

Active strategies for older workers in the Netherlands

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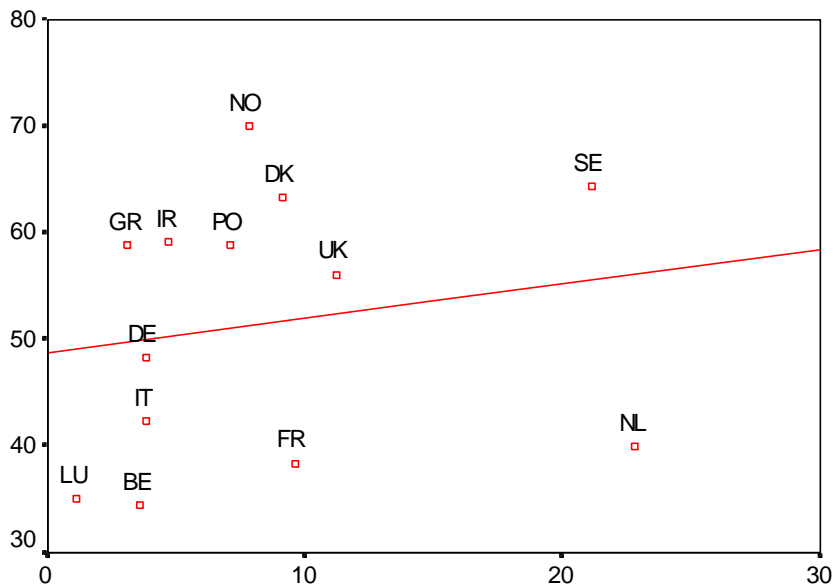
1. Unusual features

When it comes to the activity rate among older people (aged 55-64), the Netherlands is statistically an outlayer in the European Union (EU) (see Figure 1). The activity rate for both older men and older women is relatively low, despite the fact that the number of older men and women in part-time work as a proportion of the total number of older men and women in work is relatively high. In 1995 the proportion of older men in part-time work was 22.8%, the highest in the EU, while the activity rate was only 39.9%, one of the lowest in the EU. For older women the proportion in part-time work was as much as 81.7%, while the activity rate was only 18.0%. The high proportion of part-time work in the 55-59 age group is partly explained by the fact that collective agreements have reduced the working week for older workers, while for the 60-64 age group the agreements also contain gradual retirement schemes. The Netherlands has a long tradition of early retirement. Between 1975 and 1990 the percentage of older people (aged 55-64) in work in the Netherlands fell from 80% to 30%. At the age of 50 80% of workers are still working, but by 55 the number has fallen to 66% and after 60 it is only 20% on average. The employment ratio of Dutch pensioners aged 65 and over is even lower. However, the part-time employment ratio of male (75.1%) and female (83.8%) pensioners is the highest in the EU (Delsen 1998).

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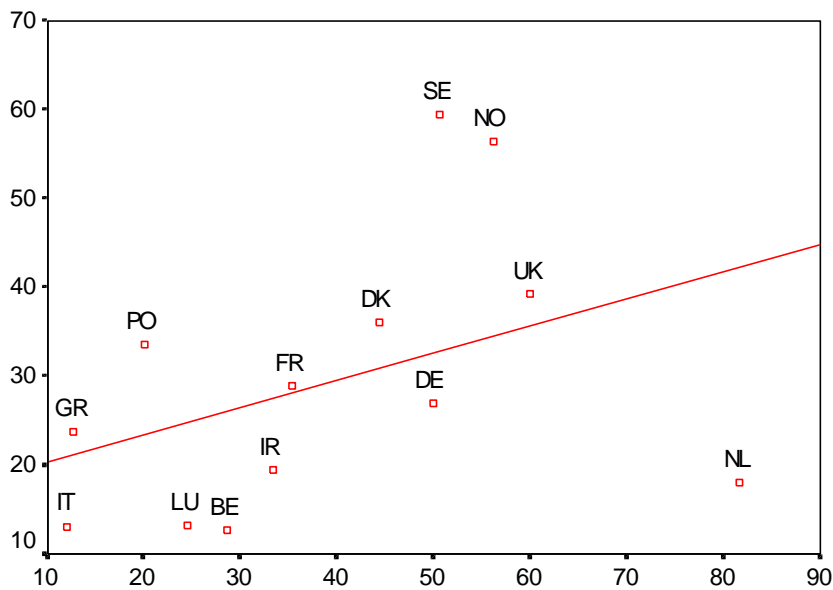
Figure 1 Relationship between activity rates and part-time rates of older workers (55-64 years) in the European Union in 1995, by gender

Men 1995



part-time employment ratios men

Women 1995



part-time employment ratios women

It is a typical feature of the Dutch ‘polder model’ that the government and the social partners are involved in the preparation, formulation and implementation of policy. In the 1980s the effect of having this joint, coordinated policy between government and social partners was that the reduction in the activity rate among men in the 55-64 age group in the Netherlands was the biggest in the EU, and the activity rate of older people in the Netherlands was low compared with the other EU countries. The very low activity rate among older women was the result not of early retirement, but of the

fact that they had never started work. They belonged to a generation who regarded it as natural for women to stay at home and look after the children.

Since it is impossible to draw the compulsory basic old-age pension (AOW) in the Netherlands before the official retirement age of 65, the low activity rate for those aged 55 and over must be explained by three other alternative ways of leaving the labour market: disability benefits (WAO), voluntary early retirement benefits (VUT) and unemployment benefits (WW). Older workers are calculating in their behaviour: they are strongly influenced by financial incentives. This is why there is less chance of someone taking voluntary early retirement because the disability benefits are higher, and the chance of someone relying on unemployment benefits very much depends on whether voluntary early retirement is an available option (see Delsen 1996a,b; Delsen and Jacobs 1999; Lindeboom 1999). The WW, WAO and VUT are, to a certain extent, communicating vessels, and their reciprocal relationship must therefore be taken into account when formulating policy designed to increase the activity rate of older workers.

Table 1 Men aged 55-65 entitled to benefits in the Netherlands, broken down by scheme 1980-1997 (x 1000)

	1980	1985	1990	1995	1997
Disability benefits (WAO)	191	219	214	213	208
Early retirement benefits (VUT)	18	57	107	126	118
Unemployment benefits (WW)	13	47	35	64	67
Total	222	323	356	402	396

Source: Ministry of Social Affairs and Employment (1997) *Sociale nota 1998*, The Hague: 208; Statistics Netherlands (1997) *Werken en leren in Nederland 1998*, Deventer: Kluwer: 169.

The *Wet op de Arbeidsongeschiktheidsverzekering* (Disability Insurance Act – WAO) is used as a disguised compulsory retirement scheme for workers who are deemed to be, or who have become, less productive. It is the main alternative retirement route for older men (see Table 1). In the first half of the 1980s the number of older men claiming WAO went up by 18 000. Up to 1987 the allocation of WAO benefits was dependent on the labour market situation. Partly because of that the absolute numbers leaving the labour market through WAO fell and the number of older men claiming WAO dropped from 219 000 in 1985 to 214 000 in 1990, although the favourable economic conditions also had something to do with this. The number leaving WAO (reintegration) was still lower than the number joining it. In part this is related to the fact the building up of pension is proportional to the measure of disability, and may be less for an older disability benefit recipient in case he accepts a job than in case he would have stayed completely in the WAO. The reduction in the WAO volume after 1993 was partly due to the fact that the legal definition of disability was tightened up, the term “suitable work” for which a person was still fit was broadened, and claimants were periodically reassessed. The reassessment of existing WAO claimants aged under 50 also led to an increase in the number of partially disabled and in the number of unemployed job-seekers looking for part-time work (Delsen 2000). Table 1 also

shows that the relative importance of WAO as a route out of the labour market is declining. In 1980 86% of older men left via WAO, whereas at present around half of older men are leaving employment early via WAO and a third via VUT. However, the number of those who are disabled as a percentage of the working population is still higher in the Netherlands (9.9% in 1999) than anywhere else in the EU. Recent figures from the *Landelijk Instituut Sociale Verzekeringen* (National Institute for Social Insurance – LISV) show that the chance of men becoming disabled increases with age. At present 18.4% of men aged 40-65 are claiming WAO, accounting for half of the 920 000 people receiving WAO benefits in the Netherlands. For women the chances of leaving employment through WAO also vary according to age group, but the differences are much smaller. At present women are 2.3 times as likely to become disabled, and the figure is even higher when adjusted for age and training (2.7). The majority of those currently claiming WAO are women (57%), despite the fact that they make up less than 40% of the active working population. There is a clear link between the higher likelihood of women claiming WAO and the position of women on the labour market. It is striking that this higher likelihood is predominantly a Dutch problem (Ministry of Social Affairs and Employment 2000a: 86).

Under the 1982 Wassenaar Agreement, VUT (voluntary early retirement) is seen in collective bargaining, alongside wage restraint, collective reductions in working time and the promotion of part-time work, as a way of redistributing existing employment and reducing working hours, following the huge increase in structural unemployment in the 1970s, and as a way of combating youth unemployment. VUT is also designed to promote the welfare of older workers. In the 1980s, a large number of sectoral VUT schemes were introduced under the motto “young for old”. Most VUT schemes have the following features: the average retirement age is 60; participants must have worked for 10 years in the relevant branch or undertaking; the benefit paid is 75 or 80% of the final gross wage (net benefit more than 90%); the benefit is indexed on wages; income from work is deducted from the VUT benefit or may even mean that the benefit is withdrawn altogether; the scheme is financed through a pay-as-you-go system, with those working today paying for today’s early retirement benefits. The various VUT schemes are, in principle, provisional, but people have gradually come to regard VUT as a sort of social right, even for scarce groups of workers. It is the main instrument to phase out personnel in company reorganisations (Delsen 1996a,b; Delsen and Jacobs 1999). In the reorganisations of the 1980s the introduction of new technologies to improve the production process efficiency was an additional factor. Older workers were supposed to be too expensive and less inclined to change, and not to have adequate knowledge and experience of the new technologies. It was not profitable to invest in knowledge for poorly skilled older workers, who were also felt to be insufficiently motivated to take part in the change. Exclusion from employment began to be seen as a collective, social norm, with very limited individual freedom of choice. The standard organisational patterns in business also contributed to this. Workers adjusted their psychological approach to their job contracts: the 65 retirement age was no longer the reference point, but “how long have you got to go?” (Van Rijssels and Weijers 1997). The government makes VUT easier from the taxation point of view with the ‘reverse regulation’ (omkeerregel)¹. Table 1 shows that the number of men taking VUT increased from 18 000 in 1980 to 107 000 in

¹ This regulation, set out in the *Wet op de loonbelasting* (Law on income tax), provides that the premiums paid are deductible and that income tax is levied on the benefits.

1990, despite the fact that the labour market picked up again in the second half of the 1980s.

Unlike other EU countries the unemployment rate in the Netherlands does not decrease with age, and among older people it is even significantly above the average (8.6% in 1991). The unemployment rate in the 60-64 age group (22.6% in 1991) is also considerably higher than in the 55-59 age group (10.6% in 1991) Also the proportion of long-term unemployment in total unemployment increases strongly with age and is significantly above average. In 1990 it was 80% for the 55-59 age group and 90% for the 60-64 age group, compared with an average of only 49% (Delsen 1996a,b). The number leaving unemployment benefit is very small. Like the high level of long-term unemployment among older people, these discrepancies are partly explained by the age-57.5 rules introduced in the 1982 *Werkloosheidswet* (Unemployment Act – WW). Since that date the older unemployed have been exempt from the obligation to seek work and receive unemployment benefit until their 65th year, which explains why the hazard rates in the Netherlands reach their first peak at age 57.5. The next peak is at 60, the age when many workers qualify for (early) retirement. The third and last peak is at 65, the regular retirement age (Ministry of Social Affairs and Employment 2000b: 119). However, also the age barrier (45 years) in the labour market policies of the Public Employment Service (PES) partly explains the high long-term unemployment rates among older people.

The Netherlands has a much higher departure rate of older workers from the labour market than other countries. First of all, after a certain age workers accumulate few, if any, further pension rights if they work another year. Secondly, after a certain age people are entitled to a wage-replacement allowance up to retirement age, and tax and premiums are deductible from the wage earned. The implicit retirement subsidy is the sum of the replacement rate plus the premiums payable for the programmes in question. This means that the implicit tax rates involved in carrying on working for a year are relatively high and represent a considerable incentive to take early retirement. This is an important reason why the activity rate among older workers has fallen so dramatically. From age 58 the implicit tax rate of carrying on working is more than 60% for WAO and almost 50% for WW. The figure for VUT is more than 70%. This explains why 80% of all people receiving a VUT benefit claim it as soon as they are entitled to do so, and the other 20% do so within 18 months. In net terms the implicit tax rate for carrying on working is as much as 140% (Gruber and Wise 1999; Kapteyn and De Vos 1999; Lindeboom 1999).

The policy pursued by individual employers also contributes to the high levels of (long-term) unemployment among older workers. They not only discriminate against age when recruiting, but they are also selective when laying workers off. There is statistical discrimination in the selection process for job vacancies, in other words group characteristics are projected onto individuals. Statistical discrimination can be a way of keeping staff turnover costs (loss of capital invested in worker training) to a minimum. In an economic slump employers demand higher productivity to offset labour costs. WW is highly sensitive to short-term economic trends, particularly for the 55-59 age group, for whom VUT is not an option. In addition, selective dismissal on the basis of age is also allowed under the 1982 ‘guideline on the elderly’ (*ouderenrichtlijn*). Just as with WAO the reduction in the number of older men receiving unemployment benefits in the second half of the 1980s was linked to the

favourable economic conditions at the time. In the first half of the 1990s the total number of older men receiving benefit increased. Since 1994 the situation could be described as bucking the trend (see Table 1), with the number of men receiving unemployment benefits still increasing slightly despite the upturn in the economy, possibly as a result of the links between the different routes out of the labour market. The fall in the number of older people on benefit is reflected in the increasing activity rate.

Table 2 Activity rate among older people (age 55-64) 1979-2001

	1979	1983	1990	1994	1995	1996	1997	1998	1999	2000
NL	37.4	28.9	29.7	29.0	29.4	30.5	31.7	33.0	35.3	37.9
EU	-	-	38.6	-	36.0	36.6	36.9	37.1	37.9	38.7

Source: OECD, *Employment Outlook*, Organisation for Economic Co-operation and Development, Paris, various editions.

Table 2 shows that the activity rate among older workers in the Netherlands went back up to 35% from 1994 to 1999. Between 1990 and 1999 the activity rate among older people in the 55-64 age group increased by 5 percentage points from 30% to 35%. The increase in the second half of the 1990s was relatively high in the Netherlands, with an increase of 4 percentage points from 45% to 49% for older men, compared with a drop in many EU countries, while for older women the activity rate actually increased by 6 percentage points from 16% in 1990 to 22% in 1999 (OECD 2000). However, the activity rate of older men and women combined in the Netherlands is still below the EU average, at 48.8% for men in the Netherlands and 48.3% in the EU, and 21.9% and 27.8% respectively for women. Like in other EU-countries the employment rate of older workers decreases with age. According to figures from Statistics Netherlands (CBS) the employment rate of older people aged 55-59 increased from 40% in 1996 to 50% in 2000, and for the 60-64 years old from 11% to 16%. In addition to the policy pursued the upturn in the economy and the consequent reduction in the number of redundancies have also played an important part in the increasing activity levels among older people.

Since the early 1990s it has been government policy to increase the activity rate among older workers. The instruments used have included flexible retirement, a change in the pension base from final pay to average pay, and promoting an age-conscious personnel policy. The government's role in all this has mainly been to lay down conditions (Second Chamber 1993). The present government and the social partners regard increasing the activity rate of older workers as one of the main socio-economic objectives for the next few years. The government and the social partners each have their own responsibilities here, and the Dutch negotiating model (overlegmodel) with its emphasis on seeking a balance between legislation, self-regulation by the social partners and (tax) incentives from the government provides a suitable framework. Since 1994 selective dismissal, i.e. the compulsory retirement of older workers, is no longer allowed. The 'guideline on the elderly' which allowed that to happen has been abolished in order to increase the activity rate among older people. In 1995 the tripartite Board of the public employment service (PES) removed the age criterion from all its training and placement measures. Since 1994 part-time workers

are no longer excluded from pension schemes and now have proportionate entitlements. Women too can no longer be excluded from pension schemes. This is one of the reasons why the number of workers not contributing to a pension has fallen from 18% in 1985 to 9% in 1996. After 1994 the number of men receiving a VUT benefit fell for the first time, partly as a result of arrangements in collective agreements (see Table 1). In 1998 almost half of all collective agreements contained arrangements for replacing VUT schemes by flexible pension schemes. In addition the level of the VUT benefit was reduced and the age for VUT entitlement was raised from 60 to 61 or 62. The demands made by the largest trade union federation FNV concerning policy on older workers in wage negotiations have been: a ban on age discrimination, special consideration for older workers in training plans, the establishment of the right of older workers to change duties and working time, and a reduction in working hours for older workers (FNV 1997).

In the pensions field the Netherlands is a model for the rest of the EU (Delsen 2000). The majority of those insured (some 65%) in the Netherlands belong to a final-pay scheme. This system is not only open-ended, it also subsidises career-makers (reverse solidarity). It obstructs the development of a fourth pensions pillar, since demotion, when an older worker temporarily takes a step down and surrenders responsibilities and pay, and part-time work for older workers both involve a considerable reduction in pension entitlements. This does not happen with an average-pay system, since the pension is based on the salary earned during the whole of the worker's career. December 1997 the government and the social partners concluded a covenant aiming at modernisation and cost containment of the second pension pillar. The number of workers belonging to an average-pay scheme rose from 23% in 1995 to 32% at the beginning of 1999 (Ministry of Social Affairs and Employment 2000a: 112). The Dutch pension system is characterised by the fact that it is partially capital-funded, with the result that the Netherlands does not have any major pension problems because of the ageing population, unlike many other EU countries where the pension is entirely funded by a pay-as-you-go system. The accumulated pension capital is the highest in the EU. The percentage of workers participating in the second pension pillar, the occupational pension schemes, and the percentage of pension recipients are also the highest at a relatively low cost because of the compulsory nature of the system. Pensioner poverty (16% of all households in 1993) is relatively low compared to other EU Member States. Because of the relatively late post-war baby boom the ageing population problem in the Netherlands is not as advanced as in neighbouring countries. Unlike many other EU Member States policy-makers in the Netherlands still have plenty of time to find structural solutions and make the necessary changes.

2. Policy issues

2.1 The fourth pension pillar

The "young for old" approach is very inefficient, involving a loss of human capital and knowledge. Because part of the potential working population is no longer active the production base is reduced. People leaving employment early are unproductive and constitute a major proportion of the untapped labour potential in the Netherlands. Yet their benefits have to be paid by those in work, and this means an increase in labour costs. It also exacerbates the current labour shortage in the Dutch labour market, which in turn tends to push wages up (even further). The fourth pension pillar

involves carrying out productive work, whether or not at a specially adapted rate and/or in a specially adapted job. The pension is wholly deferred, and income comprises earnings from part-time work for a number of years which are added to the existing three pension pillars, the cappuccino model (see Delsen and Reday-Mulvey 1996). Because older workers can take things easier, they remain active for longer, on balance. Increasing participation in the labour market is an effective response to the ageing population problem and is thus vitally important for the long-term future of the Dutch social security system and AOW in particular. It also prevents friction on the labour market. Increasing the activity rate among older people not only has a denominator effect in that it broadens the funding base, it also has a numerator effect if there is a reduction in the number of those entitled to receive a (full) pension or disability, early retirement or unemployment benefits.

The second Kok government (1998-present) is targeting a permanent increase in the employment rate among older people – the 55-64 generation – from around 35% now to over 50% in 2030. This means that the number of people aged between 55 and 65 working at least 12 hours a week has to go up by 0.75% per year. According to the government promoting the activity rate of older people requires a change of mentality from both individual employers and workers. Employers must gear their organisation towards the increased long-term deployment of older workers, and workers must once again prepare themselves for the prospect of a longer career (Ministry of Social Affairs and Employment 1999: 45). The government feels that it is a good idea to have an active policy on older workers, whose knowledge and experience are not adequately exploited. The present government too regards an age-conscious personnel policy, including keeping knowledge and skills up to the mark (employability) and specially adapted working conditions, as an important instrument in preventing (ageing) workers from leaving employment early. The actual shaping of this policy is primarily the responsibility of the social partners. The government encourages employers to have a more active employment and recruitment policy for the non-working groups, including older people. However, the government also plays an important part in increasing activity among older people by ensuring that income legislation does not discourage rather than encourage them to continue working. Examples here include making it attractive to reduce working hours or transfer to a less demanding job instead of retiring outright, but without this having an unreasonably adverse effect on the pension basis in final-pay schemes. The government is also encouraging the conversion of VUT schemes into flexible and prepension schemes through the eventual abolition of tax support for VUT schemes. It also wants to make it more attractive for employers to recruit the older unemployed by giving them a reduction in the wages tax and premiums payable. To discourage the laying off of older workers the government wants to introduce an own-risk element in WW for employers who dismiss workers aged 57.5 and over. This risk would not apply to workers recruited after their 50th birthday. Finally, from 1 July 2002 onwards, the government is considering no longer exempting those who are now 55 from the obligation to look for work if they become unemployed. It is examining the labour market opportunities for these older workers before reaching a final decision (Ministry of Social Affairs and Employment 2000a: 7-10).

2.2 Age-conscious personnel policy

The wages, training and recruitment policies pursued by companies are of crucial importance for the employability of older workers and thus their employment and earning ability. If policy changes are to be effective – and make a genuine contribution to the fourth pillar – personnel policy will also need to be adapted. Both the financial and the material conditions must be created to allow people to stay in work for longer, i.e. for a greater number of years. The ageing process happens gradually, and varies enormously from one individual to another. A custom-tailored approach, in other words an age-conscious personnel policy, is therefore clearly required, because it takes greater account of workers' individual abilities and needs. An age-conscious personnel policy is designed to help *all* workers and aims to prevent relative ageing. There is a conflict here between investing in working conditions and training for older workers on the one hand, and demotion on the other. In contrast to demotion and external mobility, part-time retirement can extend the time available to recover the cost of investment in training and thus make further training and retraining for older workers more profitable.

Older workers take part in in-house training far less often than younger workers, although attendance at courses has increased in recent years. Job-related training is not really geared much towards older workers (Thijssen 1996). The ratio of age to course attendance forms a parabola which peaks at around age 37. Between 1993-4 and 1995-6 course attendance by the 55-64 age group increased from 3% to 8%. The total increased from 19% to 25%. Fewer women than men attend courses (see, for example, Kunnen *et al.* 1997; Delsen and Reday-Mulvey 1996; Groot and Maassen van den Brink 1998). This is partly because of prejudice and statistical discrimination, and partly because of the shorter period available to recover the costs of investment. The return from retraining or further training for older workers is much lower than with younger workers. Older workers earn more than younger ones, which is relevant particularly where the retraining takes place during working hours. In addition, younger workers will have had more up-to-date vocational training as part of their regular education.

To keep older workers motivated and productive training should not end at a certain age, but should carry on until the end of their career. More incentives from the government may be needed here. Older workers tend to be more productive if their duties are adapted or if they change jobs regularly. Practice has shown that age is a poor criterion for deciding whether or not a worker qualifies for training. Older people must not be seen as a homogeneous group. There is no such thing as “*the elderly*”! The only thing they have in common is that they have reached a certain age.

The pay system may be an obstacle to the development of the fourth pillar. Pay based on seniority can limit the employment of older workers: if there is too big a discrepancy between their pay and developments in productivity, they opt for full retirement instead of gradual retirement. The pay-productivity ratio is particularly poor in lower skilled and specialised technical jobs, giving employers a major incentive to lay such workers off (Delsen 1996a,b; Ministry of Social Affairs and Employment 1997). Rigid seniority-pay profiles and the final-pay system hamper not only workers' external mobility, but also their internal mobility, particularly among older members of staff. The final-pay system acts as an incentive to carry on working in order to reach the maximum pay for the retirement year, while at the same time it puts people off partial retirement from employment. Practice in the Netherlands

shows that wages do indeed increase with age, but the productivity curve peaks at around age 45. According to the contract theory the wages of younger workers are below their productivity and those of older workers are above their productivity (Gelderblom and De Koning 1992; Central Planning Bureau 1995). Wages go up periodically; younger workers subsidise the higher wages of older workers. In theory this does not have any cost implications for employers, but does generate commitment from both younger and older workers. Both will work hard, either because they have a lot to gain from long-term employment with the firm (younger workers), or because they have a lot to lose if they are made redundant (older workers). This generates higher productivity and greater loyalty to the company. The implicit contract also helps to overcome the 'hold-up' problem and encourages investment in company-specific human capital². However, in future seniority-based pay will increasingly lead to cost problems if the average age of the workforce increases as a result of ageing and dejuvenation, and if the number of expensive older workers in the workforce expands in relative terms. To keep costs down they are then made redundant, and if this does not happen because of a shortage of labour, then profitability drops. This too costs jobs in the long run. It also explains why Dutch employers prefer to make older workers redundant first, and why they were against abolishing the guideline on the elderly.

Also in social plan agreed by employers and trade unions in the case of reorganisation the rank of redundancy or dismissal is in most cases based on age or years of service (see Delsen and Jacobs 1999). Problems arise not just if workers want to work for longer, but also if they want to change jobs: they will not be taken on. This partly explains the low rate of external mobility and the high rate of long-term unemployment among older people. Demotion may bring wage costs more in line with productivity. Reducing the gross wage costs by narrowing the 'wedge' (the difference between wage costs and net pay) can help here, by making older workers financially more attractive for employers. A smaller tax wedge also encourages investment in training from both employers and workers. The current final-pay pension system also tends to mean that older workers are the first to be phased out if the company is reorganised, to avoid a high pension liability. It also has an effect on recruitment, in that an older worker will make hardly any further contributions towards building up a pension, but will in the short term be claiming from the pension fund assets. The situation of older workers on the labour market is asymmetrical: they are the first to be made redundant and the last to be re-employed. The result is a retirement trap. A pay system based on seniority, with periodical wage increases, is both efficient and effective in that it acts as an incentive towards higher productivity, investment in company-specific training and greater loyalty to the firm. This may explain why there are currently so few cases of demotion in the Netherlands. In 1995 only 20% of firms had a policy on older workers and none of them operated an age-conscious personnel policy (Von Bergh 1997). Horizontal mobility and downgrading occur occasionally, but not as a matter of policy. Other research indicates that only 5% of older workers (aged 43 and over) face downgrading and only a third take a

² The hold-up problem concerns the relationship between employer and worker in the same company. As a result of uncertainty about the distribution of any future surplus, both employer and worker defer their investment, since they expect future wage negotiations on the surplus generated by company-specific investment to deprive them of part of the profits, because contracts or agreements are incomplete. This means that less is invested in specific training than is socially desirable.

drop in salary (Groot and Maassen van den Brink 1998). Measuring individual productivity remains a major problem.

The “digital divide” refers to the large differences in possession, use and skills of ICT-apparatus over different groups. Research by Van Dijk *et al.* (2000) shows that in the Netherlands these three – at work as well as private - are negatively correlated with age, and positively correlated with income and educational attainment. Training can play an important part in improving the position of older workers on the labour market, since it not only keeps knowledge up to standard, but also promotes mobility. Training reduces the discrepancy between remuneration and productivity (Gelderblom and De Koning, 1992). Participation of workers in training courses tends to fall with age, and the Netherlands is no exception to this international rule (see Table 3). The underrepresentation in training is an important issue in active ageing because older people are in a vulnerable position in the labour market. Table 3 shows that participation in training increased for all age groups in the 1990s, and that the relative position of the older workers improved considerably in the 1990s. Moreover, the percentage of those aged 50 and over with a job that involves training in the Netherlands is above the EU average, with the Netherlands scoring higher than Belgium and Germany here (Delsen 2000).

Table 3 Participation of employed people in training courses in the Netherlands, by age, 1993-1998

	1993-1994	1995-1996	1997-1998
Age			
16-24	29.0	30.7	29.9
25-34	34.8	41.2	43.6
35-44	26.3	33.8	41.2
45-54	18.4	28.0	35.9
55-64	5.0	20.7	23.7

Source: OSA (1999) *Trendrapport Aanbod van Arbeid 1999*, The Hague: Organisation for Strategic Labour Market Research.

In 1997 half of the collective agreements examined contained arrangements for older workers (FNV 1997), mostly on reducing working time from a certain age (usually 55). The number of days off for older workers varies from 1 to 6 per quarter, and the principle is that the more days off a worker has, the greater the (financial) contribution he must make. Only a few collective agreements contain special training arrangements for older workers, such as the establishment of an employment fund in the metalworking industry which partly goes to finance a day’s training for workers aged 50 or over. Among dental technicians workers aged 45 and over are given two extra days’ training leave. There were also a lot of agreements in principle on converting existing VUT agreements into prepension schemes (FNV 1997). In 1998 and 1999 too, there was little special provision for older workers in training agreements. In the outcome of the 1998 negotiations flexible retirement was - with one exception - the main policy for older workers. The main collectively agreed arrangements for older workers in 1999 were that those over 50 or 55 can (in consultation with their employer) convert wage rises into early retirement or extra days off. Part-time pensions were also introduced in a number of collective

agreements. Older workers will also be able to take advantage of the agreements reached on extending the amount of time and/or money made available to each worker for training. This certainly applies to the agreements on (individual) investment contracts, including the personal development plan (Persoonlijk Ontwikkelings Plan - POP) agreed at Unilever, Akzo, NS (Dutch Railways) and in the hospitals sector (FNV 1998). The POP will become important in the future, since in an agreement for the 2001 wage round reached centrally in December 2000 the social partners agreed on the right to training, a POP and a budget for them as a means of moderating wage claims. However, in confidential instructions to collective agreement negotiators (De Volkskrant, 8 January 2001) the employers' organisation VNO-NCW states that if workers attend training, they must in principle do so in their own time. According to the instructions employers must generally be unfavourable towards attending training during working hours, since it seriously reduces the number of hours worked.

2.3 Social security policies

In the 1990s changes were made to the pension systems and social security systems in a large number of EU countries, including the Netherlands, in order to reverse the existing culture of early retirement. Pension schemes were made more flexible and the disability and unemployment benefits were reduced and the thresholds raised, making the early retirement options more limited or less attractive. In addition, within the Dutch social security system the reintegration of those on benefits and the promotion of activity became more important objectives than providing benefits and guaranteeing a minimum standard of living for those who were no longer able or no longer needed to work (see Asscher-Vonk *et al.* 2000; Delsen and Jacobs 1999). Older workers relied on the disability insurance act less than before as a means of leaving employment. However, businesses still used the alternative retirement routes as disguised redundancy schemes (see Delsen and Reday-Mulvey 1996; Delsen, Hutsebaut and Reissert 1999; Lindeboom 1999).

The total privatisation of the *Ziektewet* (Sickness Act – ZW) after 1996 has had a number of consequences that are difficult to be quantified in figures. Because employers can bring pressure to bear on an employee to return to work after illness, the worker may react by taking a longer period of sick leave. Another effect of the change in the law is that age and medical history are now used as selection criteria when firms recruit staff. Employers tend not to take on workers who have been on long-term sick leave. The privatisation of the Sickness Act has led to a significant increase in the use screening, and this has created additional obstacles to the integration of the disabled and has further weakened the position of older workers on the labour market. Also the Law on Premium Differentiation and Competition in the Disability Insurance Scheme (Wet Premiedifferentiatie en marktwerking bij arbeidsongeschiktheidsverzekeringen – PEMBA) since 1998 has exacerbated this insider-outsider problem. A major disadvantage with PEMBA is also that it encourages screening when recruiting new staff, which does not serve the stated aim of helping older workers to be able to work longer (Delsen 2000).

2.4 Working time policies

The *Wet aanpassing van de arbeidsduur* (Law on the adjustment of working time) has been in force since 1 July 2000, and gives workers who have worked for their current employer for at least a year the right to work more or fewer hours a week. The employer must comply with a worker's application to alter his working hours, unless he cannot reasonably be expected to do so for important business or operational reasons. (Firms with up to 10 workers are exempt here.) Collective agreements may derogate from this law, and it is notable that no limit is set on how many hours extra or fewer a worker can apply for. In view of the flexible retirement arrangements job opportunities may also be created for older workers, and so the new legislation may be expected to increase their activity rate. The difference between the desired and the actual working time increases with the level of skills, and so the law, which also covers workers who currently hope to work part-time, also has the effect of exacerbating the severe shortage of highly skilled workers. Older workers in particular (age 55-64) seem to want to give up a lot of working time (75-80 minutes a week), men 86 minutes and women 47 minutes. This will not restrict the supply of labour, but should stimulate the supply of older workers especially. Many workers do not want to end their working lives abruptly: 44% of Dutch workers who intend to use an early retirement scheme want to carry on working part-time for a few years first. The average worker aged 55 or over wants to work over an hour less. The Law on the adjustment of working time may help to extend the number of years for which healthy workers are active on the labour market (Fourage *et al.* 2000). Finding replacements can present problems, particularly in jobs requiring training and experience. Employers are facing a new risk – the risk of part-time work. They are being forced to make allowance for it, and this does not encourage them to invest in their workers. The right to part-time work could thus put pressure on “life-long learning”. However, working part-time may extend the time available to recover the costs of investment in training and thus increase the return. So life-long learning will actually be promoted and brought closer to workers if they are given the right to work part-time. This is particularly true if the alternative to temporarily working part-time is to leave employment altogether, which is not just a hypothetical case either, especially not in the Netherlands, where part-time working has developed as a phenomenon because it is what workers want, more so than in other EU countries. The claim that part-time working reduces the supply of labour is a deep-rooted misconception among economists. The total volume of labour is the product of the number of persons in work, the number of hours worked and the number of years worked. Expanding the volume of part-time work offers workers the material conditions to remain in employment and/or to carry on working for longer. The positive relationship between part-time work and the activity rate is unmistakable and has been a significant element which other countries have imported from the Netherlands' polder model. It means that the ageing of knowledge and skills is restricted and less human capital is lost, since people do not leave the labour market completely or for longer than they want or need, and they do not transfer to social security. Stabilising employment relationships can significantly help to encourage investment in human capital from both employers and workers.

For those willing to take posts that are difficult to fill the *Nederlandse Spoorwegen* (Dutch Railways – NS) and the education sector have abolished the penalty reduction in VUT and have thus procured the services of several dozen of those who had taken early retirement. In the healthcare sector too those who have taken early retirement can take jobs in the healthcare sector from 2001 without incurring a reduction in their

VUT payment or pension. The PGGM, the pension fund in the healthcare sector, decided on this – in anticipation of changes to the collective agreement – because of the shortage of manpower. In practice it applies to some 25 000 people aged 60-65 receiving “bridging payments”, a sort of VUT for the healthcare sector. The arrangement means that those on VUT could earn up to 180% of their final pay. The trade unions and the employers are in favour of abolishing the penalty reduction that applies under the current collective agreement. However, the question is whether such ad hoc measures are actually of any benefit. They may make it profitable to carry on working, but they also lead to unequal pay, with older workers who have carried on working earning less than colleagues who have returned to work. This leads to some creative U-turns, with people taking VUT and then returning to employment a year later. The pay-as-you-go system of financing means that active workers are paying for their re-employed older colleagues to receive extra, which also helps employers who are unable to find staff. It also produces steeper pay-age profiles, particularly at the end of the working life (Van Praag 2000). So it is really nothing more than a hidden pay increase to make it more attractive for older people to stay in work or to go to work. Under normal circumstances it would be the employer who paid the higher costs involved, but not now. The question of the non-payment of employers’ contributions to pensions would be one solution to this strange state of affairs. The tax authorities also cream off the vast majority of the extra pay. There is also the question of whether, for many older workers, there is any point in going back to work. The way in which the system is financed (pay-as-you-go, with younger workers paying for those on VUT) causes resentment, with double salaries being paid (partly) out of younger workers’ pockets. The VUT premium is winding down now: in most collective agreements the collective, pay-as-you-go VUT schemes are being replaced by individualised savings schemes. Younger workers now having to save for their own early retirement. On the other hand the pressure of work is becoming lighter.

The growing shortage of labour has forced people to look recently at increasing the supply by extending working time. For example, in the 2001 negotiations the employers’ organisation VNO-NCW called for the selective extension of working time, such as by classifying Saturday as an ordinary working day. It advised that collective agreements should exclude the possibility of extending the working week on the basis of the Law on the adjustment of working time if this would lead to problems. “This would be the case, for example, in firms where there is a lot of part-time work and workers might make excessive use of the right to increase their working hours” (De Volkskrant, 8 January 2001). Given the preferences expressed by individual employees the question is whether this policy has any chance of succeeding. In the Netherlands the number of à la carte collective agreements has rapidly increased since the early 1990s. These à la carte collective agreements contained conditions of employment that could be exchanged for one another, such as money for time and time for money, making working time just one of the available options. What do workers think of these agreements? On a scale of 1-5 the main high-scoring options are: using overtime for extra holiday, saving up leave and saving for early retirement. So workers have a strong preference for time off (Paping and Tijdens 2000).

2.5 Work organisation, job (re)design and internal mobility

External job mobility and function mobility decrease dramatically with age. In the Netherlands the average duration with an employer is 9 years; the 55+ stay 20 years or more with the same employer. In 1995 30% of those aged 16-24 and 15% of those aged 25-29 changed jobs, but for those aged over 40 the figure was less than 5%. Around 7% of those aged 20-34 changed function, together with some 5% of those aged 35-49. After that function mobility scarcely occurs. Both employer mobility and function mobility are higher among men than women (Kunnen *et al.* 1997). Older workers are relatively rarely used multifunctionally, in other words for a number of different functions. Multitasking/functional flexibility declines with age. Numerical flexibility also declines with age. Older workers tend to work less in flexible employment (temporary agency work, on secondment/loan or on stand-by/home working). They also tend to do less shift work at irregular times and on flexible rosters. Many collective agreements still contain provisions exempting older workers from night work or shift work. Von Bergh's research into careers (1997) shows that of older workers who have had an uninterrupted career from age 45 to 55, 40% have changed function at least once as a result of promotion, horizontal mobility or demotion. If lighter work and shorter working hours are also regarded as changing function, the figure rises to 45%. Between the ages of 45 and 50 the most common changes are promotion (11.8%) and horizontal mobility (10.5%), and between 50 and 55 horizontal mobility (9.1%) and demotion (9.1%). The chance of moving to another employer is significantly smaller for those aged over 50 (7.7%) than for workers between 45 and 50 (12.1%). Promotion is predominantly internal, while horizontal mobility and demotion are both internal and external in almost equal proportions. The chance of working shorter hours (at least 4 hours per week) increases with age (from 5.8% to 8.2%), and there is hardly any chance of being given lighter work within the same job (0.5% or less). The chance of an external change of function declines much more drastically with age than the chance of an internal change of function. These results have very little to do with the pursuit of a personnel policy geared towards older workers, and in actual fact the ratio is sometimes the exact opposite of what might be expected. The chance of horizontal mobility is significantly higher for those aged over 45 working in organisations which have a policy on older workers. Demotion and a reduction in working time are not the result of a specific personnel policy: on the contrary, they occur more frequently if there are no opportunities for horizontal mobility or lighter work in the organisation or if there are organisational changes. The chance of promotion, horizontal mobility and demotion is greater for older workers and largely depends on the importance of the function.

Unlike the traditional production factor capital knowledge does not wear out when used, but in fact its quality is improved. Reversing this argument, when knowledge is not used its quality deteriorates. After age 35-40 workers are given less and less attention. They have no job assessment interviews any more and few opportunities for training. This is what causes the problem of over-specialisation or "concentration of experience", partly because the few changes of function encourage workers to become set in their ways and less alert. This concentration of experience means that the quantity of experience increases but the variety of experience decreases with age. Work experience is not enough to compensate for the lack of (further) training (Thijssen 1996). The organisation uses older workers only to carry out very specific tasks, and this then becomes a self-fulfilling prophecy. Depriving older workers of opportunities to develop automatically leads to problems of employability, flexibility and productivity (Van Rijsselt and Weijers 1997). The employability problems

increase with age and often lead to early departure from employment (Thijssen 1996). Because of their specialised training the human capital represented by older workers is less “portable”, which explains the low level of external mobility. It may also partly explain the high level of long-term unemployment among older people.

2.6 Attitudes

It is interesting to note that in the 1980s various different attitudes and reasons were given for supporting early retirement: that older people no longer needed to work, that they were no longer able to work, that they should not be allowed to work or that they no longer wanted to work (Van Rijsselt and Weijers 1997). Workers hid behind the idea that older people no longer *needed* to work. They had done their bit. They were not talking about older people’s potential, it was simply felt that they no longer had the same aspirations. This idea was quickly followed by the idea that older people should no longer be *allowed* to work. Despite their abilities and aspirations, society was forcing older people out of valuable social roles. The social partners said that with so many young people out of work it was not right that older people should remain in employment. So there was age discrimination, including with the retirement age. This idea was then quickly overtaken by the idea that older people are no longer *able*, particularly with regard to the innovations resulting from automation. Their health is in decline, their knowledge and skills are out-of-date. Their individual limitations squeeze out their aspirations and abilities. Employers tend to give all the opportunities to younger workers, and this then becomes a self-fulfilling prophecy, generating a biased, negative image of older workers and leading to stereotyping. Basing decisions implicitly or explicitly on this image can result in stigmatisation and even discrimination. The idea that older people no longer *want* to work casts doubt on the abilities and aspirations of older people themselves. Willingly or unwillingly, they abdicate their position in society. One of the paradoxes of the shortage on the Dutch labour market is that some of the working population in the Netherlands are ill because they are overworked and under pressure, and some are ill because they have no work, despite the huge number of vacancies that are difficult to fill in certain sectors such as healthcare and education. Many (older) people receiving a pension or benefits could, in principle, work in these sectors (Delsen 2000). In view of the increasing life-expectancy, workers’ good state of health, etc, four positive images could be put forward to combat the four negative ones described earlier: older people must work, can work, want to work and should be allowed to work. The Netherlands Scientific Council for Government Policy (Wetenschappelijke Raad voor het Regeringsbeleid - WRR) specifically sought in 1990 and 1995 to change the negative image of older people and the ageing process.

Older workers have a biased, negative image: they are less productive, less flexible, their knowledge is out-of-date, they refuse training, they are less motivated and less open to innovation (Ministry of Social Affairs and Employment 1997: 111; Van Rijsselt and Weijers 1997). This was confirmed again just recently. Practice has shown that employers are not exactly waiting to snap up those on VUT: even if they have posts that are difficult to fill they will give preference to women and those who are partially disabled rather than older people, for example. Older people are supposed to be less flexible, rigid, poorly skilled, arrogant and all too ready to claim to be ill or

unfit for work.³ The shortfall is greatest in industry and the construction sector, and does not just apply to highly skilled, specialised jobs (see Henkens *et al.* 2000). Their research shows that attracting women (54%) and introducing flexible working hours (58%) are the measures most often used to overcome the shortage on the labour market. Measures to make workers more employable (46%) and to use those with a partial disability (41%) are also applied relatively often. This last option is considered by 44% of employers. Encouraging workers to carry on until 65 now only happens in 13% of organisations. Only 20% of organisations recruit older workers. If the labour shortages carry on growing 40% of employers would consider recruiting older workers. Taking back those on VUT is an option considered by fewer organisations. Women and those with a partial disability are at the head of the job-seekers queue, which suggests that abolishing the exemption from the requirement to look for work for those aged 57.5 and over, which the government is currently considering, would have only limited effect. The statutory ban on age discrimination may help to improve the situation of older people on the labour market. However, for the time being there are no economic reasons why firms should comply with this. The ageing working population means that firms now, more than at any time in the past, need to acquire new knowledge through their existing workforce. As a result of the tight labour market the number of employment agencies for pensioners increases (de Volkskrant, 8 May 2001). The volume of employed pensioners (65+) increased from 10 300 in 1992 and 12 500 in 1995 to 15 200 in 1998. Three quarter of them work part-time. These pensioners are considered flexible, reliable, have a fine work ethos and are relaxed, but slower.

3. New initiatives

3.1 Measures as a possible response to guideline 4: pensions and the tax system

The new *Wet fiscale behandeling van pensioenen* (Law on the fiscal treatment of pensions) of 1 June 1999 is designed to allow scope for individual options in the pension system, i.e. flexible retirement and supplementary insurance, by providing for a bridging pension for workers, such as to fill the gap up to the basic state pension at age 65 in the case of early retirement. With the maximum accumulation percentage increased from 1.75% to 2% of the final salary, the earliest retirement age is 55. With demotion or part-time work pension accumulation after age 55 can continue as if the previous salary was maintained. The pension paid may be up to 100% (previously 70%) of the final fixed salary, including the 13th month and holiday bonus. The balance is classified as pay from current employment and is taxed progressively in the usual manner. An early pension – which may be taken from age 60 and may be up to 85% of the final pay – can be accumulated in a maximum of 10 years. This means that there is a tax advantage in replacing the existing VUT schemes with early pension schemes, and there is a better balance between costs and benefits. The main problem with VUT is how it is financed. Because it is financed on a pay-as-you-go basis VUT is extremely attractive for older workers, since there is no link between the premiums

³ Reality, however, shows that in 1995 sick leave declined with age: 60% of those aged 55 and over did not take any leave, compared with 46% of those aged 25-34. In percentage terms, therefore, those taking most leave were fairly young. However, for those who were ill, both men and women, the number of days' sick leave increased with age (13.4 days and 21.1 days respectively for men and women aged 55-64, compared with an average of 5.8 days and 13.6 days respectively) (Kunnen *et al.* 1997).

paid by the individual and the duration and value of his or her VUT benefit, resulting in the high implicit tax rates (see Section 1). The years-of-employment requirement and the anti-cumulation rules attached to the various VUT schemes also constitute an obstacle to the development of a fourth pillar, and the anti-cumulation rules run counter to the aim of achieving a higher activity rate. The limited extent to which workers can take pension and VUT rights with them is a major explanation for the low level of external mobility, in other words job mobility, among older workers. The pay-as-you-go VUT schemes are also very sensitive to economic and demographic developments. With the early pension, unlike VUT, pension rights and pension accumulation are on an individual basis and the pension value depends on the number of years of accumulation and the annual premiums paid by a given individual. Workers can no longer offload the costs of the choice they make onto the community, but must bear them themselves if they take early retirement. Insurance is taking the place of solidarity, a change which is in line with the current trend towards individualisation in Dutch society. However, VUT schemes are still (provisionally) being given a tax break in the form of the reverse regulation (omkeerregel). The early pension is seen as a strong incentive to carry on working for longer than is currently the case with VUT, since early retirement leads to an actuarially reduced pension, whereas working longer means a higher pension. However, experience in Europe shows that the financial incentive needs to be considerable if it is to influence a worker's decision on retirement (see Delsen and Reday-Mulvey 1996). Accumulated pension rights can be carried over to another employer and external job mobility benefits from this. Because supplementary pensions are the responsibility of the social partners in the Netherlands, the government can only set out a framework here.

At present the VUT schemes in many collective agreements are being replaced by pension schemes with a flexible retirement date. In 1996 VUT was replaced by an early pension scheme for 6% of workers. It is expected to be replaced for another 64% of workers within 5 years (see Ministry of Social Affairs and Employment 1998: 110). As a result of the 1997 pension covenant pension costs decreased and pensions have become more flexible. The age threshold of 25 years for participation in pensions has been dropped in many pension schemes. However, the new more flexible pension schemes only cover early retirement before the age of 65; deferring retirement until after 65 is not possible with any of them. At the standard age (60) at which retirement is possible under the early pension schemes a gross pension of 70-80% of the final wage may be paid, and those retiring before or after that age will receive a lower or higher pension accordingly. For the majority (two-thirds) of workers contributing to a flexible pension the minimum retirement age is 55, whereas under the VUT scheme the minimum retirement age was 60 or just under. With the introduction of the early pension schemes the retirement conditions have been tightened up. Recent figures from the Labour Inspectorate (Arbeidsinspectie) show that the average VUT age is 60.1, while under the early pension schemes the average age has increased to 61.3. The average gross VUT benefit was 79.4%, compared with the average early pension scheme payment of 71.9% (see Van Dalen and Henkens 2000). The figures indicate that the activity rate among those aged 55 or over has increased in recent years. However, it is difficult to determine what effect the special measures have had, since what we are seeing is the cumulative effect of a number of reforms that have been introduced over a number of years. The short-term economic situation, i.e. the business cycle situation also strongly influences the chances of (older) workers leaving employment.

In 1995 three-quarters of workers aged between 45 and 55 were unwilling to change jobs or functions before taking VUT or retiring. 70% wanted to work fewer hours, and three-quarters said they wanted to stop work before 62, half even before age 60. These figures are at odds with the policy of the government and the social partners of trying to reduce early retirement (Von Burgh 1997). Other research shows that more than half the population of the Netherlands expects to be able to stop work before the age of 65 in the next 25 years; 27% expect to retire before the age of 60 and 38% between the ages of 60 and 65. Some 35% also expect to have to carry on working past the age of 65; 29% think that they will be able to retire between the ages of 65 and 69 in the next 25 years, and 6% think that they will not be able to retire until the age of 70 or over (Ester and Vinken 2000). Given the preferred retirement date of older workers, however, the incentive effect of early pensions on retirement behaviour – the prolongation of working life – is limited. With lower skilled men early retirement starts at a younger age than with highly skilled men, because of the sort of work involved: industrial work has to a large extent disappeared, lower skilled workers are easily replaced and the work is often physically hard. Lower skilled workers are often forced to leave employment through disability (WAO) and redundancy (WW). Highly skilled workers stop work as soon as they can get VUT, and they also retire voluntarily more often than the lower skilled. Retirement through WAO and WW has a negative effect on well-being, whereas those who have retired through VUT tend to be very satisfied (Ministry of Social Affairs and Employment 1997: 106). The abolition of VUT affects some groups more than others and thus has a divisive effect. Standard conditions of employment keep operational costs, i.e. transaction costs, down (“economies of scale” and “economies of scope”). The introduction of optional elements means that the employer has to negotiate the details of the entire conditions of employment package, including pensions, with every newly recruited worker. This increases recruitment costs. Reducing standardisation by introducing options comes with a price tag in the form of higher transaction costs and thus higher premiums or lower pension entitlements (Delsen 2000). Offering workers greater choice and thus greater sovereignty can also result in adverse selection on the labour market. The average life expectancy is increasing, and older people are fitter, leave employment earlier and have greater financial scope available to them (Van Rijsselt and Weijers 1997; Lindeboom 1999). Workers who are well-off and highly productive in particular are able and willing to opt for early retirement. The less well-off and productive workers will choose, or be financially forced, to carry on working for longer, perhaps even too long. The growth in the number of female workers and the number of households with two incomes will increase the demand to stop work, which will also become possible thanks to private schemes. This may mean that despite the fact that the unemployment and disability benefit rules and the rules in company-based retirement schemes have been tightened up, the activity rate among older men will not increase by much (Lindeboom 1999). The latter may even go down in future due to the recent (April 2001) agreement of the Social Economic Council (Sociaal-Economische Raad – SER) which makes participation in the second pension pillar compulsory for every employee. The present 25 year age threshold has been abolished. This agreement not only broadens the group of workers covered by the second pension pillar, longer contribution also increases the pension benefit level and hence the financial scope to retire earlier. Also more complete careers and higher reference wages offer greater financial scope for early retirement.

3.2 *Measures as a possible response to guideline 6: tripartite action on life-long learning in the new economy*

In November 1999 the “*Wetsvoorstel verbod op leeftijdsdiscriminatie bij de arbeid*” (Proposed Law banning age discrimination at work) was sent to the Tweede Kamer (Lower Chamber). This makes it illegal to distinguish according to age in recruitment and selection, appointment, job-finding, training and promotion. It has been tailored to the two European Commission draft directives, based on Article 13 of the EC Treaty, on promoting equal treatment and on combating discrimination on grounds of disability, age, etc in all aspects of work, such as applications, conditions of employment, pay and dismissal, on which the tripartite Social Economic Council (SER) reached an agreement at the end of 2000. The Netherlands does not currently have any comprehensive legislation on equal treatment with regard to age and disability. It is significant here that the disability risk increases with age. However, there is some doubt about how effective this law will be in view of the institutional and social incentives that are currently in operation.

The report *Bevordering Arbeidsdeelname Ouder* (Promoting the activity rate of older people) produced at the end of 1999 by the Social Economic Council supports the present government’s attempts to develop a activating labour market policy for older workers. In order to achieve the government’s objectives the SER makes a large number of recommendations and proposals both for businesses and for the government, which are to be implemented gradually. Two particular strands are recommended: an age-conscious personnel policy within firms geared towards older staff, and improving the incentives generated by conditions of employment and retirement schemes. Both strands are the joint responsibility of the social partners and of government. The key age is 60 rather than 65, which is the statutory retirement age in the Netherlands. The SER takes the view that, in principle, all persons aged under 60 who are fit to work should have employment. Those aged 60 and over should retire according to individual preference, making a deliberate cost-benefit comparison between (carrying on) working and not working or retiring. In addition to the consolidation of current policy the report also refers to the responsibility of the social partners. Firms must apply an age-conscious and ultimately age-independent personnel policy, which in many cases will require employers to undergo a complete sea-change in attitude. The government can offer support here, such as through the introduction of the Proposed Law banning age discrimination at work and the policy on conditions of employment. The government’s input is to convert the choice between working and not working into a choice between a more gradual reduction in work and definitive retirement at a later age. The following options are available here. Convert VUT schemes into flexible pension schemes, thus reducing the burden on the younger generation. Make it possible to carry on working part-time in addition to full retirement. Voluntary early retirement would remain an option, but people would have to pay for this individually. The fiscal support for VUT schemes will eventually be abolished, and legislation on this should be ready by 1 July 2002. The evaluation of the Law on the fiscal treatment of pensions will be taken into account here. It must also become possible for workers to take a step down in their careers without losing pension entitlements during the period in question. The regulations on conditions of employment and early retirement must contain financial incentives to ensure that people who work longer are rewarded and those who retire early bear the costs involved themselves. According to the SER report the government is considering the

progressive introduction from July 2002 of a requirement for those aged 57.5 or over who are unemployed to seek work, if it is likely that older job-seekers have a real chance of finding suitable employment. The final decision will be taken following research into the opportunities for unemployed workers aged 57.5 and over on the labour market. The SER's other recommendations include considering more extreme forms of differentiation in the sectoral unemployment insurance premium, and the establishment of groups of premiums; introducing tax instruments to bring down the labour costs of older workers and to offset the extra costs involved in increasing their employability by a tax credit; giving individual workers a statutory right to cut ("knip") their pension calculations if their working hours are reduced or if they move to a lower paid job; considering dropping tax breaks for VUT schemes.

These proposals too have been accepted by the government, which has put forward proposals on unemployment insurance premium differentiation stating that employers who lay off workers aged 57.5 or over will have to bear part of the unemployment benefit burden at their own risk (Ministry of Social Affairs and Employment 2000a). This is expected to have a preventive effect on the number of redundancies and a direct effect on the activity rate among older workers. However, the planned premium differentiation in unemployment insurance will do older workers more harm than good. Premium differentiation makes it attractive to invest in existing older workers instead of replacing them with new ones. It encourages internal flexibility. Older workers are laid off less readily, but unemployed older workers are also taken on less readily. Given that 70% of older people aged 55-64 are not in employment in the Netherlands, the positive effect of premium differentiation is doubtful. The solution to the inactivity problem, which in the Netherlands centres on older people and the long-term unemployed, lies in an active reintegration policy (Delsen 2000). To help to achieve the government's objectives the Ministry of Social Affairs and Employment has announced a number of new financial incentives to encourage older people to go out to work. In order to encourage employers to take on older workers the target group of the scheme of reduced social security contributions for the long-term unemployed (Vermindering Langdurige Werklozen - VLW) has been broadened for older people. From 1 January 2001 the VLW age limit for which there is no minimum number of working hours is to be reduced from 57.5 to 50, making the VLW applicable to workers aged 50 and over earning up to 150% of the statutory minimum wage, whereas at the moment the figure is 130%. The present Kok government plans to introduce, from 2002 onwards, a number of fiscal measures to keep older workers in employment. The 58 years old employee receives a tax credit of 500 Dutch guilders, increasing to 1,500 Dutch guilders for those 65 years of age. The employer who retains an older worker is exempt from paying disability (WAO) and unemployment (WW) premiums. A ban on pay-as-you-go VUT schemes seems more obvious than abolishing the tax breaks. In view of the social implications the abolition of tax breaks and a ban on final-pay pension schemes may also be appropriate (Verbon, Van Dalen and Dietvorst 1998). Limiting tax breaks to the average-wage system seems obvious. Plans are in preparation (Donner Commission) to limit the disability insurance (WAO) to those who are fully disabled. The benefit for the partially disabled will be abandoned. Each employee that becomes partially disabled has to remain active, if necessary at a lower wage.

Arrangements included in collective agreements may make training a more relevant labour market factor and provide a clearer answer to the question of who is entitled to

what (duration, payment, type of training). Such arrangements move training out of the “perks” category and into the “rights” category, making it relevant for older workers. Training that is not directly job-related may be encouraged. Since 1997 it has been possible for firms to claim a training allowance specially designed to promote training for workers over 40 (Ministry of Social Affairs and Employment 1997). The combination of low expenditure, high participation rates and long duration indicates that the Dutch company training system is efficient and that life-long learning is relatively well developed. It is difficult to draw any firm conclusions, however, because of the limited comparability of international data (Delsen 2000: 104).

4. Proposals

The CPB Netherlands Bureau for Economic Policy Analysis (CPB 2000) expects a decrease in productivity due to ageing of the Dutch labour force. However, this need not be the case. The present older generation is healthier than the former generation of older workers. Health is an important determinant of individual productivity. Moreover, work in the post-industrial labour market and in the service sector is physically less demanding. Demographic developments necessitate a shift in employment policy measures away from those focussing on the unemployed towards measures focussing on the employed, i.e. the prevention of unemployment notably of older workers.

The main thrust of the “active strategies for older workers” is to eliminate the negative incentives that encourage early retirement, and to introduce new incentives that encourage people to work for longer. In policy terms this mainly involves promoting later retirement and a gradual transition to a pension. However, putting too much emphasis on the activity rate among older workers tends to mean that not enough attention is paid to the “activity versus income security” quandary and the conflict between the qualitative and quantitative aspects of being active.

Although the Netherlands may be regarded as a model in the pensions field, the fourth pillar is still in its infancy. The recently proposed pension measures smooth the path for the introduction and development of a fourth pensions pillar. Issues requiring further attention here include the anti-cumulation rules in social security and labour and social protection after 65. However, it also means that no social security premiums have to be paid when employing pensioners. The cost saving of 22% makes pensioners financially attractive. Linking of pensions to consumer prices for family households instead of linking to wages will make additional savings in future. An average pay system and the linkage of pension payments and consumer prices are also more in line with the deferred pay concept and the trend towards individualisation.

Most pension schemes entitle workers to a maximum of 70% of the gross final pay, inclusive of the basic state pension. Even with average pay schemes the pension entitlement inclusive of the basic state pension is usually 70% of the final wage after 40 years’ service, but lower pensions are more common than with final-pay schemes. In net terms the figure will actually be higher (80% to 85%), since pensioners no longer pay a state pension (AOW) premium and, of course, premiums for their second and third pension pillar. This high net payment may be one reason to reduce the maximum supplementary pension. Another reason for reducing the pension to 60%,

say, is the end of the “breadwinner” model. However, the 70% maximum is only attained if premiums have been paid for 40 years, with a pension accumulation of 1.75% per year. The new 1999 Law on the fiscal treatment of pensions has changed this to 35 years and 2% per year of employment in the final-pay system. With average-wage schemes the maximum annual accumulation for an old-age pension is 2.25%. 60 becomes the new key age at which 70% of the pension is attained. This is, to a certain extent, at odds with the government policy of promoting the activity rate of older people. Yet 60 is the key age in the policies of the government and the social partners too. There is also the question of whether the actuarial reduction is enough to combat early retirement. The retirement date may be deferred up to the age of 70, which increases the old-age pension. Most workers do not reach 35 years’ service, let alone 40: the average number of qualifying years on the pension date is only 18, 22 for men and only 7 for women (see Jansweijer 1996). No more than 26% of all participants finally achieve a pension of 70% or more. This means that for many people aged 65 or over – particularly older women – the basic state pension will be the only source of income. This explains why older women are over-represented among poor households in the Netherlands. More complete careers and the abolishment of age thresholds are of help here. However, the unemployed, flexible workers and the self-employed are also, whether or not voluntarily, not covered by the compulsory supplementary pension scheme. In view of how the purchasing power of the basic state pension is developing, this means that these people may end up below the poverty line. At the moment 10% of the elderly are in this position. The recent 2001 income tax reform improves on average the gross income of Dutch households by almost 1.5%. This improvement decreases with age: the 55-64 years old experience an increase in gross income of about 1%, while the gross income of the 1.5 million pensioner households decreased by 2%. More than 900 000 of the latter households even experience an average decrease of 5.7% (Van Eijck 2000). This is why we need to have not just a maximum pension, but also a compulsory individual minimum pension for everyone aged under 55, which must be accumulated in addition to the basic state pension. It should be a compulsory general pension requiring everyone not demonstrably affiliated to a supplementary scheme to arrange their own supplementary pension (Verbon, Van Dalen and Dietvorst 1998: 87).

Part-time work can shed light on some of the unemployment which is concealed in the disability and VUT figures. Part-time work has a preventive effect: gradual retirement reduces the chance that older workers will become overburdened and offers them a way of keeping their job. Figures for the Netherlands do indeed show that part-time VUT can considerably reduce the disability risk (Aarts and De Jong 1992), which means not just considerable savings in disability benefits, but also an increase in the activity rate among older workers and therefore in the ratio of active to inactive people. It does also mean that completely healthy workers will want to try to take advantage of the relevant part-time VUT scheme, which will increase the total costs of VUT schemes. But then again, a net saving of 12.5% will be made in disability benefits. There are also considerable productivity gains with part-time work, which again broadens the funding basis for VUT and pensions, and if full retirement is deferred for a year or more the savings will be even greater. Increasing the standard pensionable age, by one year, say, to age 66, would appear to be ultimately feasible. However, labour market practice in the Netherlands shows that part-time working is a necessary condition in order to encourage older people to be active, but is not a sufficient condition (see Figure 1). The use of gradual retirement is still limited

because the existing generous retirement options are still available. If the Netherlands is taken as the norm there must be considerable potential in the EU for promoting part-time work and thus for increasing the activity rate among older people (Delsen 1998).

If the policy changes described earlier are to be effective, the generous alternative early retirement options will have to be made less attractive, and the policy itself must also be in line with the personnel policies pursued by businesses. If the fourth pillar is to be effective and robust the reforms to the pension systems need to go further than just changing the method of funding and introducing a flexible pension date and part-time retirement. Increasing the activity rate among older workers is essential for the future of the Dutch social security system, since many of the risks covered increase with age. A successful partnership between government and business is essential for the development of the fourth pension pillar. An effective policy designed to promote employment opportunities for older workers needs to serve the interests of both employers and workers. In business practice, therefore, improvements must be made in the variables that make end-of-career work less hard and more flexible, adaptable and productive. The following elements are important, given the weak position of older workers on the labour market: an age-conscious personnel policy, demotion, the encouragement of part-time work, flexible pay, and training and education. The polder model provides a good cultural and institutional basis for facing up to this challenge (Delsen 1996b; 2000). Education and training can be partly financed from savings in VUT spending. The vast majority of businesses in the Netherlands have yet to take measures in this direction, but the ageing and rejuvenation of the labour force in the Netherlands and the effects of internationalisation will ensure that they are taken, bringing older workers into the spotlight in personnel and organisational policy.

There are a number of reasons why, instead of a sectoral or company scheme, it is preferable to have a compulsory national pension structure, such as in the form of a framework law which allows scope for the social partners to develop the details in collective agreements, tailoring arrangements to the specific situation in a certain economic sector. The general social and economic importance of such schemes makes it desirable for them to be broadly accessible. A national structure can allow this accessibility. From the equal rights point of view, too, it is desirable for all older workers – irrespective of whether they “happen” to be working in a particular sector or for a particular employer – to be given the opportunity to take partial early retirement through a national structure. The conflict between the desire for flexibility (individualisation) and the need for solidarity can also be resolved by introducing a compulsory pension in addition to a voluntary pension, in order to finance basic retirement and the (partial) bridging of the gap until the basic state retirement age for those retiring before 65. This would give all workers, including those on low incomes, a gradual retirement option. It also makes the system independent of the short-term economic situation. Gradual retirement/pension is a flexible instrument designed to extend people’s working life while also improving older people’s working conditions, and it therefore deserves to be promoted. The European social partners can play an important part here, such as by concluding a framework agreement on part-time retirement for older workers, along the lines of the 1997 agreement between the ETUC, UNICE and CEEP on part-time work.

The various national social security systems in Europe are largely designed to provide income rather than to reintegrate workers. Full employment and a high activity rate are essential conditions for a sustainable social security system. Reforms to the system are inevitable in future. Elsewhere (see Delsen 2000; Delsen *et al.* 2000) a new social security system is being proposed involving the introduction of a legal right to a basic quantity of work, combined with a conditional right to a (partial) basic income guaranteed by the government. This new concept of full employment gives more flexibility to older employees with regard to the time and the extent of retirement. The “retirement trap” (part-time job will imply a loss of pension rights or income) is avoided. Moreover, the present retirement age (still 65 in most countries) loses its importance and the distinction between before and after 65 vanishes. It could also improve the situation of those caught in “unemployment traps” (by taking a job they lose benefits that are more or only a little less than the wage income they would earn). For the lower paid and the long-term unemployed it may be a help to be freed from the “poverty trap” (resulting from the fact that working harder for more income they end up worse off because they lose benefits), because even a small bad paid job is always financially advantageous. The proposal has been costed using data on the Netherlands. The results of the simulation include a combination of the following measures:

1. 25% reduction in social assistance benefits for recipients who are, in principle, capable of working;
2. pay cut in job-creation posts in the public sector (relief jobs) from the minimum wage to the “old” subsistence level. Working hours in such relief jobs also reduced from full-time to part-time (average 16 hours a week).
3. tax credit of 25% of the subsistence level;
4. major increase in the number of relief jobs available in the public sector for those entitled to social assistance benefit who are required to seek employment;
5. reduction in the gross minimum wage, without affecting the guaranteed minimum income, so that the net income at the minimum level inclusive of the tax credit is equal to the “old” net minimum wage;
6. compensatory taxes, with the government varying the average tax rate in order to maintain a balanced budget.

Measures 1-3 increase the gap between income from regular work and income on social assistance and in relief jobs. This will encourage those entitled to social assistance benefit and those in relief jobs to actively seek (regular) employment. The remainder of those entitled to social assistance will be given the opportunity to take a relief job in the public sector (a 13-hour “Melkert” post (providing job-experience for the long-term unemployed)) (measure 4). This measure once again limits the difference in income and prevents social exclusion. The gross minimum wage may be cut because of the tax credit (measure 5). Employers will be encouraged to take on job-seekers more quickly. The measures will be funded from compensatory taxation (measure 6).

The simulations indicate that unemployment will fall considerably and production will increase considerably (Delsen 2001). The average tax burden will fall. It will indeed be a response to the poverty and unemployment traps and the social exclusion that are typical characteristics of today’s social security systems. It will also solve the productivity and pension traps, since there will be an incentive to provide training

because of the reduction in the marginal tax basis at the bottom of the pay structure. Making it compulsory to accept employment is also a limited response to the productivity trap. Unskilled and poorly skilled workers in particular will benefit from the plan both in terms of jobs and in their purchasing power. In other words, the proposal is a form of active labour market policy designed to improve the position of those who, as a result of the current social security system and the current employment policy, are permanently excluded from paid employment.

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