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"Social security and the labour market: A mismatch?"

**Raising the Statutory Pension Age: Extending Careers or
Unemployment of the Elderly?**

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Summary

On the basis of current trends regarding the employment and unemployment of older persons, as well as the entry into old-age pensions, the anticipated consequences of raising the statutory pension age are being discussed. The basis of the data is constituted by statistics of the German pension insurance, the Federal Employment Agency and the German micro-census for the period 1996–2005. We observe on the one hand a tendency towards a later exit from working life and towards a higher average age upon retirement. On the other hand, however, social differences are growing, in particular according to gender, level of qualification as well as between East and West Germans with regard to these events. As a consequence of resolved reforms, we expect these differences to intensify.

1 Introduction

After a century of welfare state pension insurance, fundamental developmental trends are being reversed. Since the introduction of a statutory pension insurance (in Germany since 1889, in other developed industrial countries in Europe approx. ten years later) into the 1990s, the average pension age has decreased, and with a simultaneously increasing life expectancy, “retirement” has developed into an autonomous life phase evaluated positively by society. Currently, however, a reversal is taking place, both in the societal evaluation of “retirement” and in the actual behaviour of the population. With a further increasing life expectancy and a lower birth rate of subsequent birth cohorts, it would appear that a further extension of retirement phases can no longer be financed. Due to the, on average, improved health and greater ability to work in older age, academics and politicians deem an extension of the employment phase to be both realisable and reasonable. Indeed, in recent years, the average retirement age in Germany has risen, and it is a formal policy of the German Federal Government to make use of this trend and drive it further. However, this does not answer the question of remaining longer in employment, a problem that politics is in a lesser position to directly influence.

This article illuminates the institutional backgrounds of the rising retirement age in Germany. Firstly, these experiences are informative because a significant rise in the statutory pension age – which even now lies clearly above the average age upon leaving working life – has been politically decreed. The most recent developments in the transition to retirement enable prognoses to be made of consequences of increased retirement ages on social inequality in old age. Secondly, beyond the context of policy consulting, the experiences provide information for the international comparison of

employment systems, as it can be assumed that the institutions of transition to retirement shape the developmental path of the employment of older workers.

Our contribution shows the developments in retirement and addresses three interlinked mechanisms that join together the beginning of drawing a pension and the exit from employment: the development of employment in older age, the development of unemployment in older age (2.4) and operational strategies in dealing with older workers and jobseekers.

However, we will begin with a brief introduction to the German discussion: In November 2005, Christian and Social Democrats decided, in their coalition agreement, which forms the working basis of the current German government, to raise the age limit for the standard old-age pension between 2012 and 2035 from the current 65 years to 67 years. Shortly afterwards, the Federal Employment Minister and Vice Chancellor Müntefering (Social Democratic Party) announced his intention to shorten the transition phase such that “pension from 67” will be completely valid as early as 2029. This plan was approved by the cabinet in November 2006 and is in the legislative procedure at the time of writing this article.

Since Denmark reduced the statutory pension age from 67 to 65 years with effect from the middle of 2004, there is no longer any country in the EU in which the legal pension age is higher than 65 years (Heidel 2003).¹ With its political commitment to raise the pension age to 67 years between 2012 and 2029, Germany is currently alone in Europe. In view of the increase in “further life expectancy” – i.e. the remaining life expectancy of persons who are already approaching retirement age – the goal of raising the statutory pension age does not, from the outset, appear unfounded. In this way, the retirement phase will not be shortened on average, but merely not extended further. In the individual life course, the relation between “active” and “retirement phase” should not be shifted further still in favour of the latter. In addition, the younger birth cohorts are fewer in number than those cohorts who will be the first to be affected by the increased pension age. This means that the then active employment population will have to carry a greater “age burden”. A smaller number of pensioner cohorts (due to a higher pension age) will alleviate the burden of the then active generations. In view of the improved state of health of at least a relevant section of the older population, a later entry into old-age pension also appears reasonable. The lack of qualified workers expected by many people in spite of sustained unemployment means that remaining in work also appears desirable from the perspective of the competitiveness of the German national economy. Those birth cohorts who are today and in the next few decades approaching retirement are among the best educated in German history, now that the older generation, which was disadvantaged in its education through the war and the post-war period, is for the most part already in retirement. The following birth cohorts are not only small in terms of numbers, which applies for nearly all European societies, but there is also no sign that the achievement potential of the German education system has abated compared with the 1970s and 80s.

However, this argument for raising the retirement age at the same time also implies problems and unanswered questions. Such questions arise specifically in a

¹ In Finland, since the pension reform of 2005, a flexible pension age between 63 and 68 years is in force, but in Germany too, the standard old-age pension can be drawn later than 65 years, and is rewarded with a higher pension.

“Bismarckian” system of social security that is based on contributions paid by working income into functionally separate branches of social security and form the basis of claims that – with the exception of the health and nursing care insurance – are, in turn, proportional to the payment contribution. An increase in the standard pension age initially only stabilises the statutory pension insurance. However, if one incorporates the interactions between different transfer systems of the social state, then the decisive question is less from what age a pension is drawn, but rather up to what age people earn a living wage and still contribute through taxes and contributions to the financing of the social security systems. Against this background, the evaluation of a higher age limit for entering into old-age pension is oriented towards the question of whether as a consequence, a later ending of employment is to be expected and whether it supports such a tendency (cf. Bäcker 2006).

We describe the “transition to retirement” as the sequence of employment forms and social security states between the age of 50 and the beginning of the old-age pension. In a monitoring of the transition to retirement² that has been conducted since 2003, we observe the current developments not only in terms of entry into pension but also exit from employment, unemployment in older age and the personnel policy of companies. We analyse these trends with regard to their influencing factors and social differentiation. In this contribution, we present central results from the project and draw conclusions regarding effects that can be expected from an increase in the retirement age. In this regard, it should be qualified that up to 2012, or 2029, when the introduction of the new regulation is to be concluded, many general parameters might have changed, which lie beyond the scope of our analyses.

2 Changes in the transition to retirement

2.1 Increasing pension age

In Germany, the challenges of demographic change have only become a public issue entailing often strongly dramatised discussion in the last ten years. News that put the issue into relative terms or lend it a positive perspective have little chance of being noticed in view of the media’s appetite for catastrophe. The still widespread statement that “Germans are retiring increasingly earlier” has actually only applied in the last 20 years for the period from 1992 to 1996. Since then, this trend has reversed. The average old age pension age has risen from 62.1 (1996) to 63.1 (2004) years, i.e. by one year in the space of eight years.

The much lower figures circulating in public (60.8 years for 2004) incorporate the entry into disability pensions. These disability pensions, which after a minimum insurance period of 5 years can in principle be drawn at any age, however, are only related to the problem of transition to retirement to a limited extent. At best, it can be useful to include the entry into this type of pension ensuing in old age in order to capture potential reactions of escaping and accelerating. For entry into old-age pensions plus

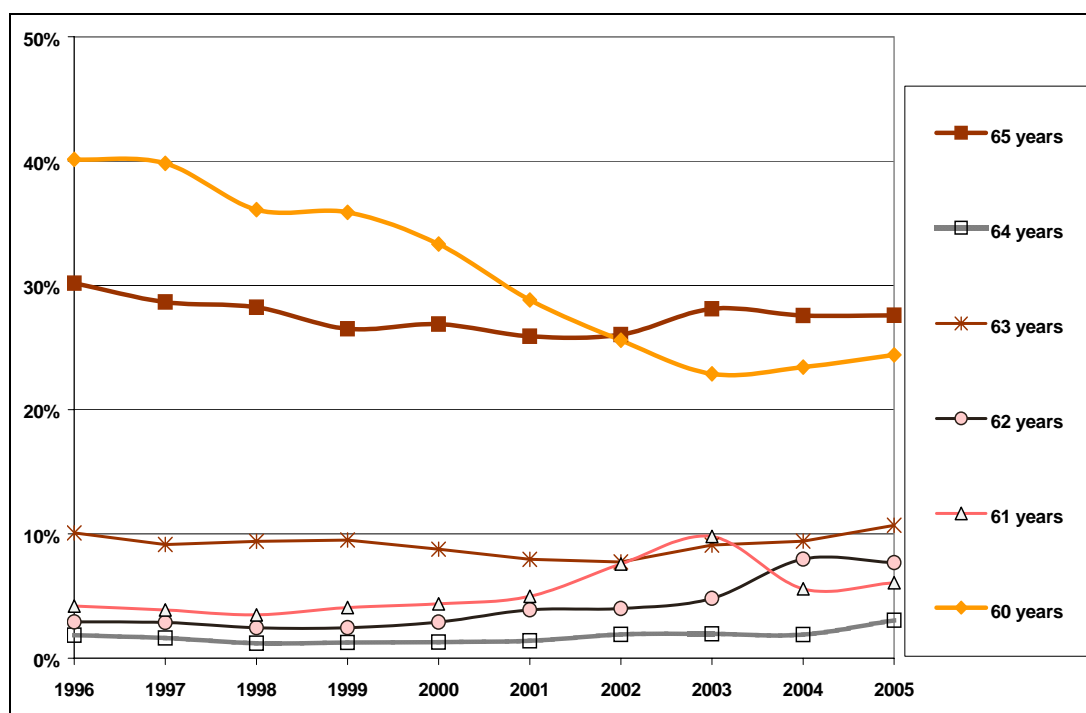
² The “transition to retirement monitor” has been sponsored since 2003 by the Hans Böckler foundation, and since 2006 additionally by the Research Network provision for old age of the German pension insurance association. The results are published on an ongoing basis in the transition to retirement report, of which eight editions have been published so far; see <http://iat-info.iatge.de/auem-report/index.html>.

entry of older persons of 50 or over into disability pensions, an increase in the average entry age from 60.9 (1996) to 62.3 years (2005 – Brussig / Wojtkowski 2006) emerges, i.e. an even somewhat more rapid increase than for old-age pensions alone. The German entitlement to disability pensions is comparatively restrictive, and the practice of granting pensions due to reduced capacity to work has tended to become even more restrictive in the last few years.

The positive message behind an increasing average pension age must, however, be seen in relative terms: The concern is with cross-sectional values, in the development of which behavioural changes cannot be distinguished from demographic influences. Demographic irregularities within the group of today's older persons are, however, important for understanding the transition to retirement: The age span between the phase of employment and that of retirement will currently differ strongly in Germany between different cohorts with different birth rates. The pre-war and early war years had high birth rates, while those age groups from the end of the war period and directly afterwards have low birth rates, which can on the one hand be attributed to the impact of the second world war on generational behaviour and on the other hand to "echo effects" of such an impact of the first world war. Even without any behavioural change, i.e. if there were constant relations between "early retirees" and "late retirees" within the birth cohorts, the late retirees from earlier cohorts (with higher birth rates) retire at the same time as relatively fewer early retirees from the later cohorts (with lower birth rates), which as a cross-section has the effect of increasing the average retirement age. If, later on, the early retirees from the later post-war cohorts, which again have higher birth rates ("baby boomers"), begin to dominate the retirement age, then a statistical rebound will be found, unless simultaneous behavioural changes have taken place.

In order to approximately³ neutralise the demographic effect, we have calculated age-specific retirement quotients per calendar year. The retirement quotient for the age of "60" expresses, for example, which proportion of the population that celebrated their 60th birthday in year X began drawing an insured person's pension in that year (old-age or disability pension). This quotient decreased from 40% in 1996 to 23% in 2003, although it has since slightly increased again. At the same time, the quotients for ages of 61 and 62 temporarily rose, as did the 63 and 65 quotients at staggered time intervals. In addition to the demographic effect, there is therefore indeed a behavioural change, namely a trend towards later retirement, and both of these together increase the average retirement age.

³ Inaccuracies consist on the one hand in the fact that the pension entry data available to us are only differentiated according to age and not according to year of birth, and on the other hand in the fact that for want of data about insured populations with pension rights, we used the resident population as a basis for the calculations.

Figure 1: Age-specific retirement quotients 1996 - 2005

Source: German Pension Fund – own calculations

What triggers this development? – In addition to the standard old-age pension, which traditionally and currently can only be drawn at the earliest at the age of 65 (and in the future not until the age of 67), there are various old-age pensions in Germany that can be drawn earlier under certain conditions: From the age of 60 for women if they were in employment liable to pay contributions for a certain number of years in the second half of their life; also from the age of 60 for the long-term unemployed and severely disabled, and from the age of 63 for everyone who can demonstrate that up until this age, they have paid contributions for 35 years or have accredited years of education or child-rearing. Up until 1996, all of these early pensions were the same level as those drawn from the age of 65 – if one disregards the fact that in the German pension system, the pension increases through additional years of contributions and that these years are obviously lacking in the pension fund if the pension is drawn early. However, from 1997, in addition, pension-reducing deductions for early utilisation of an old-age pension were introduced. These aim to constitute an actuarial balance for the fact that – under the assumption that the life expectancy is not influenced by the retirement age – the earlier retirement age leads to a longer period of drawing a pension. At the same time, this should set an incentive to delay retirement. The deductions were introduced in a step-by-step and time-staggered manner according to the type of pension. This process was concluded by the beginning of 2004.

When considering individual pension types, it can be shown that the behavioural changes approximately follow the patterns that were set by the deduction regulations. The persons from the affected cohorts are clearly well informed with regard to their retirement and they react rationally and quite sensitively to the incentives set by the deductions. At the same time, however, a growing proportion of retiring persons accept the deductions (42% in 2004 – Hoffmann/ Kaldybajewa/ Kruse 2006), and the number of deduction months accepted has, on average, now risen to 42 months (2004). Many of

those affected therefore make compromises between conflicting constraints or aims: to an extent they sidestep the deductions and retire later than the directly previous cohorts; in part they accept the pension cuts in order not to have to wait until their 65th birthday to retire.

2.2 Phasing out of early pensions

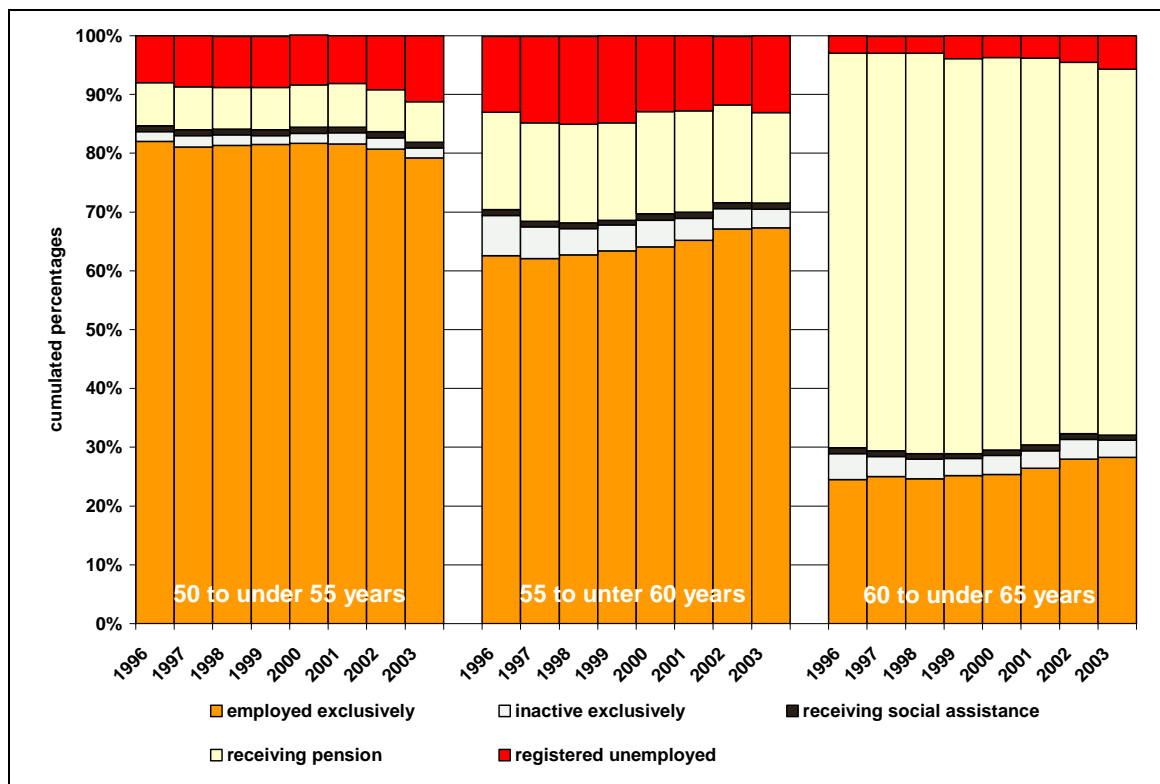
Once the deductions for early retirement are fully effective, in a second phase, the earliest age at which a pension can be drawn at all due to unemployment or based on partial retirement will be increased from the age of 60 to 63. This will occur between 2006 and 2009. From 2012, this type of pension as well as the specific pension for women will then be completely abolished. At the same time, as mentioned above, the step-by-step increase in the earliest possible pensionable age from 65 to 67 will begin for the standard old-age pension. Only persons with 45 years of insurance will then be able to still retire at 65 without any deductions, and persons with 35 insurance years at the earliest at 63, but with a 0.3% pension deduction for each month of utilisation drawn prior to the respective statutory pension age, which will be rising on a step-by-step basis. If the planned system has not again been changed by 2029, which is clearly a rather unlikely assumption, then retiring at 63 will “cost” a deduction of 14.4%. Only the severely disabled will be deduction-free at the age of 63 and will be able to retire at 60 with deductions.

From the experiences regarding the effects of pension reform gathered so far, the following can be forecast: Both an increase in retirement age and an acceptance of deductions can be expected. The increase in the pension age therefore also reduces, on average, both the pension durations and the payment amounts. In this regard, a rise in the retirement age will in part be due to an avoidance of the deductions, but will also to an extent be down to the fact that for many people, the pension requirement of 35 insurance years is not yet fulfilled at the age of 63. This will particularly affect women, for whom in Germany, a continuous employment is still in no way a matter of course. However, here too, there is a fairly positive trend.

2.3 Increasing employment of older persons

As in the description of the retirement age, the consideration of the employment of older persons also begins with a positive message: Employment in older age from 50 to 64 years increased in Germany between 1996 and 2003. The differentiation according to gender, according to East and West Germany and according to age sub-groups, however, shows some exceptions among the 50 to under 55-year-old East Germans as well as generally for men of this age group (Figure 2 to Figure 4, taken from Büttner 2005c). The generally positive development of older age employment is predominantly carried by women and is so far visible in women above all in the under-60 age group. This enables the conclusion to be drawn that this development so far has little to do with retirement age policy. It is rather affected by the fact that female birth cohorts who were already more strongly employed in their earlier life course than previous cohorts have now grown into the critical area of the transition to retirement. Retirement age and employment in older age are therefore moving in the same direction, but the two developments are not necessarily causally linked.

Figure 2: Employment and benefit status of older men in three age groups, Germany 1996-2003

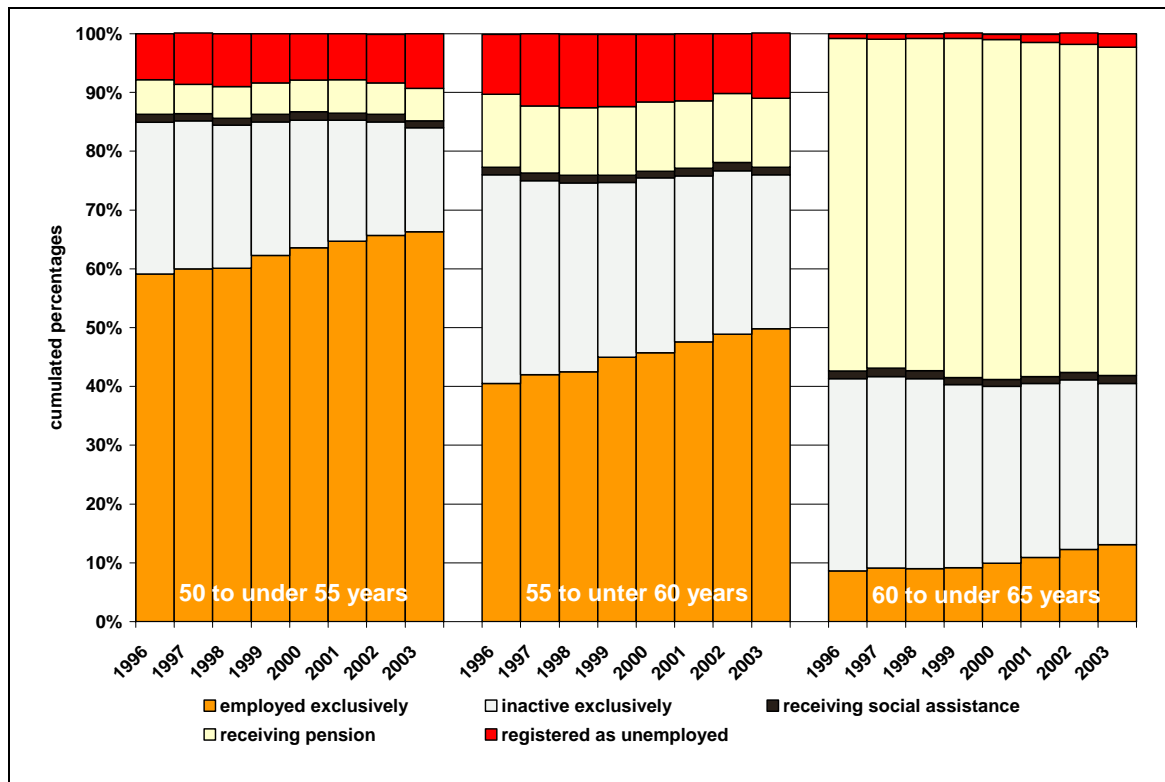


Source: German micro-census; calculations by Renate Büttner (IAT)

These figures calculated from the German micro-census refer to “exclusively employed persons”, who draw neither a pension nor social benefits and are also not unemployed. These persons therefore do not draw any transfer benefits, and if they became reliant on such benefits without employment, they relieve the social system from the expenditure point of view through their employment. In terms of the revenue point of view, however, this does not apply to the same extent, as in Germany, so-called “marginal” part-time jobs, in which no more than 400 Euros are earned monthly, are exempt from social security contributions.

Finally, the considerable importance of unemployment should be pointed out, in particular in the age group 50 to under 55 and generally in East Germany from the age of 50. These subjectively reported unemployment figures cannot be directly attuned to the administrative data, which we address in section 2.4. However, they do enable a consideration of unemployment constantly as the proportion of the population of the corresponding age.

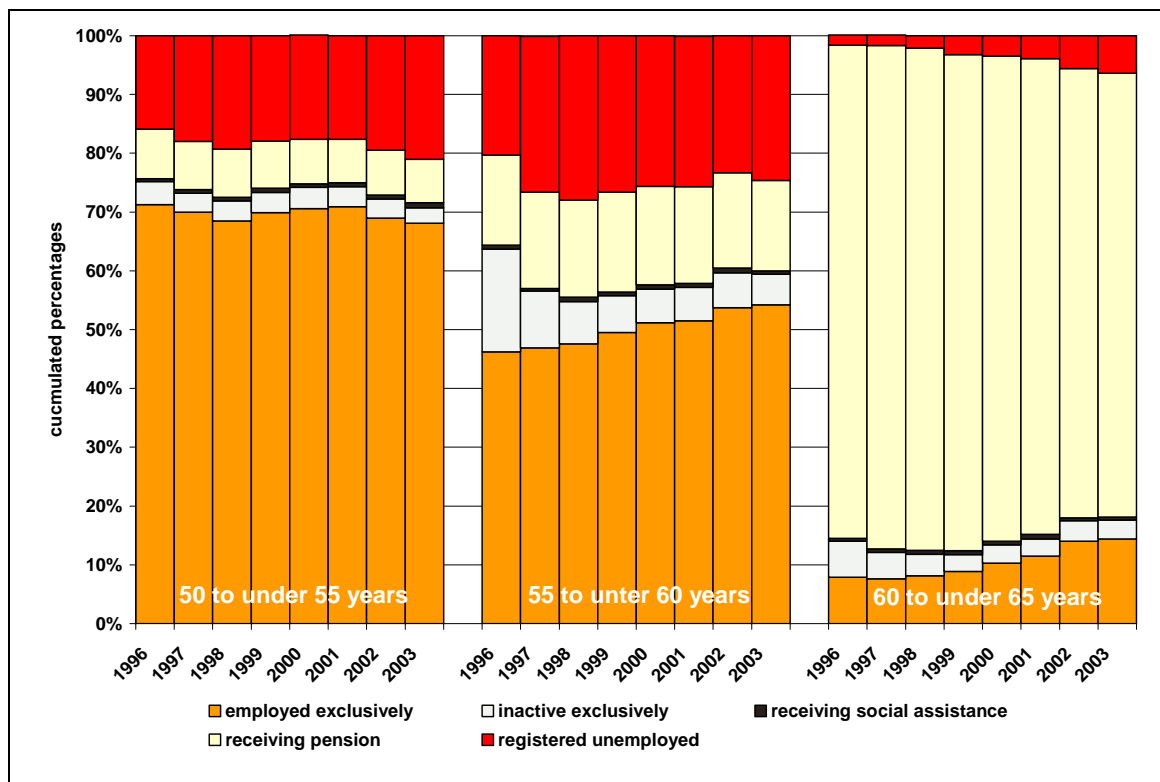
Figure 3: Employment and benefit status of older women in three age groups, Germany 1996-2003



Source: German micro-census, calculations by Renate Büttner (IAT)

The employment rates differ markedly according to level of qualification. This difference, which is present in all age groups, considerably increases in the critical area of the transition to retirement: In the age group over 60 years, the rate of employment of academics in 2003 was almost four times higher than that of persons without any professional qualification (cf. Table 1). This qualification-specific differentiation in the group over 50, which can also be discerned in middle age, diverges further in older age. The differentiation of employment according to qualification is particularly pronounced in Germany compared to other European countries (cf. Bosch/Schief 2005).

Figure 4: Employment and benefit status of older people in three age groups, East Germany 1996-2003



Source: German micro-census, calculations by Renate Büttner (IAT)

Table 1: Employment rates of older people according to level of qualification and age categories in Germany (2003, in percentage)

Highest professional qualification	50 to under 55 years	55 to under 60 years	60 to under 65 years
No prof. qualification	54.8	42.9	12.6
Apprenticeship	72.5	56.8	16.9
Master craftsman/technician	84.5	73.0	29.0
University/technical college degree	87.8	78.9	48.1

Source: Büttner 2005c (micro-census; own calculations, weighted)

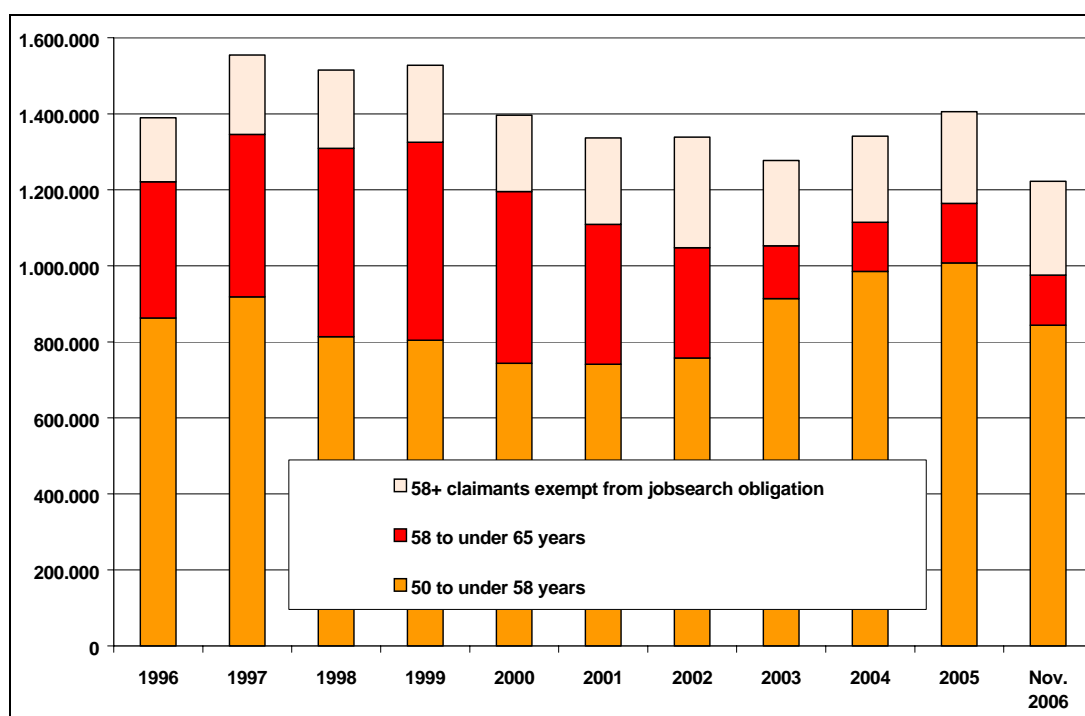
2.4 Conflicting development of unemployment in older age

If older persons have withdrawn from the workforce but have not yet reached statutory pension age, as long as they fulfil the respective requirements, they can draw a benefit due to unemployment. If an early pension, albeit with deductions, is a consideration, then those affected will examine whether the unemployment benefit or the pension is more favourable for them. As of 1.1.2005, the benefits for unemployed persons who have exhausted their claims for unemployment insurance have been reformed. The replacement of unemployment benefit that was oriented to the level of the previous

earnings by a fixed amount at the level of earlier social benefit has worsened the income situation of most long-term unemployed persons. Through this, the decision for remaining in unemployment or for applying for an early pension with deductions has shifted in favour of the latter. However, just under two years after this reform, it is still too early to make any empirically founded statements about repercussions for the retirement of unemployed persons.

In the context of the analysis of the transition to retirement, the consideration cannot be limited to statistically identified unemployment, as in Germany there is also a drawing of benefits due to unemployment “under facilitated requirements”. Those drawing benefits who have reached the age of 58 can exempt themselves from the obligations of availability and job-seeking and are no longer counted as unemployed. Instead, they are obligated to claim a deduction-free old-age pension as early as possible. As the time at which this is possible is becoming increasingly later, those affected would have to accrue in the status of facilitated drawing of payment.

Figure 5: Amount of unemployed persons and persons receiving benefits due to unemployment from the age of 50 years, Germany 1996 – 2006.



Sources: Federal Employment Agency 2004 – 2006; Structural analyses of the Federal Labour Office 1998 – 2003.

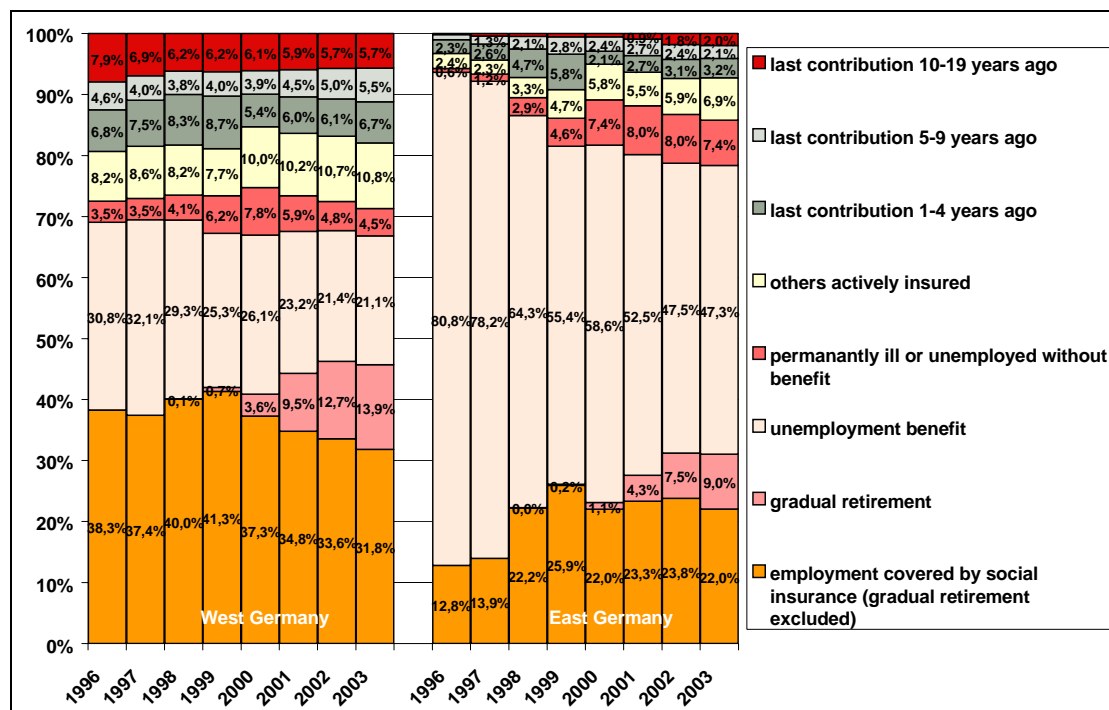
Figure 5 presents the unemployment of those who are 50 or older for the Federal Republic as a whole, with three groups distinguished: (1) the 50-58-year-old unemployed who are not eligible for the “facilitated receipt of benefits”; (2) the 58-64-year-old unemployed who have not chosen the facilitated receipt of benefits; and (3) the 58-64-year olds receiving facilitated benefits. Data on the facilitated receipt of benefits according to age are not available; the only thing that is therefore known is that these persons have to be at least 58 years old. The unequal and uncommon division of the registered unemployed population aged 58 and over enables an illustration of the

relationship between “normal” and “facilitated” receipt of benefits in the age group of those liable: The majority are receiving facilitated payments, i.e. a type of pre-retirement at the cost of the unemployment insurance.

From the perspective of pension statistics, it can be analysed from which status new retirees enter into an old-age pension. According to the data evaluated so far up to 2003 (cf. Figure 6), the proportion of entries from the receipt of a benefit due to unemployment has receded, above all in East Germany, where in 1996, 80% of pension entries ensued from this status, while this proportion was almost halved by 2003. In the whole of Germany, from 2000, the pension entries from partial retirement contributed to a decrease in the entries from the receipt of benefits. Partial retirement is a form of pre-retirement in 4/5 of cases in Germany: Officially, the working hours are cut in half, but in actual fact, an employee works full-time in the first half and not at all in the second. In large firms, ‘part-time’ work according to this ‘block model’ has partly replaced the transition to retirement through calculated unemployment and from wage compensation benefits subsidised by redundancy programmes. This has also contributed to the temporarily favourable development in older age unemployment, as Figure 5 shows. The increase in partial retirement has led to the fact that the proportion of pension entries from employment liable to social security, including partial retirement (the two lower segments of the columns in Figure 6), increased from barely above 30% to 43% in 2002. At the same time, however, the graph also makes the following clear: The majority of Germans do not begin retirement from a position of employment liable to social security. Besides unemployment and non-employment (particularly among West German women), changes of status in the life course play a role: Civil servants and self-employed persons do not pay social security contributions, but do realise pension claims from an earlier occupation as persons in dependent employment.

According to the current plans of the Federal Government, the instrument “partial retirement” will be closed to new entries from 2010. If the companies are no longer able to reduce excess personnel capacities through partial retirement of older employees, they must employ these persons until the statutory retirement age, or they will find a way to dismiss them – despite regulations of dismissal protection, which benefit older persons and long-time employees. From 2012, the step-by-step increase in the statutory retirement age to 67 will begin. The earliest opportunity to draw an early pension with deductions will then occur for persons without a recognised severe disability at 63, and even then only if they can demonstrate 35 insurance years. For this reason, it can be expected that in the future, even more older persons will have to bridge life spans between the loss of their last job and the beginning of retirement with unemployment benefits.

Figure 6: Proportions of entries into old-age pensions according to directly previous status in West and East Germany, 1996 – 2003



Sources: VDR retirement statistics; own calculations

The conditions of this bridging have become considerably less favourable through the reform of social benefits in unemployment (component of the so-called Hartz reforms): The maximum duration of older persons to draw unemployment benefits will be reduced to 18 months from February 2006, and following this, with the “unemployment benefit II”, there will only be a needs-based benefit on the social benefit level. In contrast to the earlier social benefits, for those drawing unemployment benefit II, contributions to pension insurance will be paid, but only at a symbolic amount: Drawing unemployment benefit II for one year will increase the later monthly pension claim by €1.18. Anyone who does not receive any unemployment benefit II due to consideration of the partner’s income or assets will not have any additional pension claim at all despite unemployment. Unemployment in older age therefore reduces the later pension in two ways: Firstly, hardly any pension rights are built up, and if a pension is then claimed early, it has to be paid with deductions from the pension. Anyone who retires at 63 instead of 67 has to accept deductions of 14.4%.

2.5 Ambiguous personnel policy of companies

With more generous conditions in the 1990s, the “pre-retirement” on the path of a more or less voluntary withdrawal into calculated unemployment and later into early retirement was popular among many employees (cf. Knuth / Kalina 2002 and 2003). Nevertheless, it is generally not the employees themselves but rather the companies who decide upon the early exit. This finding directs the focus to the personnel policy of companies and their possible reactions to the increase in pension age. The picture that employers and their lobbyists paint with regard to the employment of older persons is contradictory. On the one hand, it is the employer’s associations more than any other

group that call for an end to the “pre-retirement”, in order to limit the burdens for unemployment and pension insurances. On the other hand, plans are still known of today in large companies to apply programmes for the early exit of older employees. Also contradictory are the results of representative company surveys. Asked whether, for a series of benefit dimensions, they see advantages more for older or younger persons, human resource managers on the whole declare themselves to be neutral. If one only includes those cases in which clear preferences were expressed for older or younger persons, then the older persons even come out somewhat better than the younger ones. However, only approximately half of all companies showed themselves willing, according to the IAB establishment panel⁴, to hire older applicants without conditions, a third tied a (hypothetical) appointment to conditions (predominantly wage subsidies) and one in seven companies refused point-blank to appoint older applicants (Brussig 2005 on the basis of the IAB establishment panel 2002).

The theoretical readiness of approximately half of companies to employ older persons says little about the real appointment behaviour. Here, more recent data of the IAB establishment panel 2004 show that the respective “most recent new appointment” was a person of 50 years or older in only approx. 10% of cases (Bellmann/Leber 2005). Based on the proportion of this age group in the population, twice this amount would be “normal”, and in terms of the proportion of the age group in the unemployed population, it would clearly be even higher. An important reason for the non-consideration of older persons – and another factor contributing to the complexity of older-age employment – was a lack of applications from this group of people (Bellmann/Leber 2005). Supply and demand appears to fall short here in a manner that needs closer examination. Reasons for this could lie both in the search behaviour of older applicants and in the presence of the companies on labour markets (Bellmann/Brussig 2006). Jobseekers are particularly likely to approach large firms and firms with attractive wage conditions as well as a strong representation of interests. However, these companies generally appoint few older applicants. At the same time, many companies do not signal their readiness to appoint older applicants (and therefore do not receive any applications from them) because they possibly fear that it would set in motion a downward spiral in the quality of their applications.

Initiatives and programmes that aim to contribute to employees remaining for longer in the company in which they are already employed in middle age cover only one side of the problem. Even if there were a decidedly age-friendly work policy in the companies – which Germany is currently far from achieving – it will continue to be unavoidable that older persons will also lose their jobs in the case of insolvencies and company closures. Equally, it will be necessary for older persons to change their workplace and employer, precisely to find work conditions under which they can be active for longer. In this respect, the readiness of the companies to employ older persons gains as great a level of significance as the way in which they deal with those whom they already employ in a manner appropriate to life stage.

⁴ The establishment panel of the IAB is a yearly representative survey of all companies in Germany with at least one employee liable for social insurance. The sample, stratified according to company size, comprises private and public companies. Besides a standard programme, different content focuses are dealt with each year. Therefore, some information is only available from further back in the past.

3 Summary and outlook

3.1 Opportunities and risks of a higher retirement age

The increase in the statutory retirement age to 67 years including its early notification is set to – based on previous experiences with the phasing out of early old age pensions and the development of transition to retirement aspects since 1996 – support, strengthen and continue the already initiated trend of a rising retirement age and increasing employment of older persons. In this respect, pension policy fits in not only with the demographic development, but also with the fact that the birth cohorts approaching pensionable age are better educated than earlier ones and that the women of these birth cohorts are more strongly integrated into working life. “Pre-retirement” and “early retirement” as relatively privileged life circumstances of people with sufficient financial security, sprightly older persons, and predominantly permanent employees of large companies and public services will, for the most part, disappear. The best-educated and healthiest part of the older employed population will be productive for longer, contribute to the gross domestic product and relieve the strain on the social security systems.

So much for the desired and perfectly realisable side of the planned pension reform. The employment possibilities of older persons, however, will not be completely in line with the retirements, least of all in the form of full employment liable to social security. The problem of the transition to retirement will therefore not disappear, but rather be exacerbated in two regards. For those persons who for objective (demand) or subjective (capability) reasons cannot be employed up to the age of 67, the transitions will become both longer and more precarious. At the same time, the “way out” into early retirement for long-term insured persons from the age of 63, with up to 14.4% pension deductions, will still be a more or less privileged transition form for those who possess the corresponding social security credits. With the now almost complete loss of instruments that in the past buffered the transition to retirement paths, the social differentiation in older age is set to increase. At the same time, the concern will be not only with an extension and spreading out of social inequalities already present during the life course, but there will also be increased, unforeseeable social decline processes in older age as a consequence of professional and private failures.

People in precarious transition to retirement processes will increasingly be concentrated as unemployed or insufficiently employed in the new system of basic financial security for people without a right to the unemployment insurance (cf. Knuth 2006). Their numbers will jeopardise the declared labour market policy goal of “activating” the long-term unemployed, because the system of basic financial security will be burdened with growing proportions of persons who are difficult to employ.

3.2 Social inequality in the transition to retirement and prerequisites for overcoming it

In addition to level of qualification and gender, fundamental lines of differentiation in the transition to retirement will also be those between the former West German states and the former East German states. In East Germany, the relatively higher importance of the statutory pension insurance is eclipsed by a clearly poorer labour market situation, particularly for want of a private build-up of assets. The cohorts who were already close to retirement at the time point of the structural break caused by

reunification benefited from their long and continuous employment biographies in the GDR and the adoption into the statutory pension insurance, and in this respect were able to more or less weather out the massive exclusion of older people in the first half of the 1990s, at least financially. Future East German pension cohorts, by contrast – both in comparison with their East German predecessors and with their West German contemporaries – will be distinguishable through clearly higher proportions of employment biographies with interruptions and phases of lowly paid employment with a low pension contribution. It is precisely these people who would be reliant on employment possibilities up to the age of 67, but it is also precisely in the East of Germany where such possibilities will be found the least in the foreseeable future.

In what regard the positive scenario of “productive age” and the negative scenario of poor persons working in old age will merge together will depend decisively on the macroeconomic development, the general demand on the labour market and the subject perception of the situation by the older persons as rich in opportunity or futile. As international experiences show, older persons cannot be held or pushed into employment solely through a curtailment of opportunities for early retirement; decisive is much more the macroeconomic main conditions, which, moreover, take effect with a considerable time lag. In a comparison of the countries Denmark, Finland, the Netherlands and Germany, the main conditions for an early retirement in Germany are the most restrictive, and nevertheless the employment rate of 55-64-year-olds in Germany is the lowest, its increase has been the lowest since 1998 and the unemployment rate of older persons the highest (Kraatz / Rhein / Sproß 2006). A fundamental reason for the latter circumstance is the fact that the German social system tends to retain older persons with health limitations in unemployment (or facilitated benefit receipt). In an international comparison of the population of employable age that is drawing social benefits, it is apparent that (among others) in Denmark, the Netherlands and the United Kingdom, the proportions of those drawing benefits due to illness or incapacity to work are higher than in Germany, while in Germany, the numbers due to unemployment are higher than in the other countries (OECD 2003: 224ff.). Specifically for older persons between 55 and 64 years who are unable to work, the differences appear to be even more dramatic, with more than three times the share in Denmark and the Netherlands and more than four times the share in Finland than in Germany (Kraatz / Rhein / Sproß 2006). On the other hand, in Germany, one in five unemployed persons show health limitations with repercussions for employment activity, and for those unemployed persons of 56 or over, this applies for one in three (Hollederer 2003).

In its definition of “employment capacity”, the reduction or loss of which is a prerequisite for disability pension, the German pension law assumes narrow medical definitions: Only persons who are not able to “be employed under the usual conditions of the general labour market for at least three hours daily” are counted as having reduced employment capacity. The situation on the labour market is only considered in terms of the question of whether there are any suitable part-time jobs at all. Whether an applicant who can only work for three hours has a chance of being appointed to such a job or whether preference will be given to healthier applicants does not play a role.

To delimitate the circle of persons who receive the new benefit of the basic financial security “unemployment benefit II” from those who draw social benefits, the pension law definition of “employment capacity” was adopted. Through this, the circle of those affected who are too healthy and young for a pension but too ill for employment has

become considerably extended. The complexity of the health-based and biographical problems in this area has still received much too little research. The German reform discussion tends to push back and forth the responsibility for this group of persons between pension and unemployment insurance (cf. Rürup Commission, BMGS 2003: 33).

The chances of employment in older age are not only decided in the years after the age of 50 as considered here, but are also subject to characterisations and path dependencies of the life course that were set a long time earlier. This applies not only for the professional qualifications, but also, for example, for the general conditions of the "compatibility of job and family". The path of increasing the employment of women in older age is paved through a stronger labour market participation in middle and younger age. The employment rates of older persons in 40 years are decided today by the question of which young people enter into their employment phase with at least a school leaver's certificate and vocational qualification and which do not. Whether the cohorts from 1962 onwards, who will be the first to be affected by "retirement at 67", will have the chance to be still employed at the age of 66 is already being decided today by the question of whether the companies are letting today's 44-year-olds take part in further training and new professional challenges or whether they are treating them in terms of personnel development as if they will already be exiting the workforce in ten years. Retirement policy that does not wish to become a policy of social exclusion therefore needs to be embedded in a reform of German employment regulations that comprises migration and integration policy, family policy, the gender contract and labour policy.

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