement. Decoupling (medical and vocational) rehabilitation from benefit application and retirement and linking it with employment services could help promote the way back to the labour market. Only in the case of unsuccessful rehabilitation should the application

for disability pension be launched, thus providing a different sequence of action and promoting work rather than retirement.

In addition, a number of steps could be taken to improve the outcome of rehabilitation. These include further strengthening the rehabilitation of mental and psychological diseases which are increasing rapidly; improving the transparency of rehabilitation selection criteria so as to make sure that (in case of scarce resources) the right cases are selected and that a systematic age-bias is ruled out; ensuring uniformity across the nine provinces in the assessment and treatment of benefit applicants²⁵; and giving more power to the pension insurance services, in particular to conduct rehabilitation research and evaluation in order to improve the knowledge base and render transparent the degree of sustainability of different interventions.

One possible response to the ongoing pension reform would be to de-link disability benefits from old-age pensions. In several OECD countries health and disability risks are combined in one insurance branch (*e.g.* France, Belgium and now Sweden). In any case, measures should be taken in Austria to improve co-ordination and to ensure early and comprehensive flows of information from the health insurance system (which is responsible for treatment) to the pension insurance system (which is responsible for medical and vocational rehabilitation) and the LMS (which provides bridges into work). For instance, there is an internal *early rehabilitation notification* guideline of the social security authority according to which the health and work injury insurances are obliged to notify the pension insurance of any sickness absence exceeding twelve weeks. The actual implementation of this directive, which addresses the problem that critical cases are often identified too late, should be closely monitored, better enforced (and also sanctioned if it comes too late or not at all) and taken note of by the LMS in view of potential re-insertion into the labour market after successful rehabilitation. Where possible, co-operation should also be sought with the employer and with the social partners.

In the course of preparing the 2003 pension reform, the commission of experts that was established to advise the government also published a report on options for disability pension reform (Mazal and Tomandl, 2002). Several of the reform proposals (*e.g.* to de-link disability and pension insurance and to

25. Improving uniformity across provinces has become an issue in the wake of merging the pension insurance of white-collar workers with that of blue-collar workers, in the course of which regional responsibilities have been extended.

moderate own-occupation assessment) are very much in line with the recommendations in this report. One important change proposed in that report is the introduction of *partial* disability benefits, which would be important in establishing gradual retirement. The current high number of disability pension claims could indicate a bad health status of older workers. As health requirements for work, especially mental and psychological ones, are certainly not going to decline in the future, partial disability benefits may be the missing link. However, care must be taken that such benefits do not lead to a sudden increase of disability-related benefit claims. Therefore, partial disability benefits should be designed as in-work payments rather than out-of-work benefits. To a certain extent, combining a reduced quasi-partial disability benefit with earnings is already possible today, but current regulations are insufficient.

Annex 3a. Major early retirement schemes and early exit pathways in Austria

Programme	Year of introduction	Eligibility criteria	Age limits	Benefit level	Reform/Phasing out	Beneficiaries' stock 2003
LONG INSURANCE						
(1) Early retirement due to long insurance record	1960	37.5 insurance or 35 contribution years	Men aged 61.5, women aged 56.5	Reduced old-age pension	Eligibility eased in 1984, reductions introduced in 1997 (further increased since then), age limits raised from 55/60 to 56.5/61.5 after 2000, and gradually phased out 2004-2017	118 000
(i) Special regulation for very long insurance (<i>Hacklerregelung</i>)	2000	45 (40) contribution years for men (women)	Men aged 60, women aged 55	Reduced old-age pension	Special regulation for men (women) born before 1949 (1954) <i>i. e. de facto</i> abolished as of 2010	
(ii) Special regulation for heavy workers (<i>Schwarzarbeiterregelung</i>)	2007	45 insurance years (42 years for civil servants), minimum of 15 years doing heavy work	60 years	Reduced old-age pension	Individual age limit and benefit reduction will vary with the number of years in heavy work	0
(2) Partial pension	1993	Same as for (1), plus reduction of working-time to less than 70% of previous working hours	Men aged 61.5, women aged 56.5	50-80% of an early retirement pension	Abolished as of 2004	340
(3) New pension corridor	2005	37.5 insurance years	62-68 years, Reference age: 65	Reduced/increased old-age pension	The new regulation applies in parallel to the abolition of the old regulation; reduction/increase: 4.2% for each year before/after age 65	0
UNEMPLOYMENT						
(4) Early retirement due to long-term unemployment	1956	Long-term unemployed and 20 contribution years (or 15 such years and 20 insurance years in the last 30 years)	Men aged 61.5, women aged 56.5	Reduced old-age pension	Reductions introduced in 1997, age limits raised from 55/60 to 56.5/61.5 years after 2000, abolished altogether as of 2004	13 600
(i) Transitory benefit (<i>Übergangsgeld</i>)	2003	Long-term unemployed and having reached eligibility age for (3) until 2006 (or earlier)	Men aged 61.5, women aged 56.5	Unemployment benefit plus 25% benefit	Special benefit introduced for the period 2004-2006 to compensate the abolition of early retirement due to long-term unemployment	0
(ii) Advance pension payment (<i>Pensionsvorschluss</i>)	1977	Entitled to unemployment benefit and having applied for a (disability) pension	None	Usually unemployment benefit	-	16 400
(5) Pre-retirement programmes (<i>Sonderunterstützung</i>)	1979	Unemployed, 15 contribution years in the last 25 years	Men aged 59, women aged 54	Unemployment benefit plus 25% benefit	Abolished in 1996	0
(i) Pre-retirement for workers in (coal) mines	1967	Unemployed, previously working in a (coal) mine	Men aged 55, women aged 50	Old-age pension	Extended to all minors in 1969, and abolished in 1977	0
(ii) Pre-retirement for workers in the steel industry	1983	Unemployed	Men aged 58, women aged 53	Old-age pension	Abolished in 1987	0

Annex 3a. Major early retirement schemes and early exit pathways in Austria (cont.)

Programme	Year of introduction	Eligibility criteria	Age limits	Benefit level	Reform/Phasing out	Beneficiaries' stock 2003
DISABILITY						
(6) Early retirement due to reduced work capacity	1993	20 contribution years (or 15 in the last 20 years) and unable to continue the main work activity of the last 15 years	Men aged 57, women aged 55	Reduced old-age pension	Reductions introduced in 1997, abolished as of July 2000	60 200
(7) Disability pension	1956	Reduced work capacity (own-occupation assessment), sufficient insurance years, and not entitled to benefit (1)	None	Disability benefit (similar to reduced old-age pension)	Own-activity assessment also for unskilled workers aged 55+ introduced in 1981 and further improved for age 57+ in July 2000	388 000
(i) Special pension for heavy night work (<i>Sonnterruhegeld</i>)	1981	20 years of heavy night work (or 15 years in the last 30 years)	Men aged 57, women aged 52	Disability benefit	-	1 200 (only men)
(ii) Special benefit for minors (<i>Sonderunterstützung Bergbau</i>)	1973	Unemployed and willing to work, and ten years working in a mine of which five years heavy mining work	Minors aged 52	Disability benefit	-	1 900

OTHER REGULATIONS

According to a 1993 constitutional law, over the decade 2023-2033 the normal retirement age for women will be raised in steps from 60 to 65 years. The early retirement age will be adjusted to that of men over the period 2018-2028. The new pension corridor does not include gender-specific age limits.

Source: Secretariat compilation based on ÖGB (2004), *Sozialleistungen im Überblick – Lexikon der Ansprüche und Leistungen*, ÖGB-Verlag, Vienna; and Tálos, E. and K. Wörster (1994), *Soziale Sicherung im Sozialstaat Österreich*, Nomos Verlagsgesellschaft, Baden-Baden.

Chapter 4

INCENTIVES FOR EMPLOYERS TO RETAIN AND HIRE OLDER WORKERS

This chapter is concerned with demand-side effects on the employment rate of older workers. The disproportionate retrenchment when it comes to hiring workers over age 50, the low propensity to invest in the further education and training of older workers, the use of old-age part-time work arrangements to reduce the workforce and speed up microeconomic reform, and the low interest in age-diversity management – all are indications of a lack of demand for older workers. They may reflect employer perceptions of the productivity and work performance of older workers relative to younger ones, the appropriateness of their relative wages, their health status, the role of employment protection legislation, or some combination of these. This chapter addresses these issues, provides a few examples of good practice of “age management”, and identifies barriers to the retention of older workers in employment as well as institutional settings that enhance the chances of re-employing older jobseekers.

1. Attitudes and employment practices

Among many other things, employment opportunities also depend on the perceptions of employers concerning the employability of older workers relative to other workers. Unfortunately, there are no surveys of employer attitudes in Austria on this question; it would be highly desirable to fill this gap in knowledge.

According to expert advice, the attitudes of employers towards older workers may be characterised by the following stereotypes. Older workers are inflexible, less capable to adjust to new technology, work processes and work philosophy; their productivity falls out of line with wages; they are less willing to engage in continued learning; their work ability declines due to physical, mental and psychological stress; and they have higher absentee rates due to sickness (*e.g.* Finder *et al.*, 1997; Enzenhofer *et al.*, 2004). However, there are also employers who state that older workers have skills and experiences that are very valuable to the company. These are enterprises facing labour scarcities in

various skill segments from a medium- to long-term perspective (e.g. Biffel, 2001; Walterskirchen and Biffel, 2001; Leo, 2000; IBW, 2002; Synthesis, 2003a). In these instances, management is addressing the potential weaknesses of older workers by adapting work processes, balancing the composition of the workforce by age and gender, introducing health promotion and offering continued education and training.

In contrast, workers have been surveyed on their view on prolonging employment over the life cycle. Asked if they want to work longer,²⁶ older workers with various educational and occupational backgrounds, practically without exception return one major message: they would not mind working longer if only attitudes towards them as older workers were more favourable. They do not see themselves as incompetent, unwilling to adapt etc., but they feel their view is not shared by employers and the general public. They admit that certain aspects of work become harder with age, e.g. increased speed and time pressure, as well as physically strenuous activity. While they would like to remain in their type of job because this is where they can put their experience to good use, they would generally prefer to have reduced working hours on condition that this is not linked with deskilling and financial loss.

A representative survey of employees and their working conditions (Hofinger, 2004)²⁷ corroborates this finding. Older workers find their jobs somewhat more stressful than younger workers (28% compared to an overall average of 24%). Time pressure is a stress factor for some 44% of older workers; however, that is no higher a figure than the one for middle-aged workers; only the under-30s tend not to be stressed by time pressures to the same extent. Older workers find it slightly more difficult than young and middle-aged ones to adapt to technical and organisational change and modified work processes and demands. And older workers are significantly less confident than youth and prime-age workers about how appropriate their skills will be five years from now (30% say that they believe that it will be not adequate compared to an overall average of 20%). While these figures are in line with the usual prejudices, the differences in attitudes between older and other workers are small. This suggests that organisational changes of the kind mentioned in

26. Qualitative interviews were undertaken in 2003, commissioned by the LMS. For details, see Enzenhofer *et al.* (2004) and Flecker *et al.* (2003).

27. Some major results of the working conditions survey (*Arbeitsklimaindex*) can be found at www.arbeitsklima.at.

the good-practice examples offered later in this chapter could pave the way for a more efficient use of the labour resources of older workers.

The older workers surveyed stressed the need for changing attitudes not only on the part of employers but also on the part of the general public. The latter's understanding is needed to accommodate what will involve a change in people's life plans, especially of prime-age workers contemplating the future. At present, Austrians have a pronounced preference for a long period of retirement. For older workers to engage in paid work for a longer term will call for a change in the work/retirement paradigm.²⁸

It is legitimate to ask whether employee organisations sufficiently support the interests of older workers. It was only in the second half of the 1990s that unions and the Chamber of Labour began to see the need for policy to prolong the employment of older workers.²⁹ However, because an over-supply of labour is expected to persist until at least 2015, the unions are reluctant to support the closure of early exit routes for older workers. They stress that unemployment and early exit of older workers is at least partly the result of a lack of demand for workers, particularly in those skill segments in which older workers tend to be overrepresented. They point out that in the circumstances, there are limits to which institutional efforts, addressing only the supply side of employment, can succeed in increasing the employment rate of older workers.³⁰

28. As retirees, many older people in Austria engage in unpaid community services, often as helpers of NGOs and other non-profit institutions. A change in the work/retirement paradigm could thus have a significant impact on those institutions that currently depend to a large extent on the unpaid voluntary services of older persons.

29. The Chamber of Labour is a separate body with compulsory membership of all employees; membership of the unions is voluntary.

30. The social partners in Austria are increasingly establishing themselves as the national forum for discussion on matters of employing an ageing workforce, by addressing the issue of age-diversity management in a micro- and macroeconomic context. In 2002, the Federation of Austrian Industries and the Federal Chamber of Labour (followed by the Federal Chamber of Commerce and the Austrian Trade Union Federation in 2004) set up a national programme to identify the major causes of the early exit of older workers from the labour market. They established a website that functions as a knowledge base on issues of work organisation, issues which may be expected to contribute to the sustainability of productivity of an ageing workforce (www.arbeitundalter.at/). It also provides links to private and public expert institutions for more help and advice.

Unions also stress that it is the obligation of employers to ensure the employability of (their) workers, in particular by providing continued vocational training (CVT). However, this obligation is written into only 33 of 1 400 collective wage agreements, hardly suggesting a high priority on this in the wage-bargaining process. In addition, Austrian companies invest relatively little in the training of their workers compared to other EU countries (with 1.3% of total labour costs spent on CVT, compared to an EU average of 2.3%). The large proportion of small and medium-size enterprises may account for some of that difference.

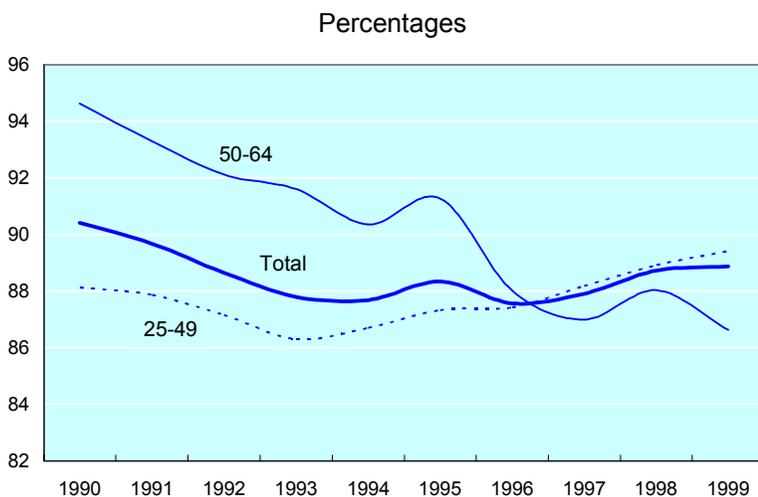
A. Employment retention and firm size

Labour turnover in Austria increased in the 1990s. Older workers lost their jobs disproportionately during the downsizing, industry restructuring and technological changes in this period. On average, 11% of all wage and salary earners employed in any one year were without a job a year later. While the annual employment retention rate of workers aged 25-49 has increased since 1993, it declined continuously for those aged 50 and over – apart from the periods of cyclical upswing in 1994 and 1998.³¹ Thus the employment retention rate of older workers, which had been 6.5 percentage points higher than that of prime-age workers in the early 1990s, had fallen below that rate by the end of the 1990s (Figure 4.1).

This different development of employment retention by age is partly the result of substantial labour shedding in industries with large internal labour markets and stable jobs for older workers, in particular banking and insurance, telecoms and, more recently, postal services and public transport. Following privatisation and/or deregulation in the 1990s, these large-scale industries were downsized. As employment protection of older workers had been a traditional feature of these industries, the downsizing was accompanied by massive recourse to early retirement schemes as well as “golden handshakes”. Neither employers and their institutional representatives nor employees and unions interpret these schemes as bad practice. Rather, the schemes are regarded as the most effective way to go about microeconomic restructuring from a social and economic point of view.

31. As the year 2000 saw the onset of a recession which lasted until 2003, little improvement in retention rates of older workers is to be expected in that period.

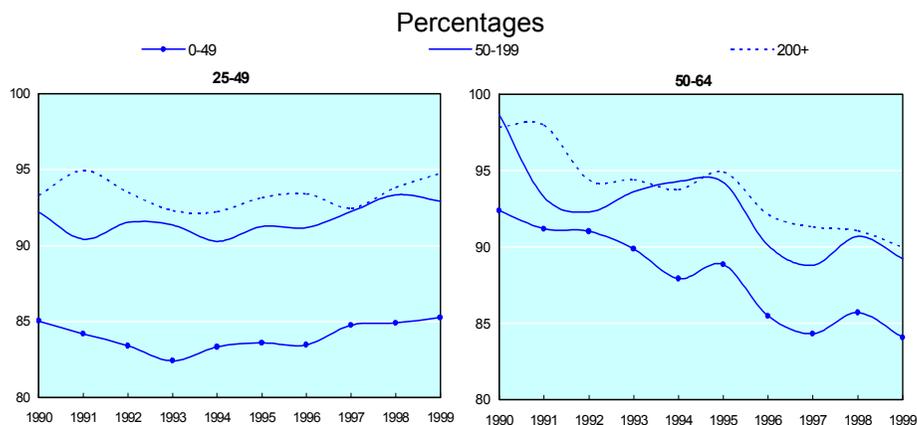
Figure 4.1. **Annual employment retention rates of wage and salary earners in Austria by broad age group, 1990-1999^a**



a) Annual retention rates refer to the proportion of workers at the end of the year who are still employed one year later (Biffi *et al.*, 2002).

Source: Social Insurance Authority (*Hauptverband der Sozialversicherungsträger*).

Figure 4.2. **Annual employment retention rates of older and prime-age workers in Austria by firm size, 1990-1999**



Source: Social Insurance Authority (*Hauptverband der Sozialversicherungsträger*).

While the substantial wear and tear of heavy labour and night shifts on personal health may explain why older workers rather than younger ones are laid off in heavy industry, this is not the major reason for the reduced retention of the former in service-oriented employment, (e.g. in banking and telecoms). In these industries, the introduction of labour-saving technology, in particular computerisation, as well as outsourcing was a major reason for employment declines. In addition, the declines were not confined to large firms but extended to small and medium-sized enterprises (SMEs). While in the 1990s annual employment retention of 25 to 49-year-olds remained fairly stable in large enterprises as well as SMEs, this was not the case for older workers. For them, employment retention from one year to the next declined in all major segments of firm size, but above all in firms with less than 50 employees (Figure 4.2).

To a certain extent this is the result of an above-average employment of 50 to 64-year-old workers in industries that are largely small scale and that downsized heavily in the 1990s. These are manufacturing industries in consumer goods production, in particular textile, leather and clothing industries, food production and the chemical industry.³² The internal labour markets of SMEs are limited and often nonexistent, thus giving workers little employment security or promotional prospect as employers draw on the external market for their employment needs. As local labour supply is rather stable (with limited regional mobility of labour), firms may engage in seasonal and cyclical employment adjustments without having to fear a loss of firm-specific skills when laying off personnel. The majority of laid-off workers are subsequently re-employed by their former employer.

The larger a firm's size, the easier it is to restructure and reorganise work within its internal labour market without laying off workers. Thus, large enterprises have not only higher *annual* employment retention rates but also *longer-term* ones. In the 1990s, however, long-term employment retention rates of older workers declined not only in SMEs but in firms of every size. This was in contrast to middle-aged wage and salary earners, who enjoyed a rise in longer-term employment stability in every firm size from 1996 onwards. That

32. The employment decline in these industries should be seen in the context of trade liberalisation with the countries in Central and Eastern Europe (CEECs). Labour-intensive and low to medium technology-intensive stages in production tended to be transferred abroad while higher value added production remained in Austria. Costs of relocation of production and transport costs of intermediate goods in the production process were more than compensated by the lower production costs in CEECs, given the significantly lower labour costs in the required skill segments.

suggests that the relative position of older workers has deteriorated. The reasons are not entirely clear; further research is needed into the likely causes and consequences.

B. Can attitudes be changed through age-diversity management?

Insofar as employer perceptions of the lesser suitability of older persons compared with younger ones may be misconceived or short-sighted, can such perceptions be changed by better human resource management? In particular, given the future ageing of the workforce, can there be greater focus on age-diversity management of the workforce at the firm level? The concept of age-diversity management is a broad one, encompassing the need for an age-balanced workforce, ageing-appropriate job design, preventive occupational health measures, implementation of lifelong learning and widening of skills, promoting intergenerational knowledge transfer (especially of intangible skills) and systematic integration of older workers into innovation processes (Buck and Dworschak, 2003).

Today, labour supply in Austria is still abundant in the major occupations and skill segments, and in the case of youth this will last until around 2010 (due to the echo effect of the baby boom generation of the late 1950s and early 1960s). This is why personnel managers are not yet worried about implementing age-diversity management, but nonetheless want to be informed about what this type of human resource management means exactly and how best to introduce it (ÖPWZ, 2003). Sooner or later, however, the need to develop age-diversity management of the workforce will arise in all industries, regions and enterprises.

C. The presence of age discrimination

Somewhat late, the EU directive on equal treatment in employment and occupation independent of gender, religion, age, handicap or sexual orientation has been incorporated into Austrian legislation.³³ The Federal Law on (gender issues of) Equal Treatment of 1979 has been renamed and amended in 2004. In addition, a new Federal Law on Equal Treatment has been enacted which,

33. For a detailed account of provisions concerning older workers in the Austrian Labour Law, see Mayr (2002).

among other things, includes the antidiscrimination directive of the EU.³⁴ The law came into effect on 1 July 2004.³⁵

Accordingly, age discrimination in the labour market has only recently become an offence punishable by law. In cases of age-bias in the recruitment and selection of employees, payment of wages and non-wage benefits, training and promotion, conditions of work and retrenchment, complaints may be filed against the employer with the Commission on Equal Treatment in the Ministry of Health and Women's Affairs or independently in the courts. The Commission, which had originally been put in place in 1979 to ensure the adherence to the law on gender equality, had its mandate augmented to deal, *inter alia*, with age discrimination in July 2004. The Commission may act on complaints brought against an employer by examining the case, arriving at a decision and informing the employer about a breach of law if such is the decision. It has no enforcement powers, though; only courts may enforce and sanction cases of age discrimination. On the other hand, the courts are required to take the decision of the Commission into account in their judgements. It is the employee, however, who has to substantiate the existence of age discrimination. This is a difficult task, as only the employer knows the real reason for the non-selection or termination.³⁶ The employer then has to prove that the dismissal or non-consideration was caused by factually justified reasons. It remains to be seen whether this shared onus of proof will work out, especially for employees in SMEs where the opportunities afforded by internal labour market practices are limited.

As long as the early exit of older workers from employment did not go hand in hand with an impoverishment of older people, the retrenchment of older personnel was not generally seen as an act of age discrimination, either by workers or by their institutional representatives. However, recent evidence on subjectively perceived age discrimination across the EU suggests that age discrimination is an issue in Austria. According to the European Working Conditions Survey, older workers in Austria report age discrimination (far) more often than in all other EU countries: one in seven has been subjected to

34. The issue of discrimination of disabled people is not included, as it is incorporated in the Federal Law of Equal Treatment of the Disabled and Handicapped.

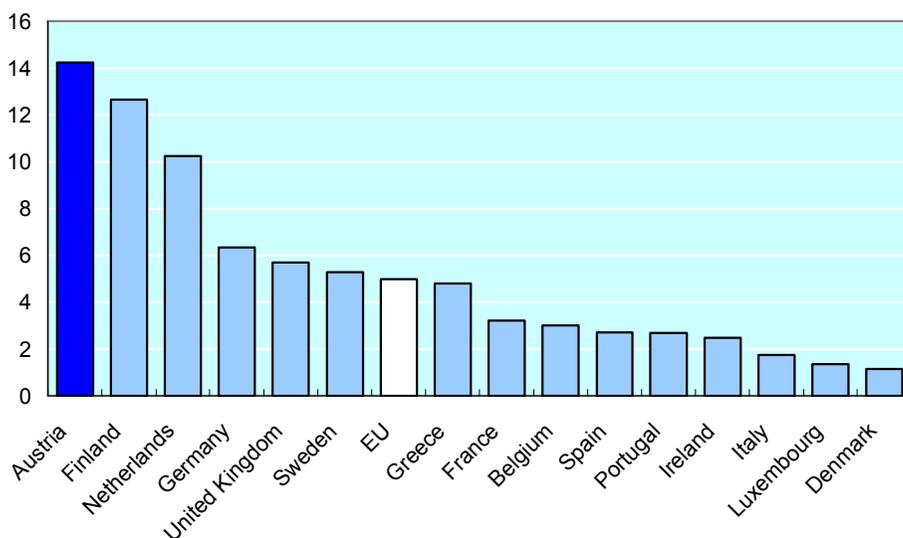
35. In certain aspects, the new law goes beyond the Directive. For instance, sanctions can be imposed on employers who continue to discriminate in their job offers.

36. The Chamber of Labour argues that evidence of non-discrimination ought to be provided by the employer for the law to have bite.

age discrimination over the past twelve months or is aware of age discrimination in the company (Figure 4.3). The average across the EU-15 was 5%, with Finland and the Netherlands the sole countries reporting proportions close to that in Austria. With the exception of Finland – and there only since recently – none of these countries has legislation prohibiting direct and *indirect* discrimination. Such could be an important element in a national ageing strategy (OECD, 2004a).

Figure 4.3. **Age discrimination at the workplace in selected OECD countries, 2000**

Proportion of older workers reporting age discrimination at their workplace^a



- a) The questions are: "Over the past 12 months, have you been subjected at work to age discrimination" or "In the establishment where you work, are you aware of the existence of age discrimination".

Source: European Foundation (2001), *Third European Survey on Working Conditions 2000*, European Foundation for the Improvement of Living and Working Conditions, Dublin.

Admittedly, it is not easy to identify "true" age discrimination, even if there is strong popular belief (and many anecdotes) that it is prevalent in the workforce. Research also indicates that it is difficult to combat age discrimination as it is the result of a multitude of factors, *e.g.* prejudice against older workers, actual and perceived mismatch between productivity and wages, the economic situation – in particular the relative demand and supply of

particular skills, and institutional factors – in particular the enforcement power of antidiscrimination legislation, to name just a few.

2. Examples of good-practice employers

Austria has not yet adopted a comprehensive national policy framework for the employment of older workers, as there is no consensus on the part of the political actors as to the way to proceed. Part of the explanation for this is that Austria is not yet in a situation of general labour scarcity.

Some industries in Austria, however, are finding it increasingly difficult to satisfy their demand for labour in specific skill segments and/or occupations. Age management or age-diversity management is one way to deal with labour scarcities in the course of workforce ageing. Consequently, employers are taking advantage of specialised institutions to help them draw up a human resource management strategy tailored to their needs. The major consultants on age-diversity management practices in Austria have to a large extent learned from a number of international sources: from experts in Finland (www.healthatwork.at); from EU Equal Development Partnerships (such as www.arbeitsleben.com, www.piza.org and www.equal-aeiou.at), which are focusing on active/productive age management in SMEs; and from EU-wide networks of health promotion in enterprises (www.netzwerk-bgf.at).³⁷

The major industries in which enterprises are beginning to implement age-diversity management strategies are:

1. Manufacturing: the chemical industry, *e.g.* Polyfelt, a supplier of geosynthetics, and Agrolinz Melamin, a subsidiary of OMV; paper and pulp production, *e.g.* SCA Laakirchen and Neusiedler Papierwerke; car manufacturing, *e.g.* Magna Steyr; and Voestalpine AG, the Austrian multinational in the iron and steel industry.
2. Services industries: retail trade, *e.g.* ADEG, the number-three retail trade chain in Austria; social services, *e.g.* the hospital association of Vienna; home care services; various schools and the entire education system in Styria; and banks, *e.g.* Erste Bank, a savings bank consortium.

37. AEIOU stands for: *Arbeitsfähigkeit Erhalten für Individuen, Organisationen, Unternehmen*, PIZA for: *Partizipativ, interaktiv, interdisziplinär und zukunftsfähig*; *ArbeitsLeben* is concerned with health mainstreaming in management; the department of Health Insurance of Upper Austria (OÖGKK) is the Austrian partner in the EU-wide health promotion network “Healthy Work in an Ageing Europe”.

Age-diversity management strategies begin with an analysis of the status quo in the form of a standardised survey among employees as to their work stress, the characteristics of their job, organisational and social resources of the enterprise, and subjective feelings of well-being. Sick leave data are analysed as a complementary piece of information. Management is then presented with the results of the survey, whereupon procedures for introducing productive age management are decided with the active participation of employees. Usually the process lasts a couple of years, during which time it is monitored and analysed by consultants or researchers in relation to a control group. The main objectives of age management include a significant reduction of sickness absenteeism, an improvement in work motivation, a reduction of stress, and a boost to productivity.

Age management, according to good-practice examples, is an age-diversity programme, not a programme for the aged. In order to promote the well-being of the workforce and, in so doing, enhance their productivity, age-diversity management should address several aspects of work (see Box 4.1). Often the development of productive age management is not in the hands of one consultant alone: a combination of specialists participate, *e.g.* experts in the area of flexible working hours and pay systems (Gärtner *et al.*, 2001) together with occupational health and stress experts (Karazman *et al.*, 1999).

3. Removing barriers and providing incentives to employers

The demand for older workers, *i.e.* their chances of employment retention and re-employment, depends on a variety of factors. One of the major factors is the cost and productivity of older workers relative to younger and prime-aged workers. It is argued by employer representatives that the chances of employment of older workers will improve as their relative wage and non-wage labour costs come down (*e.g.* Lehner and Walterskirchen, 2002; Felderer *et al.*, 1999).

Differences in performance between older and younger workers may result from differences in physical work ability (health status); differences in aptitudes as a result of different timing of school-based knowledge versus on-the-job training (skill level); and the institutional setting (employment regulation). All three aspects may impact on labour costs by age and, as such, affect the behaviour of employers towards workers. This section addresses the issue of wage and productivity developments of employees over the working life cycle, in particular the role of seniority wages and employment protection of older workers. In this context there is little empirical work on the Austrian labour market, but lessons drawn from the experiences of other countries should provide a guide for the formulation of Austrian policy for older workers.

Box 4.1 The content of age-diversity management and some Austrian examples of good practice

Stress audits and stress monitoring: identification and analysis of factors that cause stress and impact negatively on the efficiency and productivity of work. On the basis of the outcome of the audit, stress prevention measures are put in place. The efficiency of the measures is evaluated (self-evaluation process within teams, stress training and seminars, stress coaching).

Organisation of working time to find a balance between work and private life: human resource management is advised on what basis and how to go about organising the work rhythm of individuals and groups of employees, taking into account the different commitments, strengths and weaknesses of persons in the various life situations (three generations by gender and family situation) – *Polyfelt*, for example, is a company with a relatively high proportion of older workers; as night shifts are a major stress factor especially for older workers, a new shift work plan was drawn up in 2000 that took account of the wishes and problems of the employees. By 2003, the health status of the workforce had improved (reduced sick leave), stress levels had come down, the commitment to work was raised as the balance between private and work life was improved, and as a result the efficiency and productivity of the enterprise increased significantly.

Health quality management: establishment of a Human Work Index for the enterprise, an indicator to assess individuals and teams in the various departments on the basis of *i*) their capacity to cope with work (quantity and quality of workload, time/budget constraints), *ii*) their interest in the job (extent of identification with the job content and the processes involved), and *iii*) their co-operation with others (social climate at work, atmosphere). On the basis of the index, a scorecard is drawn up that identifies areas of inefficient use of human resources. Measures are then devised to improve the work environment and the well-being of the workforce and thereby promote the productivity of the enterprise.

Somewhat different is the case of ADEG, an Austrian retail chain. It has recently opened up two outlets (in Salzburg and Vienna) in which only persons older than 50 are employed. The objective of this undertaking is not only to offer jobs to older workers, many of them formerly unemployed, but also to address older consumers. Price tags and product labels are in larger script, the outlet is easily accessible by car, etc. Even though older employees have higher minimum wages than younger ones, higher costs are more than offset by lower turnover, less shoplifting and an image boost. In addition, the productivity of the older employees is not lower than that of younger personnel, even though they are not as quick or physically strong. Any weaknesses are compensated by their above-average concern for the clients and a capacity to create an amiable atmosphere. As a result, more such outlets are in preparation in other regions of Austria. The idea has also caught on internationally, e.g. a French retail chain is following the example in 2004.

A. *Matching age and productivity*

For employment retention and chances of re-employment to be promoted, the age-earnings profile of older workers should, at least in theory, largely match the age-productivity profile, *i.e.* the cost of employing older workers should match their contribution to the value added of the firm. However, in practice, while the costs of workers to the firm are fairly easily established, their contributions to the firm's revenue are not.

In relation to worker age, productivity has at least two dimensions: one where physical fitness is the source of productivity and another where experience and/or mental endurance and innovative capacity is the source. The theory of human capital accumulation assumes that productivity is an increasing function of age until a certain point, due either to on-the-job training or learning by doing. Productivity falls thereafter as investment in human capital tends to decline with age and/or as new technology is introduced which reduces the comparative advantage of experienced workers (vintage effect). However, this theory does not receive full support from empirical research.

According to psychometric tests, only a few physical and mental abilities decline with age. Among these are the dexterity of fingers, reasoning, numerical capabilities, and speed. This is a slow process that begins well before the age of 50. In contrast, verbal abilities and communicative skills remain virtually unchanged over the life cycle (Abraham and Medoff, 1981; Schwartzman *et al.*, 1987). This could suggest that the productivity, particularly of manual workers, declines with age. However, productivity measurements show that experience takes over when physical dexterity declines so that, on average, the productivity of older workers does not decline with age. A well-documented example is the case of typists (Salthouse, 1984); the speed of typists did not deteriorate with age because the slowdown of reflexes was compensated by their experience *i.e.* a reduced frequency of errors. In tasks that build on an accumulation of knowledge, older workers are at an advantage compared with younger ones. However, should the value of experience decrease, older workers' productivity declines as their adjustment speed to new cognitive tasks is comparatively slow. The lessons to be learned from this research are that continued training prolongs the physical and mental capacities.

Other ways of estimating productivity relate to production functions based on firm-level data, linking value added with the composition of the workforce (Crepon *et al.*, 2003; Hellerstein *et al.*, 1999). Most studies of cross-sections of

workers find that productivity either does not decline with age or, if it does, the effects are fairly small.

Against this is the view of Dygalo (2003) who argues that the limited or non-decline of productivity of older employees in cross-section studies is the result of a selection bias, *i.e.* older workers who remain in employment are not representative of the whole age group.³⁸ Thus, only the most productive of mature workers remain employed. On the basis of longitudinal data, *i.e.* matched employer-employee panel data (for a period of at least 20 years), it was indeed shown (Crepon *et al.*, 2003 for France; Haegeland and Klette, 1999 for Norway) that productivity declines with age and that the less productive tend to exit employment in their 50s. Various factors may be responsible for this result. Older workers may to a larger extent be employed in less efficient firms and/or in industries with small gains in productivity or where physical requirements predominate. It may also be the result of a bias in the choice of workers by employers in favour of young workers whose employment may be more easily terminated than that of older workers.

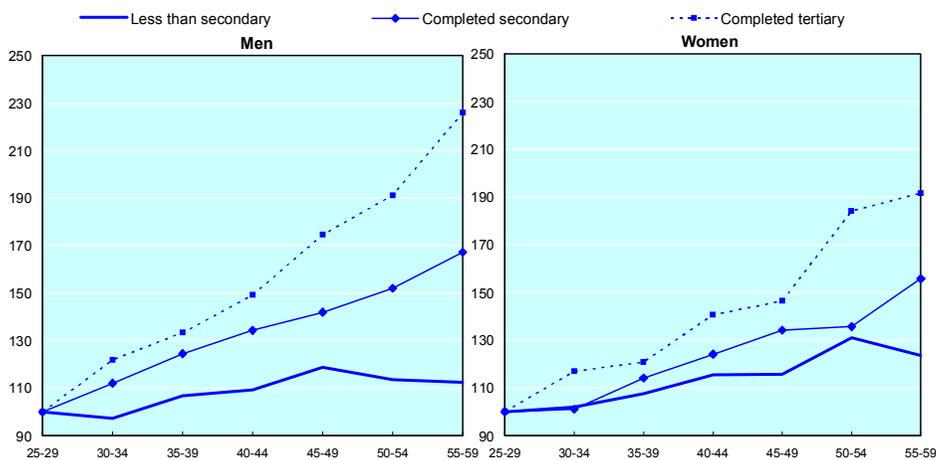
Dygalo demonstrated on the basis of French data that “stayers”, *i.e.* workers remaining in employment above the age of 50, had above-average earnings when they were in their thirties and forties, while “leavers” had below-average earnings. About 90% of the wage difference between older stayers and leavers was the result of individual characteristics; only 10% was the result of firm characteristics. Thus, wages/productivity of employees aged 35 to 45 can potentially serve as a predictor of the probability of their employment in their fifties.

The pattern of labour market exit differs among occupations – with managers and professional workers exiting later than the average, for instance. This is in accordance with psychometric research results indicating that the productivity of workers is unaffected by age if experience, *i.e.* accumulation of tacit knowledge, is an important element of the task. However, there are limits to experience-based productivity increases, in particular in medium and unskilled jobs in manufacturing industries, but also in certain services, *e.g.* nursing (Ilmakunnas *et al.*, 1999; Jenkins, 2001).

38. The selection bias of mature age employment has been at the centre of research for some time; see *e.g.* Parsons (1996) and Johnson and Neumark (1996).

In light of the large differences in the exit rate from employment by skill level in Austria by international standards, documented in Chapter 2, age-earnings profiles by skill level deserve particular attention. The profile of un- and semi-skilled male workers in Austria reaches a peak at age 45-49, for women five years later, and declines thereafter, thus taking the declining productivity at older ages into account (Figure 4.4). In contrast, the age-earnings profile of persons with medium skills rises with age for men and women alike, without levelling off at older ages. This would suggest that productivity and wage development diverges for older workers in the medium-skill segment, thus reducing the incentive of employers to keep them in employment. This could be one of the explanations for the comparatively large drop in the employment rate of older workers in the medium-skill segment compared to university graduates (22 percentage points). That older university graduates are not negatively affected by the steep rise in their earnings profile, particularly in the case of men, may be the result of the large role played by experience-based productivity on the one hand and the pronounced scarcity of these skills³⁹ on the other. The scarcity argument is reinforced by the high proportion of university graduates working overtime (Chapter 2).

Figure 4.4. **Age-earnings profiles in Austria (relative to age group 25-29) by educational attainment and gender, 2000**



Source: Statistics Austria (matched Microcensus and Wage Tax Statistics).

39. Austria had an elitist approach to university education until the late 1980s, which contributed to the small proportion of university graduates in the Austrian labour force compared with most other developed countries (Biffl, 2004a).

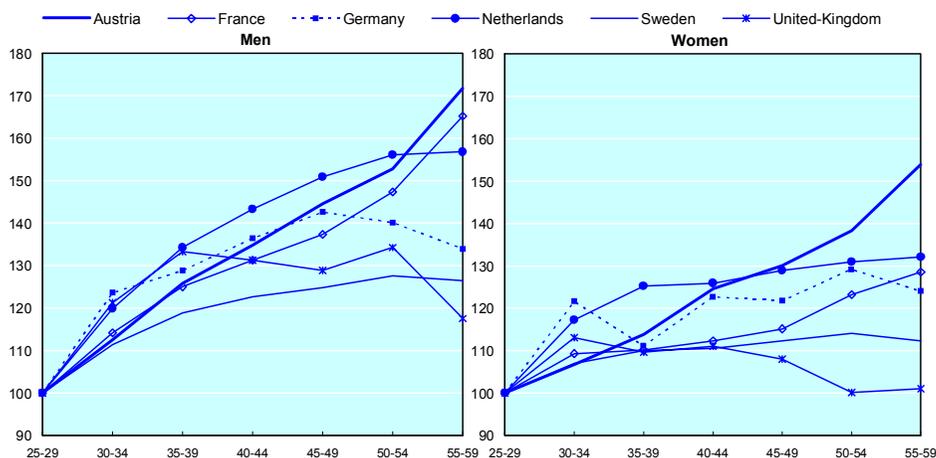
Yet another view is that individual productivity and wage scales do not have to coincide with age for employers to retain older workers, at least in the case of large enterprises with internal career ladders. It is not necessarily inefficient for firms with large internal labour markets, where it is costly to monitor individual effort and productivity, to pay young employees less than their productivity and older ones more, as Lazear (1979) has pointed out in his seminal paper. If employment protection and severance pay rises with age, experience and tenure, it makes economic sense to have steeper age-earnings profiles than age-productivity profiles, as a way to reward older workers for past productivity. It motivates younger employees to stay loyal to the enterprise while at the same time providing an incentive for the employer to invest in older workers, particularly in continued education and training and health and safety measures, in the interests of productivity.⁴⁰

In international comparison, Austria has relatively steep age-earnings profiles for men as well as women, with comparatively slow wage growth up to age 40 but continued and even faster growth until age 60 (Figure 4.5). In contrast, Sweden for example has a very compressed earnings structure by age. *Prima facie*, this would suggest that wages of older workers are on average out of line with their productivity in Austria and France compared to Sweden. But such a conclusion could be misleading because over the years Swedish unions have been able to apply a cohesive wage policy that has narrowed skill differentials. It is also well established that more highly centralised wage-fixing systems are associated with more compressed wage structures (OECD, 2004b).

It is arguable that the low employment rate of older workers in Austria may be partly attributed to the diverging paths of productivity and wages at older ages, particularly at the medium-skill level (reflecting employer incentives on the demand side). However, age-earnings profiles also exhibit supply-side incentives. This can be verified for public sector employees. For civil servants, the earnings curve peaks at around the age of 55. Given early exit options, civil servants have had a tendency to retire on reaching that age (Chapter 3).

40. Such setting with steeper age-earnings profiles than age-productivity profiles only makes sense with mandatory retirement – which is one reason why firms in many OECD countries, not just Austria, do not want to abolish mandatory retirement or “quasi-automatic” early retirement.

Figure 4.5. **Age-earnings profiles in Austria and selected OECD countries, 2000**



Source: Statistics Austria (matched Microcensus and Wage Tax Statistics); Enquête Emploi France; German Socio-Economic Panel; Statistics Netherlands; Statistics Sweden; United Kingdom Labour Force Survey.

This raises the question of the extent to which seniority rules account for the asymmetry between productivity and age-wage relationships. Practically all collective agreements include age and length of employment within a firm as factors to be taken into account in wage rises. Proper wage ladders, *i.e.* a linkage of (minimum) wage rises with tenure (time with the firm) are the rule in white-collar occupations and in some blue-collar occupations in large-scale industry. Consequently, industries with high shares of white-collar employees are affected by seniority wage schedules. The most important industries in this respect are banking and insurance and other business services, trade, education and, of course, the public sector in general. The underlying assumption of these pay ladders is that up to a certain point of time, increased experience deserves to be rewarded. Accordingly, somewhat more than 60% of wage and salary earners (including civil servants) have seniority wage schedules.

The seniority wage scheme as a rule involves automatic biennial wage rises. This practice is a matter of debate and in the process of changing in different ways, as reflected in the following examples. Since 1997, the slope of seniority wage ladders has been lowered in various collective agreements. This has happened in the May 1997 agreements of some 35 trade associations that involve white-collar worker unions of manufacturing industries. The electronics

industry took a further step in 2004 by switching from a biennial to a triennial rise and by flattening the steps for white-collar jobs. Currently, the collective agreements in the finance sector and in wholesale and retail trade are under review. Further, blue- and white-collar workers in the largest manufacturing industries (metalworkers and electricians) have merged into a common wage scheme in which wage rises are due after two, four, seven and ten years.

While these reforms assume that the positive effect of experience on productivity diminishes over time, the prescribed changes in seniority wages are so far still rather small, and there can be little doubt that further significant flattening of age-earnings profiles will be required. Pronounced seniority wages also translate into a key problem for the LMS in reintegrating the older unemployed due to the wage-related unemployment insurance payments (see Chapter 5).

The implementation of the new equal opportunity law is a major driving force behind the current public debate on the issue of age-wage-productivity profiles, and the implications for wage policy and employment policy. Perhaps surprisingly in view of the pervasive incidence of seniority pay, the political debate is focused on wage discrimination against young workers rather than on the impact of steep age-wage profiles on the employment opportunities of older workers and the chances of re-employing the older unemployed.

B. Rethinking employment protection legislation

Employment protection limits a firm's ability to terminate the employment of its workers (though in the Austrian legislation there is an exemption for very small firms with five or fewer employees). In so doing, the law protects jobholders and reduces employment opportunities of new entrants and unemployed persons. At the same time, however, by promoting long-term employment relationships, the incentive to both employers and employees to invest in education and training is increased, thus adding to the functional flexibility and productivity of the workforce. There are therefore costs and benefits associated with employment protection. The challenge is to find a balance between job security of employees and flexibility for employers.

Austrian employment protection regulation corresponds to the OECD average with a summary index value of 2.2 (Table 4.1). The index comprises three areas of protection: against individual dismissal of regular employees, against collective dismissal, and against dismissal of temporary workers. The regulations hindering dismissal may be of a legal nature and/or entail procedural inconveniences and/or have financial cost elements (severance pay).

As to *legislation*, notice periods and severance pay regulations are rather lenient by international standards. There is no legal provision in favour of the last-in-first-out rule (LIFO), *i.e.* a priority of termination in which the most recent employees are the first to lose their jobs. According to law, subject to appeal by the employee concerned, the employer may terminate the employment contract without having to give any reason. Legal protection is directed mainly against collective termination, and more recently also against older workers (through age-discrimination legislation).

Table 4.1. **Strictness of employment protection across the OECD, 2003**

Weights	Regular contracts			Temporary contracts		Collective dismissals	Overall indicator
	5/12			5/12		2/12	
	Regular procedural inconveniences 1/3	Notice periods and severance pay 1/3	Difficulty of dismissal 1/3	Fixed-term contracts 1/2	Temporary work agencies 1/2		
Australia	1.5	1.0	2.0	1.3	0.5	2.9	1.5
Austria	2.5	0.9	3.8	1.8	1.3	3.3	2.2
Belgium	1.0	2.4	1.8	1.5	3.8	4.1	2.5
Canada	1.0	1.0	2.0	0.0	0.5	2.9	1.1
Czech Republic	3.5	2.7	3.8	0.5	0.5	2.1	1.9
Denmark	1.0	1.9	1.5	2.3	0.5	3.9	1.8
Finland	2.8	1.0	2.8	3.3	0.5	2.6	2.1
France	2.5	1.9	3.0	4.0	3.3	2.1	2.9
Germany	3.5	1.3	3.3	1.8	1.8	3.8	2.5
Greece	2.0	2.2	3.0	4.5	2.0	3.3	2.9
Hungary	1.5	1.8	2.5	1.8	0.5	2.9	1.7
Ireland	2.0	0.8	2.0	0.8	0.5	2.4	1.3
Italy	1.5	0.6	3.3	2.5	1.8	4.9	2.4
Japan	2.0	1.8	3.5	0.5	2.0	1.5	1.8
Korea	3.3	0.9	3.0	0.8	2.6	1.9	2.0
Mexico	1.0	2.1	3.7	2.5	5.5	3.8	3.2
Netherlands	4.0	1.9	3.3	0.8	1.6	3.0	2.3
New Zealand	2.0	0.4	2.7	1.5	1.0	0.4	1.3
Norway	2.0	1.0	3.8	3.3	2.5	2.9	2.6
Poland	3.0	1.4	2.3	0.0	2.5	4.1	2.1
Portugal	3.5	5.0	4.0	1.8	3.8	3.6	3.5
Slovak Republic	5.0	2.7	2.8	0.3	0.5	2.5	2.0
Spain	2.0	2.6	3.3	3.0	4.0	3.1	3.1
Sweden	3.0	1.6	4.0	1.8	1.5	4.5	2.6
Switzerland	0.5	1.5	1.5	1.3	1.0	3.9	1.6
Turkey	2.0	3.4	2.3	4.3	5.5	2.4	3.5
United Kingdom	1.0	1.1	1.3	0.3	0.5	2.9	1.1
United States	0.0	0.0	0.5	0.0	0.5	2.9	0.7
OECD average	2.2	1.7	2.7	1.7	1.9	3.0	2.2
Difference to average	0.3	-0.8	1.1	0.1	-0.6	0.3	0.1
Rank for Austria	18	5	24	16	13	18	16

Note: Indicators range from 0 (least strict) to 6 (most strict).

Source: OECD (2004), *Employment Outlook*, Level 2 summary indicators.

The employer is required to give notice in advance of termination, the period of such notice differs for blue-and white-collar workers and in relation to the period of employment with the firm.⁴¹ If more than five persons older than 50 are to be laid off, the employer has to give advance notice to the LMS, regardless of the size of the enterprise. In general, the LMS has to be informed at least 30 days before giving notice to the employees, if 5% or more of the employees in enterprises are affected.⁴² This is to facilitate the re-employment opportunities of laid-off workers, *i.e.* to start outplacement services as soon as possible, rather than a deterrent to employment termination.

However, the dismissal *procedure* is cumbersome. Employees may appeal against redundancy if they were working in an enterprise with more than five employees, if they can argue that it was socially “unjustifiable”.⁴³ In October 2000, in the wake of the pension reform of that year, employment protection of older workers (above age 50) was amended to enable unemployed older workers who found re-employment to appeal against termination after they had been re-employed for six months or more. As this reform measure further reduced the already weak chances of re-employment of older workers, the law was changed in 2003 by extending to two years the period of re-employment before legal protection against termination applies.

While in theory employment protection should promote retention of older workers but reduce re-employment chances of older unemployed, *i.e.* protect insiders against outsiders, this does not seem in practice to be a major deterrent in retrenching older workers in Austria. Experience shows that older workers hardly ever appeal against the employer’s decision. To some extent this may be the result of a large proportion of older workers being employed in enterprises with less than five employees (roughly 30% of all older workers in 2002). It may, however, also be the result of the absence of age-discrimination legislation until 2004. Another reason is that the burden of proof is on the employee; and

41. The periods of notice are spelled out in the White-Collar Worker Law, and for blue-collar workers in Trade Law and Civil Law, as well as collective agreements.

42. More precisely, dismissals require notification to the LMS if they affect at least five employees in enterprises with 20 to 100 employees, at least 5% of the staff in enterprises with 101 to 600 employees, or at least 30 employees in enterprises with more than 600 employees.

43. “Socially unjustified” means that the social circumstances of the employee have to be taken into account in the case of dismissals. The procedures to be adhered to are laid out in the Labour Law of 1974.

as long as the employer can argue that the retrenchment was necessary for the survival of the enterprise, the employee would have difficulty winning the case. This latter element of employment protection legislation is excluded from the OECD index in Table 4.1, as the calculations take no account of the *enforcement* of the regulations.

On the question of severance pay, Austrian law has been changed fundamentally in order to bring it in line with the present policy to promote flexibility for the benefit of workers and employers alike without impairing the social safety net of workers.⁴⁴ In June 2002, Austria replaced its previous legislation with a system of individual savings accounts (Box 4.2).

Box 4.2. Severance pay reform should help raise mobility of older workers

The Austrian severance pay scheme was completely overhauled in 2002. With the new system, known as “*Abfertigung Neu*”, inequities among employees and among employers were removed and predictability of entitlements established, by transforming an “erratic” entitlement into a universal, contribution-based scheme. The new system will cover all employees, after one month of employment, rather than being limited to cases of involuntary dismissal after a contract duration of more than three years. Entitlements are financed through an employer contribution of 1.53% of the monthly wage, and managed by so-called staff providence funds that are legally independent from the employer. Existing entitlements can be transferred into the new funds.

In the new system entitlements gradually increase with tenure, month by month, thereby doing away with the previously existing step function (with steps after 3, 5, 10, 15, 20 and 25 years of tenure). The latter implied that, despite entitlements rising with tenure, the level of payment in relation to the total wage earned in the respective job peaked at three and five years of tenure. As a consequence, entitlements will now be significantly lower for contracts with short (but more than three years of) tenure. Overall costs for employers, however, should remain unchanged. Moreover, costs will be predictable, spread over employers according to their wage bill, and distributed among employees according to the number of years worked.

Accumulated entitlements are not lost in case of change of employer but remain in the employee’s account until retirement. Only if a work contract of more than three years is terminated by the employer are cash payments admissible. Otherwise, upon retirement employees can either claim a cash payment (that is taxed at 6%) or convert their entitlement into an annuity that remains untaxed.

44. For research results and simulations, see Mayrhuber and Url (2000) and Koman *et al.* (2003). As to the rationale of the reform, see www.bmwa.gv.at/abfertigungneu/.

The virtue of the new system is that, apart from contributing to the creation of an occupational pension pillar, it reduces the cost of job mobility of employees as well as the employer's incentive to terminate the employment of older tenured workers on grounds of redundancy. The new rule unlocks the linkage between termination and duration of employment and thus reduces the transaction costs of employers and employees alike, while at the same time providing funds to the capital market and so promoting investment. However, in forcing the employer to pay severance into a fund, labour costs are raised (see the following section). With seniority-pay rules, the linear contribution implies a relative increase of wage costs of older workers relative to younger ones.⁴⁵ The new regulation also facilitates labour adjustment in SMEs that are in a tight liquidity position. Under the old system, such firms could easily face bankruptcy because of under-funding their severance pay liability.

C. *Addressing non-wage labour costs*

The level of non-wage labour costs depends to a large extent on how the system of social protection is funded and on the generosity of the welfare provisions. In countries with high non-wage labour costs, social transfers are largely financed by social security contributions of employers and employees. This applies in most continental European countries. In contrast, in countries where such costs are low, the system of social protection is paid out of general taxes; this is the case in Anglo-Saxon and Nordic countries. As non-wage labour costs are made up of social security contributions, voluntary social benefits, paid non-working days (such as holidays, sick leave, public holidays) and special bonus payments (for instance, holiday bonus or severance pay), it is not surprising that countries like Austria have substantially higher non-wage labour costs than Nordic or English-speaking countries. In 2003, they amounted to 84% of the wage bill – a figure surpassed only by Italy, Belgium and France, and much higher than the 46% in the United Kingdom or the 33% in Denmark (Table 4.2).⁴⁶

45. Initial plans to stop contribution payments after 32 years of continued employment were dropped. This would have helped to reduce non-wage labour costs of older workers with a work record of more than 32 years.

46. One reason for the high non-wage labour costs in Austria is the tradition of excluding in a year two additional monthly wages – the 13th and 14th – as part of earned income which enjoy preferential tax treatment as non-wage labour costs. Including these two additional monthly wages in the basic wage income would reduce non-wage labour costs to 60% – close to the OECD average.

On these figures, it is clear that non-wage labour costs are an important element of unit labour costs in Austria. However, in a rank order of countries by *unit* labour costs, Austria is below the Scandinavian countries, the Netherlands, Switzerland and Germany, has the same rank as France, and is slightly above the United Kingdom and the United States (Guger, 2004). This fact, and the explicit objective under the Austrian Stability Programme to reduce non-wage labour costs – particularly for older workers – are intended to promote the competitiveness of Austrian export industries and, thereby, employment opportunities, especially for older workers.

Table 4.2. **Non-wage labour costs in manufacturing industries in selected OECD countries, 1996 and 2003**

Blue-collar workers	Percentage of wage bill	
	1996	2003
Italy	102.0	94.5
France	92.0	92.2
Belgium	95.0	91.0
Austria	90.9	84.2
Spain	82.5	83.7
Netherlands	80.0	79.8
Germany	80.2	77.8
Finland	75.2	77.0
Portugal	78.0	76.0
Sweden	70.3	71.2
Greece	68.0	67.8
Japan	71.2	67.2
Switzerland	52.5	52.5
Norway	49.0	48.5
United Kingdom	41.4	45.8
United States	39.6	43.1
Ireland	39.7	39.7
Canada	38.4	38.7
Denmark	26.0	32.5

Source: Institute of the German Economy, Austrian Chamber of Commerce, Statistics Austria, WIFO.

This strategy is reflected in the legislation, enacted in 2003, lowering certain elements of social security contributions of *all* older workers. First of all, contributions to unemployment insurance have been dropped for women

older than 56 and men older than 58. As a result, non-wage labour costs for this age group will fall by 6%. For those at age 60 or over, the costs are further reduced by cancelling the surcharge that flows into the Insolvency Contingency Fund (IESG). This results in a further reduction of 0.7% in non-wage labour cost; meanwhile contributions to work accident insurance and to the Family Burdens Equalisation Fund will be discounted to further lower non-wage labour costs by 1.4% and 4.5%, respectively. All these measures taken together are expected to reduce the costs of these targeted older age groups by a total of 12.7%. Such substantial reductions pertaining to workers over age 60 could help improve their employment opportunities. However, there is no evidence or analysis available on this; in particular, the possible deadweight and substitution effects are unknown. Moreover, as long as various forms of early retirement are available and easily accessible, the actual impact on the employment rates of older workers will be marginal.

Essentially these measures to reduce non-wage labour costs for older workers are extending and complementing the bonus-malus system for hiring and firing older workers, introduced in 1996 to reduce the incentives to early labour market exit. The concept underlying this arrangement is that the employer is rewarded for hiring an older unemployed worker (bonus) and penalised for dismissing them (malus). The system was amended in October 2000 without any prior analysis of the impact of the regime on the employment opportunities of older workers. The new arrangement entailed the complete cancellation of the employer and employee contributions to the unemployment insurance fund if a person over 50 is hired. The other side of the coin is a penalty on the employer for dismissing an employee over age 50 after a minimum of ten years' tenure with the firm. Until 2003, the penalty was calculated as the product of a base factor (0.2% of the gross wage, increasing with the age of the employee by 0.1% per quarter up to a ceiling of 3%) and the remaining number of months until reaching the minimum (gender-specific) early retirement age. In 2004 a further amendment was made, making the penalty gender-neutral and raising the ceiling of the malus to 260% of the gross wage. This ceiling is reached for workers aged 56 and declines thereafter until the statutory retirement age of 65 years.

Between 1997 and 2003, employers received bonuses for an average of 20 000-25 000 workers annually, and paid penalties for an average of some 6 000 annually (Table 4.3). In both cases, about one-third of the workers were women. The proportion of 50 to 64-year-old workers with a (permanent) bonus increased from 2% in 1997 to 5% in 2000, and has stayed roughly constant

since then. This may be taken as an indication that employers took advantage of the bonus for retaining and/or re-employing older workers in the period of economic upswing, *i.e.* until 2000, but with the prolongation of economic decline, the uptake of the bonus lost momentum. That is also clear from the decline in the annual flow of new bonus recipients in the last few years despite an increase in the number of transitions from unemployment to employment. As a result, in 2003 about one in two of such transitions occurred without a bonus payment, while in 2000 this was only the case for about one in four transitions. This could be a sign of improved labour market opportunities for the older unemployed, as a decline in awareness of the subsidy on the part of employers is unlikely.

Another finding is the small difference between the stock and the flow of bonus recipients; until 2001, the latter was even larger than the former. This suggests that the subsidy is used by employers to screen potential employees, and that only a relatively small number of those workers can really expect re-employment with the help of a bonus subsidy. The decline in the proportion of newly unemployed for whom a penalty had to be paid, from 7% in 1997 to 4% in 2003 (Table 4.3), could suggest a certain contribution of the (increased) malus to prolonging the employment retention of older workers.

Table 4.3. Evidence on the Austrian bonus-malus regulation, 1997-2003

	Bonus for hiring an unemployed aged 50+				Malus for firing a worker aged 50+			Bonus payment in euros PPPs	Malus payment in euros PPPs
	Annual flow	Average stock	Flow in % of inflow into work	Stock in % of older workers	Total number	Total in % of newly unemployed	Total in % of stock of unemployed		
1997	19 073	9 396		2%	6 984	7%	16%	567	1 777
1998	22 184	13 825		3%	7 437	7%	15%	604	1 840
1999	24 344	18 253		4%	6 712	6%	13%	628	2 000
2000	27 700	22 137	72%	5%	6 001	6%	14%	679	1 742
2001	27 716	25 445		5%	5 300	5%	12%	769	1 790
2002	22 457	25 721		5%	5 860	5%	12%	830	1 919
2003	22 821	25 721	48%	5%	4 714	4%	10%	810	1 840

Source: Secretariat estimates based on data from the BMWA, the LMS and WIFO.

In the case of the bonus payment, deadweight costs can be significant; for instance, the number of bonus recipients did not increase significantly as the subsidy was raised in 2000. Since 2000, total spending on bonus disbursement is higher than total revenues from malus payments (in 2003, the difference was EUR 12.4 million). In addition to the administrative costs involved, this is a fairly high price to pay for the scheme, which should be evaluated.

4. Options for the future

Since the mid-1990s, Austria has implemented a number of policy measures to promote the employment of older workers. The combination of the various instruments, which focused on the incentives to both employers and employees, and comprehensive pension reform was successful in stopping the long-term decline of the employment rate of older workers. The large discrepancy in the rate by educational attainment level and the large proportion of older workers on overtime, particularly those with higher skill levels, is an indication of a mismatch between the skills demanded and supplied. This discrepancy can be eliminated progressively by investing in the education and training of older workers on the one hand (see Chapter 5), and by reducing the cost of older workers to the employers on the other, particularly at the lower and medium end of the skill level. The reform of the severance pay system is a move in this direction. However, it will be a decade or so before the new system can be expected to reduce the cost of employing older workers.

In the short and medium run, increased flexibility of working hours and wages is called for. The age-wage profile is very steep by international standards, particularly in the medium-skill segment for both men and women and in the case of male university graduates. Very little is being done to reduce seniority rules. The recent flattening of the age-earnings profiles of older age groups in collective agreements is a first step towards addressing this issue, but the extent of the change is very small. The wage bargaining system will have to be made more sensitive to this issue, and the social partners will need to move forward much faster in this regard.

There is also no effort being made to link wage flexibility with working-hours flexibility. The implementation of part-time work schemes that put the great diversity of skills of older workers to better use is overdue. While they rarely work part time, the relatively large share of older workers in new forms of employment, casual work, temporary work and new types of self-employment indicates that they are willing to continue to work even after having retired, but not on a full-time basis.

As far as the permanent reduction of non-wage labour costs at a particular age bracket is concerned, deadweight costs cannot be ruled out, as those who would have found a job in any case are effectively subsidised. This is particularly true for the highly skilled older employees, who appear to be a scarce resource but might need active labour market policy support to find adequate jobs (Chapter 5). According to simulations by the Austrian Institute of

Economic Research, under the current circumstances only some 800 to 1 800 additional jobs will be created for older workers as a consequence of further reduced social security contributions.⁴⁷ This suggests that the labour demand elasticity for older workers is very small – another fact likely to be explained by their access to various early retirement options.

Deadweight loss could be reduced by a higher but much better-targeted premium, used only to stimulate the re-employment of the un- and semi-skilled longer-term unemployed above a certain age. Alternatively, the employment of older workers could be promoted by providing more wage subsidies to the long-term older unemployed (Chapter 5), thus avoiding the productivity trap into which older workers may fall. In addition, an element of a make-work-pay policy (be it through the benefit or through the tax system, *e.g.* in the form of income tax credits) may be needed to overcome the poverty trap that results from the often relatively high unemployment benefit entitlements of older workers – high in relation to the market wage they could realistically earn.

The question that remains to be answered in the context of the bonus-malus scheme is the extent to which more older workers will retain or find employment as a result of the subsidy; to what extent this would be substitution of non-subsidised workers below the age threshold; and what the net effect will be on public revenues. Without a detailed cost-benefit evaluation of this scheme, proper assessment is very difficult. Unions claim that the system has not influenced employers' hiring and firing behaviour to a significant extent, and propose to develop it further. However, again, one has to see the bonus-malus scheme relative to the array of early retirement options in Austria; firms have a clear incentive to encourage older workers to opt for one of the latter pathways. Even if there were no early retirement pathways, however, there is the issue of an age-targeted bonus/malus. Firms would have an incentive to dismiss less productive workers close to the threshold age of 50.

47. Evidence provided by Synthesis (2003b) suggests that hiring and firing decisions of employers are not strongly influenced by non-wage labour costs.

Chapter 5

ENSURING EMPLOYABILITY OF WORKERS AT ALL AGES

This chapter addresses the work capacities of older people, *i.e.* the abilities and skills that will determine their chances of retaining or finding a job, and the available facilities for training or retraining them. The LMS is the major institution that supports their employment in a number of ways – by facilitating the job search; by providing services, in particular education and training; and by subsidising employment and non-profit personnel leasing, some of which is run by the LMS itself. Some policies are specifically targeted to older workers. It is obviously easier to find jobs when aggregate labour demand is high, but in times of slack labour demand labour market institutions urgently need to find ways and means to encourage recruitment in anticipation of an upswing. Activation programmes, training opportunities and employment subsidies are the most important instruments of the LMS to promote employment of people at all ages and especially older workers. Working conditions and workplace health is only recently receiving more attention. While rehabilitation is co-ordinated with the pension funds, it generally leads older workers into the pension, disability or early retirement systems rather than into the labour market.

1. Lifelong learning to keep up with job requirements

Given the shifts in the structure of demand across sectors and firms, the adaptation of skills is crucial to facilitate continued employment, particularly for older workers. The rapidity of these changes and sluggish training and workplace responses to them may have contributed to the decline in their employment rate, especially in the case of the unskilled. It is largely in this context that lifelong learning becomes a necessity. It prevents people from becoming marginalised for lack of skill, helping them find and retain a job, secure a decent income, and benefit from social inclusion.

It is important to recall that Austria has actively promoted education beyond compulsory schooling only since the late 1960s. The low educational attainment level of older workers in Austria is one of the factors contributing to

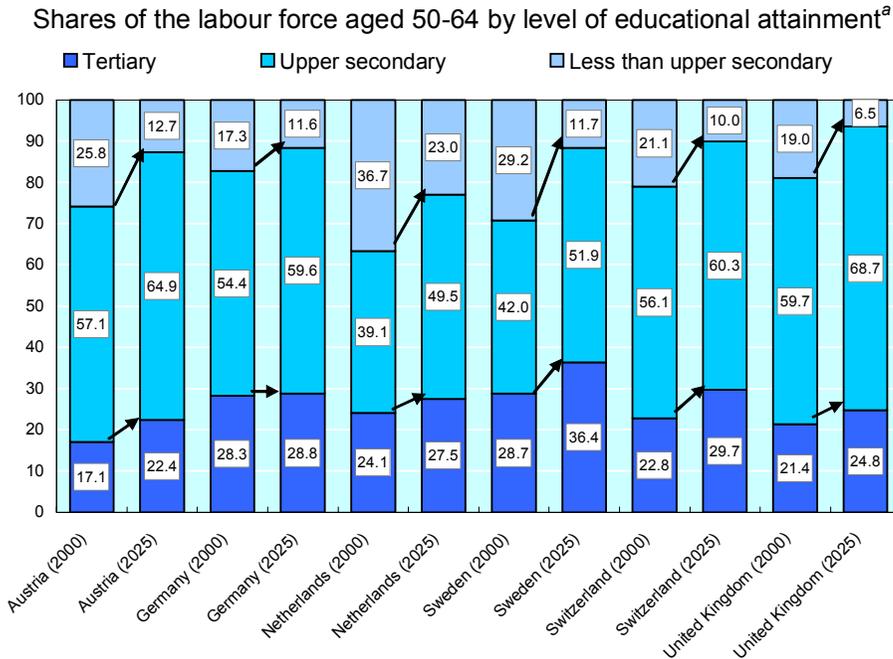
the relatively low activity rates of older workers, since a decline in the former will create a decline in the latter regardless of age. In the past, women in particular had a very low educational attainment level and so the prolongation of education in the past thirty years had the greatest effect on women's employment prospects.

Thus as a result of past policy, the educational attainment level of the older generations is fairly low in international comparison and the gap between young and old is pronounced, particularly in the case of women (Chapter 2). This is bad news in terms of opportunities to up-and re-skill older workers; research indicates that initial education has an important role to play in lifelong learning. People who have completed general upper secondary education take part in enterprise training to a larger extent than people with vocational upper secondary education or apprenticeship training.

Figure 5.1 indicates that the Austrian older workforce is strong in the lower to medium vocational skill segment; only a small proportion has tertiary education, often with a vocational orientation. This situation will not change for some time to come. Even though the future older workers will have better qualifications and training than the current cohorts, the proportion of high-skilled workers with tertiary-level education will remain low in international comparison. This has also to be seen in the context of a constant inflow of unskilled immigrants, basically as a result of family reunion and refugee intake, and an underinvestment in higher education on the part of second-and third-generation migrants (Biffel, 2002a and 2004a).

The educational attainment of the workforce has a strong vocational orientation. This is related to the comparatively great weight of manufacturing industries in the Austrian economy. In these industries, apprenticeship education and training is the dominant form of upper secondary education – particularly for men – but un- and semi-skilled labour also plays an important role. It is thus not surprising that Austria has one of the highest shares of older workers in manual occupations. The low employment rate of older workers and the tendency of the better-skilled to remain in employment is a matter of concern for policy makers. It follows that for older workers to be retained or re-employed, their skills and competencies will have to be upgraded and aligned to the pattern of demand. Another option is to reduce the labour costs of unskilled older workers relative to skilled ones in order to bring their productivity and cost closer into line with each other and to promote work practices that are unskilled-labour intensive.

Figure 5.1. **Education level of older workers in selected OECD countries, 2000 and 2025**



- a) Estimate based on data for 2000 and obtained by applying participation rates by educational attainment, gender and five-year age group for the population aged 50-64 to the corresponding population aged 25-39 in 2000.

Source: OECD (2004e), *Education at a glance – OECD Indicators*, and Secretariat estimates.

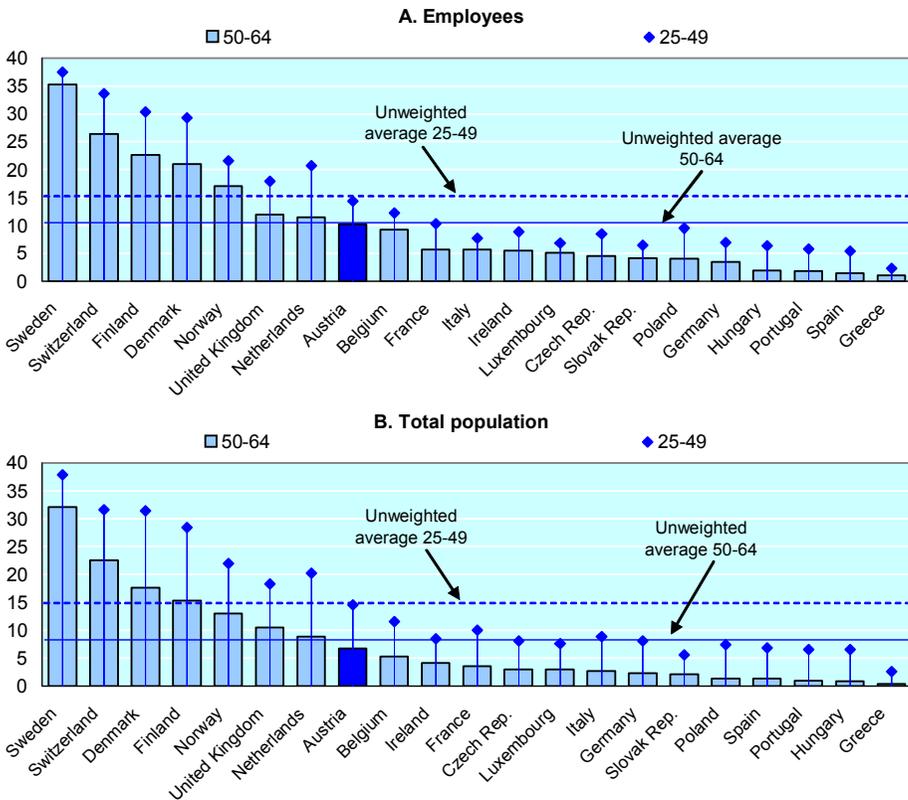
A. *Training participation could be promoted*

In spite of the relatively low educational attainment level of older people, their participation in further education and training is limited. According to the European Labour Force Survey, in 2004 training participation in Austria was below the European average for the population in the 50-64 age group (Figure 5.2, Panel B). Compared with that of their prime-age peers, training of older people was relatively uncommon in Austria. For the employed population – of which 10% (older workers) and 14% (prime-aged workers) engaged in some form of education or training in the month before the interview – the figure is close to the European average (Figure 5.2, Panel A). However, the Nordic countries and Switzerland invest considerably more in the further education and training of their workforce despite their older workers being on

average much older than those in Austria, who are predominantly in the 50-54 age group. Indeed, there is a rather close correlation across European countries between the incidence of training participation among older workers and their average effective retirement age (compare Figure 5.2 with Figure 3.4).

Figure 5.2. **Participation in further education and training in selected OECD countries, second quarter 2004^{a,b}**

Percentage of population having participated in training by age



a) The question on training was “Have you received some education or training in the past four weeks?”

b) 2003 data for Germany, Luxembourg and the Netherlands.

Source: European Union Labour Force Survey.

Although learning activity among adults rose between 1995 and 2004, it seems to be concentrated mainly among younger people (partly due to the inclusion of apprenticeship education in job-related training). It seems that those with poor educational backgrounds shy away from investing in education and

training. The barriers facing many such persons include finances, time constraints, negative attitudes to education and training, and lack of confidence. One of the main challenges for adult education is how to draw in those who need it most but are least interested in it.

In 2004, some 7% of Austrian employees aged 50-54 participated in a *job-related* training activity during the four weeks preceding the survey. The participation rate declined slightly with age, falling to 5% for 60-64 year-old employees in contrast to around 8.5% for those in the 25-49 age group (Table 5.1). It may be argued that those in employment are continuously upgrading their skills on the job, but this opportunity is not available to the long-term unemployed. Consequently, participation in job-related training was generally higher for the unemployed – excepting, however, older unemployed women. Among the latter, in the age group 50-54 less than 4% were engaged in job-related training, compared to some 11% of prime-age unemployed men and women and even higher proportions among older unemployed men. Older inactive people engaged in very little job-related education and training, irrespective of gender, because most of them had already retired from the labour market permanently.

The relatively low training participation rates of older workers raises two issues that deserve consideration. First, for prime-aged and older workers to be able to take advantage of lifelong learning facilities, they must have a sufficient competency basis to acquire new skills. Hence, a condition for lifelong learning facilities to be used effectively is the basis developed earlier in the learning and working life. Therefore, what is done in the transition from initial education to working life critically affects how successful lifelong learning will be in enhancing the prospects of continued employability of prime-aged adults and older workers (see Chapter 5 in OECD, 2000, for more details on the transition into working life). It follows that what learning there is in the transition phase should have a time frame that goes beyond consideration of the first job and has a life-cycle perspective.

The second issue, related to the first, is a pedagogic question which applies from primary education upwards. What foundation skills should be developed in an era when skills need to be changed or upgraded frequently for effective performance? It appears that a solid basis for lifelong learning calls for the development of core skills that will enable learners to acquire new skills more easily. While different educational systems may express these core skills differently, essentially they include reading, writing and numeracy as well as problem-solving and applied skills, social and communication skills, personal development, and a facility and motivation to learn.

Table 5.1. **Participation in job-related training in Austria by age, gender and labour force status, 2004**

Number of persons participating in training in the last month by gender, age and labour force status

		Number of persons (in thousands)		Persons participating in job- related training (in %)	
		Men	Women	Men	Women
25-49	Employed	1,397	1,176	8.3%	8.7%
	Unemployed	57	58	10.6%	11.8%
	Inactive	82	293	3.9%	2.9%
	Total	1,536	1,527	8.2%	7.7%
50-54	Employed	205	165	6.9%	6.9%
	Unemployed	8	11	19.4%	3.8%
	Inactive	33	74	1.9%	1.6%
	Total	246	250	6.6%	5.2%
55-59	Employed	145	74	7.1%	4.3%
	Unemployed	5	3	13.1%	-
	Inactive	76	158	0.4%	0.1%
	Total	226	236	5.0%	1.4%
60-64	Employed	42	18	4.9%	5.2%
	Unemployed	2	1	-	-
	Inactive	198	243	-	0.2%
	Total	242	261	0.9%	0.5%

Source: Statistics Austria (Labour Force Survey 2004, second quarter).

The available data indicate considerable need for raising participation in lifelong learning in Austria further, especially for people over the age of 50. This suggests that the changing demand and supply of skills in the labour market have been met in the medium term, mainly through wage and employment adjustments. Only a system of continued learning and re- and multi-skilling of the workforce and of those people not in the workforce could relieve the pressure to bring demand and supply conditions into line from such adjustments. In this connection, a system of lifelong learning could provide a degree of flexibility to help adjust the skills of the population to changing demands.

B. *The current approach to lifelong learning*

There is no constitutional law governing adult education in Austria but there are several acts concerning adult education offered in schools, universities, other educational institutions and by the LMS. The *Adult Learning Promotion Act* of 1973, a federal law, obliges the state to support adult learning without specifying procedures or the amount of financial support. Accordingly, a great variety of adult learning institutions exist, run and organised by various authorities at different government and non-government levels (see Box 5.1).

Box 5.1. A complex lifelong learning system

Austrian adult education has various pillars. The oldest adult education centres (the so-called “*Volkshochschulen*”) date back to 1887. After 1945, a variety of additional education and training institutions were set up, mainly by religious associations and by institutions of the social partners. “Second-chance” schools and colleges for employed persons were established in the 1960s, some of which are run by the private sector (but are not for profit). Re-skilling and up-skilling of the labour force was given a prominent role from the late 1960s onwards (via the Labour Market Promotions Act and the Labour Market Service Act). Recently, under the University Organisation Act of 2002, which grants autonomy to universities, further education at university level is also an objective of Austrian policy.

The adult education and training institutions were not integrated into the national comprehensive system of education in 1962 (School Organisation Act). However, the various bodies providing adult education and training joined together under an umbrella association, the Austrian Conference of Adult Education Institutions (KEBÖ) in 1972, with the objective of consolidating the system of further education (e.g. through streamlining of curricula and implementation of comprehensive quality control measures, *i.e.* quality seals), representing the interests and concerns of its members and acting as an open platform for discussion and co-operation.

The LMS is a federal institution that provides, organises and finances the bulk of continued vocational education and training in Austria. Accordingly, the funding of adult education differs between job-related education and training offered by the LMS, and courses of adult education institutions. The former are funded out of the unemployment insurance fund and thus by employer and employee contributions, which implies that they are provided without charge. In contrast, the training costs for the latter are partly borne by the recipient of the training measure, even if these costs are often low. However, the federal government, the *Länder* and the communities subsidise adult education institutions. The *Länder* also subsidise workers who take such courses, with varying amounts and eligibility conditions. In addition, there are subsidies in the form of tax write-offs for individuals’ training costs and tax allowances for enterprises offering internal or external training to their own staff (or, alternatively, a tax credit for firms with low profits or losses that cannot make use of the allowance).

Box 5.1. A complex lifelong learning system (cont.)

There are a great variety of “second-chance” schools (*Zweiter Bildungsweg*) offering the curricula of normal schools in evening courses. While originally mostly upper secondary education programmes were demanded, as a result of an increased influx of immigrants with low educational attainment levels lower secondary programmes are also increasingly taken up – in particular by school drop-outs who are thus able to obtain the compulsory school finishing certificate (*Hauptschulabschluss*). Second-chance courses are offered by a variety of educational institutions and can also be publicly subsidised. In general, however, only a few 40-year-olds attend courses of further education and training in second-chance schools (Schlögl *et al.*, 2004).

A new feature of adult education was introduced in 1997: the general higher education entrance exam for graduates of apprenticeship and technical-vocational schools (*Berufsaufnahmeprüfung*). These enable persons who have successfully completed medium vocational education and training (apprenticeship, a three-year course in vocational or health and nursing schools, or a minimum of thirty months of a medical-technical college) to have access to tertiary education, thus closing a gap in the education system. Adult education providers offer the preparatory courses for the examination on a modular basis. In 2001, some 7 300 adult students were registered in these preparatory courses; the majority of enrollees were 20- to 29-year-olds (Schlögl and Klimmer, 2004). Up to three of the necessary four exams may also be taken in courses offered by private, non-profit adult education institutions if recognised by the Federal Ministry of Education, Science and Culture.

In 2002, the Chamber of Commerce opened an office of further education and training (www.bildungscluster.at) together with the Ministry of Education. The office acts as a bridge between schools and employers and is an element in the system of lifelong learning. As from 2004, the Federal Institute of Adult Learning (BIfEB) may act autonomously as a competence centre for continued education and training. Besides being responsible for the training of personnel of adult education institutions, it is now, among other tasks, to establish quality standards, act as a bridge between the various actors in adult education, and engage in research, methodology and teaching methods of adult learning.

As the spectrum of further adult education is wide, various ministries are involved in organising and overseeing it. The Ministry of Economic Affairs and Labour has the responsibility of framing vocationally oriented education and training, in particular through the LMS. The Ministry of Health and Women is responsible for the health and care professions. The Ministry of Social Security, Generations and Consumer Protection has the mandate for disabled people, older workers and families, while the Ministry of Agriculture is responsible for the agricultural and forestry professions.

Unfortunately, data on adult education covering both participation by age and gender and expenditure and the sources of funding are not integrated in a comprehensive national database. Therefore, it is hard to establish the extent of further adult education in general, let alone that of older workers. There are no special adult education programmes targeted at older people.

A large part of adult further education and training, in particular upgrade training for workers, is provided by the educational institutions linked to the social partners, often commissioned by the LMS, *i.e.* by the training institutes of the Economic Chambers (WIFI), the Chambers of Labour (BFI) and, in rural areas, the Chambers of Agriculture (LFI). Such upgrade training is particularly helpful to re-skill and up-skill the labour force as the economy and its labour market changes.

During and after Austria's entrance into the European Union in the mid-1990s, significant steps were made, including the expansion of second-chance programmes at all educational levels. Since then, Austria has (further) developed institutions for all of the major elements of adult education. In parallel, lifelong learning (LLL) has increasingly become a key policy issue. Accordingly, in 2002, Austria set about identifying the state of its adult education and training system, its curricular components, and its major providers and consumers.⁴⁸

C. *Measures to support training*

There are several mechanisms for promoting further education. For example, all the *Länder* provide vouchers or Individual Learning Accounts (ILAs) of one type or another that persons can use to finance the costs of adult education. The amounts and conditions vary among *Länder*. In Vienna, for example, each person can receive up to EUR 150 (EUR 300 for those registered with the LMS, and EUR 450 for those in "second chance" programmes). In Upper Austria, as much as 50% of training costs can be reimbursed up to a maximum of EUR 730 – or even more for older workers and those without a vocational qualification. Further education is only subsidised up to A-levels, *i.e.* vocational or general education university entrance level. Upper Austria offers special conditions for persons over 45 with low educational attainment. They are paid 80% of the cost of their course (up to EUR 1 100 for general education courses, and up to EUR 1 830 for vocational training courses). In addition, 50% of boarding and lodging costs are subsidised (up to EUR 3 300).

Upper Austria is the province with the most comprehensive programme of adult education promotion, which came into effect in 2002. The courses that are

48. See the Austrian lifelong learning report presented to the EU Commission in 2002 (BMBWK, 2001; CEDEFOP, 2002; Schneeberger, 2001; and Schneeberger and Schlögl, 2004).

subsidised have to be provided by institutions that have achieved a certain quality standard. In addition to IALs, the province subsidises education and training measures for specified target groups out of an special innovation fund. The target groups are determined by the local government, the LMS and the local Chamber of Labour. In 2002, Upper Austria spent some EUR 8.6 million on adult education and training, equivalent to 8% of the budget the Upper Austrian LMS spends on active labour market policies.

The LMS is the major public funding institution of continued education and training (CET). In 2003, some 239 000 persons – about 80% of whom were unemployed – received an education and training measure. Around half of the funds went to the providers of training measures, and the other half to individuals as living allowances.⁴⁹ Some 52 000 of those 239 000 who participated in a training measure were employed, and 24% of them were over the age of 45. The LMS refunded two-thirds of the training costs to employers for the training of specific target groups. All in all, a budget of some EUR 453 million, or 65% of the total public spending on active labour market programmes, went into education and training measures. The European Social Fund (ESF) is an important funding partner.⁵⁰

In addition to funding CET of employees and the unemployed, the LMS administers the system of educational leave introduced in 1998 and modified in 2000. The employer and employee may decide on a leave of absence of between three and twelve months to obtain finishing certificates of various types and levels of education. A person undergoing further education is on unpaid leave from the employer but receives a daily allowance from the LMS. The level of the allowance is the same as for persons on parental leave (EUR 14.53 per day), but persons older than 45 receive unemployment benefit if this is higher than the allowance. During educational leave, the person has full social security coverage.⁵¹ In 2003, only some 12% of the 1 100 workers taking educational

49. The share for living allowances during participation in training measures is decreasing as a result of a reform of the Unemployment Insurance Act in 2003, which allows financing of living allowances for participants in education and training measures out of the “passive” labour market policy budget.

50. The larger part of training is privately funded: in 1998, the last year for which an estimate is available, employers spent around EUR 520 million and participants around EUR 792 million on direct training costs (Schneeberger and Schlögl, 2004).

51. Since 1 January 2000, the period of educational leave is counted as work those older than 45, *i.e.* it is included in the basis of retirement pay calculations.

leave were older than 45. Thus, so far this facility is of minor importance as to its potential either to increase the productivity of (older) workers or to create jobs for the unemployed for the period in which the person on leave is temporarily replaced.

In addition to the regional learning promotion activities and funds, the national government has, since 2000, offered special tax incentives for firms delivering training to their employees in special adult learning institutions. In 2002, the tax allowances were extended to include CET in firms and the subsidy raised from 9% to 20% of training costs up to EUR 2 000 per day and person. Further, individuals may deduct expenses for further education in particular occupations from their income tax liability.⁵²

A recent employer survey indicates the various uses made of the tax incentives to employers and employees to invest in further education and training (Schatzenstaller *et al.*, 2003). It is mostly larger enterprises that invest in the CET of their employees. On average, one in ten employers stated that they had invested in training measures for their employees that they would not have undertaken in the absence of the recently introduced tax advantage. The government estimates a loss of revenue due to the scheme of EUR 22 million, which is moderate compared to the EUR 330 million direct spending on adult education and training by the public sector (federal plus states), and the EUR 453 million spent on education and training by the LMS.

D. Challenges for the future

A key problem of the adult education and training system in Austria is the apparent lack of coherence and co-ordination of activities, policies and programmes of the various actors involved in providing and/or funding the system. Austria seems to be characterised by a number of discrete areas *within* which policies are reasonably coherent, but with an obvious lack of complementarity among them (OECD, 2004d). Second-chance programmes, upgrade training, labour market programmes and non-vocational programmes all serve a specific purpose or target a specific group, but with no real interface among themselves thus reducing opportunities for synergies. There is little co-ordination between these distinct areas as regards, for instance, curricula, teaching methods, service provision, counselling and matters of certification and recognition of skills. This independence of areas, at least partly the result of the federal system, calls for the creation of a national strategy towards lifelong learning.

52. These subsidies have been introduced together with a variety of measures to boost economic growth (*Konjunkturbelebungs-gesetz I and II*).

Such a strategy should have various objectives and priorities beyond the coherence issues meant to raise the attractiveness and effectiveness of training provision. More important is the development of a common grid of accreditation of skills acquired on the job or in institutions of further education, indicating their relationship with the educational attainment level of initial education (modularisation of further education). This above all would promote the employment opportunities of older workers who have lost their jobs and who have acquired skills and competencies, which are not transparent to potential employers. In addition, further education and training has to become more accessible for those who are not accustomed to participating in training, *i.e.* workers with low skill levels, many of whom are older workers. Age-adequate training tools and methods to promote higher take-up of continued training at all ages would be important elements of a lifelong learning policy.

Coherence can be improved through better co-operation and exchange between the different institutions and levels of training provision. In a first step, a simple form of co-operation through joint provision of information and guidance could be encouraged, thus creating system-wide counselling. In the longer run, a more complex form of co-operation through joint service provision should be developed, whereby each entity could bring in its particular competitive advantages. In this context, promoting local-level partnerships – as is done by the education clusters referred to in Box 5.1 and also by the Territorial Employment Pacts (which intend to tackle a range of issues, not just education and training) – is a promising route to follow.⁵³

Relatively little is known in Austria about the effectiveness of public programmes to promote the take-up of adult training. In particular, an evaluation of the impact of CET on wages, productivity and employment retention of (older) workers has yet to be undertaken. Creating a culture of evaluation should in itself be part of a more coherent approach to adult education (see the next section and OECD, 2004d).

Thus it is often difficult to judge the appropriateness of existing tools; figures on take-up are often the only available evidence. A simple modification of the current system of educational leave, for instance, so as to allow part-time leave, could be a promising way to raise take-up. Full-time educational

53. Subsidies given in Vienna to the development of company networks for skills training, which join forces and create networks to initiate, co-ordinate and implement continued training for their employees, are a good example.

programmes are often unavailable and may not result in positive returns to training for older workers. Moreover, cash payments during such leave are too low for many. Flexible partial education leave would be more appropriate to upgrade skills or to acquire additional competencies, while at the same time making it affordable for more people.

2. Activating the inactive and the unemployed

In 2003, Austria spent 0.6% of GDP on active labour market programmes (ALMP). This spending effort is below the OECD (EU) average of 0.7% (1.0%) of GDP. While one in five unemployed persons in Austria are older than 50, their share in ALMP measures is only 12%. As shown in Chapter 2, due to the longer duration of unemployment episodes, the unemployment rate of older workers is higher than that of prime-age and young workers. Thus a major challenge of employment policy is to reduce the average *duration* of the unemployment spells of older people. This has become the focal point of ALMP for older workers since 2002. However, in order to meet that challenge, it is important to identify the major reasons why older workers are unemployed. In particular, a disproportionate number become unemployed in the course of plant closures. In 2003, 22.5% of all unemployed men aged 50-59 lost their job because of plant closure, compared to 7% of those aged 25-49 (Table 5.2). The situation with women is similar. Since 1995, unemployment due to plant closures increased by 70% overall, compared to a fourfold increase for the 50 to 64-year-old unemployed.⁵⁴

Apart from the concentration of older workers in labour market segments with declining demand, the mechanics of internal labour markets work against the chances of re-employment of older workers. Workers tend to be promoted within an enterprise under seniority rules. It is therefore difficult for older workers who lose their jobs to re-enter the labour market at their previous experience, skill and wage level. To be re-employed, older workers would have to accept lower wages and/or access employment through an intermediary such as a personnel leasing firm, and/or with the help of employment subsidies paid by the LMS. All these facilities are addressed via the ALMP mix of the LMS.

54. The plant closures need to be seen in the context of increased international competition following Austria's entry into the EU, industrial restructuring and technical progress. It seems, therefore, that older workers were disproportionately in those job segments with declining demand.

Table 5.2. Reasons for current unemployment by age and gender, Austria, 2003

Unemployed people by reason for leaving the previous job (percentage)

	All unemployed	Dismissal due to plant closure	Dismissal for other economic reasons	Dismissal for non-economic reasons	End of a temporary contract	Early retirement	Normal retirement	Personal and family-related reasons	Sickness or work incapacity	Education or training	Other reasons	Unknown ^a
Men												
25-49	100	6.7	31.0	18.1	8.9	0.3	0.0	5.9	6.1	2.3	10.9	8.7
50-54	100	22.7	29.7	14.3	7.4	0.0	0.0	2.7	12.2	0.0	6.7	4.4
55-59	100	21.6	16.3	18.2	9.3	0.0	0.0	0.0	3.2	0.0	13.7	17.7
60-64	100	0.0	0.0	24.1	10.2	6.6	20.6	0.0	20.2	0.0	13.4	4.9
Women												
25-49	100	6.2	22.2	15.5	10.9	0.8	0.0	14.8	2.7	1.2	10.1	15.7
50-54	100	16.6	27.1	13.7	12.8	0.0	0.0	4.0	12.6	0.0	6.8	6.4
55-59	100	11.9	36.4	4.7	7.0	9.5	0.0	4.8	16.2	0.0	0.0	9.4
60-64	100	0.0	81.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.6

a) Persons whose last job has been terminated more than eight years ago and persons never employed.

Source: Statistics Austria (Labour Force Survey).

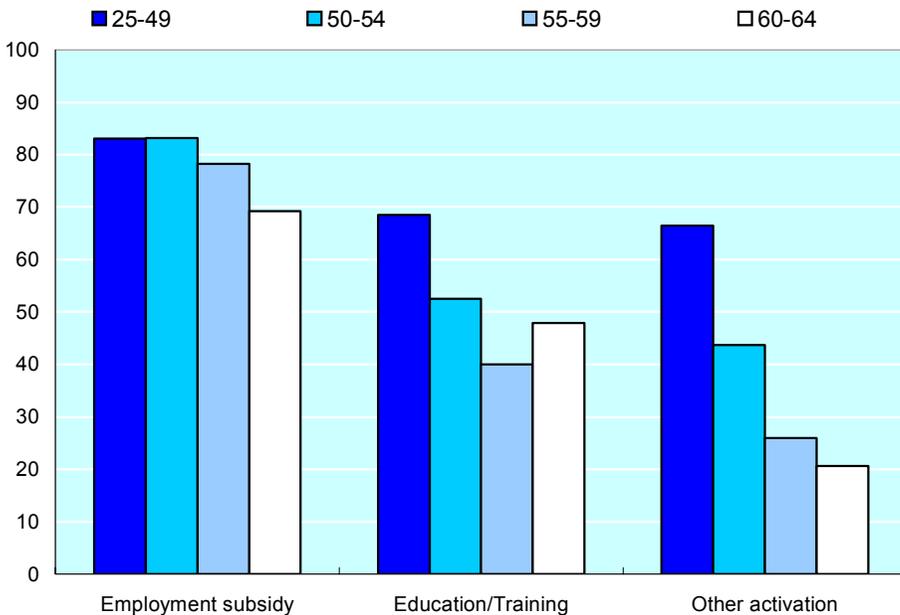
A. Effectiveness of ALMPs for older workers

As far as ALMPs are concerned, employment subsidies tend to be the most effective way to activate older workers (Lutz, 2001). Thus in 2003, 25% of all employment subsidies went to older workers, compared to only 9% of all education and training activities. In 2002, of all the 50 to 64-year-old workers who had received an employment subsidy, 80% were still in employment six months after the subsidy had expired (70% in the case of workers aged 60-64). This is more or less the same proportion as for prime-age workers (Figure 5.3). The post-programme employment rates following participation in education and training programmes (of more than 60 days) are significantly lower: 49% for older workers compared to 70% among prime-age workers.⁵⁵ There is not much difference by gender in the post-programme employment rates of ALMPs.

55. These rates are higher than in many other OECD countries. In Germany, for example, post-programme employment rates after a vocational training measure are around 40%, and even below 30% for older workers (OECD, 2005d).

Figure 5.3. **Post-programme employment rates in Austria by type of measure and age, 2002**

Proportion of ALMP recipients in employment six months after the measure



Source: Austrian Labour Market Service (AMS).

However, these results should be interpreted with great caution. Post-programme employment rates do not capture the net impact or effectiveness of a programme in terms of employment outcomes, since they are not adjusted for the proportion of ALMP participants who would have found a job without the programme, and typically only give a short-term picture. Nor are possible substitution or displacement effects taken into account, *i.e.* the jobs found by some participants may have been at the cost of jobs for other non-participants (Martin and Grubb, 2001). Rigorous analysis for Germany, for instance, shows that even post-programme employment rates as high as 50% can imply a negative net employment effect (Caliendo and Jahn, 2004). Moreover, the post-programme employment rates necessary to produce a positive net effect are likely to vary considerably across different labour market instruments.

Some up- and re-skilling activities are directly geared towards improving the employability of workers. This is especially true for the so-called *implacement* foundations: a contract is signed between the LMS and the

employer whereby the enterprise employs an unemployed person, in exchange for which the LMS pays for or provides job-specific training.⁵⁶ However, this measure is infrequently used for older workers: only 15% of all cases in 2003 were persons older than 45 (some 500 out of a total of 3 300 persons). This is also explained by the demand-driven nature of the tool: the LMS can only propose candidates for participation, but it is up to the employer to take a decision on who will be employed and, thus, trained.

Active job-search programmes are another important means of finding jobs (Weber and Hofer, 2003). They entail assessment and counselling in providing specific job-search skills, and they target immediate re-entry into employment. For older workers over the age of 55, the post-programme employment rates of these programmes are significantly lower than those of other ALMPs (Figure 5.3, again bearing the caveats of this indicator in mind). They nonetheless have an important role to play, especially for older workers who have been with the same employer for a long time and have limited understanding of how to go about finding a new job.⁵⁷ All that said, the effect of active labour market policies on employment retention of older unemployed is greater if training is included in *job-first* strategies – that is, strategies geared at finding a suitable job first and improving competences for that particular job on the job later.

Deadweight and substitution effects, which are largely unknown in the context of Austrian labour market policy, typically vary with the business cycle. In an economic upswing, substitution effects tend to be small while the deadweight effect can be large, and vice versa in recessions. Depending on the economic cycle, the LMS has to find the proper mix of wage subsidies and education and training measures. During a downswing, while labour demand is slack, it is important to invest in education and training activities in anticipation of labour shortages in particular skill segments when economic recovery comes. According to Mitterauer *et al.* (1999), 45% of the enterprises employing a subsidised worker during the upswing said that they would also have employed the person without the subsidy. The proportion was somewhat smaller in the case of older workers. This suggests that deadweight costs are substantial. However, wage subsidies may be the best way to break the persistence of

56. *Outplacement* foundations aimed at reorientation and (re-)qualification of workers in companies that undergo significant staff reduction are another useful approach.

57. Winter-Ebmer (2000) points out that a combination of orientation, training and job-search assistance are important ingredients for a positive impact on employment opportunities.

long-term unemployment. The same study also concluded that 55% of those persons employed with the help of the subsidy had been unemployed for at least one year, and 6% for at least four years. The challenge seems to be to find the appropriate time in the business cycle to subsidise employment.

B. Active labour market policy

Considering that older workers make up an increasing share of the long-term unemployed (54% of all registered persons unemployed for over one year, in 2003), more effective measures for the needs of older unemployed are called for if their employment rate is to be increased significantly. A particularly successful way for unemployed older workers to re-enter the labour market is through *temporary work agencies* (TWAs). These are an institutional bridge between the outsiders and insiders. Once in an enterprise as a temporary worker, it is possible to check the adaptability and capacity of the worker to integrate into more sustained employment. If this experience is positive, temporary workers may transfer from the agency to an employer.

This practice was in vogue well before Austria allowed TWAs to engage in job-placement services in addition to sub-contracting employees. The legal change in 2002 was, however, the beginning of an active co-operation between the LMS and TWAs. As a result, TWAs registered their job openings increasingly with the LMS – in 2003, three major private sector personnel leasing firms were among the top ten employers of unemployed persons registered with the LMS. The LMS has finally come around to embrace the potential for collaboration with private placement agencies in order to improve job matching and to decrease public sector costs. Recently, the LMS has also taken steps to promote non-profit TWAs for groups of workers not usually catered for by the private sector (Box 5.2).

A two-pronged approach to education and training, *i.e.* to provide workers with the necessary skills to improve their employment opportunities and to counsel employers on the education and training needs of their personnel to keep up with technology, is a very promising road for active labour market policy. If the LMS subsidises strongly work-related (on-the-job) education and training measures especially for those groups that tend to be left out, *i.e.* older unskilled workers, improvements may be expected in the employment retention of those workers. However, in view of an ageing workforce, the LMS should focus increasingly on workplace requirements to promote the employment retention of older workers, for example, by provision of better counselling to employers and promotion and monitoring of age-diversity programmes.

Box 5.2. Flexwork: a good-practice example of the Austrian LMS

Flexwork (www.flexwork.at) is one of the non-profit temporary work agencies opened in recent years. It was established in 1997 in order to break the barrier of employment entry for experienced workers who wish to enter jobs other than through the traditional entry ports. In that way, they may access jobs that are usually filled from within the internal labour markets. The difference between a non-profit and a private work agency is that the former provide LMS-funded training to their employees at times when they do not work.

In the past few years, on average some 600 persons have been employed annually by this leasing company. Cumulatively, between 1997 and 2003 some 3 600 unemployed entered the labour market with the help of Flexwork – roughly 14% over the age of 45 – and 1 400 (or 39% of all temporary workers) were integrated into the employing firm on a permanent basis. These numbers may appear small compared with an unemployment total in Vienna of 80 000 in 2003. Nevertheless, given the high transition rate into the regular labour market, this process of integration deserves more attention. While Flexwork specialises in male workers in metal industries, similarly structured agencies could be envisaged in other industries and for other target groups (e.g. older workers) at comparatively low cost to the LMS.

Another promising route for the LMS is the validation of on-the-job competences, in accordance with EU-wide standard classifications of skills and competencies and in co-operation with the social partners and educational authorities. Currently, soft skills and experiences acquired on the job are not sufficiently assessed or measured. This is a particular disadvantage for the older unemployed whose initial qualifications tend to be outdated. Adequate validation of skills and experiences attained during working life could improve the reintegration potential. Other countries such as France, Norway and Australia have moved in this direction recently, as a means to promote higher education and to render non-formal competences transparent (see OECD, 2004c, 2005b and 2005c).

Wage subsidies are another way of reducing wage costs for particular target groups (thereby reducing the productivity gap) without changing the minimum wage regulations, seniority rules or other wage-setting mechanisms. Given the importance of seniority wages in Austria, wage and employment subsidies of the kind developed by the LMS are arguably an efficient way of assisting the older long-term unemployed into employment. From a macroeconomic point of view, such a policy, by increasing the labour supply and putting some downward pressure on real wages, may be expected to promote employment. Currently the numbers receiving wage subsidies are still small – some

40 000 persons or 1% of the workforce, of whom 25% are above the age of 50. This means that 5% of the older workforce receives a wage subsidy.

Wage subsidies to the employer may not, however, be sufficient. In addition, in-work payments to the re-employed worker may be needed to close the poverty gap that arises from relatively high unemployment benefit entitlements of older unemployed as a consequence of seniority pay. The (minimum) wage that an older unemployed person can expect to earn in a new occupation will not only be significantly lower than the “insider” wage in the previous job but also lower than the unemployment entitlement. Thus it will be too low for that person to move off the benefit roll, despite recent reform of work-testing in the unemployment insurance system whereby, after 120 days of unemployment, every job paying at least 75% of previous earnings has to be accepted. Also according to recent reform, in case of repeated unemployment after age 45, unemployment benefit recipients are entitled to a benefit based on their earnings level at age 45 if that was higher than the current earnings level. This is a major step forward to avoid impoverishment over time, but it does not suffice to make work pay for older unemployed, however willing they are to return to work.

The disabled unemployed, whose numbers are on the rise, merit special attention. They made up 13% of all unemployed in 2003. Two-thirds of them are men, and about one-third of both men and women are over 50. The Ministry of Social Affairs and Generations has embarked on a national labour market policy for disabled people in co-operation with the LMS. The objective is to bring marginalised disabled persons into the regular labour market, or at least closer to it. For the period 2001-2004, an additional EUR 73 million (the so-called *Behindertenmilliarde*) has been provided for subsidising support structures, employers and disabled persons, in order to improve employment opportunities for the latter. This initiative should be continued. The major policy focus is on the labour market integration of disabled young and older persons. The money is spent on improving the working conditions in enterprises, both in terms of equipment and counselling of personnel managers and works councils, thereby promoting the work ability of disabled people. Nevertheless, there is still a tendency by older workers and employers alike to prefer early exit from the workforce through disability pensions. As argued in Chapter 3, there is an urgent need to change this paradigm.

3. Towards a strategy of lifelong healthy ageing

A. *Sickness absence and health problems*

Older workers have on average twice as many sickness days per year as prime-aged workers, *e.g.* 20 days versus 10 (Figure 5.4 shows data for 1999, the last year for which education-specific information is available).⁵⁸ According to a recent study (Biffel, 2003), this significantly higher morbidity rate of older workers is the result of the combined effect of a lower educational attainment level (which explains one-third of the difference) and the higher age-specific morbidity risk (explaining the remaining two-thirds).⁵⁹

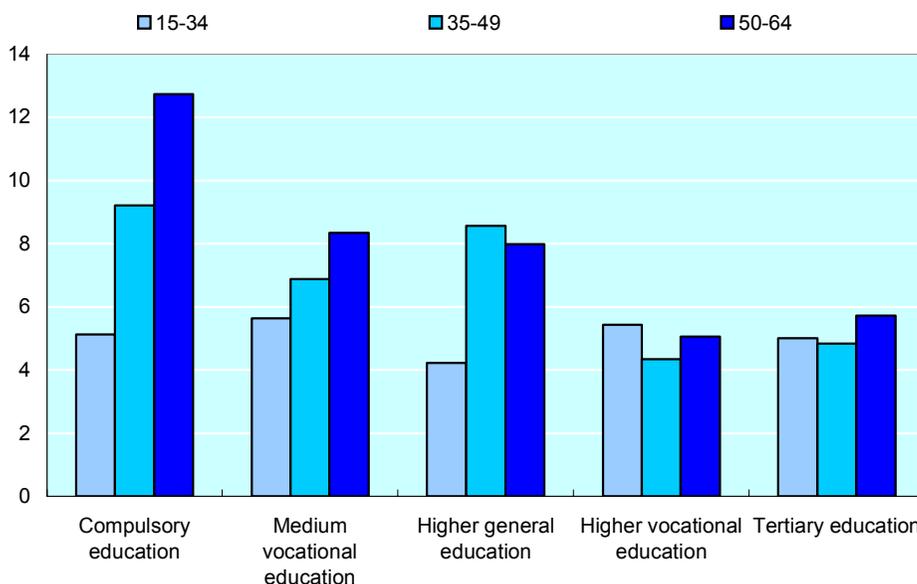
Work days lost due to sickness deserve particular attention in a country like Austria, with its high incidence of disability-related retirement. Sickness absence is often the first step to longer-term disability. The major job-related diseases in Austria are muscular-skeletal diseases, which accounted for 15% of all sickness days and 35% of all disability benefit inflows in 2002, with 30% of the population – older workers more than prime-age workers – suffering from infirmities of their locomotor system (Statistics Austria, Microcensus 1999). Mental and psychological problems, the incidence of which has increased by some 75% during the past decade, are the second most important cause for both sickness absence and disability benefit inflow.

58. Age has no bearing on sickness benefit regulations. Every worker has the right to benefit from the third day of sickness onwards and for a maximum of 26 weeks, unless the person has been employed for a period of six months before the sickness (in which case the right to benefit is extended to 52 weeks). After a 6- to 12-week period of continued full wage payment by the employer (a long period by international standards), sickness benefits drop to 60% of the last wage. This is significantly less than in, *e.g.*, Norway and the Netherlands, where 100% is paid for one year, or the 90% and 80% paid in Sweden and Switzerland respectively.

59. In general, there is an inverse relationship between the morbidity rate and the level of educational attainment. The means by which education may influence health is the lifestyle adopted (arising from greater awareness of the role of nutrition, smoking, physical exercise, frequency of medical visits), the different types of work-related stress and diseases for different educational groups, and (probably) the fact that persons with health problems tend not to move up the educational ladder to the same extent (see also European Commission, 2003a).

Figure 5.4. **Morbidity rate by age and level of education, Austria, 1999**

Average number of sick days per year



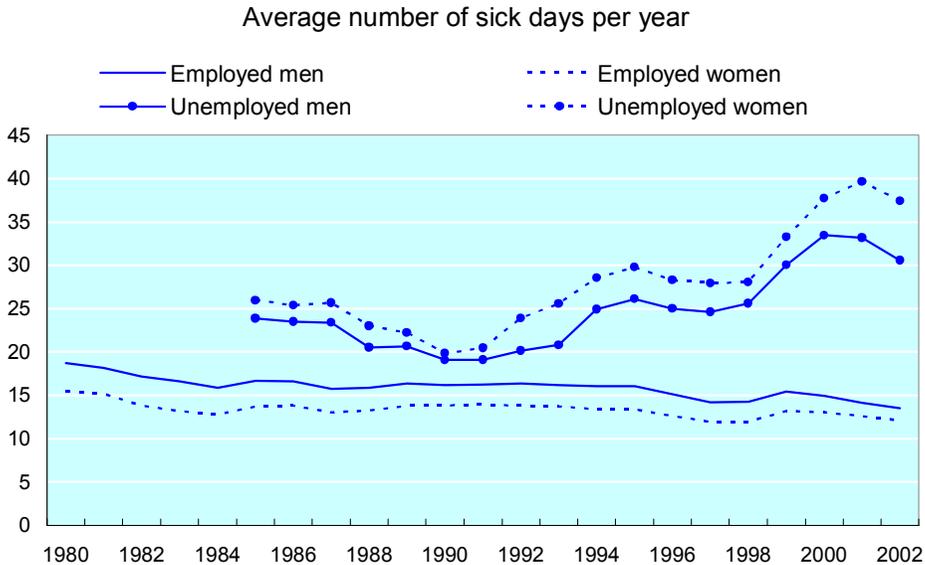
Source: Statistics Austria (Microcensus, March 1999).

There is a striking difference between the morbidity rate of employed and unemployed workers, independent of differences in the composition of the two socio-economic groups by age, education, and gender.⁶⁰ Why this is so deserves in-depth research. To a certain extent it may result from institutional factors, *e.g.* in Austria a spell of sickness interrupts the period of unemployment; thus, an unemployed may prolong the period of receipt of unemployment benefits through a spell of sickness. But this can only be a minor explanatory factor.

In Austria, in the past few years the morbidity rate of the unemployed has risen to more than double the rate of the employed. The difference has been increasing over time, particularly in the second half of the 1990s (Figure 5.5) Causal links are difficult to establish but may work both ways: health problems may be responsible for job loss but unemployment *per se* may also be a cause for ill-health, in particular psychosomatic types.

60. It should be noted that this differential morbidity rate is also experienced in many other countries; for more literature see European Commission (2003b).

Figure 5.5. **Morbidity rate of employed and unemployed by gender, Austria, 1980-2002**



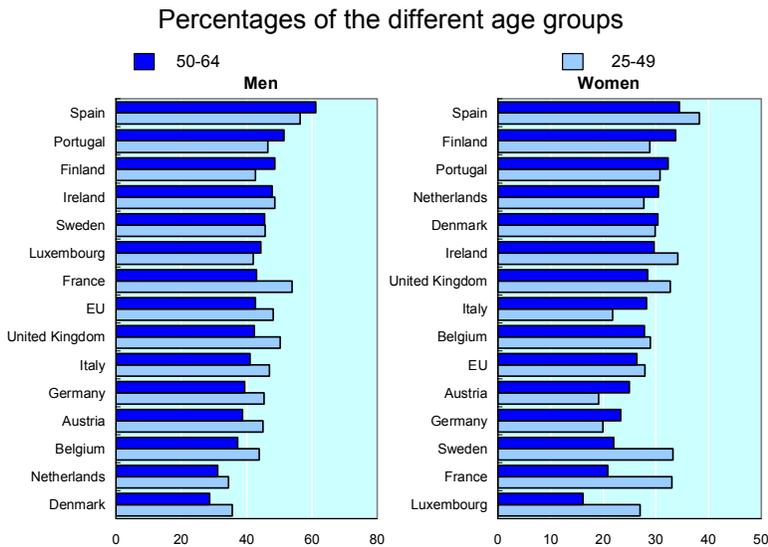
Source: Social Security Authority (*Hauptverband*), Secretariat calculations.

In 2002, the average annual duration of sickness absence of the registered unemployed was 33 days, compared to 13 days for wage and salary earners. The rise in the average morbidity rate of the unemployed may be attributed to the rising proportion of older persons in unemployment on the one hand, and to increasing morbidity rates of those over 30 on the other. In contrast, the morbidity rate of the employed population declined slightly from the early 1980s to the end of the 1990s for every major age group except the over-50s, for whom it remained stable.

The rising differential between the morbidity rates of the employed and unemployed may partially be linked to the structural change of employment away from occupations and industries with significant health hazards. While young and healthy laid-off workers moved back into employment relatively quickly, older workers and/or the less healthy remained on the unemployment register. This is suggested by analyses in Sweden (Knutsson and Goine, 1998) as well as Austria (Biffel, 2002b). In addition, screening of the employed by their health/absentee record in case of layoffs may also have played a role. This means that in the course of microeconomic reform, structural change and cyclical

downturns, persons with a bad health record would have been among the first to be made redundant. In addition, if unemployment *per se* acts as a psychological stress factor, the rising duration of unemployment will exacerbate health problems.

Figure 5.6. **Unpleasant working conditions by age and gender in selected OECD countries, 2000^a**



a) Workers reporting 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.

Source: European Working Conditions Survey.

Attention should be drawn to the possibility that health problems may be associated with unpleasant working conditions. The proportion of those working in unpleasant working conditions is below average in Austria compared to other EU countries, among men and women alike (Figure 5.6). The age pattern in this regard varies between men and women. Fewer older men in Austria are working in an unpleasant work environment than prime-aged male workers, while the reverse holds for women. This gender difference could be related to the difference in the educational attainment level in Austria, which is much lower on average for older women. As a consequence, older women move to a lesser extent than older men into supervisory positions which tend to be those with more pleasant work.

B. *The current approach to healthy ageing*

Regulations on industrial safety and health are the main tool aimed at securing a working life without work accidents or occupational diseases, or work-related health problems of a more general nature. Active and healthy ageing at the workplace will crucially depend on the implementation of these safety rules, particularly in more onerous jobs. The Austrian Protection of Workers Act is very broad, and includes various aims related to psycho-social and mental problems caused, for instance, by monotonous work, unbalanced strain, time pressure, work-related stress and an irksome working environment.

The key question in this regard is the actual implementation of these health and safety rules in Austrian companies, and the monitoring and control of the work inspectorate. In companies with more than 50 employees, employers bear the full prevention costs. They have to appoint an industrial medicine specialist, who in turn has to advise the employer, the employees and the staff members appointed as health and safety delegates about adequate working conditions and to help employers fulfil their obligations. Advice is given for a total number of half an hour per year and employee. In smaller companies with less than 50 employees, the accident insurance authority takes responsibility for the implementation of the rules. It does so by visiting the company for between one hour (in companies with 1-10 employees) and three hours (in companies with 21-50 employees) once every two years.

The work inspectorate operates on the basis of a strategic approach, putting the focus on anchoring systematic protection of workers in firms through intensive counselling, rather than checking the implementation of single instructions. The goal here is to strengthen the prevention of work-related accidents and diseases. In the future, an evidence-based and impact-oriented monitoring system will be installed for local work inspectorates, which will work on the basis of targets set by the national authority.

Direct public intervention aimed at preventing health problems is provided through the social security system. In the year 2002, for instance, the social security service spent some EUR 400 million on preventive health measures, while the accident insurance agency spent another EUR 43 million on accident prevention measures for employees and students, with particular focus on SMEs. In addition, preventive screening programmes have been implemented by the health authorities to raise the health status of people at all ages, and thus

promote their ability to work.⁶¹ Further, in order to develop cost-effective preventive health care programmes, the social security authority has embarked on a review of its activities in primary care in 2004. On the basis of an analysis of the best-practice primary care screening and counselling programmes in various OECD countries, Austria is currently putting together a programme mix (with the help of the Netherlands Institute of Primary Care Research) adjusted for the local demand and epidemiological situation. The health authorities plan to implement these new programmes to promote healthy ageing in 2005.

In spite of these regulations and public outlays, more can be done to promote preventive work practices that would maintain the work ability of employees and prevent burn-out. Much of the success of the current approach hinges on the employers, who have to make sure that they comply with health and safety regulations and that employees working in an environment that may cause occupational diseases are given regular check-ups. More support will have to be given to employers to strengthen the links and synergies between health and safety protection on the one hand and active health promotion on the other. The development in 2004 of a manual on safety and health management systems by the Austrian work inspectorate in co-operation with the social partners marks an important step in this direction.⁶²

Ideally, workplace measures to maintain work ability should target both the worker and the job. A comprehensive programme of actions should focus simultaneously on enhancing the workers' personal resources (such as physical, mental and psycho-cognitive coping ability) and on adapting the work environment, workplace relations and work processes. Weak work performance may be the result of excessive physical, mental or psychological stress, conflicting combinations of job demands and control, or simply bad management and work organisation.

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61. On average, about 13% of the entire adult population (figure for 2002) and 17% of the 50- to 64-year-olds undertake a preventive health check. It would seem that so far there is either limited public awareness of the availability of annual preventive health checks free of charge to every person from age 19 onwards, and there is little or no appreciation of the public that the use of these facilities may significantly improve their health in the long run.
 62. This manual, prepared on the initiative and under the supervision of the Austrian Federal Ministry of Economics and Labour, is the realisation of the ILO's code on safety and health management systems.

In order to ascertain the extent to which enterprises implement health-conscious work practices, and to what extent they see the need for it, a workplace survey could be valuable. The results of such an exercise could serve as a basis for developing institutional support for the implementation of a comprehensive system of human resource management policy. In Finland, such a workplace survey was undertaken in 1997 to set the scene for the development of a comprehensive support network for employers and employees with the objective of improving health and work ability and thus raising job performance and productivity (OECD, 2004a).

C. Improving lifelong work ability at all ages

A comprehensive approach is needed to improve work ability at all ages – following the example of Finland, which started to implement a series of programmes to improve the health of workers almost ten years ago (Box 5.3). These programmes have contributed to the strong rise in older workers' employment rates in Finland over the past decade. "Work ability" looks at the interplay between all the factors that enable a person to function well in a job, and thereby aims to balance personal factors – health, skills, motivation – with the job itself. Sickness prevention and health promotion at the company level are important building blocks that have to be augmented by health management.

In addition, working conditions need to be consistent with the requirements of an ageing society. This implies the promotion of management principles that aim at balancing the age and gender mix to complement the strengths of either. Teams consisting of older workers (who contribute their experience and established skills) and younger workers (who contribute new technical skills and physical strength) have been shown to be both economically efficient and socially promising. In this connection, it is interesting to note that young men on civic service in Austria are often put to work with older workers in the social and health services, as the combination of the strength of youth and experience of age contributes to the prolongation of employment of the older employees in these services. Further, particular attention should be given to the efficient use of the most scarce labour resource in the next two decades, namely prime-age workers drawn from the "baby slump" generation.

When devising a system of lifelong work ability, account has to be taken of the greater variation in physical and cognitive ability among older people than among the young. In addition, work ability is affected by physical and mental health that tends to be lower among the less-educated and low-paid workers. This implies that more flexible working hours, in particular more

part-time work, in combination with transfer payments to ensure a decent living, could raise the employment rate of unskilled older workers. In addition, older workers should not be required to do shift work, particularly associated with night work, because of their lower capacity for such work (Spurgeon, 2003).

Box 5.3. Programmes in Finland to improve the health of workers

Shortly after the end of the economic recession in the mid-1990s, a series of government programmes were introduced in Finland. These focus on improving work ability and working conditions in order to promote longer working lives.

The Workplace Development Programme

Launched in 1996 by the Ministry of Labour together with the social partners, this programme provides expert support to workplaces striving to improve the quality of working life. The programme has been extended beyond its original end-date of 2003.

The Well-Being at Work Programme

This programme, which ran from 2000 to 2003, operated at four levels: information provision and promotion of good practice; research and utilisation of research findings; support and funding for development projects; and monitoring of legislation. The main goal was to encourage people to stay in work longer.

The National Programme on Ageing Workers

This largest and best known of Finland's public programmes for older workers sought to improve employment opportunities and the work ability of people over the age of 45, both in work and unemployed. Proposed by a special committee in 1996, the programme ran from 1998 to 2002. It was implemented jointly by the Ministry of Social Affairs and Health, the Ministry of Labour and the Ministry of Education. The focus of the programme varied over time. In the initial phase, most measures concentrated on legislative amendments and information campaigns. The middle phase involved research and development projects, while the final phase focused on management training and development of the workplace.

The VETO programme

This programme was introduced by the Ministry of Social Affairs and Health in 2003. Based on the experiences of the previous programmes, it seeks to ensure that people can fully participate in working life, encourages workers to stay on longer, and addresses job quality. The programme will run until 2007.

Different patterns of health problems by gender suggest that there are factors other than education that account for differences in health. Given the strong gender segmentation of the labour market, more research into occupational patterns of diseases, the working conditions of men and women, and the impact of those conditions on health over the life cycle seems

warranted. Evidence so far indicates that some occupations cannot be carried out over a whole working life without causing physical or mental harm. For occupations with limited vertical career options, the development of horizontal alternatives would facilitate the prolongation of employment as well as provide the stimulus and interest of a new job and a different environment.

The socio-economic differences in morbidity rates suggest that in order to improve the health status of the unemployed, an important element of policy to promote the re-employment of the (long-term) unemployed lies in health promotion. Synergies between employment and health policies could be facilitated by introducing health awareness measures into active labour market policies and linking them with skill promotion and more part-time work, particularly for the long-term older unemployed. This would reduce work-related stress, promote healthy lifestyles and, by addressing the health problem of the long-term older unemployed, foster their chances of finding a job. Promoting the health of the unemployed will not only improve their well-being but will also contribute to economic growth.

Adequate financial incentives for employers to fulfil their key role in raising the employability and work ability of their workers are crucial. Health awareness on the part of employers would be increased by the introduction of risk-rated accident insurance premiums, possibly supplemented by experience-rating. Through uniform employer contribution rates, costs of work accidents are fully socialised. This is not an adequate way to promote the prevention of work accidents and occupational diseases, as the procedure tends to subsidise jobs, enterprises and industries with an above-average proportion of “risky” occupations and tasks. This system contributes to the prolonged survival of unhealthy and risky work environments compared to other advanced modern societies. That is why today most OECD countries use risk-rated (and some also experience-rated) work injury insurance premiums.

In addition, alternative ways of funding benefits for general disabilities (which are also fully socialised) could be discussed. Many of these disabilities – not least the stress-related ones – are work-related, and often result from poor working conditions or from workplaces that ignore the well-being of the employee. Some contribution to the costs of the disability pension programme of employers who generate a disproportionate number of disability benefit recipients could be envisaged. In doing so, the age structure of the company’s workforce and average age-specific disability risks would need to be taken into account to avoid any disincentives for employers to hire or retain older workers.

Finally, it is worth mentioning that it would be naïve to assume that policy automatically has the full support of all employees in improving working conditions. In many branches workers receive extra pay for working under exceptional circumstances (*e.g.* an onerous work allowance, a dust allowance or a noise allowance), extra pay that has become part of the regular income which young and healthy workers in particular will often be unwilling to forego. In other words, in various industries investing in health and safety regulations might have to go hand in hand with a reduction in wages. This factor also ought to be taken into account by policy makers and the social partners.

Chapter 6

CONFRONTING POLICY DILEMMAS AND OBSTACLES

As made clear in previous chapters, action is required on a number of fronts to encourage the participation of older people in Austria's labour market. The country has taken several steps into the right direction in recent years, but more needs to be done if the objective of raising to 50% the employment rates of those aged 55-64 by 2010 is to be achieved. That will require a comprehensive, coherent and balanced package of measures. It will also require appropriate macroeconomic policies and structural reform, because general labour demand will need to be boosted at the same time.

1. Getting the economic fundamentals right

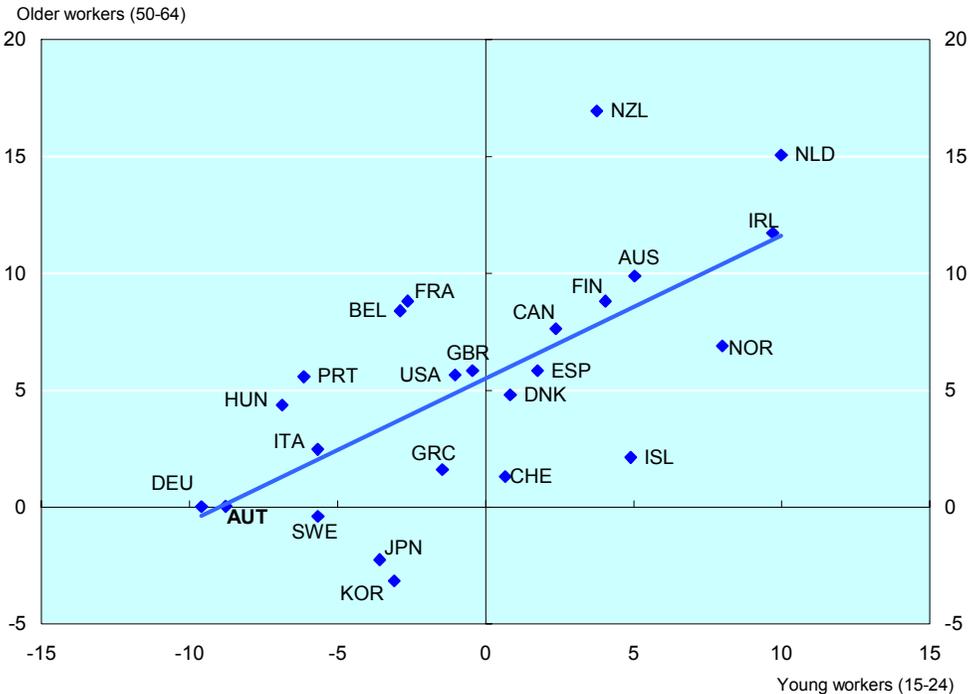
Until the mid-1990s, much of the reform agenda concerning labour market and retirement policies was driven by the assumption that a high rate of employment among older workers reduces employment opportunities for new labour market entrants and younger workers. That is no longer the case, for two reasons. First, rapid population ageing in Austria (and in most other OECD countries) is changing the issue. Young workers are becoming a scarce resource while older workers are increasingly becoming indispensable for the economy, despite all the ongoing economic and industrial restructuring and technological change. But employment practices and habits that have developed in the course of policy making during the last thirty years have yet to adapt. Downsizing through massive recourse to early retirement, widespread in the past and in many cases even now, is simply no longer a viable (or possible) option.

Second, the current situation is not one of older and younger workers competing over a fixed number of jobs. Rather, empirical evidence points to a positive relationship between employment outcomes for the two groups. As can be seen from Figure 6.1, an increase in employment rates for older people tends to be associated with an increase, not a decrease, in employment rates for younger people. This underlines the role of macroeconomic and other policies

in helping boost labour demand more generally. Workers of all ages benefit from the removal of demand-side barriers to employment, and from product markets that are dynamic and responsive to new business opportunities.

Figure 6.1. **More jobs for older workers do not mean fewer jobs for younger workers**

Percentage point change in employment-population ratios, 1992-2002



Source: OECD Labour Force Statistics and Statistics Austria/WIFO.

Thus, older workers will face better employment prospects if economic growth and overall employment growth are strong. In particular, their opportunities will be enhanced by tackling barriers to job creation more generally, in areas such as unemployment benefits, wage and non-wage labour cost flexibility, working-time flexibility, the entrepreneurial climate, product market competition and skill formation. It is important that Austria continue to pursue reform in these areas as outlined in the OECD *Jobs Strategy* recommendations in the mid-1990s and later formulated specifically for Austria in 1997 (see Box 3 in OECD, 2001).

2. Ensuring policy balance, coherence and complementarity

A major challenge for policy is to find an appropriate balance between measures to remove early retirement incentives and those that promote better employment opportunities for older workers. Policy makers in Austria have tried to achieve that balance by complementing comprehensive pension reforms with labour market reform packages for older workers, both through the *Pact for the Elderly* in 2000 and the *Pension Stability Reform* in 2003. However, these measures do not seem sufficiently far-reaching, especially given the pervasive character of the early retirement culture in Austria, a culture that undermines policies to raise the demand for older workers.

This is why *all* early-retirement incentives must be tackled if demand-side measures are to be truly effective. In the absence of disability pension reforms or critical appraisal of the old-age part-time employment scheme with its block option, a substantial part of those people who, in the future, will no longer have access to early retirement under the old-age pension system may end up being transferred to either one of the two schemes, thus effectively preserving early exit options. For the same reason, backtracking on the recent pension reforms as suggested by various political actors in Austria would be unfortunate, as it could stop measures aimed at improving the employability of older workers and removing demand-side obstacles from having any substantial impact.

Recommending further reforms on the supply side is not incompatible with calling for more effective measures to stimulate labour demand. Indeed, complementary measures should be envisaged. In particular, comprehensive reform of the disability pension scheme should go hand in hand with measures to enhance the ability of older workers through better working conditions and more investment in healthy workplaces; further opportunities for training; improved re-employment chances for the older unemployed; and a stronger emphasis on medical and non-medical rehabilitation of older workers.

Furthermore, the way that different kinds of interventions interact needs to be taken into account. For instance, active labour market policies aimed at getting the older unemployed back into work are likely to be more effective when demand-side barriers (such as hiring and firing costs) are reduced as well. Similarly, promoting the employability of older workers is best achieved through the combined actions of various labour market institutions, *e.g.* collective bargaining to reduce the importance of seniority-based wages and the LMS and regional government promoting education and training. Finally, coherence also means avoiding

ambiguous policy signals; in recent years, the public sector as employer has set the wrong example by encouraging early labour market exit for public employees.

3. Better policy co-ordination through a broader ageing strategy

Policies directed at older workers may need to be integrated in a wider strategy to cope with population ageing. Clearly, raising the labour market participation of older people would help alleviate the negative impact of population ageing on labour force growth. Older workers are not, however, the only group whose labour resources are underutilised. Another group is women, in particular mothers of young children. For them, employment policies promoting the combination of work and family life should be a crucial element in such a wider strategy. Ideally, such policies – including possibilities for qualified part-time work and more affordable high-quality childcare facilities – could help raise female employment as well as fertility, leading to an increase in labour supply in both the short and long run.

Broader strategies to cope with population ageing have been developed in a number of OECD countries, *e.g.* Australia and New Zealand. In other countries, such as Finland, Japan and the United Kingdom, a strategy or framework for policy action has been set out more specifically to encourage later retirement.

The Finnish experience in particular could serve as a benchmark for Austria. Finland, like Austria, has a long tradition of early retirement through disability pension schemes. Both countries have recently abolished an early retirement option on the grounds of reduced work capacity, which was supposed to limit the inflow into the disability pension scheme. For some time now, Finland has been targeting the health problems of older workers successfully by combining measures on the supply side (with an emphasis on rehabilitation) and the demand side (with an emphasis on creating healthy workplaces). Many of these programmes can offer useful models (see Chapter 5 and OECD, 2004a).⁶³

In setting up a broader strategy, it would be important to involve not only the federal but also local and regional governments, the LMS, the social partners and the social insurance authorities, as well as business and providers

63. The implementation of the Finnish programmes required the consensus of all of the actors and authorities involved. Such consensus should be possible in a country like Austria as well, given its tradition of close cooperation between the government and the social partners.

of adult education and training. Furthermore, quantifiable goals should be established that can be measured, evaluated and followed up in order to monitor the impact on the labour market performance of older workers.

4. Improving the evidence base

Austria needs to devote more attention to monitoring and evaluating policy reform generally. Often, very little is known about the net impact of a particular measure. Such is the case with the bonus-malus incentive system and the reduction in social security contributions for older workers, both of which are aimed at influencing employers' hiring and firing behaviour. Not much more is known about the impact of active labour market programmes provided by the LMS, which tend to be assessed in terms of post-programme employment rates that say very little about the net effects. Equally unclear is the impact and effectiveness of adult learning. Currently, measures tend to be modified without a solid evidence base, *i.e.* more as a consequence of anecdotal evidence rather than of a rigorous, systematic evaluation of their effectiveness and efficiency. That calibre of evaluation would help establish what works and what does not, and allow the inclusion of this evidence in further policy design and implementation. Thus, as part of the policy design, it is important that procedures are put in place that allow for systematic policy evaluation.⁶⁴

The lack of evidence partly reflects a lack of data; adequate statistics are a prerequisite for the evaluation of policy outcomes. Not having good combined information on hourly wages and employment patterns constitutes one of the main barriers to differentiated labour market analyses and impact studies of policies. The only data source on hours worked is the Labour Force Survey, which does not provide statistically reliable information for small population groups. The knowledge base on older workers could be extended by:

- Conducting a survey on employer attitudes and practices in relation to the age and skill levels of their workforce and of new job applicants, differentiated by industry and firm size, to identify the major barriers to the employment of older workers.

64. More generally, there is a striking lack of labour market research in Austria, both as to the hiring and firing behaviour of employers and regarding employee behaviour in response to financial and/or other types of incentives. This lack of evidence explains why the advantages and disadvantages of certain policy measures are often heavily disputed.

- Carrying out a (longitudinal) workplace survey among employers and employees to assess working conditions and ascertain the extent to which enterprises implement health-conscious work practices (or indeed see the need for it); this could serve as a basis for developing institutional support for human resource managers.
- Creating a longitudinal survey that would follow older workers over time. That way the factors influencing retirement decisions and their consequences in terms of income and well-being – as well as the impact of reform – could be better understood.⁶⁵
- Conducting a survey to identify the capacities of workers of any age, especially as to their reading, writing and numeracy skills.

5. Conclusion

Policy makers face various dilemmas in their attempts to raise the older population's low rate of labour force participation and to reverse the long-term trend to early retirement. Measures to improve the employability of older workers will probably not achieve their objective as long as early retirement pathways have not been eliminated or made sufficiently unattractive. At the same time, any increase in statutory retirement ages in line with life expectancy should go hand in hand with a strengthening of measures to help workers facing the greatest difficulty remaining in work. Otherwise, a rise in labour force participation rates of older workers could be accompanied by rising unemployment and/or increasing numbers of workers in low-quality jobs.

Difficult choices will also have to be made between competing policy objectives. For example, measures to promote phased retirement could encourage some workers to stay in the labour market longer, but, if they otherwise encourage full-time workers to switch to part-time work, the net result could be a reduction in effective labour supply in terms of hours worked. A related issue is the optimal policy with respect to retirement choices. Ideally, workers should be able to choose the age at which they leave the workforce, as long as they bear the costs of their own decision (or share these costs with their employers). However, even if those costs are shared, early retirement in large

65. Such a longitudinal survey on the retirement behaviour of Austrians could be based on the European SHARE survey (Börsch-Supan *et al.*, 2005) or integrated in what might become the European Longitudinal Ageing Survey that the European Council in Lisbon has been asking for.

numbers could have a negative impact on economic growth and the sustainability of age-related public expenditures apart from the pension scheme. This in turn may require further action on the part of government, possibly including restrictions on individual choice.

Another difficult choice is the extent to which age-specific measures should be used to remove barriers to the employment of older workers. Austrian policy is characterised by various age-related regulations, such as the bonus-malus incentive system for hiring the unemployed over the age of 50 and firing workers over that same age; somewhat stricter employment protection for workers over that age; and reductions in social security contributions for all workers aged 56/58 and over. Such measures can help, but they often come with high deadweight loss and tend to have negative effects on the mobility and job changes of older workers. Age-specific measures may also sometimes increase rather than reduce age discrimination by reinforcing negative stereotypes about older workers. Age-diversity management, on the other hand, is geared at maximising the productivity of workers at all ages through, for instance, age-appropriate job design. This should improve the chances of older workers staying in their jobs.

Finally, it is important to recognise that older workers are a very diverse group. Thus, it is unlikely that government policies will by themselves be able to tackle the full range of barriers to finding and keeping a job that each older person faces. What is required are the creative solutions that the social partners and other non-governmental organisations representing older people can propose to improving opportunities for longer working lives. Close co-operation should be encouraged between these groups and government.

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Ageing and Employment Policies

Austria

In the face of rapid population ageing and the trend towards early retirement, there is a need to promote better employment opportunities for older people. Much has been said about the need for reform of old-age pensions and early retirement schemes but this may not be sufficient to raise employment rates for older people significantly or to reduce the future risk of labour shortages. Both governments and firms will need to take active measures to adapt wage-setting practices to ageing workforces, to address the extent to which other welfare schemes act as pathways to early retirement, to tackle age discrimination and to improve the job skills and working conditions of older workers. In addition, older workers will need to change their own attitudes towards working longer and acquiring new skills. Little is known about what countries have been doing or should be doing in these areas.

This report on Austria is part of a series of around 20 OECD country reports that are intended to fill this gap. Each report contains a survey of the main barriers to employment for older workers, an assessment of the adequacy and effectiveness of existing measures to overcome these barriers and a set of policy recommendations for further action by the public authorities and social partners.

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