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**- JILPT International Labor Information Project -**

**Elderly Workers' Employment, Working Condition**  
**and Social Security in Germany**

**Tokyo, August 3rd**

**Country report on „How to deal with the Aging Society –  
Approach of the EU to the Elderly Employment“**

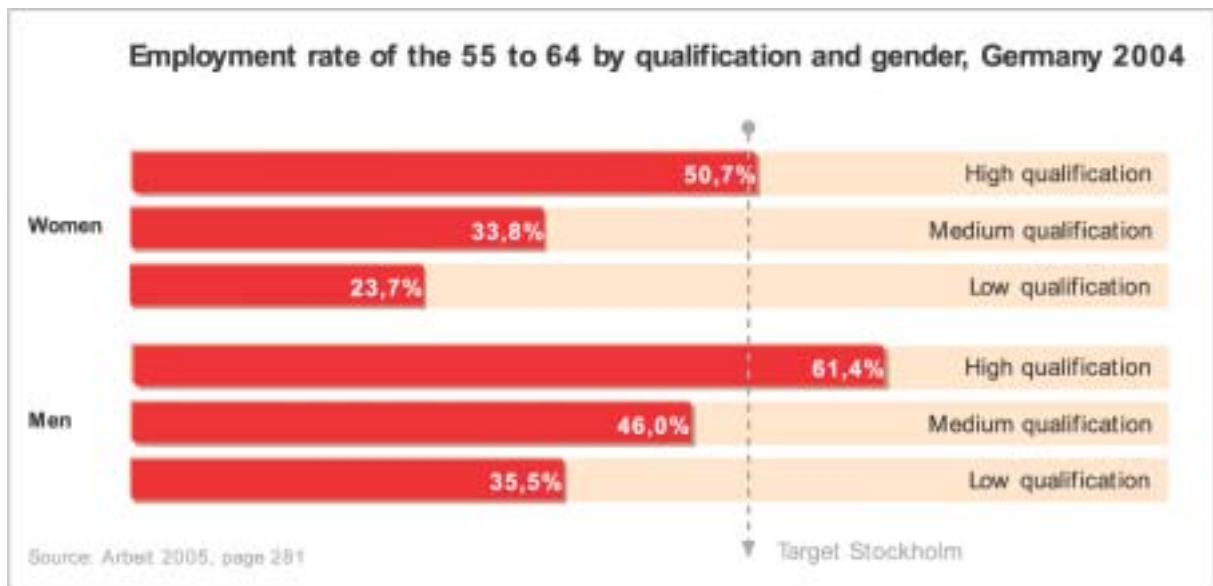
**I. Current situation of the elderly**

**1. The employment situation for older workers in Germany**

At the 1997 Luxembourg summit the EU member states agreed to coordinate national policies to reduce unemployment at the European level. Whilst this strategy was aimed for all unemployed people, particular emphasis was placed on specific groups, such as long-term unemployed or older people. In 2001 the European Council defined in Stockholm a general political guideline: the increase in the employment rate of the aging worker. 50% of all people aged 55 years and older should be in work.

In this respect the over all employment performance in Germany looks quite bad. Only 41% of people aged 55 years and older are gainfully employed. Chart 1 shows important differences by qualification and gender within this group. The employment rate of women is – regardless their degree of skills - lower than men. The fact is that it is in general more difficult for low skilled workers – no matter what age – getting a job or being employed.

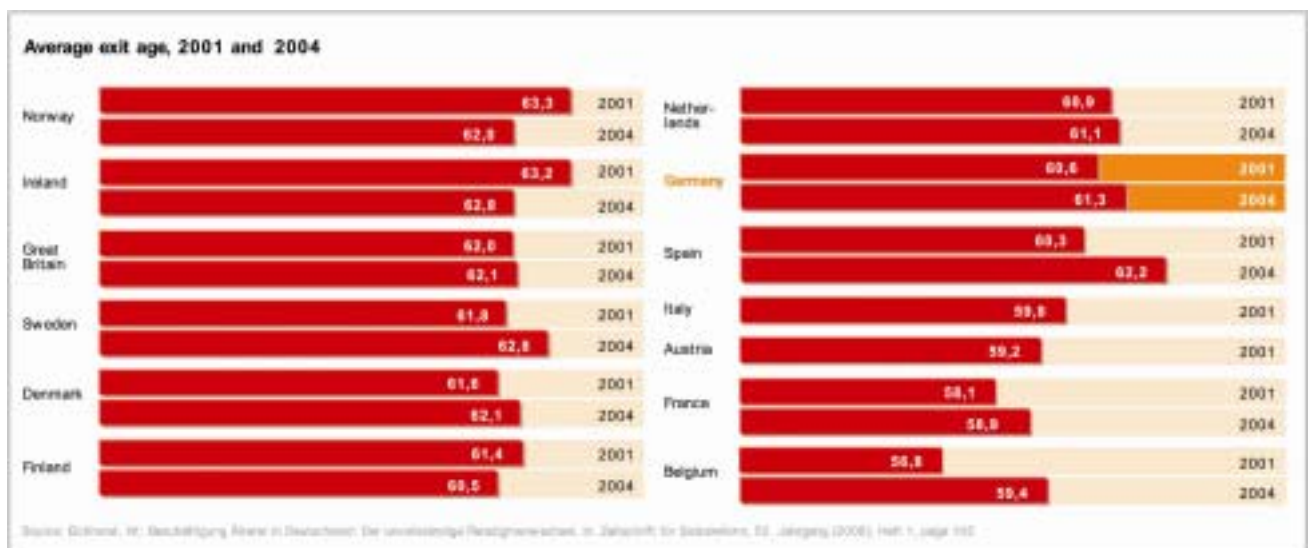
Chart 1:



## 2. Recent trends concerning the retirement

Furthermore there is another important point: Although the statutory retirement age in Germany has been fixed at 65 for men, in 2004 German people in average left the labour market at the age of 61,3 (Chart 2). In the case of disability the average retirement age is about 50 years. The international comparison shows, that some member states in the European Union achieved a higher average retirement age than Germany, such as Spain, UK and Sweden.

Chart 2:



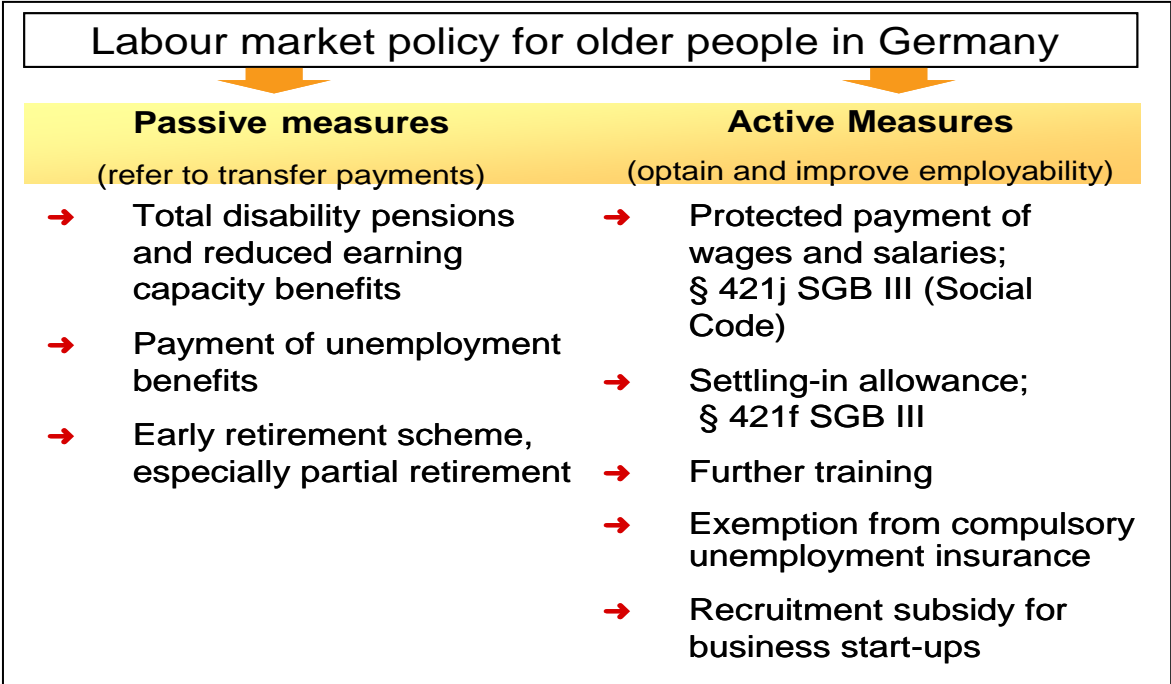
With reference to this fact we must point out, that the international differences have to do with different labour market situations and with different institutional frameworks to leave the labour market. The question is: How can the government contribute to and take responsibility for the labour market situation for older workers? In the past few years the government took suitable steps to transfer this idea into public policies. At present, there are various activities done to realize.

**II. Employment policy for the elderly**

**1. The current situation of the labour market policy for older people in Germany**

The labour market policy in Germany provides a wide range of measures (Chart 3). They attempt to influence the volume and structure of employment. Usually a distinction is made between passive and active labour market policies. Whereas passive measures refer to transfer payments, active employment and training schemes yield to obtain and improve the employability for older people.

**Chart 3: Passive and active labour market policy in Germany**



## 2. The strategies for action in Germany

In a first step we like to explain the transfer payments. The social security system in Germany offers several exit options. Three main forms can be distinguished:

- a) Total disability pensions and reduced earning capacity benefits which offer the possibility for employees to leave the labour market earlier in case they are unable to work, for example after an accident or long term illness or if their disability exceeds a certain level.
- b) Earlier exit-options are covered with the unemployment insurance as a part of the social security system. The Federal Employment Agency – the institution which administers unemployment insurance in Germany – considers the possibility to ride out the duration of unemployment insurance payment.
- c) Early retirement scheme, in Germany especially the partial retirement: as part of the firm's streamline efforts older employees are given the opportunity to retire earlier than matching the statutory retirement age of 65. The main scheme in Germany is the partial retirement scheme.

The essentials of partial retirement are:

- Intended is a more flexible border crossing of retirement for all employees aged 55 and more;
- It is possible to cut working time by half during the last five years before getting retired;
- The company is indentured to pay up to 70 % of the last gross income and to pay the social security contribution up to 90 %;
- Benefits are given from the federal employment agency, if the company hires an unemployment person or a trainee;
- In practice this instrument doesn't guarantee something like a flexible or gradual transition in retirement. Most people prefer working 2.5 years full time and quit afterwards.

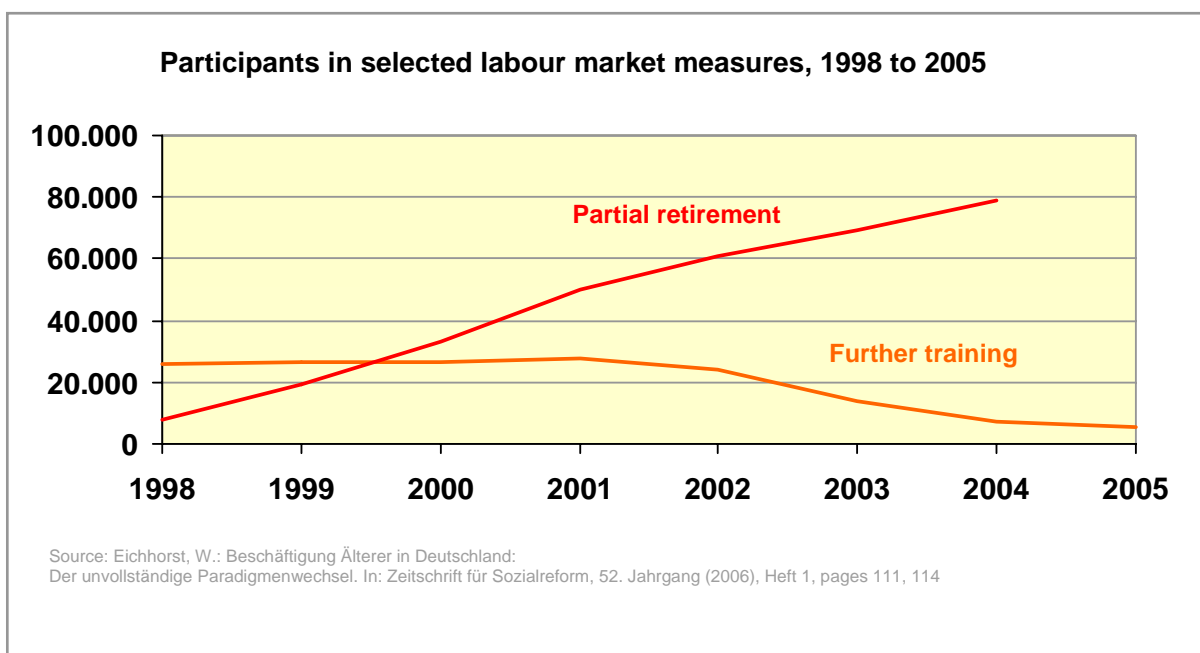
Secondly the government launched several measures to bring back older people to work or extend their duration of employment or to improve their employability as a preventive step:

- a) Protected payment of wages and salaries: this is an amount of money that the government gives to a job-seeker aged 50 and more years, who take up a new job with lower wages compared to the former jobs. The intention of this until the end of 2007 limited labour market measure is offering financial incentives to start a new job after a period of unemployment. Are the older people in work again and are paid less money than before, the Federal Employment Agency subsidizes for a limited period a great part of the wage difference.
- b) Settling-in subsidies: a settling-in subsidy can be paid to employers if they offer a suitable permanent job to unemployed who are hard to place because their settling-in is made difficult in the prevailing conditions of the labour market.
- c) Further Training of the staff is encouraged. What does further training mean?
- The aim is to support the employability of older workers, that means persons aged 50 years and older;
  - One condition for getting the benefits is that the company doesn't employ more than 100 people;
  - There must still exist a contract of employment in times of further training;
  - Further training has to build up knowledge, which should meet the idea of life long learning. Further training in this sense must differ from training-on-the-job referring to company needs; training must be more generally oriented learning serving the needs of the employees.
- d) Exemption from payment of the compulsory unemployment insurance for employers, if they recruit an unemployed person aged 55 and more years.
- e) Recruitment subsidies for people setting up their own business, means: business start-ups can be given a recruitment subsidy to take up unemployed older people. This benefit is up to a maximum of 50% of the gross income and will be paid for 12 month to a company, which employs less than 5 people.

### 3. Measures under review – How does the labour market instruments work in practice?

Recent evaluations sum up the number of people taking advantage of the described labour market measures for older workers. The findings show a poor outcome. One reason is that the actors at the labour market are not well informed about these recently implemented means. Furthermore the findings point out some general tendencies as shown in chart 4: the passive measures such as partial retirement are still dominant. In contrast to these passive measures further training activities, which can be regarded as a measure of active labour policy, are levelled off currently in Germany.

Chart 4:



### **III. Retirement of the elderly and social security systems**

#### **1. Reforms of public pension system**

##### **(a) Pension Reform Act of 1992 (Rentenreformgesetz von 1992)**

One of the major aims of the Pension Reform Act (1992) was to limit early retirement in view of the demographic development.

The main changes are as follows:

- The general retirement age was extended to the age of 65 and to 63 for severely challenged persons. This extension came fully into effect in 2006.
- The extension of the retirement age for a special pension for women (Frauenaltersruhegeld) will be completed in 2009.
- Early retirement from the age of 60 onwards following unemployment and partial retirement is only possible with a reduction of 3.6% per year (max. 18.6 % for a period of three years).
- Since 2001 reductions also exist for the newly regulated earnings of disability pensions (Erwerbsminderungsrenten). These reductions are geared to the earliest possible retirement age (60 years) and the upper limit for disabled persons (63 years). They can amount to a maximum reduction of 10.8 % for people retiring 2006 or later.
- The age limit for the earliest possible entry into retirement following unemployment and partial retirement was extended from 60 years to 63 years in 2004 by a further law (Rentenversicherungs-Nachhaltigkeitgesetz).

##### **(b) Partial retirement act of 1996 (Altersteilzeitgesetz von 1996)**

The partial retirement act is limited until 2009. The act includes that the working time of an older full-time employee (from 55 years on) is half-reduced. If employers aged 55 or older reduce their working time to partial retirement the employer may receive a subsidy by the Federal Employment Agency (Bundesagentur für Arbeit) if an unemployed is hired or an apprentice is employed after the end of the apprenticeship.



## 2. Reforms of labour market policies

In the past the duration of entitlement to unemployment benefits for elderly employees has been expanded for several times. The maximum period to receive unemployment benefits has been expanded up to 32 months for people 57 years and older. In order to prevent dismissals the employee has the chance to get structural-short-time-compensation (Strukturkurzarbeitergeld) for two years.

According to the Hartz-IV-act the duration of the maximum entitlement to unemployment benefits has been cut (since 01.02.2006: 55 years = maximum 18 months).

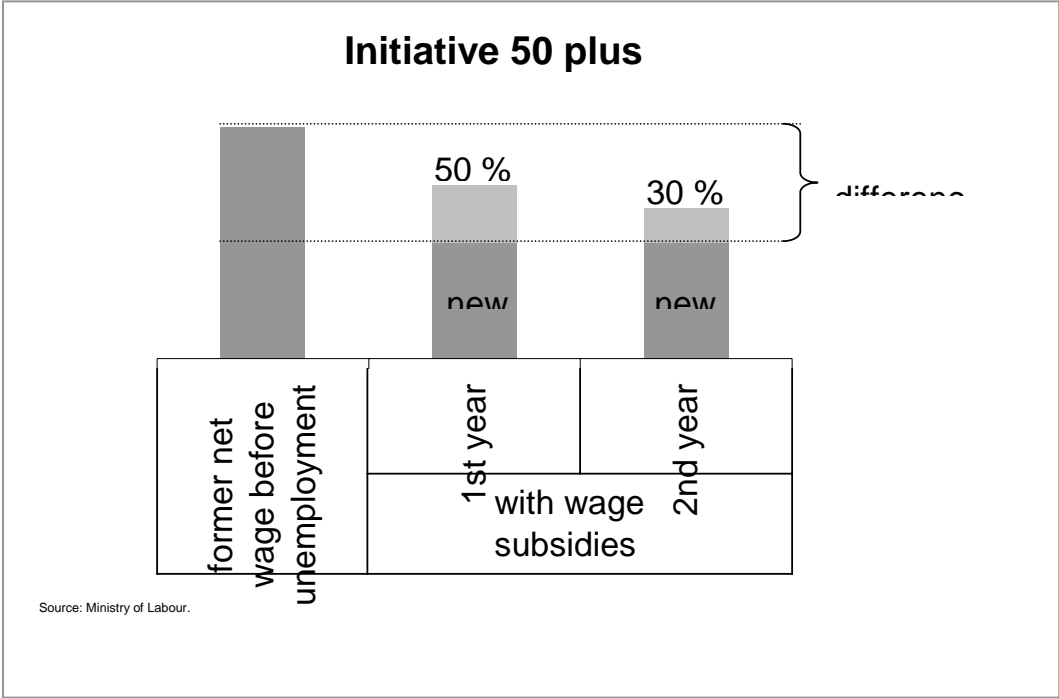
As of 2005 the maximum duration obtaining structural-short-time-compensation (Strukturkurzarbeitergeld) also has been reduced to one year. The Hartz-IV-act adapted the unemployment benefit II (Arbeitslosengeld II) to the lower level of social benefits (Sozialhilfe).

Furthermore the following measures were introduced in order to relieve the integration of elderly employees (all of them are limited in time):

- *Settling-in allowance (Eingliederungszuschuss)*: Employers who hire elderly employees from 50 years on, can get employment subsidies.
- *Further training (Förderung der Weiterbildung)*: In small and medium-sized companies (up to 100 employees) the qualification of employees from 50 years on is advanced by the Federal Employment Agency (Bundesagentur für Arbeit) in form of the absorption of further-training-costs – provided that the employer continue to pay the wage.
- *Protected payment of wages and salaries (Entgeltsicherung)*: Elderly employees from 50 years on get an allowance amounting to 50 % of the wage-difference under the condition that they have entitlement to unemployment benefit (180 days) and that they take up a lower budget employment in comparison to their previous income.
- *Exemption from compulsory unemployment insurance (Befreiung des Arbeitgeberanteils zur Arbeitslosenversicherung)*: Employers who hire a person above 55 years are exempted from the unemployment insurance contribution.
- *Fixed term employment (Befristete Beschäftigung)*: Employees aged 52 and older can be hired on repeated fixed term contracts.

As recent evaluations show all these new measures are not very successful. The utilization is poor. One reason for these disappointing findings is that companies are not well informed about the measures provided by public labour market policies. Secondly, the incentives are not very attractive from the perspective of the companies. Despite these disappointing effects the government recently launched new proposals for a so-called “initiative 50 plus” which modifies the above mentioned protected payment measure (chart 5). Unemployed older than 50 years are entitled to receive wage subsidies when accepting a new job with a lower income compared to the former one. The subsidies cover 50% of the wage difference in the first and 30% in the second year.

Chart 5:



#### **IV. Activities to extend the employment of the elderly – evaluation and needs for action from the trade union view**

An interim evaluation of the German labour market policies for older people is not quite simple to realize at present.

In a broader perspective the German labour market policies are confronted with double difficulties: On the one hand the government tries to pull down the options for an early exit. This is a must because the government implemented cutbacks in social security payments while the costs have been increasing dramatically and the economic performance is not overwhelmingly strong at present. But: as shown before the transfer payments, especially the partial retirement, reached a high level. The active employment and training schemes for older workers trying to keep them longer in paid employment do not seem to be very successful on the other hand at this time.

Against this background the trade unions formulated their position: a successful further development in unions view can not only mean to raise retirement age to 67 - and in fact there is a current debate on this in Germany - first of all policies have to improve the general economic performance and labour market situation. If employment would pick up in general all subgroups will gain from it. But even when total employment would increase particular measures are still necessary to improve the employment conditions of older workers. Following points are regarded as pivotal.

1. The first point refers to already existing measures. The aim is to improve their effectiveness and efficiency. Especially in terms of further training it can be shown that there has not been enough time to build up the administrative organisation to inform particularly small and medium based companies about the opportunities to make use of public measures. In this context the unions demand to abolish the temporal limitations of certain public measures particularly the subsidies for further training activities in small and medium enterprises. The unions want to establish this measure as a standard task of active labour market policy. Furthermore the unions demand to stretch the further training subsidies to companies up to 200 workers and to pull down the age limit from 50 to 45 years in the respect of sustainable development of live long learning.

2. The second proposal is to organize the costs of early or rather bridging retirement in a way that the main players are more responsible for that. The trade union make

the point that an early retirement is a widespread way for companies to cut employment and pass the costs partly to the compulsory unemployment insurance or rather to the pension insurance system. In the view of the trade unions the Austrian way handling this problem seems to be more adequate. Learning from other European countries? The trade union recommends that. The Austrian government has moved to a bonus-malus arrangement in this case. The companies or employers get a merit bonus if they create jobs and they pay a fine if they cut jobs for older workers without good reasons. The state's revenues are going again in active labour market policy for older employees.

3. Thirdly, the unions demand further activities from the companies to protect employees against health problems, against occupational hazard due to bad working conditions. Companies should reorganise their working conditions and give workers more opportunities for job rotations during their work life

4. It is an often repeated demand to establish further training arrangements providing better opportunities for life long learning. Collective bargaining policy in recent years has seen a number of new initiatives in this area. Some of these first attempts at innovation have broken new ground with regard to the regulation of further training in companies. At a conceptual level, two different types of approach can be distinguished. On the one hand, employers and trade unions at both sectoral and company level have negotiated various types of 'learning-time accounts' that entitle workers to a certain number of hours of further training activities provided by the company. On the other, they have negotiated a regulation contained in the collective agreement for the metalworking industry entitling workers to a 'staff development interview' that is intended to act as a basis for the development of appropriate further training measures.