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COMMUNITY GUIDELINES ON FLEXIBLE RETIREMENT

(Communication from the Commission)

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CONTENTS

INTRODUCTION

1. In its Communication to the Council (COM (79) 188 Final) of 7 May 1979 concerning work sharing, the Commission noted that there was a wide range of possible action with regards to arrangement of working time. The Commission felt however that various problems, such as flexible retirement, justified a Community approach. The Commission furthermore pointed out that action in that field, as in all those pinpointed, should take account of their impact on employment, of their intrinsic merits as regards working conditions and of their relative cost.

As a follow up to this Communication, the Council invited the Commission to pursue its studies. In its Resolution of 18 December 1979 concerning the arrangement of working time, the Council recalled the importance that it attached to the Commission's pursuing its work on flexible retirement.

The present document is submitted in reply to this request.

2. The problem of retirement age can be approached in two different ways. In the first one, given the present deterioration of the employment market, the problem of retirement age is considered in terms of worksharing within the active population. On the contrary, the second perspective, based on an analysis of the more permanent needs and wishes of the elderly, considers ways and means of satisfying them. These solutions tend to adjust the systems by the inclusion of a double flexibility which would allow, on the one hand, wider individual choice of retirement age and, on the other, possibilities of reduced working time in the last years of active life.

The Commission proposes Community guidelines likely to satisfy all the interested parties. These guidelines stem from the solutions which provide for such double flexibility as mentioned above, and they moreover take into account the need to organise their implementation in terms of the economic situation which nowadays, is mainly characterised by a deterioration in the employment situation.

3. These perspectives and these Community guidelines will be developed in detail in the following pages but the reasons which justify a Community approach need perhaps to be indicated first.

In the last few years, several Member States have taken the initiative as regards modifying, temporarily or definitely, the traditional process of retirement. This process was also being questioned by various experts in the field of old age. Retirement age has therefore become a political problem for governments.

In the absence of convergent action, the solutions opted for, could easily vary from one State to another, although they may tend towards near similar objectives. Furthermore the experiments carried out are not all of equal value : in some of the schemes, sometimes adopted under pressure of the economic crisis, there are, along with immediate advantages, significant inconveniences in a field where effects can be felt only in the long term.

Consequently, a Community approach seems to be justified. In the light of national experiences and of the work of experts, the Commission believes that it can contribute to promote convergency of future retirement policies by formulating guidelines which take into account the aspirations and needs of individuals as well as the interests of the community as a whole.

4. Two appendices are attached to the present Communication:

1. Economic and financial aspects of early retirement schemes;

2. Cost of certain national experiments on flexible or phased retirement.

PROSPECTS AND COMMUNITY GUIDELINES

I. FLEXIBLE RETIREMENT

In terms of the relationship between the individual and the social security system, retirement age is the age at which entitlement to a pension is acquired. In terms of the relationship between the individual and the working world, retirement age is the age at which a person ceases work.

Those who call for earlier retirement, emphasize entitlement to a pension and leave aside the question of cessation of work. Thus there arises a conflict between the claims of individuals who wish to get the benefit of a pension as early as possible and the financial constraints, which cannot be dissociated from demographic and economic factors, and to which the schemes in question are subjected.

However nowadays a new aspect of the problem of early retirement has come to light and this is due to the fact that the economic crisis has a marked effect on the terms of the problem.

In fact, early retirement is more and more being presented as one of those many remedies to the decline in employment levels and its supporters include it in work sharing policies. There ensues an implication that legal constraints or financial incentives will be used to persuade the oldest workers or job seekers to leave the active population - and this retirement from working life is now placed to the very forefront.

Thus, in various Community countries, endeavours are being made to encourage people to retire early from all occupations by providing them with "bridging pensions" or "early retirement pensions", which are granted on condition that they cease work but are high enough to provide ample compensation and thus act as an incentive (between 70 and 90% of the salary depending on the country). Such schemes (Appendix I), have been introduced in Belgium, Denmark, France, Luxemburg and the United Kingdom and, for some occupational sectors only, in the Netherlands. Similar results are obtained in Germany by regulations in the field of unemployment insurance and conventional agreements (as in the steel industry).

Some observations are however called for :

1. First of all the hopes of creating job may be thwarted in so far as the real significance of such departures from the labour market on to retirement has yet to be proved; the jobs vacated by older workers may not necessarily suit the younger ones.

2. Furthermore the cost of this policy is inevitably high (see comparative table in Appendix I), at a time when the present and future circumstances of old-age insurance schemes are often gloomy. "Early retirement pensions" or "bridging pensions" are, of course, often included in the framework of unemployment schemes, thus emphasizing their contingent characteristic and more readily justifying the ban on working imposed on the beneficiaries - ; but are not such innovations irreversible ?

3. Finally and in a more fundamental way, the question arises as to whether all older workers wish to leave active life with the sole proviso that they receive adequate compensation. Obviously this is not the case. Those who so desire, and they are undoubtedly in the majority, are those whose only interest in their work is financial. However others who have

been lucky enough to enjoy a more "rewarding" professional career, in the broadest sense of the word, keenly resent being discarded from active life. Opinion polls reveal a wide variety of attitudes towards retirement and their findings are supported by the Community survey, along with national enquiries, on the attitudes of the active population with regards to retirement prospects.

The last observation, in particular, calls for the introduction of some flexibility in the retirement age, which could be achieved by offering some leeway in determining the age in question to everybody.

A) The principle

Nowadays (1), retirement age, in the sense of the age at which pension rights are acquired is a specific, fixed age, such as 65. The very concept of "flexibility" conflicts with this rigid role : it implies that within certain limits, those concerned are given a chance to elect at what time they want to start claiming their old-age pension.

This option can be regarded in two different lights, depending on whether it relates to "median" age, regarded as normal, with opportunities for earlier or later retirement, or to a minimum age.

A simple example of the first system is the basic Swedish pension, which may be granted before 65 with a reduction of 0.5% per month if it is taken earlier, or after 65 with an increment of 0.6% for each extra month worked.

A simple example of the second is the standard pension paid under the general scheme for wage-and salary-earners in France, which may be claimed at age 60 and amounts, in that case, to 25% of earnings. The workers concerned may request a deferment, in which case the basic 25% is increased by 1.25% for each quarter, or 5% per year : thus, the pension rises from 25% to 30% if it is claimed at 61, to 50% at 65, 75% at 70, and so on.

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(1) Under many schemes.

These traditional rules may, in both cases, be upset by the introduction of early retirement or bridging pensions into unemployment schemes.

However it must be borne in mind that this flexibility gives rise to a series of problems in respect of its effect on the amount of the pensions. In fact, the less effect the age factor has on the amount of pension paid, the more attractive - and therefore the more effective - flexibility becomes. On the other hand, it is obvious that freedom of choice is purely hypothetical if the amount of the pension which can be obtained at a given age is too small, since in this case, those concerned are more or less obliged to put off claiming their entitlement.

Real flexibility must be such as to grant real options to those concerned : either to cease their professional activity earlier or else to pursue it if they so wish. A real choice implies of course, that flexibility cannot be used by an employer to force an employee to retire.

B) Within the framework of traditional old-age insurance schemes, <u>various formulas can be envisaged</u> :

1. Some of the formulas involve varying the amount paid on the basis of actuarial data alone. Thus, the person who claims his pension earlier is normally penalized, as compared with someone who claims it later, in respect of pension coefficients and deferred retirement. This is the case, for example, in Sweden, where the amount of the pension is reduced by 30% if claimed at 60 instead of 65. Similarly, in Belgium, retiring five years early entails a 25% cut in pension. Such reductions are, therefore, anything but negligible.

2. If these provisions are applied to the full, those who are most in need of retiring earlier may well give up the idea. It is a well-known fact that the life expectancy differs among the various social groups : thus, workers performing more arduous or repetitive tasks have a relatively

low life expectancy. The application of actuarial factors should therefore be adjusted by introducing advantages designed to offset their effects.

3. Apart from this individual aspect, it must be pointed out that a pension scheme based on actuarial principles and which is theoretically unbiassed, nonetheless encourages people to extend their working life. Consequently another type of flexible system, similar to the German one, can be envisaged; this system alleviates the effects of early retirement on the amount of the pension by calculating the latter in terms of the number of years for which the person has been insured when he claims payment of pension, a right which he may exercise as from 63 years of age (62 in certain cases) without being penalized.

To sum up, compared with rigid systems involving a fixed retirement age, some idea of leeway alongside a certain flexibility can bring about real progress to individual needs. Flexibility is, also, likely to settle the problem of equal treatment for men and women as regards retirement age in those countries or under those schemes where that age is still at a different level for both sexes. In fact this solution would enable the objective of equal treatment to be attained with imposing any rise in the age of retirement for women, which would go against the rights which they have acquired as well as against the freedom of choice of those concerned (1).

II. PHASED RETIREMENT

Fundamentally all schemes which subscribe to the idea of "phased" retirement, all seek to avoid an abrupt changeover from full-time work to complete idleness, with its potentially disastrous consequence of a sudden acceleration of ageing as shown by geriatric studies. The traditional definition of "retirement age" needs thus be radically changed since

(1) The Conference on "Equality for Women" organised in Manchester by the Commission from 28 to 30 May 1980 also recommended measures that would promote a flexible retirement age, centred on a particular age.

"phased" cessation of work would also entail that retirement is spread over time.

Phasing of retirement involves two sets of problems :

1. Those relating to the organization of the reduced working time. Should such reduction be established as a right? Or should reliance be placed quite simply on collective agreements or on pressure for social charge? If this reduction is recognised as a right, serious difficulties could ensue in the organisation of some undertakings. If conventional agreements are to be relied upon, discriminatory situations could arise between salaried employees of strong and weak sectors.

2. Those relating to compensation for the effects this reduction has on pay. Here, two main types of arrangement with widely differing philosophies and implications are conceivable :

- either everything is left to the undertaking, which is responsible not only for arranging reduced working hours but also for the corresponding (full or partial) financial compensation;
- or else the undertaking is responsible only for the first of these functions, with the cost of financial compensation being borne by collective schemes, under old age pension entitlement for example.

A) Phased retirement arranged at undertaking level

1. Besides the theoretical work done on the subject, a number of firms in France, in the UK and in Germany have already launched phased retirement schemes, which differ in the following ways :

- the way in which working time is shortened : longer holidays, shorter working week, shorter day's work, etc., and

- the financial implications. In some cases (e.g. the Gillette company in France), there is full financial compensation and the employees suffer no loss of wages; in others, however, a reduction in hours of work carries a corresponding cut in pay. For instance, at the British Leyland Motor Corporation (UK) men over 63 and women over 58 may opt for an 80% reduction of their normal working time, but they then receive only 80% of normal wages.

Naturally, schemes involving partial compensation are also to be found.

2. It appears, then, that virtually any type of scheme can be arranged within the enterprise, since such matters are settled in free negociation between the two sides.

This suggests that, as the specific constraints facing each enterprise and each branch of industry can be so variable and the wishes of their employees no less diverse, the introduction of a phased reduction in working time should be a prime and typical subject for negociation between the two sides of industry. It is up to them to introduce the age factor into systems of allocating work and pay (company agreements or, as in recent cases in Germany, in industry-wide collective agreements [1]). The introduction of this factor would add a new dimension to collective bargaining.

B) Phased retirement with less of earnings covered by an old-age pension scheme

In this second case, the shorter working hours enjoyed by older workers are reflected in the wages paid to them by their employer, but

(1) Brewing and tobacco industries.

the loss of earnings is compensated for by an external source, such as an old-age pension or other collectively funded scheme.

The simplest and most attractive example of such a compensation arrangement is afforded by the "partial retirement" scheme in Sweden.

Under this system, workers who have been in wage-earning or salaried employment for at least 10 years since the age of 45 and who, after 60, go on a shorter working week (less than 35 but more than 17 hours), are entitled to a "partial retirement pension" equal to 65% of the loss in salary resulting from the switch from full to part-time work. Income tax scales are so progressive in Sweden that the actual rate of compensation is much higher in terms of disposable income; in actual fact where the standard wage is concerned, such 65% of the loss of earnings guarantees up to 90% of income.

Three questions are prompted by this scheme :

a) its cost : a contribution rate initially of 0.25%, now to be raised to 0.50%, of wages is said to be sufficient to cover it;

b) its application : the workers concerned have not (or not yet) been officially accorded a right to special arrangements over hours of work. It would appear, however - and here we come back to the principle of bargaining between the two sides of industry - that significant social pressure from the unions would be sufficient to win over the employers to such a scheme;

c) its effects on employment : prompted by social rather than economic considerations, the Swedish partial retirement scheme seeks by its gentle transition to retirement to improve the situation of the elderly and not that of the labour market.
However, improvements of this nature which are being recommended to industry could bring about a certain easing of the employment situation.

III. THE ECONOMIC SITUATION

The economic situation can be heeded in two ways :

1) in a restrictive sense by regulating the cumulation of pension and of professional activity as the economic situation demands;
2) in a broader sense by measures encouraging "earlier" or "later" retirement according to the employment situation.

A) Regulating cumulation

A very general thesis should be taken as a basis for discussion : the higher the retirement age, the less probable is pension likely to be combined with income from work. The obvious reason for this is that, in the end, age inevitably brings about inability to work : sooner or later, but more often later, the ageing process merges with invalidity.

On the other hand, the lower the retirement age, the greater the tendency to cumulate this pension with an occupation : it would be perfectly possible to draw a pension whilst still being able and willing to work. Under full employment conditions, combining a pension with professional occupation is likely to be easily accepted but when there is unemployment such will not be the case.

It is more natural (especially in the context of work-sharing measures) that the drawing of the pension should have implications, in the form of restrictions or a total ban, for the claimant's occupational activity - at least for those who apply for retirement at an age earlier than "normal".

There are three main type of implications :

1) Concurrent employment restricted by an overall limit on income : this is the type of arrangement found in the German system. It has the double advantage of not excluding pensioners totally from working life and allowing them to supplement their income. The desire to leave room for individual preference remains uppermost.
2) Concurrent employment restricted by earnings being charged against the pension : this system is more of a disincentive than the previous one and thus implies more concern for work-sharing than for the wishes

of pensioners; however, leaving aside the obvious danger of moonlighting, it presupposes that the level of the pension is not too far below that of actual pay, otherwise those concerned will prefer to continue working if they are able to do so.

3) Ban on all gainful employment : this is the most logical although at the same time the most radical solution, if the overriding aim is to remove the groups offered flexible retirement from the labour market. It is the method adopted in the case of the early retirement arrangements introduced under unemployment insurance schemes. However, given the fact that early retirement only lasts a few years, it will only be of a temporary nature.

B) The various observations regarding what happens in practice lead to a more general question : could the effect of flexibility on professional activity be attuned to the economic situation?

If the aim were to subordinate social security policy to employment policy at too short a term, such an objective would be very much open to argument.

However it would be quite feasible if, whilst respecting the autonomous character of social security policy, account were taken of the impact of these measures, and in particular of the impact of phase retirement on employment.

Experience shows that the introduction of flexible retirement would very probably bring about retirement from working life and would thus make jobs, occupied until then by older workers, available.

Taking this different economic impact into account, temporary measures of encouragement, taken within the framework of employment policy, could be envisaged in a situation of continuing unemployment, so as to favour (if necessary) flexible retirement "en masse" whilst regulating cumulation. The jobs so vacated should however be maintained as far as possible. On the other hand, in a full employment situation, incentives would be given to encourage the continuation of work, either on a full or part-time basis.

In the present situation, various Member States have had to use financial measures to promote early retirement. Such interventions would be less important with flexible retirement as the system already induces in a permanent form some earlier age for retirement. Furthermore those interventions would not modify the general guidelines of retirement policy and the beneficiaries would feel neither privileged nor excluded. Moreover these temporary intervention measures would be more easily reversible if the economic situation were to change.

With regard to the economic cost of flexible retirement and the problems associated with the estimation of its cost please refer to Annex II.

IV. CONCLUSIONS

The Commission, after consulting the representatives of governments and social partners on these various solutions, considers itself in a position to propose a Community approach based on three guiding principles which can lead to a more coherent policy in that field and which take into account social as well as economic objectives whilst respecting their necessary autonomy. In effect, if the first two proposals are prompted solely by considerations of social protection, having regard both to the aspirations of individuals and to the objective needs of older workers, the third proposal's aim is to bring into play a contingency correcting factor which would permit the implementation of the first two proposals in the light of the economic situation and particularly within the framework of arrangement of working time. These first two proposals are in no way mutually exclusive. On the contrary, from the social point of view it would be desirable that they both be introduced simultaneously or progressively.

1. Flexible retirement

Retirement age is generally fixed by law, and yet it does not necessarily correspond to the wishes of old workers - some might wish to stop working earlier whereas others might wish to continue working beyond that age. Moreover that age does not cater for the fact that ageing is not a uniform process : in fact it varies according to individuals and according to occupations. Furthermore, when that age is fixed at different levels for men and women, a measure of unequal treatment between sexes is introduced and this can be regarded as an unjustified discrimination.

These inconveniences could be remedied by the instauration of flexible retirement : as from a certain age (say 60) and up to a maximum age, the worker would have the right to a free choice of retirement age under such conditions that his choice is not unduly influenced by significant differences in the amounts of pensions.

The means and ways of implementing this principle can be varied, as is demonstrated by such national schemes adopted in favour of certain social categories as well as those which allow all and sundry to opt for retirement either earlier or later than normal retirement age. Another example is pension granted whatever the age of the beneficiary, as soon as he has accumulated a certain number of insurance years. The point is to generalise those still limited applications of a principle which ought to guide the future evolution of the question of retirement age in legal as well as in occupational (complementary) schemes.

2. Phased retirement

Retirement is generally accompanied by a brutal cessation of professional activity and experts are all agreed that this absence of transition between full time activity and total inactivity is extremely harmful to the health of older workers.

This harmful break can be avoided by phased retirement : as from a certain age, as mentioned above, the worker who does not immediately retire would be offered a reduction of his professional activity. Loss of earnings would be financially compensated for one way or the other but the right to social security would be maintained in full. The worker who does not avail himself of this opportunity would, on the other hand, keep the right to work part time when he retires.(+) In both cases, the brutal cessation is avoided.

It must be pointed out that part time work can be imagined under various modes : in relation to a full day (half time), to a week (two or three days a week) or to a year (longer holidays for example).

(+) with a possible negative effect on unemployment.

3. Correcting mechanism

Flexible retirement has a more direct impact on employment than phased retirement, at least in the short-term.

In view of this different economic impact, employment policy measures could be taken during a limited period of time when unemployment persists, so that flexible retirement "en masse" - the vacancies so created being maintained - is promoted by financial incitements. On the other hand, when there is full employment, on the contrary stress would be placed more on the continuation of work.

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x x

These three general guidelines having been defined, there still remains the difficulty of formulating standard rules which reconcile the social considerations and economic constraints mentioned above. In other words it will be possible to implement any of the guidelines adopted in different ways once the objective has been defined at Community level. More precise recommendations could, in no way, take into account the variety of demographic, economic, financial, sociological, psychological, historical and judicial factors involved and they would consequently be out of place. Each country must therefore look for optimum choices in the light of all these factors.

The legislation or the collective agreements (within industries or sectors), as the case may be, should eventually gradually implement flexible schemes which have received general approval.

ECONOMIC AND FINANCIAL ASPECTS OF EARLY RETIREMENT SCHEMES

BELGIUM

A temporary bridging pension scheme under collective agreement was introduced, limited at first in 1975 to dismissed elderly workers but extended by law from 1976 to elderly workers who agreed to retire to make place for the recruitment of young workers. Under this scheme workers aged 60 (55 in the case of women) were guaranteed an income equal to the unemployment benefit plus half the difference between the latter and their net earnings subject to a ceiling. The scheme was later extended to rectify the situation of unemployed workers and disabled persons aged 60. The bridging pension ceases when the person concerned reaches the age at which he is entitled to the statutory pension.

An estimated 63 000 persons have benefited under this scheme (2/3 of whom under the legal scheme) and 90% of the posts thus released have been filled by the recruitment of new staff.

The costs of the statutory bridging pension scheme were estimated at Bfr 5,800 million for complement of 16,000 beneficiaries for a whole year and 12,000 beneficiaries for part of the year (that is to say an average complement of 22,000 beneficiaries).

DENMARK

In Denmark, provision was made in 1977 for early retirement at 55 years (the usual age is no less than 67) for persons encountering employment or social difficulties. This was followed in 1979 by the introduction of an early retirement scheme for workers aged 60 or more who voluntarily gave up their jobs. The allowance represent 90% of average earnings over 2 1/2 years, dropping to 80% for the next 2 years, then to 60% until pensionable age. The system has met with unexpected success.

In its first six months of operation, 30 000 persons took advantage of the scheme, that is one-third of the total number of potential beneficiaries; for the year as a whole, the figure should reach 40 000. The replacement rate is estimated at 100%.

The cost of this system when in full operation is expected to be DKR 2 600 million.

FRANCE

In 1972, under national collective agreement unemployment benefit for wage earners dismissed after the age of 60 was raised to 70% of the last three months' salary. Under an agreement in 1977, the system was extended to cover resignation where the beneficiary ceases occupational activity. The statutory reform of the unemployment insurance system maintains this provision in force in the form of an income support ("Allocation de garantie de ressources") although resignation is only covered until March 1981. This measure applies until the person concerned reaches 65.

In 1978, 120 000 persons took advantage of the scheme introduced by the agreements on early retirement in cases of redundancy or voluntary resignation (the figure is estimated at 160 000 for 1979), which represents nearly 30% of the total number of potential beneficiaries. The rate of replacement is believed to be low.

In 1978 the cost of the system amounted to FF 4 600 million.

LUXEMBOURG

In view of the steel crisis, in 1977 the Government decided to adopt a compulsory early retirement system for elderly workers, applying it first to this sector. These workers receive degressive tide-over allowances (from 85% to 70% of earnings) for the three years previous to the age at which they qualify for the early retirement pension (62 years for manual workers, 60 years for metal-workers and salary earners). On the other hand, they may not pursue any other activity. The system, designed to cover the 3 years 1978-1980, has been extended up to 1982.

This system therefore affects all steel workers; the replacement rate is zero since the aim is to reduce the workforce. The total cost of the system for 1 070 beneficiaries has been estimated at LFr 1 200 million.

NETHERLANDS

In 1976, workers aged 60 became entitled to receive benefits for an unlimited period, or more precisely until retirement age (65 years). Various experiments have been carried out on a temporary basis, e.g. offering an early retirement pension corresponding to 80% of earnings from the age of 63 to elderly workers who agree to retire : these schemes have been implemented in Education, Construction and Metalworking, Ports' Services and more recently in the Civil Service. At present early retirement would be introduced in 99 branches of employment out of 177.

In the sectors concerned (excluding the Civil Service, where the results are not yet available) about 25% of all potential beneficiaries have taken advantage of the system.

A study on a hypothetical voluntary early retirement scheme (entitlement to 80% of earnings) assumes that such a system could interest 50% of the potential beneficiaries, and that the replacement rate for the jobs thus vacated would also be 50%. Financed by employers, this scheme would release 55 000 jobs in 1983 and 75 000 in 1985; the figures would be slightly lower if the scheme were financed by wage and salary earners. The system could be financed by contributions from salaries, paid either by the employees (0,2%) or by the employers (0,4%).

UNITED KINGDOM

Under a law enacted in 1977, "Job release scheme", a temporary allowance of £23 per week was made payable at age 64 (59 in the case of women) to workers leaving a post which could be filled by an unemployed worker. In 1979 the age was subsequently lowered to 62 for men (60 for the disabled), but it was reset at 64 in 1980 for healthy males.

It is estimated that this scheme has absorbed 105 000 unemployed, the replacement rate being 96%.

A study has shown that if the retirement age were generally lowered to 60 years, assuming a two-thirds replacement rate, unemployment would drop by 200 000 in the first year and 600 000 in the long term. The gross cost of such a reduction would be about £900 million per year at the outset, rising to £1 800 million in the final phase. The cost (taking account of the effects on employment) would be only £1 000 million per year; however, the long-term effects of such a system on inflation, international competitivity and new unemployment are uncertain.

THE AVERAGE ANNUAL COST, PER BENEFICIARY, OF EARLY RETIREMENT SCHEMES

In National Currency

COUNTRY	TOTAL ANNUAL COST PER YEAR	NUMBER OF BENEFICIARIES	COST PER BENEFICIARY
BELGIUM (1978)	5,800 million BFR (*)	22,000	264,000 BFR
DENMARK (1980)	2,600 million DKR	40,000	65,000 DKR
FRANCE (1978)	4,600 million FF	120,000	38,300 FF
LUXEMBOURG	400 million LFR	1,070	373,000 LFR
NETHERLANDS	Experience cannot be used for international comparison as itas it stems only from very few sectors.		
UNITED KINGDOM (1978)	23 UKL per week		1,200 UKL

(*) Only the statutory early retirement scheme.

APPENDIX II

COST OF CERTAIN NATIONAL EXPERIMENTS ON FLEXIBLE OR PHASED RETIREMENT

A. GERMANY

Workers may opt to retire between 63 and 67 years of age, if they have been insured for 35 years.

1. Number of persons retiring between the ages of 63 and 65 (1)

1973	:	85 000
1974	:	170 000
1975	:	165 000
1976	:	165 000
1977	:	150 000

It is estimated that, of those eligible for a pension at age 63, the following actually claimed it :

1909 60 % of insured persons born in 1901
70 % of insured persons born in 1910
77 % of insured persons born in 1911
81 % of insured persons born in 1912

The percentage of pension claims from persons aged between 65 and 67 is negligible.

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(1) "Mitteilungen aus der Arbeitsmarkt- und Berufsforschung" (Labour Market and Vocational Research) 1979 no. 1 page 31.

2. Cost of the measure in 1976

	Monthly cost
a) 165 000 (beneficiaries) x DM 1100 (average monthly amount of pensions taken at age 63)	DM 181 500 000
b) The amount saved on unemployment benefits as a result of persons pensioned off at age 63 being replaced by other workers should be deducted from this sum. It is estimated (1) that the 165 000 persons who benefited in 1976 freed jobs for 99 000 workers (60% replacement rate). Hence a theoretical saving of : 99 000 x DM 800 (average monthly amount of unemployment benefit)	DM - 79 200 000
c) Real expenditure may, therefore, be assessed at a maximum of :	DM 102 300 000

d) An apparent cost of DM 1 100 (average amount of pension) per beneficiary per month thus becomes a real maximum cost of :

$$\frac{102\ 300\ 000}{165\ 000} = \text{DM } 620 \quad (2)$$

(1) Source : as above.

(2) Similarly, it may be calculated that a 25% replacement rate (instead of 60%) would result in a real cost of DM 900 per person per month. Conversely, a 75% replacement rate would result in a real cost of DM 500 per month.

NOTE : A more detailed calculation should take into account :

1) the loss of taxes and social insurance contributions based on salaries for the final two years not worked before the age of 65 years (a loss which is partially compensated for by deductions made from pensions);

2) the gains on taxes and social insurance contributions from the salaries of new workers who occupy the jobs thus vacated.

B. SWEDEN

Wage- and salary-earners who wish to work shorter hours between the ages of 60 and 65 obtain a partial pension equivalent to 65% of the loss of earnings.

1. Number of beneficiaries

in 1978 : 44 000

out of a wage- and salary-earning working population of 200 000 persons aged 60 to 65.

It is estimated that when the scheme becomes fully operative this figure would rise to 50 000, or a quarter of the work force in the category affected.

2. Cost of the measure in 1978

a) Total annual expenditure :	687 000 000 Skr
(= about 150 million dollars)	
Revenue from national contributions (0.25% of earnings)	403 000 000 Skr

N.B. The contribution will be raised to 0.50% of earnings which will enable expenditure to be balanced.

b) Cost of tho measure per beneficiary per month : $\frac{687\ 000\ 000}{44\ 000 \times 12} = $ Skr 1 300

x

x x