



Education and Culture

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## **Main features of age-oriented policies in Germany**

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“Betriebliche Weiterbildung von älteren Arbeitnehmerinnen und  
Arbeitnehmern in KMU und Entwicklung von regionalen  
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## 1. Introduction

In 20 years' time, every second European will be over the age of 50. The ageing problem is one of the great challenges the EU has to face up in future, in order "*to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.*"<sup>1</sup> The EU heads of state formulated this goal in 2000 at the Lisbon European Council.

The European heads of state also decided on a later meeting in Stockholm in March 2001 to "*set an EU target for increasing the average EU employment rate among older women and men (55-64) to 50 % by 2010.*" The Barcelona European Council in 2002 added the goal of "*a progressive increase of about 5 years in the effective average age at which people stop working in the European Union by 2010.*"<sup>2</sup> The evaluation of progress achieved with the Lisbon strategy, reported November 2004 in "Facing the challenge: the Lisbon strategy for growth and employment" (Kok Commission)<sup>3</sup>, reveals however, that the European Economy has failed to deliver the expected performance in terms of growth, productivity and employment. Job creation has slowed and there is still insufficient investment in research and development. The intermediate evaluation in the Kok report shows that in 2003, the employment rate for older employees only exceeded the target rate of 50% in six of the EU member states (Cyprus, Denmark, Estonia, Portugal, Sweden and the United Kingdom). Only two more countries (Finland and Ireland) showed an employment rate close to the target rate (between 45% and 49%).<sup>4</sup> The Kok Commission recommended a comprehensive ageing strategy by 2006: "*An active ageing strategy requires a radical policy and culture shift away from early retirement, towards three key lines for action: providing the right legal and financial incentives for workers to work longer and for employers to hire and keep older workers; increasing participation in lifelong learning*

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<sup>1</sup> [http://www.europa.eu.int/comm/employment\\_social/employment\\_strategy/index\\_en.htm](http://www.europa.eu.int/comm/employment_social/employment_strategy/index_en.htm) (accessed 16 October 2006)

<sup>2</sup> [http://www.europa.eu.int/comm/employment\\_social/employment\\_analysis/age\\_en.htm](http://www.europa.eu.int/comm/employment_social/employment_analysis/age_en.htm) (accessed 16 October 2006)

<sup>3</sup> European Commission (ed.) 2004

<sup>4</sup> European Commission (ed.) 2004, p. 48/50

*for all ages, especially for low-skilled and older workers; and improving working conditions and quality in work.*<sup>5</sup>

The European Commission therefore decided to focus attention on the action to be taken rather than targets to be retained. The target rates set in the Lisbon strategy are thus not any more priorities. The European Commission switched from medium and long-term emphasis on these targets to making policy recommendation for urgent actions, particularly with regard to employment. In February 2005, the European Commission proposed a new start for the Lisbon strategy, focusing on delivering stronger, lasting growth and more and better jobs. It states in “Common Actions for Growth and Employment: the Community Lisbon Programme”: *“The goal of the Lisbon partnership for growth and employment is to modernize our economy, in order to secure our unique social model in the face of increasingly global markets, technological change, environmental pressures and an ageing population.”*<sup>6</sup> This new partnership identifies three strands of priority action:

1. Raising the capacity to grow through knowledge, research and innovation
2. Making Europe a more attractive place to invest and work
3. Creating more and better jobs

The EU-level actions are outlined in the Community Lisbon Programme and during 2005 the EU member states had to identify their national-level challenges and policy responses in the “National Reform Programmes for 2005-2008.” The European Commission mentions the promotion of a “life cycle approach to work” as an important policy goal in order to tackle the problems of an ageing society. Three issues are of crucial importance in such an approach: lifelong learning, reconciliation of work and family life and flexible retirement to extend working life. Such an “active ageing” policy touches many policy fields and involves many societal actors (the state, social partners, enterprises employment services etc.).<sup>7</sup>

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<sup>5</sup> European Commission (ed.) 2004, p. 34

<sup>6</sup> European Commission, Common Actions, p. 2

<sup>7</sup> See [http://ec.europa.eu/growthandjobs/key/index\\_en.htm](http://ec.europa.eu/growthandjobs/key/index_en.htm) (accessed 16 October 2006). This site offers an overview of key documents on the Lisbon Strategy.

In 2005<sup>8</sup> eight countries (Sweden, Denmark, United Kingdom, Estonia, Finland, Ireland, Portugal and Cyprus) achieved the EU target of a 50% employment rate among older women and men. In Germany 45 percent of all persons between 55 and 64 years were occupied.

Currently, great disparities can also be observed in the age wedge, i.e. the difference between the employment rate for 55- to 64-year-olds and that of the 25- to 54-year-olds. Whereas in Slovenia – the country with the biggest age wedge – the employment rate for older people in 2004 was 56 percentage points lower than for younger people, in Sweden this age wedge was just 14 percentage points. Austria was the country with the second highest gap – 54 percentage points. In Belgium the gap was also very high, at 47 percentage points. In the Netherlands and Germany, the difference was much lower (37 and 36 percentage points respectively) and was close to the EU25 average (36 percent points). With 23 percent points, Denmark had the second lowest age wedge.<sup>9</sup>

Some groups of older persons had an employment rate of less than 50 percent: in almost all countries, this applied to the low- and medium-skilled women (with the exception of Sweden and the United Kingdom) and, in 15 countries, to the less skilled men. In addition, the employment rate was below 50 percent for older women with a medium qualification in 20 countries, and for men with a medium qualification in 12 countries. For high-skilled men in all EU member states, and for high-skilled women in all but 7 member states, the employment rate was more than 50 percent.<sup>10</sup>

In order to achieve the EU policy aims of an “active ageing policy” the abolition of early exit policies alone will not suffice. The political debate is increasingly focusing on promoting the continuing vocational training of older employees and unemployed persons: thus the promotion of lifelong learning. In this paper we will show, that in Germany continuing vocational training of older employees and older unemployed persons does not take up these requirements.

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<sup>8</sup> Eurostat, Employment rate (55 to 64 years), average of the quarterly periods 1-3 in 2005

<sup>9</sup> Eurostat, Employment rate (25 to 54 years and 55 to 64 years), annual average 2004

<sup>10</sup> Eurostat, Employment rate by highest level of education attained, annual average 2004

Age-oriented policies - such as the activation of older people to stay in work and to activate enterprises to recruit and train older employees - are structured by the supply and demand for labour in a given country: this is the general supply-oriented policy in most countries. It is therefore necessary to analyse the conditions on the labour market in order to identify policies which support the matching processes in the labour market. It is important to identify exogenous and endogenous processes - processes that cannot be changed and processes that are open to change - in the labour market in order to identify intervention opportunities. Supply-oriented, demand-oriented and matching-oriented intervention have to dock with these intervention options. At the moment age-oriented policies in Germany are biased. Age-oriented policies are basically supply-oriented interventions and the demand-oriented interventions have only (until now) a campaigning/appeal character. In short: the gradual abolition of early exit routes on the one hand (supply-oriented policies) is on the other hand until now not enough supported by the activation of older employees and unemployed persons (demand-oriented policies).

## 2. Supply and demand aspects of an ageing German society

The “Enquete-commission” of the Bundestag<sup>11</sup> mentions the labour supply and labour demand aspects of age-oriented policies, which will be discussed here. In general there is a clear need for a higher birth rate, a higher employment rate of women and older people and a pension entrance age which is more oriented to the legal pension entry age of 65. Immigration alone does not solve the demographic problems of a declining population. Moreover, the commission warns for a future lack of specialists as a result of the “demographic change.” It stipulates also the need of a „paradigm change of the internal personnel policies of enterprises” – especially the promotion of the employability of older employees.

An increase of the employment rate of older people is necessary for several reasons:

- a) to reduce the social security contributions,
- b) to overcome the future lack of specialists,
- c) to improve the use of the knowledge and experiences of the older employees.

In the following, we will discuss two main aspects of an ageing society in Germany:

- a) The declining and ageing of the total population in the next decades and their consequences for the German social system and labour market (inducing supply-oriented policies)
- b) The ageing of the potential working population - thus the shift from younger to older potential work population - and its consequences for the quantity and quality of the working population (inducing demand-oriented policies)

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<sup>11</sup> Enquete-Commission „Demographischer Wandel – Herausforderungen unserer älter werdenden Gesellschaft an den Einzelnen und die Politik“, the commission was constituted on the 14th February 2000. For more information see <http://www.bundestag.de/parlament/gremien/kommissionen/archiv14/demo/index.html> (accessed 16 October 2006)

## **2.1 Decline and ageing of the total population and the pressure put on the German social system**

Population and labour force projections deliver important data on future labour market developments and labour market policies; they can support the monitoring of (future) developments on the labour market and can provide a basis for the evaluation of passive and active labour market policies. The concept of the potential labour force includes employed persons and the registered unemployed as well as “hidden” unemployment. Projections of population trends and labour market participation can forecast future developments.

In discussing population trends, two aspects are important:

- a) Population trends are relatively autonomous and are exogenous influences upon a country’s social system and labour market.
- b) Population trends are gradual and long lasting. Changes in the central components of population development – birth rate, life expectancy of the population, and even migration – influence the structure of the population for many decades.

The estimations of the total population trend projected by the German Federal Statistical Office presuppose a constant birth rate of 1.4 child per woman.<sup>12</sup> This means, that every generation of parents will be replaced by only 66 percent children. In order to stabilise the current German population every German women has to give birth to 2.1 children. Thus, the current birth rate causes a declining population. Due to the improved living conditions of the German population the life expectancy increased considerably. However, with the life expectancy ratios Germany ranks below the average of the old 15 European member states. In addition, the infant mortality decreased dramatically. Now only four of thousand children die (a 100 years ago the rate was 200/1000 and thirty years ago 21/1000). The increase of life expectancy causes an ageing population. The estimation of the third component of the population trend - the development of the migration in a country - is more difficult. The German Federal Statistical Office assumes that the balance of immigration and emigration gradually will be equalized in the next decades.

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<sup>12</sup> Federal Statistical Office (ed.) 2003, p. 10

Based on the combination of the mentioned assumptions the German Federal Statistical Office developed nine scenarios for the future development of the population until 2050. The results of the average scenario are: starting from a current population of 82.5 million in Germany, the population will decline to 75 million in 2050. The actual age structure of the total population will change dramatically over these next decades. 50 years ago every third German was younger than 20 years and only every seventh German was older than 59, at the moment every fifth German is younger than 20 years and every fourth German is older than 59. Following the average scenario every sixth German will be younger than 20 years and every third German will be older than 59 (see table 1).

*Table 1: Age structure of the total German population*

Year	Total	of which....			
		Under 20	20-59	60 years and older	
	Million			in %	
1950	69.3	30.4	55.0	14.6	1.0
1970	78.1	30.0	50.1	19.9	2.0
1990	79.8	21.7	57.9	20.4	3.8
2001	82.4	20.9	55.0	24.1	3.9
2010	83.1	18.7	55.7	25.6	5.0
2030	81.2	17.1	48.5	34.4	7.3
2050	75.1	16.1	47.2	36.7	12.1

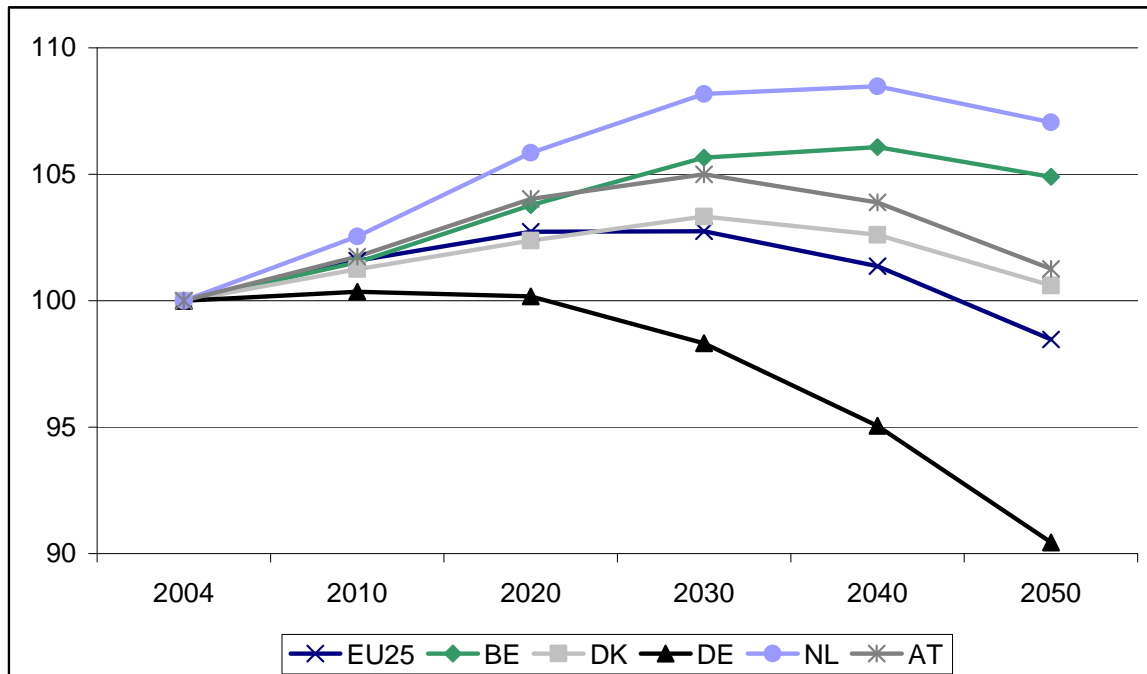
Source: Federal Statistical Office (ed.) 2003, p. 31

Figure 1 - based on population projections prepared by Eurostat<sup>13</sup> - shows the indexed population trend (2004=100) in Austria, Belgium, Denmark, Germany and the Netherlands as well as the EU average for the 25 EU member states (EU25). In

<sup>13</sup> Eurostat delivers projections of three scenarios for the development of the population, potential working age population and the labour force by gender and age (the high and low variants are the two plausible extremes of demographic change, while the baseline scenario is the product of the "best hypothesis" which is comparable on an international level). The national scenarios cover the period 2005-2050. Regarding the methodology of the population statistics and the population projections, no recommendations exist for demographic statistics. Data are collected by the national statistical offices and depend on the respective recording systems. Thus, Eurostat does not collect indicators directly from the countries, but uses national raw data and calculates from that using special software, in order to guarantee international comparability. Some Eurostat data might differ from national data. Population projections involve making population estimates or producing the most plausible figures for future years. In general, key assumptions are made with respect to mortality, fertility and migration by gender and age. These projections are international comparable.

contrast to the EU average and the other four EU member states participating in this project<sup>14</sup> - the German population will decline dramatically between 2004 and 2050.

Figure 1 : Indexed population trend (2004=100)

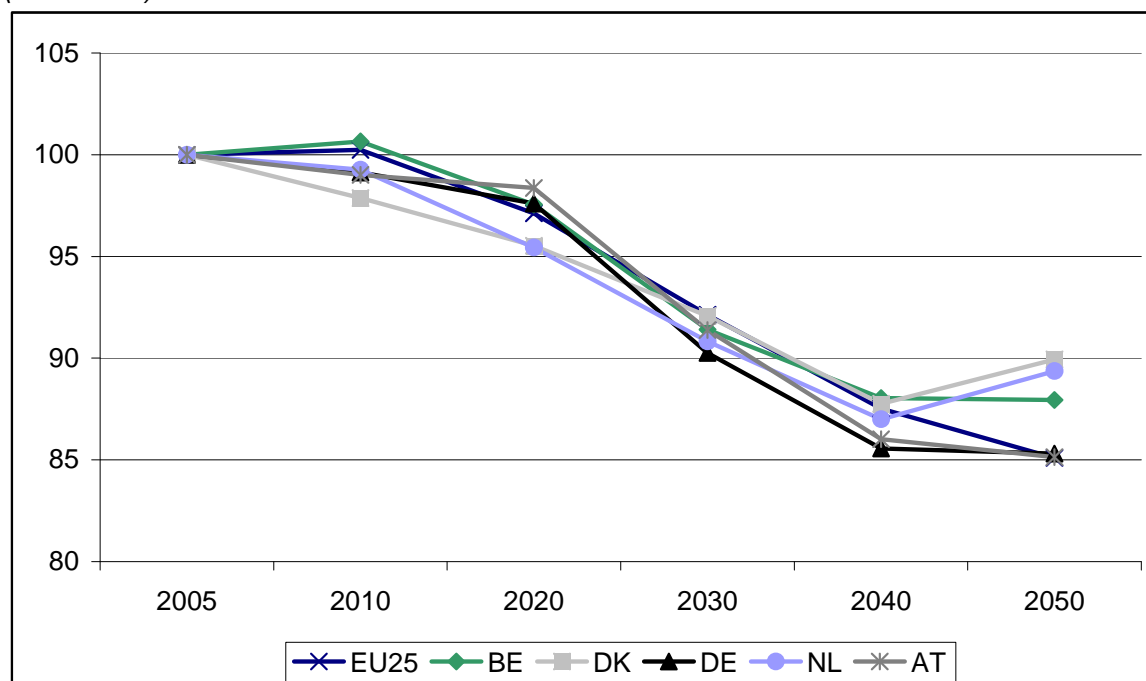


Source: Eurostat, population projections, trend scenario: baseline variant

Figure 2 shows the indexed trend of the potential working population (20-64 age group) to the total population in the five EU member states participating in this project and the EU 25 average. The figure impressively shows, that by 2040 all countries will be confronted with a sharp decline in the potential working population in relation to the total population.

<sup>14</sup> The Leonardo II project AGEQUAL – “Continuing vocational training for older employees in small and medium-sized enterprises (SMEs) and the development of regional support structures” is being conducted jointly by 5 research institutes from Austria, Belgium, Denmark, Germany as well as the Netherlands: University of Erfurt (Germany), Federal Institute for Vocational Education and Training (Bonn, Germany), 3s Research Laboratory (Vienna, Austria), Studiecentrum voor Ondernemerschap (Research Centre for Entrepreneurship) at EHSAL K.U. (Brussels, Belgium), Center for Arbejdsmarkedforskning (Center for Labour Market Research) at the University of Aalborg (Denmark) and Kenniscentrum beroepsonderwijs arbeidsmarkt (Knowledge Centre for Vocational Education & Labour Market) (Nijmegen, Netherlands). The project is specifically devoted to promoting the vocational qualification of older employees in small and medium-sized enterprises with a view to stabilising employment amongst older people. It focuses on older employees’ low level of participation in qualification measures, on under-investment in human resources in SMEs in particular, and on the deficits observed in regional support structures due to a lack of experience in the vocational qualification of older employees.

Figure 2: Indexed trend of the share of the potential working population / total population (2005=100)



Source: Eurostat, population projections, trend scenario: baseline variant

The decline and ageing of the total population affects national social systems. Demographic age dependency ratios are proxies of the quantitative extent to which the potential workforce has to carry non-working age groups. The age dependency ratio is the ratio of the number of persons of an age at which they are generally economically inactive to the number of persons of working age.<sup>15</sup> This indicator is often used as an indicator of the economic burden carried by the productive proportion of a population. The following table shows the dependency ratios (variant 2) of the countries participating in the project.

Table 2 : Dependency ratios – 2004

Country	Age dependency ratio (<20 + >59 / 20-59)	Child dependency ratio (<20 / 20-59)	Old age dependency ratio (>59 / 20-59)
Germany	82.2	37.3	44.9
Belgium	81.8	42.1	39.7
Denmark	81.1	44.0	37.1
EU25	79.5	40.5	39.0
Austria	78.7	39.8	38.9
Netherlands	76.3	43.2	33.0

Source: Eurostat, Population structure indicators on 1st January

<sup>15</sup> The ages at which people are allocated to the dependent or productive categories are often user-defined, and differ from country to country. There are two main variants: variant 1 classifies the group of persons of working age from 15 to 64; variant 2 with the group of persons of working age from 20 to 59.

The age dependency ratio of 2004 was highest in Germany and clearly higher than the EU25 average: the ratio was lowest in the Netherlands. Especially the very high old age dependency ratio was responsible for the high values in Germany as the child dependency ratio was clearly lower than the EU25 average.

In the international literature, another measure used to describe the effects of population trends on the social system is the benefit dependency ratio (inactive/active ratio = i/a ratio). The benefit dependency ratio expresses the number of persons that receive any social security benefit in relation to the number of persons in employment. The higher the ratio, the larger the number of persons whose benefit has to be paid for by one employed person. The benefit dependency ratio used in the Netherlands covers benefits paid for early retirement (old age pensions), death of a spouse (survivor), incapacity for work (disability benefits), sickness, maternity, unemployment and social assistance. In the Netherlands, this ratio plays an important role in policy decisions on social security. It is used to determine whether the development of social benefits should be linked to the average development of contractual wages. When the benefit dependency ratio surpasses a threshold set by the government, the increase in the level of social benefits may deviate from increases in contractual wages. This ratio also provides an opportunity to compare benefit dependency across countries. Based on extensive research done in the Netherlands<sup>16</sup>, the OECD adopted this concept and in 2003 it published a revised international comparison of benefit dependency ratios (see table 3).<sup>17</sup> This OECD calculation of benefit

*Table 3 : Benefit dependency ratios (i/a ratio = benefit dependency / employment rate) in the working age population - 1999*

Country	i/a ratio
Belgium	44.6
Germany	38.0
Austria	33.6
Denmark	33.1
Netherlands	30.6

Source: OECD 2003, p.175

<sup>16</sup> Arents / Cluitmanns / Van der Ende 1999

<sup>17</sup> OECD 2003, p. 171-229

Table 2 and table 3 show more or less an equal ranking of the age dependency ratios and the ranking of the i/a ratio of the countries participating in the project. The OECD also published an overview of the reciprocity rates by type of benefit, which makes it possible to identify the main benefits. Table 4 shows, that the costs of the classical early exit routes (early retirement, disability and unemployment) were especially high in Belgium (75.6%), and Germany (69.9%) and clearly lower in the Netherlands (68.2%), Austria (67.9%) and Denmark (65.8%). This means that the pressure which the early exit routes put on the German and Belgian social security systems is considerable, particularly the unemployment benefits in Germany and Belgium.

*Table 4: Reciprocity rates by type of benefit in the working age population – 1999*

	Belgium	Germany	Netherlands	Austria	Denmark
Early retirement	7.21	4.63	0.76	7.41	4.00
Disability	3.58	4.08	7.21	3.46	6.70
Unemployment	6.94	6.64	4.10	3.79	4.35
Assistance	2.37	2.24	1.22	0.80	1.62
Sickness	1.06	2.51	3.39	1.99	4.61
Survivors	1.14	1.67	1.02	2.14	0.00
Maternity and parental leave	0.23	0.18	0.00	1.99	1.61
Care and labour market leave	0.92	0.00	0.00	0.00	0.00
Total	23.45	21.96	17.69	21.57	22.91
Early retirement, disability and unemployment as a percentage of total of social benefits	75.61	69.93	68.19	67.93	65.75

Source: OECD, Employment Outlook 2003, pages 224-226

Compared to the other European countries the total employment rate in Germany was just slightly above the EU25 average and the unemployment rate was high (see table 5).

*Table 5: Employment rate und unemployment rate in the countries participating in the project - 2004*

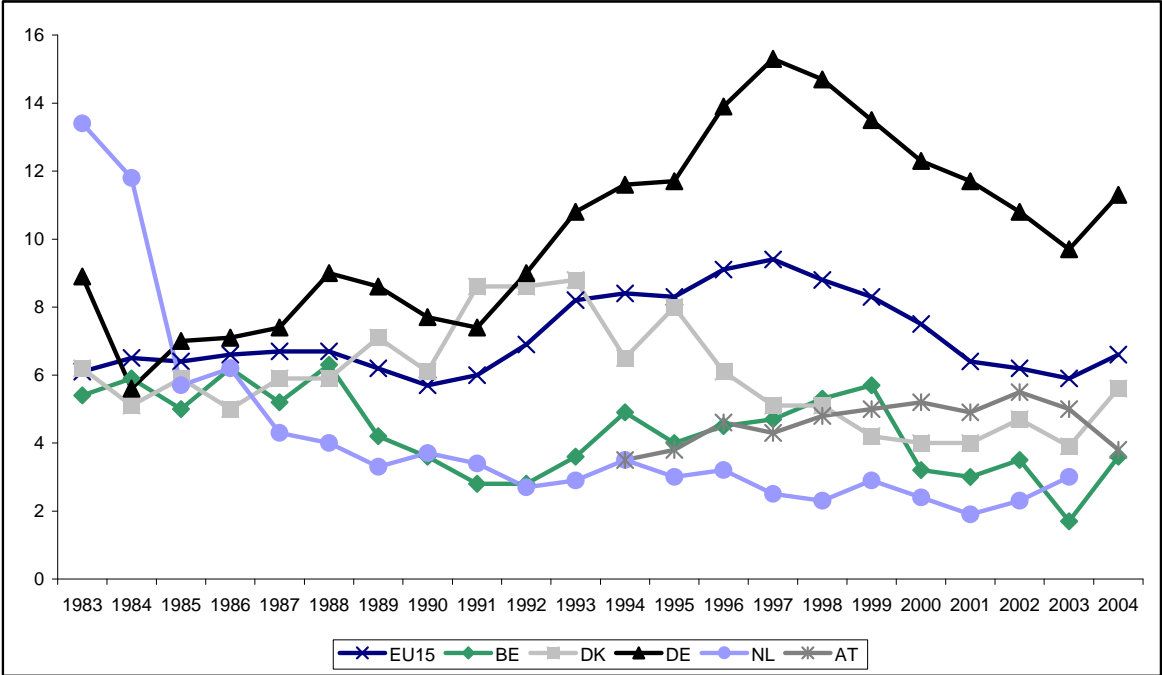
Country	Employment rate	Country	Unemployment rate
Denmark	75.7	Germany	9.5
Netherlands	73.1	EU25	9.1
Austria	67.8	Belgium	8.4
Germany	65.0	Denmark	5.5
EU25	63.3	Austria	4.8
Belgium	60.3	Netherlands	4.6

Source: Eurostat, LFS adjusted series

In 2004, in comparison with the 25 EU member states Germany had the second highest unemployment rate of older employees. At 11.3 percent in 2004, it was considerably higher than in other countries. The EU25 average unemployment rate of older employees was 7.0 percent, 16 countries had an unemployment rate below 6.0 percent.

Figure 3 shows the unemployment rates for the age group 55-64 since 1983. Especially in Germany, there was a high increase, partly due to the unification processes dating from 1989. In the Netherlands, unemployment in this age group had dropped.

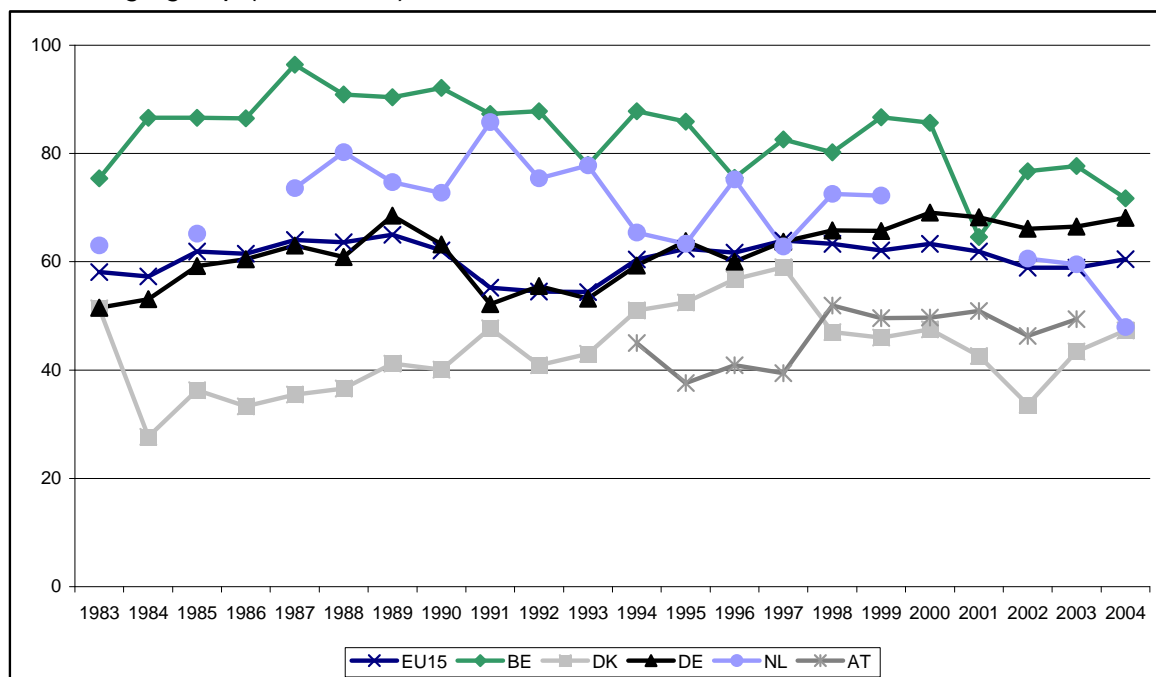
Figure 3: Unemployment rate in the age group between 55 and 64 years in the countries participating in the project (1983-2004)



Source: OECD, Labour market statistics

Figure 4 shows that in 2004, Germany and Belgium had the highest rates of long-term unemployed in the 55-64 age group.

Figure 4: Long-term unemployed (over 1 year) as a share of all unemployed persons in the 55-64 age group (1983-2004)



Source: OECD, Labour market statistics (data for the Netherlands for the years 1999 – 2001 is not available)

Inactive persons are those who are neither employed nor unemployed.<sup>18</sup> The inactive population is not homogenous; it consists of different groups, some of which are closer to the labour market than others. The inactivity rate is the inactive population as a share of the total population of the same age group in private households. Inactivity depends on age and gender – it is clearly higher in older age groups and among women. The inactivity rate for persons aged 55 to 64 years was 56% in the EU25 in 2004, Germany undercut the EU25 average by 3 percentage points (53%).

Older women had higher inactivity rates than men. In 2004, in Germany the inactivity rate for men was 43%, for women 62%. Low-skilled persons have higher inactivity rates than medium- or high-skilled persons, and the share of low-skilled inactive persons increases with age. This emphasises the need to address the skills levels and training needs of older inactive people, in particular, to enhance their options for (renewed) participation in the labour market.

<sup>18</sup> European Commission (ed.) 2003, p. 162-163; European Commission (ed.) 2005a, p. 211-250; Hardarsson 2006

The main reason for persons aged 55 to 64 years to be inactive was retirement, 73% in Germany gave this answer in 2004. The second most common reason was family responsibilities (9%), particularly for women. Illness or disability was of lesser importance (8%).

Some of the inactive people want to work, but willingness to work is lower for older people than for those of prime age. In 2004, 6% of inactive people aged 55 to 64 years in the EU25 were willing to work, but in Germany only 4%.

Increasing labour participation of persons aged 55 to 64 years is one of the conditions for reaching the employment rate targets set by the 2000 Lisbon and 2001 Stockholm European Councils. Obviously the increase needed will not necessarily come from bringing the older inactive into the labour market, since most of them will still be retired or less qualified, but it is more a question of getting older employees to stay in the labour force for longer and not to withdraw at relatively young ages.

### **2.1.2 Supply-oriented policies in Germany**

In response to this development the German Governments in the last decade implemented a supply-oriented policy. This policy is basically based on the implementation of disincentives - in order to activate the participation of older employees and unemployed persons - by gradually reducing statutory early exit routes.<sup>19</sup> A cause for the low employment rate in Germany is that many older persons used the early retirement options. For almost three decades in the last century, Germany cultivated the early exit policies:

- a) In the seventies by the introduction of the legal retirement age in the pension system.
- b) In the eighties by the extension of the unemployment benefits to 32 months and the early retirement act.
- c) In the nineties by the „part time age regulation“ – always believing in this way to be able to relieve the labour market and to be able to solve labour market problems in a social acceptable way.
- d) As late as 2001 early exit policies were gradually abolished.

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<sup>19</sup> See Trampusch 2005; Bäcker 1994; Busch (ed.) 2004 and European Foundation for the Improvement of Living and Working Conditions (ed.) 2004

Early retirement is a general expression for different regulated possibilities - initiated by law and / or by collective agreements - to take a certain pension earlier than at the age of 65. The early retirement is not, however, a special kind of pension.

At the beginning of the CDU-FDP era (1982-1998) the minister of social affairs Blüm still considered the unemployment to be a temporary evil caused by cyclical deviations. In 1984 the CDU-FDP government tried to tackle rising unemployment with a new approach in the labour market policy: they introduced the Early Retirement Act.<sup>20</sup> It guaranteed the payment of at least 65 percent of final gross wages to employees who withdrew from work voluntarily at the age of 58. This was seen as a form of practical solidarity between the generations. The enterprises beard the costs. If the working place was filled with an unemployed person subsequently, the employer received one-third of the early retirement expenses from the Federal Employment Services. From the beginning, the Early Retirement Act was limited until 1988. Up to 1988, some 120.000 employees made use of these early retirement measures. However, only 70.000 working places were successfully filled again.<sup>21</sup>

The labour market and the labour market policy of the 1980s was completely characterised by redistribution of jobs and deregulation of the labour market. The early retirement policies were supported by a “great tripartite coalition” between employees, employers and the government.

The early retirement policies were replaced in 1988 by a measure - the so-called part time regulation for older employees<sup>22</sup> - which makes possible a gliding transition into retirement. This shift in the early retirement policy was necessary because the financial burden on enterprises was seen as becoming too heavy. The periods for unemployment benefits were extended for employees aged 58. In this way the financial obligations of employers were reduced and the financial burden on the

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<sup>20</sup> Gesetz zur Förderung von Vorruhestandsleistungen (Vorruhestandsgesetz — VRG), 13.4.1984, last modification 22.12.2005 (<http://www.gesetze-im-internet.de/vrg/index.html>, accessed 16 October 2006)

<sup>21</sup> The measure was not as successful as expected: In 1984 the German Ministry of Labour calculated that about 600.000 employees would want to use the Early Retirement Act and 400.000 persons would find a new job (IAB 1984, see also Gatter / Hartmann 1995, p. 416-417)

<sup>22</sup> Altersteilzeitgesetz, 23.7.1996, last modification 23.7.2004 ([http://www.gesetze-im-internet.de/altzsg\\_1996/index.html](http://www.gesetze-im-internet.de/altzsg_1996/index.html), accessed 16 October 2006)

Federal Employment Services – and thus the community of insured employees – increased.

There are two main forms of part-time for older employees:

- a) The “original” form is the continuous part-time. The employee can split his working time over the whole period of the age-related part-time period.
- b) The newer and almost exclusively used form of age-related part-time work is the block model – where the age-related part-time period is subdivided into two stages. In the first so-called working phase, weekly working time is as contracted. In the second stage, working time is reduced to zero. In particular, in Germany the “block model” became the most usual early retirement model.

Opting for the block model has advantages both for the older employees and the employer: the net income of older employees who use this part-time age scheme and their pension claims are barely lower than if they had continued in a regular occupation up to the legal pension entry age. Parts of the costs borne by the enterprises are refunded under certain conditions by the Federal Employment Services if the employee retires earlier.

Thus, early exit policies were seen as the best way to redistribute the work. However, at the end of the 1990s it became increasingly clear, that because of the tensions within the social security system (see table 4), the early exit policies were no longer tenable. A paradigm shift in policies was implemented. In order to be able to integrate older people successfully into the labour market, structural hindrances have to be removed: among other things an increase of the pension entry age is required, along with abolition of the part-time regulation for older employees and the abolition of the facilitated unemployment payments for older unemployed.

The SPD-Green government (1998-2005) followed two main policy routes from 2001 onwards:

- a) Gradual abolition of the early exit policies
- b) Activation of older employees

The early exit policy measures – early retirement and the part-time regulation for older employees – were often chosen by enterprises and works committees in order to facilitate a socially acceptable reduction in staff. On 12<sup>th</sup> March 2004, the Federal Government decided to put into effect the reform for the long-term stabilisation of the pension system, known as the Sustainability Act (Nachhaltigkeitsgesetz).<sup>23</sup> The new pension act came into force on 1<sup>st</sup> January 2005. The sustainability factor is used as a guidance instrument for the adaptation of pensions. The sustainability factor uses the modifications on the labour market and life expectancy as a means of adjusting the pensions. If life expectancy increases, and hence the number of pensioners, the rise in the pension will be reduced. If, on the other hand, the number of employees increases, will this affect the adaptation of the pensions positively. In order to reduce early retirement, the early retirement exit will be raised to 63 years for the period 2006-2008 or, in the event of unemployment, gradually from 60 to 63. From 2010 onwards, the part-time regulation for older employees, a special form of the early exit, will also be abolished. In Germany, it is possible for unemployed older employees to receive unemployment benefits from the age of 58 until 65 (§ 428 SGB III), if they agree no longer to seek work.

## **2.2 Decline and ageing of the total labour force and the necessity for demand oriented intervention**

What does this development of the population - declining and ageing of the total population - mean for the potential labour force (population aged 20 to 64 years) in Germany? The potential labour force is as such the upper limit of the German labour supply. The German Federal Statistical Office estimated in their population projection (middle scenario)<sup>24</sup>, that the potential labour force - they published a somewhat different age group classification normally used in this paper - will decline from around 51 million in 2001 to 41 million in 2050 - in percentages of the total population from 62 percent in 2001 to 54 percent in 2050 (see table 6). Especially the 35-49 age group - in 2001 around 20 million Germans - will decline dramatically. In 2001 this age group constitutes around 38 percent of the total German potential labour force, in

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<sup>23</sup> Gesetz zur Sicherung der nachhaltigen Finanzierungsgrundlagen der gesetzlichen Rentenversicherung (RV-Nachhaltigkeitsgesetz), 21.7.2004 (<http://217.160.60.235/BGBl/bgbl1f/bgbl104s1791.pdf>, accessed 9 October 2006)

<sup>24</sup> Federal Statistical Office (ed.), p. 47

2050 it will decline to 33 percent. The 50-64 age group will increase from 30 percent in 2001 to 37 percent in 2050. Between 2001 and 2020 the 50-64 age group rises with 25 percent and the other age groups decline with 20 percent (35 to 50 years) and 6 percent (20 to 35 years).

*Table 6: Distribution of the potential working population (20 to 65) along different age groups (in 1.000 persons)<sup>25</sup>*

Age groups	2001	2010	2020	2030	2040	2050
Age group 25 to 35	15,925	15,445	14,860	13,254	12,639	12,086
% of the potential working population	31.2	30.3	29.7	29.0	29.5	29.6
Age group 35 to 50	19,647	19,060	15,691	16,064	14,569	13,574
% of the potential working population	38.4	37.4	31.4	35.2	34.0	33.3
Age group 50 to 65	15,543	16,448	19,500	16,361	15,672	15,123
% of the potential working population	30.4	32.3	39.0	35.8	36.5	37.1
Potential working population (20 to 65)	51,115	50,953	50,051	45,678	42,880	40,783
% of the total population	62.0	61.3	60.4	56.2	54.6	54.3
Total population	82,440	83,066	82,822	81,220	78,539	75,117

Source: Federal Statistical Office (ed.), p. 47, own calculations

These trends relating to the potential labour force are also confirmed by a projection of the future labour-supply estimated by the research institute of the German Federal Employment Agency (Institut für Arbeitsmarkt- und Berufsforschung - IAB). IAB also uses a scenario approach combining birth rate, life expectancy and migration. In addition, in the IAB approach the assumptions for the development of the birth rate and the life expectancy are relatively stable, different assumptions relating to the balance between immigration and emigration cause different scenarios. In the long run the share of the 15-29 age group of the potential working population will be around 20 percent. The share of the 30-49 age group of the potential labour force declines from 54 percent to 48 percent. The share of the age group 50-64 of the potential labour force rises from 23 percent in 2003 to 32 percent in 2020.<sup>26</sup>

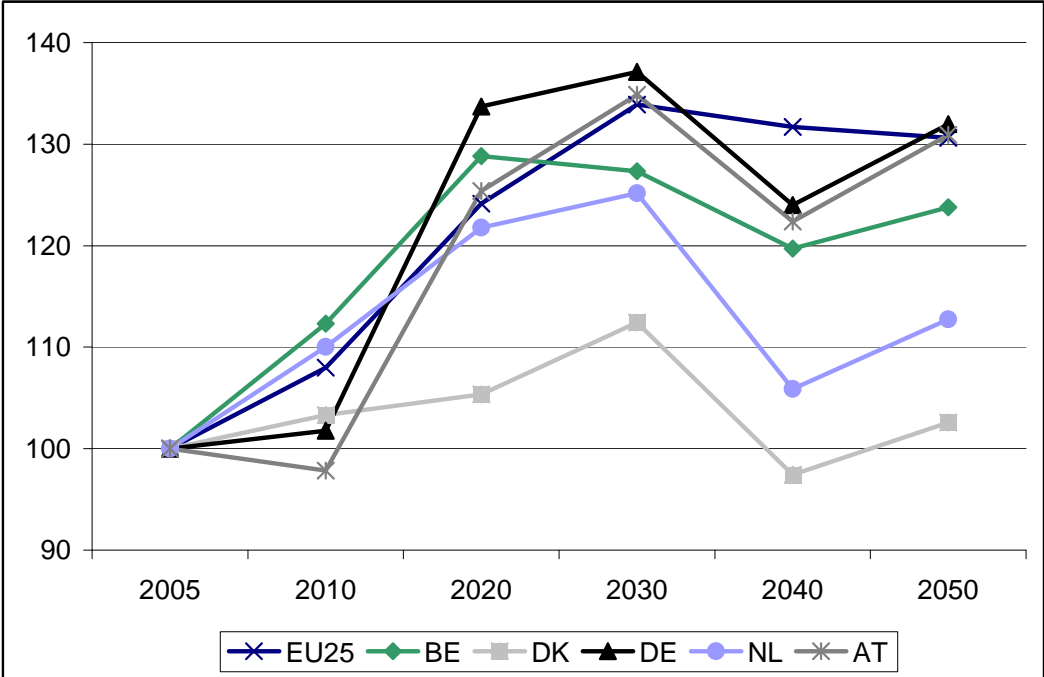
With the declining and ageing of the German population the potential labour force will decline disproportional. Figure 5 - based on Eurostat population projections for the

<sup>25</sup> From 2010 valuations, variant 5, medium life expectancy and medium balance of migration of at least 200.000 persons

<sup>26</sup> Fuchs / Söhnlein 2005

EU member states - reveals the exceptional demographic and labour market problems, which Germany (especially) will face in the next two decades. It shows differences relating to the growing importance of the group aged 55-64 within the potential working age population. In all countries, except Denmark, the share of this age group will rise drastically between 2005 and 2020. This is especially the case for Germany between 2010 and 2020. Employees and unemployed now aged 30-45 will be confronted with this development.

Figure 5: Indexed trend of the share of the potential labour force in the 55-64 age group / potential labour force (2005=100)



Source: Eurostat, population projections, trend scenario: baseline variant

### 2.2.1 Demand-oriented policy in Germany

Due to the increasingly limited opportunities for enterprises to recruit young staff, those employees aged 30-45 as well as unemployed persons will be confronted with higher demands for training in the period 2010-2030. On the other hand, enterprises will have to invest more in continuing vocational training of their (older) employees, while the employment services will similarly have to invest in continuing vocational training for the (older) unemployed. In the following we will discuss some demand-oriented policies relating to the promotion of older employees and older unemployed persons.

The declining influx of young skilled workers into the labour market and the increase of the 55-64 age group will cause future adjustment / matching problems on the labour market. First and foremost, it will be necessary to foster the utilisation of the total potential working population with demand-oriented policies (i.e. by making use of incentives). Such activation policies for older employees and older unemployed persons will, however, encounter several problems. The 55-64 age group is not homogeneous. Rather, this group is divided into sub-groups with highly varied employment options and expectations. Some employees can and wish to work up to 65 years of age, and will possibly even be able to work a few years longer; others are not in a position to work because of their subjective conditions (qualification and health status) or objective exit conditions (conditions of work, job availability, family obligations); others could work longer, but for a variety of reasons they prefer an earlier exit and can afford this in spite of the associated reduction in pension benefits.

### **2.2.2 Continuing vocational training for older employees**

The political debate focuses more and more on the promotion of continuing vocational training of older employees and unemployed persons: thus the promotion of lifelong learning. However, in Germany continuing vocational training of older employees and older unemployed persons does not take up these requirements. As we already mentioned, employees and the unemployed now aged 30-45 – which is the future 55-64 age group – will be confronted with higher demands to adapt to changing working conditions in the period 2010-2030. Until now, the participation of older employees in continuing vocational training has been distinctly lower than the participation of younger employees. In Table 7 the results of a regular nationwide individual-based survey on continuing education and training (Berichtssystem Weiterbildung) in Germany are summarised.<sup>27</sup>

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<sup>27</sup> Federal Ministry of Education and Research (ed.) 2006

Table 7: Continuing vocational training participation in Germany 1979-2000 according to age groups

	1979	1982	1985	1988	1991	1994	1997	2000	2003
19-34 age group	16	15	14	23	25	27	33	31	29
35-49 age group	9	15	14	20	24	29	36	36	31
50-64 age group	4	4	6	8	11	14	20	18	17

Source: Berichtssystem Weiterbildung IX, p. 90

Table 7 shows that the participation rates of the age groups are clearly different. The participation of persons aged 50-64 is 17% in 2003, nearly half of the participation rate (31%) for persons aged 35-49. Somewhat older data from the first European Continuing Vocational Training Survey (CVTS1 – reference year 1993)<sup>28</sup> show that the 25-34 age group was the most important target group for continuing vocational training. Up to the age of 35, the participation rate rises considerably: the under-25-year-old employees have a participation rate of 16% and the employees in the 25-35 age group have a participation rate of 30%. After the age of 35, the participation rate declines from 24% for the 35-45 age group to 16% for the group aged 45-64.<sup>29</sup>

The realisation of higher participation rates of older employees and unemployed persons however is hindered by the structure of continuing vocational training in Germany. The German government cannot decisively influence the continuing vocational training in enterprises - of course also the training of older employees. The structure of continuing vocational training in Germany is very diverse; its various subsystems form partial markets, while the government provides mainly supporting functions. The relevant legal provisions for continuing vocational training are based on the assumption that the main responsibility for any provisions concerning employees' qualification schemes lies with the social partners. The enterprises are responsible for the organisation and execution of continuing vocational training in enterprises. The Federal Employment Agency with its representatives from both sides of industry and government provide further training for the unemployed. Furthermore individuals are responsible for their own continuing vocational training. Considering this structure it is not surprising that the German government is refraining from active intervention in the continuing vocational training of enterprises.

<sup>28</sup> Eurostat (ed.) 1997

<sup>29</sup> Grünewald / Moraal 1996, p. 31

Indirectly the government uses the Federal Employment Services for the promotion of continuing vocational training of older employees and of unemployed older persons.

### **2.2.3 Activation of older employees and older unemployed persons by the Federal Employment Services**

The main national programmes relating to the promotion of continuing vocational training of older persons are carried out by the Federal Employment Services. The Federal Employment Services started in 1999 with a campaign to encourage enterprises to employ older employees (50-Plus campaign).

This 50-Plus campaign combines several promotional programmes:

- The promotion of continuing vocational training for employees aged 50 and over. A grant supports the continuing vocational training of older employees in enterprises with up to 100 employees
- An easing of the time limits on work contracts with older employees. The age of the employees has been reduced from 58 to 52
- The promotion of employing older employees by means of recruitment subsidies
- Recruitment subsidies in case of the establishment of new enterprises
- Exemption from employers' contributions to compulsory unemployment insurance

The new great coalition government (CDU-SPD) introduced in 2006 some new measures relating to the abolition of early exit and the promotion of the employment of older employees. At first the government introduced the gradual increase of the retirement age up to 67. In September 2006 the SPD-CDU government renewed and enhanced the 50-Plus measures of the former SPD-Green government. The renewed "initiative 50-plus" has four main points:

- The further abolition of early exit
- The promotion of the increase of the employment of older persons by means of the so-called combined wages (Kombilöhne) and other subsidies
- The introduction of improved re-entry measures

- The promotion of the increase of the participation of older employees to continuing vocational training

In 2001, the Federal Employment Services incurred expenditure of around 52 billion Euros for its passive and active programmes. Among them 13,1 billion Euros incurred for older persons (aged 55 years and older). The most important area of expenditure for older persons (62%) is so-called passive expenditure, i.e. the expenditure on unemployment and supplementary benefits. The second most important expenditure area (nearly 29%) is for the early retirement of older employees: 25 percent is used for unemployment and supplementary benefits for early retirement and 4% for the age-related part-time programmes. 10% is used for active labour market policy measures. Only 0.17 billion Euros are used for the continuing vocational training of older employees and older unemployed persons.<sup>30</sup> On the level of the German federal states (Länder) no special programmes exist for older employees, with the exception of a promotional programme for older unemployed persons in Thuringia.<sup>31</sup>

#### **2.2.4 Information campaigns of the Federal government, employers organisations and trade unions**

The Federal Government attempts to increase the employment rate of the older employees with numerous information campaigns and admonishes the enterprises to employ more older employees. The German Federal Government does not support financially the continuing vocational training of older employees by central state measures.

The CDU-SPD coalition government strives to find solutions with the social partners to improve the employment situation of older employees, to improve the employability of the work force as well as to come to age-oriented working time solutions. An example of an information campaign by the German Federal Government is the New Quality of Work Initiative (INQA).<sup>32</sup> INQA is a joint project of the Federal Government, the Länder, social insurance institutions and the social partners. All members of the initiative see the promotion of a new quality of work as an important task and a

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<sup>30</sup> Koller / Bach / Bixy 2003, p. 23

<sup>31</sup> Reuße 2002

<sup>32</sup> For more information see <http://www.inqa.de/> (accessed 16 October 2006)

common challenge in the future. With their initiative the INQA partners intend to bring together people's interest in positive, healthy and personality enhancing working conditions and the need for competitive jobs. According to the INQA goals, this will require: challenging job contents, co-operation between employers and workers on the basis of partnership, vocational training and further training, health protection and adjustment of working conditions to human needs, more flexible work organisation and better reconciliation of family and work. It is intended to initiate a broad societal debate on the future of work. Its aim is to increase public awareness of the necessary and desired re-organization of the world of work in future. This debate will support all players in defining the priorities for their social and economic activities and will help to clarify the need for new concepts of work design. Furthermore, the partners intend to develop joint concepts and measures to improve the quality of work, to be carried out by the partners on their own responsibility. In suitable areas of work design, procedures and instruments as well as examples of "good practice" will be collected or developed and disseminated.

### 3. Summary

The European heads of state decided to strive for an employment rate of the 55-64 age group of at least 50 percent in 2010. In Germany only 41.4 percent of all persons between 55 and 64 years were occupied in the year 2004. Germany has one of the highest unemployment rates of older employees in Europe. A main reason for the low employment rate in Germany is that for almost three decades Germany cultivated the early exit policies.

At the end of the 1990s it became increasingly clear that because of the tensions within the social security system these early exit policies were not possible anymore. The SPD-Green government followed since 2001 two main policy routes:

- a) gradual abolition of the early exit policies and
- b) activation of older employees.

The gradual abolition of the early exit policies can be seen as an instrument to force older employees to stay in work or to take up work again. Next to this, the main instrument for the activation of older employees is the continuing vocational training of older employees and older unemployed persons. However, because of the fragmented structure of continuing vocational training in Germany, state measures in the field of continuing vocational training for older employees still have minor effects and/or only have a campaigning/appeal character. In other words – 0.17 billion Euros of the Federal Employment Services for the continuing vocational training of older employees and older unemployed persons - butter no parsnips.

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