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Early retirement and social security systems. – The situation of elderly workers in Denmark, Finland, Norway and Sweden

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1. Introduction

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In the entire western world the age distribution of the population is changing with the mean age of occupationally active people increasing. The main underlying factors for both these events are improved health in the middle-aged and elderly, cyclic variations in birth rate, as well as a larger proportion of middle-aged and elderly women in the work force. The consequences for the labour market are vast. The middle-aged and elderly are physically weaker and have more diseases than the young; on the other hand they have experience and knowledge that cannot be matched by the young.

Clearly these changes must be considered in the design of work. Although international organizations, state institutions and employers are increasingly aware of the problem, very little has been done in order to achieve changes. The explanations for this are probably to be found in a mixture of factors like lack of problem awareness, absence of economic incentives, lack of ideas and strategies conducive to reasonable problem solutions and insufficient ability in organizations to cope with a problem of such multi-faceted nature. Moreover, securing employment for young people is probably considered a more pressing problem to solve.

Since 1990, the Nordic Council of Ministers has supported an inter-Nordic research project "Working environment of elderly employees". One of the aims is to identify work design systems that support and efficiently utilize the capabilities of the middle-aged and elderly. This aim can at least in part be achieved by comparing the situation for elderly workers in the Nordic countries.

One consequence of the inability of the labour market to adapt to the demands and capacities of the elderly is the high rate of premature elimination from the labour market. For several years, people above 50 years of age have been leaving the labour market at a high rate in the Nordic countries. The rate of employment among the elderly is a complex phenomenon where the main determinants, apart from the above, are the general unemployment situation and the social security systems. Thus, occupational activity and elimination from the labour market must not be discussed without knowledge of these systems.

In this publication the situation for the elderly on the Danish, Finnish, Norwegian and Swedish labour markets is discussed in four papers. As a background the social security systems and their utilization are also described. These contributions were originally presented and discussed at a Nordic seminar arranged in Stockholm in November 1991. In addition, a summary of a Finnish questionnaire survey of attitudes to early retirement is presented.

In the final chapter a comparison is made between the situation in the Nordic countries. An attempt is also made to identify factors in legislation that favourably

influence the possibilities of the elderly to remain in working life, or - when work is no longer possible - to enable them to leave work under acceptable circumstances.

7. Final discussion

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When faced with long-lasting unemployment or sickness and above 50 years of age, what do you do? Or even, when you feel worn out by work without any specific ailment, what are the alternatives? In any of these situations you would look for a way to leave the labour market that will still satisfy basic needs.

Seen from a different viewpoint - by which systems does society cope with the problems of unemployment and diseases in the elderly? In all Nordic countries society provides both mechanisms intended to prevent such situations from happening and basic economic support when they do happen. However, the form of this support and of the preventive mechanisms vary between the countries.

In this chapter differences in social support and its utilization between the Nordic countries will be discussed, based on information in the previous chapters and additional statistics from the Nordic countries (1, 2). Conclusions will be drawn concerning factors in social security systems that favourably influence the possibilities for the elderly to remain healthy and productive in working life. In many cases, however, neither health nor productivity can be maintained, and the alternative ways to leave the labour market will also be discussed.

The discussion is based on the assumption that ageing, health and ability to work vary between individuals, and can not be predicted from chronological age. Thus systems which allow flexibility are required.

Early retirement

In general, early retirement has been granted in all Nordic countries on the basis of disability, i.e. for health reasons. In 1979, however, the high rate of unemployment in Denmark, especially among young people provoked a change in legislation whereby the early-retirement pay (efterløn) was introduced. This system is applicable for 60-66 year olds and was originally used predominantly by the unemployed, but is now also used as an early retirement scheme, without preceding unemployment. Since the system was introduced the attitudes towards early retirement have changed in Denmark. The early-retirement pay is seen as a possibility to improve quality of life after retirement, and has probably brought about a less moralistic attitude towards work. Other early retirement schemes in Denmark - like the early-retirement pension, which is granted at any age before 66 - puts more emphasis on poor health and disability. But even here a relatively large proportion of pensions are granted for social reasons.

In Norway, Finland and Sweden early retirement is granted predominantly due to disability. For many years alternative early retirement schemes in the form of

unemployment pension (Finland), pre-term utilization of age pension (Finland, Sweden) and partial pensioning (Sweden, possibly to be abandoned in 1992) are operating. These latter two schemes have been devised to satisfy needs and wishes of those who wish to reduce their working time for reasons other than disability or poor health. They have, however, never become very popular. One explanation for this is probably that these schemes provide economic support at a lower level than in early retirement schemes granted for health reasons. In such early retirement schemes the insured persons often receive additional compensation from pensioning funds based on collective labour market agreements.

Norway can probably be described as the Nordic country where the disability aspect is most strongly emphasized in legislation. In addition, normal old-age pension is not granted in Norway until age 67. In Finland, on the other hand, pensionable age is 63 in the public sector and 65 in the private, with many occupational groups having an even lower pensionable age. In fact, the application of early retirement schemes in Finland has been more liberal than in Sweden and Norway, so that the average age of retirement is now only 58 years. Large stresses on the Finnish population during the second world war are likely to have influenced legislation towards a more liberal attitude to early retirement. In addition, part time job appears to be less common in Finland which may increase the strain on the working population and thereby forcing a larger proportion into early retirement. In Sweden the corresponding average retirement age was 62.3 years in 1989. Comparable figures for all the Nordic countries date from 1983, and were then 64.9 and 63.3 years for men in Norway and Denmark respectively, and 63.4 and 61.6 years for women. Although retirement age is probably lower today, the figures for 1983 were higher in Norway than in any other country.

In all countries prolonged sick-leave and extension of the duration of unemployment periods are used to ease the situation for the elderly.

In Sweden, one component of the social security system - the compensation system for occupational injuries - is associated with long periods of sickness absence due to the delays and the insufficient decision capacity of the organization receiving notifications of occupational disease. Such long absences may, of course, in themselves lead to early retirement, in particular with elderly employees. The criteria for occupational injuries, especially with regard to occupational musculoskeletal diseases, are wider in Sweden than in the other Nordic countries. This has led to an acceleration of the number of reported injuries and very high costs, and stricter criteria for approval of these cases have now been proposed. A factor contributing to the high rate of reporting in Sweden is that the benefits are better than for other disorders, not related to work. In addition collective agreements with private insurance funds increase the level of compension to an even higher level.

Unemployment

The rate of unemployment has for many years been high in Denmark and low in Norway, Finland and Sweden (Table 1). Unemployment rates for young age groups (< 25) have consistently been higher than in other groups, whereas the elderly (55-64 years) have not differed systematically from the middle-aged (25-54 years). In 1991 and the first part of 1992 unemployment has increased drastically in Finland, Norway and Sweden, but there is still no consistent difference between middle-aged and elderly.

Table 1. Unemployment rates (%). Data based on sample surveys of each country's labour force. Persons employed in relief work or doing labour market training are not included in the statistics. The Danish statistics differ slightly from the other Nordic countries, because of EC guidelines. Observe that the unemployment rates given in this table are lower than those obtained from registrations at employment offices. However, these latter figures cannot be provided on a comparable basis for the different Nordic countries, neither are they subdivided by age groups.

	Denmark		Finland		Norway		Sweden	
	25-54	55-64	25-54	55-64	25-54	55-64	25-54	55-64
1981	8.7	8.7	3.8	5.4	1.5	0.7	1.8	2.0
1985	5.9	4.7	3.9	6.5	2.0	1.0	1.9	4.0
1990	8.3	7.3	2.8	3.8	4.2	2.3	1.1	1.4
1991	-	-	6.6	7.1	4.4	2.6	2.1	2.0

All Nordic countries have unemployment benefits which under certain minimum conditions are paid for a period varying from 300 days (Sweden) to several years (Denmark). Usually the period is longer for the elderly. If unemployment lasts more than the acceptable time for an elderly person, it is usually transformed to early retirement (see above).

None of the Nordic countries has much to offer in terms of job assignments for the elderly above 60 years of age, and special labour market arrangements, like training and job creation, are almost entirely limited to age groups below 55-59. In Sweden, however, attempts have been made to provide special "senior employment agencies" for age groups above 60. The experience so far has been very positive but the success seems, to a large extent, to depend on individual initiatives.

Labour force rates, sick-leave and rehabilitation

Relatively large differences between labour force rates exist between the Nordic countries (1, 2). A very high proportion of middle-aged men and women (25-54 years) are in the labour force in all Nordic countries (Table 2, 3).

Table 2. Labour force rates by age group, men. Data based on sample surveys of each country's labour force. Persons included are those working > 1 hr per week.

	Denmark		Finland		Norway		Sweden	
	25-54	55-64	25-54	55-64	25-54	55-64	25-54	55-64
1981	95.2	71.8	92.4	57.2	94.1	81.3	94.9	78.1
1985	92.8	64.6	93.5	51.7	94.5	78.3	95.2	76.0
1990	94.7	68.2	92.8	45.8	92.1	72.8	95.1	75.5
1991	-	-	92.2	45.8	91.5	71.7	94.6	75.5

Table 3. Labour force rates by age group, women. Data based on sample surveys of each country's labour force. Persons included are those working > 1 hr per week.

	Denmark		Finland		Norway		Sweden	
	25-54	55-64	25-54	55-64	25-54	55-64	25-54	55-64
1981	81.4	50.3	83.4	44.8	70.4	50.9	84.8	57.5
1985	83.7	41.4	86.5	46.2	75.1	52.7	88.9	59.9
1990	88.2	45.3	86.1	39.4	79.2	53.7	91.3	66.3
1991	-	-	85.5	39.9	79.1	54.5	90.5	66.9

Compared with other countries, the labour force rates in the elderly female age groups (55-64) are very high in Sweden and Norway but relatively low in Finland (Table 3). In Sweden the rates among middle-aged and elderly women have increased steadily in the last 10-15 years. The other Nordic countries seem to follow, and there is a trend to increasing proportions of middle-aged women joining the labour market. However, it is only in Sweden and Norway that this trend also applies to elderly women (Figure 1). The cost of this change in Sweden has been relatively high in terms of prolonged sick-leave. From an equality point of view however, the development has been favourable. In Norway, there are indications that the increased employment of women, especially in unskilled jobs, has led to higher numbers of middle-aged and elderly women receiving disability pension.

The trend concerning the male labour force rates is that the elderly (55-64 years) men leave the labour market in all Nordic countries, especially in Finland (Figure 2).

Recently, new legislation concerning rehabilitation has been introduced both in Finland and Sweden. The aim is to decrease long-term sick-leave, by both stricter obligations on employers to set up rehabilitation programmes and better compensation levels for those employees who undergo rehabilitation.

As demonstrated in Sweden, the risk of prolonged sick-leave terminating in early retirement increases with age. The power of rehabilitation programmes to prevent early retirement has not been sufficiently documented, but some experience from Sweden suggests that such programmes may be effective. Results

FEMALES, 55-64 YEARS

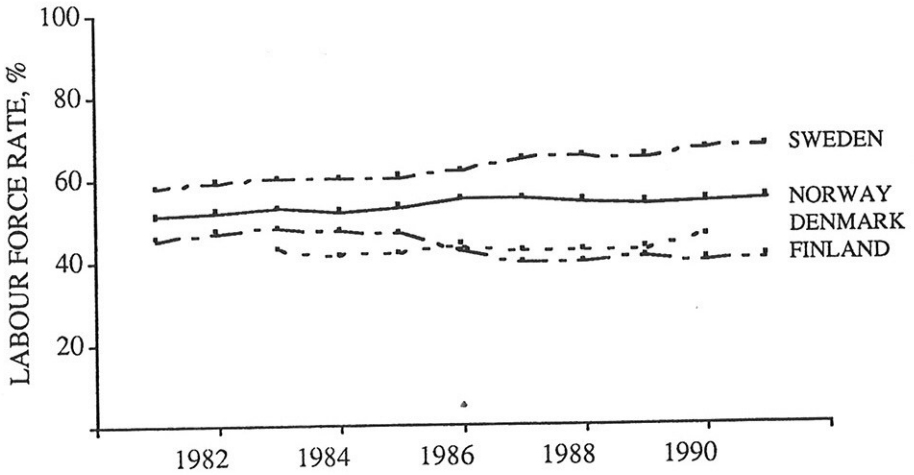


Figure 1. Labour force rates of the elderly (55-64 years) female population in the Nordic countries. Data based on sample surveys of each country's labour force.

MALES, 55-64 YEARS

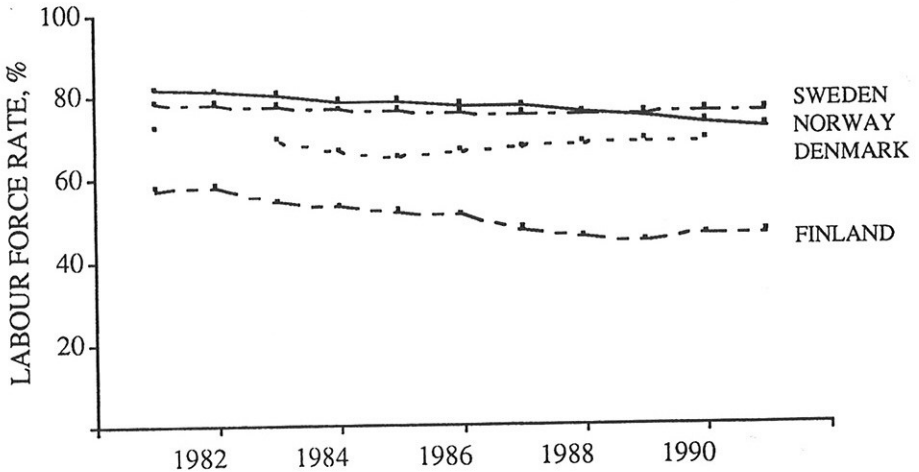


Figure 2. Labour force rates of the elderly (55-64 years) male population in the Nordic countries. Data based on sample surveys of each country's labour force.

from Finland indicate, however, that rehabilitation must take place at a very early stage, and that once capacity has been reduced to a certain level, the likelihood of return to work goes down markedly. Experience both from Finland and Sweden indicate that occupational groups with physically stressful jobs are more difficult to rehabilitate than others.

The conclusion concerning elderly, i.e. persons 55-60 years of age or more, is that rehabilitation measures will probably not be very effective in bringing them back to work. In the long term perspective, however, such measures may be effective in supporting individual functional capacity for a few more years.

Changes in the social organization of work and in company policies towards elderly employees, could probably also increase the number of elderly employees, as indicated by ongoing research in Norway.

Attitudes to early retirement

Both experience of the early-retirement pay in Denmark and the questionnaire study from Finland (Huuhtanen and Piispa, this volume) indicate that attitudes towards early retirement are changing. It is no longer acceptable, for large groups of people, to retire so late that health has been severely impaired. Disability pension is not an attractive alternative, even if the compensation is good. Expectations of reasonable life circumstances even after retirement dominate. It is also noteworthy from the Finnish study on attitudes, that the older groups do not emphasize changes at work as much as do the younger groups. One possible explanation is that the elderly do not expect such changes to benefit their individual case, since they are already close to retirement.

Even if attitudes towards early retirement are changing, a considerable number of elderly people still prefer to remain employed up to the normal pensionable age and even beyond.

Conclusions

It is important to consider these attitudinal changes when discussing how a system that benefits the elderly should be designed. Obviously there has to be a balance between public expenditure and individual expectations of good quality of life after retirement. When considering designs of retirement schemes for elderly employed or, conversely, schemes aiming at retaining elderly employed, the overriding objective should be to achieve a "goodness-of-fit" between individual resources and requirements. Resources in this context implies the knowledge, skills, experience, motives and ambitions of the person concerned, and with requirements are implied both the demands on the labour market and the situational requirements, including stresses and strains arising from carrying out work tasks.

The finding of this "goodness-of-fit" calls for flexibility in the solutions and the taking into regard of social factors and the labour market situation. The strict rules requiring recognition of a disability to be granted early retirement - such as the systems in Norway and Sweden - do not seem to provide such flexibility. On the other hand more permissive systems, such as those in Denmark and Finland, apparently contain disincentives for return to work. If this is correct we have, as researchers, reservations. Keeping economic aspects aside, we feel that work in itself may contribute in a significant way to quality of life for elderly persons, provided a satisfactory "goodness-of-fit", as referred to above, can be achieved.

The elderly possess much experience and knowledge that must not be disposed of by way of a more liberal early retirement scheme. Neither the state, nor the individual company will benefit from such a system. The attraction of early retirement must therefore be counterbalanced by a design of work that suits the elderly better. Such redesign can range from improved work organization, e g with flexible working hours, to improved opportunities of training new skills, and improved ergonomics at work. It is obvious that such actions must be taken at an early stage, because rehabilitation after age 55-59 will not serve the expected goal. Early retirement due to disability strikes hard in occupational group with physically demanding jobs, and many in these groups have to retire with a reduced capacity that precludes enjoyment of retired life. Perhaps these groups should be given priority in preventive activities.

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