



# Ageing and Employment Policies

## Netherlands

### *Vieillessement et politiques de l'emploi*



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## FOREWORD

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to work, both paid and unpaid. Many of these policies and practices are relics from a bygone era. There is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work for longer given appropriate policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with some of the challenges posed by population ageing. However, these reforms will not be enough to encourage later retirement and to reduce the risk of future labour shortages. Measures are also required to adapt wage-setting practices to greying workforces, to tackle age discrimination and negative attitudes to working at an older age, to improve job skills of older people and their working conditions, and to better “activate” older jobseekers. Relatively little is known about what countries have been, or should be doing, in these areas. Therefore, in spring 2001, the OECD Employment, Labour and Social Affairs Committee decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both supply-side and demand-side aspects.

For the purpose of this thematic review, it was decided to define older workers as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not. Perceptions about being old are inherently subjective and only loosely connected with chronological age. However, in many countries, the age of 50 marks the beginning of a decline in participation rates by age. Moreover, to facilitate international comparisons, it is preferable to refer to the same age group for all countries. Thus, all references to “older workers” in this report should be taken as shorthand for workers aged 50 and over (or in some cases,

because of data constraints, workers aged 50 to 64), and should not be seen as implying that all workers in this group are “old” *per se*.

This report on the Netherlands is one in a series of around 20 OECD country reports that will be published as part of the older worker thematic review, which has been developed by Raymond Torres. It has been prepared by Anne Sonnet from the OECD, with a contribution from Wiemer Salverda and Ellen Finsveen from the Amsterdam Institute for Advanced Labour Studies of the University of Amsterdam acting as consultants to the OECD, under the supervision of Mark Keese (team leader). Technical and statistical assistance was provided by Clarisse Legendre, Alexandra Geroyannis, Kimiyo Yagi and Judy Zinnemann. A draft of this report was discussed at a seminar which was organised in The Hague on 21 April 2005 by the Ministry of Employment and Social Affairs. Discussants at the seminar included representatives of the public authorities, employers, trade unions and non-governmental institutions, as well as academics. The final report, which incorporates the comments received at the seminar, is published in this volume on the responsibility of the Secretary-General of the OECD.

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*This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume (see p. 19).*

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## EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

### The challenges facing the Netherlands

Population ageing is occurring less rapidly in the Netherlands than in most other OECD countries, partly due to the factor of international migration since the early 1960s. Nevertheless, the proportion of persons aged 65 and over to the working-age population (the old-age dependency ratio) is projected to almost double, from 22% in 2000 to 40% in 2050. There is consequently a risk that the labour force will stabilise around its 2000 level or decline slightly over the next few decades. These developments could lead to higher public expenditures, labour force shortages and slower economic growth. To offset some of the pressure that an ageing population will place on the Dutch economy, it will be important to increase the participation of older people in the labour market.

In some respects the Netherlands is well placed to meet this challenge. Labour force participation rates have risen recently for both men and women. In addition, the Netherlands is, with Finland, one of the OECD countries that have best succeeded in reversing the long-term trend of declining employment rates for older men. Between 1995 and 2003, the Netherlands recorded a 10 percentage point increase in rates for men aged 50 and over. However, these improvements have been from a low base.

Thus, there is clearly a basis for further improvement. In 2003, the employment rate of older people in the Netherlands was still below the OECD average (by 6 percentage points for women and 2 percentage points for men), and well below the level of the best-performing OECD countries.

One obstacle to further improvement is the Netherlands' widespread culture of early retirement arrangements, through which workers leave the labour force well before age 65. By the early 2000s, the average effective retirement age was only 61 for men and 59 for women. A range of different pathways facilitate the option: in 2002, 13% of persons aged 50-64 were on disability benefits, 6% on early retirement schemes, 3% on unemployment benefits and 3% on social assistance.

## **Policy has begun to respond**

A number of reforms have already been taken or are currently envisaged to strengthen older workers' incentives to remain active longer.

### ***Early retirement is now less attractive and will be progressively abolished***

In the second half of the 1990s, the government and the social partners agreed to replace progressively existing pay-as-you-go early retirement schemes (VUT) by capital-funded and actuarially neutral pre-pension schemes, embedded in occupational pensions. VUT schemes are now available to only 2% of employees while pre-pension schemes apply to 87%; most transition arrangements will have expired by 2015. Under the new Pension Act still under discussion, pre-pension schemes will become integrated into regular occupational pensions; retiring early will lead to a reduced pension and retiring later an augmented one. This has increased the incentive to work longer.

In addition, the government and social partners reached a Social Agreement in 2004 that set in motion an individual life-course savings scheme. Once the Agreement is fully implemented in collective agreements at the end of 2005, people will be able to contribute to and draw from the scheme throughout their lives, including at the end of their career if they wish to retire earlier. Only those aged 55 and over on 1 January 2005 will be allowed to continue to benefit from existing pre-pensions. Tax deductibility of the VUT and pre-pension contributions will be abolished as from 1 January 2006 for everyone under the age of 55. Pension schemes are now allowed to include a minimum age of 63, but only for workers with 40 years of contributions. The statutory age of retirement remains 65, notwithstanding the projected gains in life expectancy over the coming decades.

### ***The disability benefits pathway to early retirement is being curtailed***

One of the most important pathways to early retirement in the Netherlands until recently has been disability benefits. The less restricted access to permanent benefits available in the past explains the large number of registered disabled among older people. However, the scheme is less often used today as a direct exit route to early retirement. Extensive screening of persons applying for the benefit (as regulated in the 2002 Gatekeeper Act) has reduced the inflow of workers into disability. Periodic reassessments for those judged to have possibilities of recovery lead to a reduction in numbers of disability benefit recipients. This reduction will, however, be limited by the provision in the 2004

Social Agreement to lower the age threshold of disability reassessment for insurance recipients from 55 to 50.

Furthermore, 1998 saw the introduction of experience-rating for disability insurance premiums paid by employers. This initiative, referred to as the PEMBA scheme, was intended to discourage use of disability benefit as a workforce management tool. A potential unintended side-effect, however, is that employers may become reluctant to hire persons more likely to go into the disability scheme; that would weigh negatively on the hiring of older workers. To address this, employers were also exempted from a number of social security contributions if they hired a disabled person. In addition, as of 1 January 2004, they are exempted from paying the fixed part of the disability insurance contribution for their current employees aged 55 years and over and for all new hires aged 50 and over.

A new disability insurance scheme, to take effect on 1 January 2006, will offer employers more incentives to hire or keep another category of worker: the partially disabled. These workers will also be encouraged to remain in employment, as the difference between their earnings and disability benefits will be compensated.

### ***The older unemployed are now obliged to look for a job***

The government decided to reduce the duration of unemployment benefits and to reinstate job-search requirements for the older unemployed as of 1 January 2004. To encourage older unemployed people to accept a job at a lower wage than they previously received, the government intends to base the unemployment benefit in cases of multiple unemployment spells on the previous (higher) salary, under a number of conditions. This rule will apply to persons aged 55 years or more at the date of dismissal, and there is no time limit in duration. Moreover, if a person accepts a part-time job during the ten years prior to normal retirement, pension rights are accrued by the pension fund as if the person held a full-time job, on the condition that the part-time job is at least 50% of a full-time job.

### ***Measures to change employers' perceptions of older workers***

The Dutch government began to take concrete steps to change employers' negative perceptions of older workers shortly after 2000 when the labour market was tight and labour shortages were increasing. One of these measures was the establishment in June 2001 of a high-level Taskforce on Older People and

Employment to identify factors that could help improve employment prospects among the over-50s. A new law banning age discrimination also came into force in May 2004, implementing the corresponding European directive of November 2000. In December 2004 the Minister of Social Affairs and Employment submitted a time horizon to Parliament for discussion on facilitating the continuation of work after retirement, and a new financial stimulus for companies to encourage age-aware human resource policies during the period 2004-07 was introduced.

### *New guidelines for redundancies*

The rule allowing selective dismissal, *i.e.* the selection of older workers, was abolished in 1995 – one of the first signs of a changing perspective on older people’s labour participation. The “last-in-first-out” rule and the principle of “dismissals mirroring the age composition of the workforce of the firm” are now more generally applied. The government is proposing that the latter principle be applied in all dismissal cases. These changes should lead to more uniform protection against redundancy for different employee groups, irrespective of their age and seniority.

### **Further reform is needed**

Even given these initiatives (which in some cases will not begin to take effect until the medium term), much remains to be done to increase the employment of older people in the Netherlands. First, it is essential to change perceptions and practices with regard to age and to prepare workers for the prospect of working longer. This implies a complete break with the culture of early retirement. The recommendations that follow are put forward as possible elements of an overall strategy for employing the over-50s.

### *Further strengthen the work incentives embedded in the retirement and welfare systems*

- *Adjust the age of retirement in accordance with demographic trends.* The official retirement age (currently 65) should rise gradually in line with increased life expectancy. A similar condition should be applied to the minimum age at which flexible retirement can be taken under occupational pension schemes.
- *Monitor the use of the new individual life-course savings scheme and prevent it from becoming an alternative route to early retirement.*

Opportunities to take leave through the new individual life-course savings scheme should help workers cope with their family responsibilities and enable them to invest themselves in training that will make them better prepared and motivate them to work longer. The concrete implementation of this scheme in the different collective agreements signed in 2005 should be closely monitored. The scheme should not be chosen only at the end of a career. For instance, a worker who has paid his retirement contributions for 40 years and who makes full use of their life-course savings scheme at the end of their career will not only be able to retire at 60; they will have strong tax incentives to do so, as otherwise all accumulated savings will be taxed as income the year before retirement. Incentives for early retirement could be weakened if the life-course savings are converted into additional retirement pensions.

- *Extend reassessment of disability status to people aged 50-55 and monitor the impact of the new disability scheme in order to ensure that it is closed off as a pathway to early retirement.* Reassessment for disabled workers aged 50-55 with possibilities of recovery should be considered. The impact of the new disability scheme should be carefully monitored, particularly with a view to the possible abolition of the existing experience-rating scheme (PEMBA). An evaluation of the impact of both PEMBA and the recent employer exemption from paying the fixed part of disability insurance contributions on employing and hiring older workers should be launched before it is decided to abolish them.
- *Avoid measures based solely on age, such as the income tax deduction for older people in employment.* This tax exemption should be better targeted; older workers are not a homogenous group. The proposal of the Taskforce on Older People and Employment to limit the tax credit for those above the present average age of retirement (61.5) and for people receiving lower-to-average incomes seems appropriate for improving the cost-effectiveness of the deduction. The first step is to assess the impact of different levels of tax exemption on older workers with low incomes, in order to minimise deadweight effects.
- *Improve transparency with regard to future pensions.* More information needs to be supplied by pension funds on people's current and projected pension entitlements. Greater transparency of pension schemes parameters such as indexation provisions can increase



support for the current system and encourage individuals and families to take steps well in advance to secure their retirement income.

### *Remove obstacles to hiring and retaining older workers*

- *Closely monitor the effects of the new legislation banning age discrimination.* If the new legislation is to achieve its stated objectives, information on it must be widely disseminated. Implementation needs to be monitored, as does the effects on older workers' employment.
- *Promote and monitor age diversity programmes.* Legislation banning age discrimination is unlikely on its own to change employer attitudes and practices. Age diversity programmes promoted through information campaigns sponsored by the government and the social partners are also required. These programmes should promote the benefits of an age-balanced workforce, intergenerational knowledge transfer and the integration of older workers into innovation processes, as well as concerning lifelong learning and health promotion. The work of the new action group *Grey at Work* should focus on these issues.
- *Remove barriers to work after 65.* In many collective agreements, employment automatically terminates when the employee reaches the age of 65. When continuing to work after the age of 65 is permitted, it does not result in additional pension entitlements. Workers aged 65 and over should enjoy the same rights and obligations as other workers, also pay social security contributions based on their earned income, and be entitled to additional pension entitlements.
- *Continue to promote an age-neutral approach to collective dismissals.* The principle of “dismissals mirroring the age composition of the workforce” should be promoted more widely. Because it is based on an age-neutral approach to layoffs, it could lead to more uniform protection against redundancy for different employee groups irrespective of their age and seniority.
- *Disseminate good practices more widely.* Some firms have introduced innovative practices for retaining their older workers, although far fewer initiatives have been taken to hire people over 50. Employers' organisations should capitalise on best practices and disseminate these

practices to their members – e.g. by publicising them widely on the Internet, as is the case in other OECD countries such as Austria.

- *Implement good practices in the public sector.* While striving to achieve an optimal balance in the age composition of its workforce, the public sector should avoid recourse to early retirement measures as much as possible. The state, as a major employer, should introduce adequately funded mechanisms to encourage internal and external mobility and participation in continuous training at mid-career in the public sector.

### *Promote the employability of workers*

- *Promote lifelong learning at all ages.* Continuous lifelong learning is one obvious way to raise the employability of older workers. Important policy objectives in the context of a lifelong learning strategy would be to reach those who are not accustomed to participating in training – i.e. workers with low education and skill levels – and to develop age-specific training tools and methods to promote motivation and thus higher take-up of continued training at all ages. As the shorter pay-back period of training investments for older workers will remain an obstacle in the future, an important first step would be to smooth out the volume of investment by shifting (public as well as private) funds from younger ages to mid-career ages, i.e. to ages 35-50.
- *Consider reintroducing corporate training deductions for low-skilled older workers.* Recent evidence has shown that the lack of training opportunities for low-skilled older workers is mainly a demand problem. Given capital or training market imperfections, these employees might not be able to afford their share of the costs (either financial or non-financial, i.e. time for training). Individual learning accounts and individual vouchers will not be enough. Low-educated workers may find it particularly difficult to negotiate with their employers about the content and quality of training programmes. In order to raise incentives for firms to invest more in training low-skilled older workers, targeted corporate tax deductions might be required to sustain satisfactory training outcomes.
- *Develop instruments to validate skills acquired on the job.* Currently, these skills are not sufficiently assessed or measured. This is a

particular disadvantage for the older unemployed, whose initial qualifications may be outdated. Validation is necessary to be able to recognise those skills adequately and to render them transparent to potential employers.

- *Improve working conditions for all.* Establishing better conditions for all workers throughout their working lives is a measure with lasting benefits: work is less strenuous and early retirement less frequent. Promoting better health at work is an essential complement.
- *Introduce a separate scheme for work injuries.* The Netherlands is the only OECD country that does not have a work-injury scheme that separates such injuries from general disability. Introducing a separate scheme would help prevent accident and disability factors behind the high number of disability benefit recipients.
- *Step up and evaluate initiatives to help older jobseekers back into work.* Employment services should develop an innovative strategy for getting the over-50s back into employment. They should focus on job-search assistance, skill assessment and recruitment opportunities in the private sector, taking account of local labour market conditions. Reinsertion providers in the public sector should collect information on good practices and diffuse it widely to all providers at the local and national levels. The Ministry of Social Affairs and Employment should commission evaluation studies.

Older workers in the Netherlands find themselves in a transition phase between the reforms of pension, early retirement, disability and unemployment benefits on the one hand, and the introduction of an individual life-course savings scheme on the other. Much will depend on how the reforms are implemented in the future. Success on the ground will depend above all on responsibility being shared between all players. What is crucial, however, is to ensure policy coherence and to push ahead with a comprehensive package of measures that will lead to longer working lives.

## ***RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS***

### **Les défis auxquels les Pays-Bas doivent faire face**

La population des Pays-Bas vieillit moins rapidement que celle de la plupart des autres pays de l'OCDE, ce qui est dû en partie au phénomène de migrations internationales observé depuis le début des années 60. Néanmoins, la proportion de personnes âgées de 65 ans et plus dans la population d'âge actif (ratio de dépendance des personnes âgées) devrait pratiquement doubler, passant de 22 % en 2000 à 40 % en 2050. Le risque est donc que la population active se stabilise à son niveau de 2000 ou qu'elle se contracte légèrement au cours des prochaines décennies. Ces évolutions pourraient entraîner une augmentation des dépenses publiques, des pénuries de main-d'œuvre et un ralentissement de la croissance économique. Pour atténuer en partie les tensions auxquelles une population vieillissante soumettra l'économie néerlandaise, il sera important d'accroître la participation des seniors au marché du travail.

Sur certains plans, les Pays-Bas sont bien placés pour relever ce défi. Les taux d'activité tant masculine que féminine ont augmenté récemment. Qui plus est, les Pays-Bas sont, avec la Finlande, l'un des pays de l'OCDE qui ont le mieux réussi à inverser la baisse tendancielle des taux d'emploi pour les hommes âgés. Entre 1995 et 2003, le pays a enregistré une augmentation de 10 points de pourcentage de ces taux pour les hommes âgés de 50 ans et plus. Ces taux étaient cependant faibles au départ.

Manifestement, la situation peut donc être encore améliorée. En 2003, le taux d'emploi des seniors aux Pays-Bas était toujours inférieur à la moyenne de l'OCDE (de 6 points de pourcentage pour les femmes et de 2 points de pourcentage pour les hommes) et nettement en deçà des taux des pays de l'OCDE affichant les meilleurs résultats en la matière.

Un obstacle à de nouveaux progrès dans ce domaine est la culture de retrait précoce de l'activité qui prévaut largement dans le pays et qui fait que les

travailleurs ont à leur disposition des mesures permettant de sortir de la vie active bien avant l'âge de 65 ans. Au début des années 2000, l'âge effectif de sortie de la population active n'était en moyenne que de 61 ans pour les hommes et de 59 ans pour les femmes. Il existe tout un ensemble de voies de sortie qui facilitent ce choix : en 2002, 13 % des personnes âgées de 50 à 64 ans bénéficiaient de prestations d'invalidité, 6 % étaient en préretraite, 3 % touchaient des allocations de chômage et 3 % bénéficiaient de l'aide sociale.

### **L'action publique commence à porter**

Un certain nombre de réformes ont déjà été adoptées ou sont actuellement envisagées pour renforcer les incitations pour les travailleurs âgés à prolonger leur vie active.

### ***La préretraite est désormais moins attrayante et sera progressivement supprimée***

Pendant la seconde moitié des années 90, le gouvernement et les partenaires sociaux sont convenus de remplacer progressivement les systèmes de préretraite par répartition existants (VUT) par des systèmes de prépension financés par des fonds de pension et actuariellement neutres, intégrés aux régimes professionnels de retraite. Seulement 2 % des salariés ont actuellement accès aux régimes VUT, alors que les systèmes de prépension sont accessibles à 87 % d'entre eux ; la plupart des régimes de transition seront devenus caducs d'ici à 2015. En vertu de la nouvelle loi sur les pensions qui est encore en cours d'examen, les systèmes de prépension seront intégrés aux régimes professionnels réguliers de retraite ; un départ précoce entraînera une réduction de la pension et un départ tardif sa majoration. Ce facteur a renforcé les incitations à rester plus longtemps au travail.

En outre, le gouvernement et les partenaires sociaux ont conclu en 2004 un accord social, qui met en place un compte d'épargne individuel tout au long de la vie. Une fois que cet accord aura été complètement intégré dans les conventions collectives à la fin de 2005, les participants seront en mesure de verser sur ce compte des sommes ou d'en retirer pendant toute leur existence y compris à la fin de leur carrière s'ils souhaitent prendre une retraite anticipée. Seules les personnes âgées de plus de 55 ans et plus au 1<sup>er</sup> janvier 2005 seront autorisées à continuer à toucher les prépensions existantes. La possibilité de déduire de l'impôt les cotisations aux régimes VUT et de prépension sera supprimée à compter du 1<sup>er</sup> janvier 2006 pour toutes les personnes ayant moins de 55 ans. Les régimes de pension sont désormais autorisés à prévoir un âge minimum de départ de 63 ans, mais seulement pour les travailleurs qui ont

cotisé pendant 40 ans. L'âge légal de la retraite reste de 65 ans, malgré l'allongement prévu de l'espérance de vie au cours des décennies à venir.

***L'accès à la préretraite par le biais des prestations d'invalidité est progressivement fermé***

Jusqu'à une date récente, le régime d'invalidité était l'une des voies de sortie de la population active les plus importantes aux Pays-Bas. Le grand nombre de personnes reconnues invalides parmi la population âgée s'explique par le fait que les conditions d'octroi des prestations à titre permanent étaient autrefois moins strictes. Cependant, aujourd'hui, le régime est moins utilisé comme voie de retrait anticipé de la population active. La sélection sévère des personnes qui sollicitent cette prestation (comme le prévoit la loi de 2002 sur le filtrage des demandes de prestations) a réduit les flux d'entrée de travailleurs dans le régime d'invalidité. La réévaluation périodique des capacités des personnes considérées comme ayant des possibilités de récupération d'autonomie entraîne la réduction du nombre de bénéficiaires de prestations d'invalidité. Cette réduction sera toutefois restreinte par l'application de la disposition de l'accord social de 2004 qui abaisse de 55 ans à 50 ans l'âge au-delà duquel les taux d'invalidité des bénéficiaires des prestations ne sont plus réévalués.

En outre, en 1998, un quotient patronal a été introduit sur les primes d'assurance invalidité versées par les employeurs. Cette initiative, appelée Plan PEMBA, visait à décourager l'utilisation des prestations d'invalidité comme instrument de gestion du personnel. Elle pourrait cependant avoir indirectement un effet inattendu, à savoir une certaine réticence des employeurs à embaucher des personnes qui présentent plus de risques d'invalidité, ce qui aurait des conséquences négatives sur le recrutement des travailleurs âgés. Pour y remédier, les employeurs ont également été exemptés du paiement d'un certain nombre de cotisations sociales s'ils embauchent une personne invalide. Par ailleurs, depuis le 1<sup>er</sup> janvier 2004, ils sont dispensés du paiement de la composante fixe de la cotisation d'assurance invalidité pour ceux de leurs salariés en exercice âgés de 55 ans et plus et pour toutes les personnes nouvellement recrutées âgées de 50 ans et plus.

Un nouveau système d'assurance invalidité, qui doit entrer en vigueur le 1<sup>er</sup> janvier 2006, incitera davantage les employeurs à embaucher ou à garder une autre catégorie de travailleurs : les invalides partiels. Ces travailleurs seront

aussi encouragés à garder un emploi car ils recevront un paiement destiné à compenser la différence entre leur rémunération et les prestations d'invalidité.

### ***Les chômeurs âgés ont désormais l'obligation de rechercher un emploi***

Le gouvernement a décidé de réduire la durée de versement des allocations de chômage et de réinstaurer les obligations de recherche d'emploi pour les chômeurs âgés à partir du 1<sup>er</sup> janvier 2004. Pour encourager les chômeurs âgés à accepter un emploi moins rémunéré que leur emploi précédent, le gouvernement a l'intention de calculer les allocations de chômage, en cas d'épisodes de chômage multiples, sur la base du salaire précédent (le plus élevé), si un certain nombre de conditions sont réunies. Cette disposition s'appliquera aux personnes âgées de 55 ans ou plus à la date de leur licenciement, sans limitation de durée. De plus, si une personne accepte un emploi à temps partiel dans les dix ans précédant la date à laquelle elle devrait normalement prendre sa retraite, la caisse de pension calcule ses droits acquis comme si elle travaillait à plein temps, à condition que cet emploi à temps partiel représente au moins 50 % du service à plein temps.

### ***Mesures visant à modifier les opinions des employeurs sur les travailleurs âgés***

Le gouvernement néerlandais a commencé à prendre des mesures concrètes pour faire évoluer les opinions négatives des employeurs sur les travailleurs âgés peu de temps après l'an 2000 à un moment où le marché du travail était tendu et où les pénuries de main-d'œuvre s'aggravaient. L'une de ces mesures a été la création en juin 2001 d'un groupe de travail de haut niveau sur les seniors et l'emploi dont la mission est d'identifier les facteurs susceptibles de contribuer à améliorer les perspectives d'emploi des plus de 50 ans. Une nouvelle loi interdisant la discrimination en fonction de l'âge est également entrée en vigueur en mai 2004, afin de mettre en oeuvre la directive européenne correspondante de novembre 2000. En décembre 2004, le ministre des Affaires sociales et de l'Emploi a proposé au Parlement une échéance pour l'examen des moyens permettant de faciliter la poursuite d'une activité professionnelle après la retraite et une nouvelle incitation financière a été instituée pour la période 2004-2007 à l'intention des entreprises pour les encourager à mener des politiques de gestion des ressources humaines attentives aux questions d'âge.

### ***Nouvelles règles relatives aux licenciements***

La règle autorisant le licenciement sélectif, qui visait les travailleurs âgés, a été abolie en 1995 – ce qui est l'un des premiers signes annonçant une évolution des mentalités en ce qui concerne la participation des travailleurs âgés au marché du travail. La règle du « dernier entré, premier sorti » et le principe selon lequel « le groupe de licenciés doit être représentatif de la structure par âge de l'effectif de l'entreprise » prévalent désormais davantage. Le gouvernement propose que ce dernier principe soit appliqué dans tous les cas de licenciement.

### **De nouvelles réformes sont nécessaires**

Même compte tenu de ces initiatives (qui dans certains cas ne commenceront à prendre effet qu'à moyen terme), il reste beaucoup à faire pour accroître les taux d'emploi des seniors aux Pays-Bas. En premier lieu, il est indispensable de faire évoluer les opinions et les pratiques en matière d'âge et de préparer les travailleurs à la perspective d'une vie active plus longue. Cela implique de rompre totalement avec la culture de retrait précoce de l'activité. Les recommandations qui suivent sont proposées comme des éléments possibles d'une stratégie d'ensemble visant à encourager l'emploi des plus de 50 ans.

### ***Renforcer les incitations à travailler intégrées dans les systèmes de retraite et de protection sociale***

- *Ajuster l'âge de la retraite en fonction des tendances démographiques.* L'âge légal de la retraite (actuellement de 65 ans) devrait être progressivement relevé en fonction de l'allongement de l'espérance de vie. Il conviendrait de procéder de même pour l'âge minimum auquel il est possible de prendre une retraite flexible dans le cadre des régimes professionnels de retraite.
- *Contrôler le fonctionnement du nouveau compte d'épargne individuel tout au long de la vie et veiller à ce qu'il ne devienne pas une autre voie d'accès à une retraite anticipée.* Les possibilités de prendre un congé offertes par le nouveau système de compte d'épargne individuel tout au long de la vie devrait aider les travailleurs à faire face à leurs responsabilités familiales et leur donner les moyens de s'investir dans une formation qui les préparera mieux et les motivera pour travailler plus longtemps. Il conviendrait de suivre attentivement comment ce



type de compte sera concrètement intégré dans les différentes conventions collectives signées en 2005. Il ne devrait pas être choisi uniquement en fin de carrière. Par exemple, un travailleur qui a versé des cotisations de retraite pendant 40 ans et qui utilise à la fin de sa carrière la totalité de l'épargne qu'il a accumulée tout au long de sa vie sur son compte d'épargne individuel ne sera pas seulement en mesure de prendre sa retraite à 60 ans ; fiscalement, il y sera fortement incité, sinon toute l'épargne qu'il aura accumulée sera imposée comme un revenu obtenu l'année précédant son départ en retraite. Les incitations à la cessation précoce d'activité pourraient être diminuées si l'épargne constituée tout au long de la vie était transformée en complément de pension de retraite.

- *Étendre les mesures de réévaluation du taux d'invalidité aux personnes âgées de 50 à 55 ans et contrôler l'impact du nouveau régime d'invalidité de manière à s'assurer qu'il ne donne plus accès à une sortie anticipée de la population active.* Il conviendrait d'envisager de réévaluer le taux d'invalidité des travailleurs invalides âgés de 50 à 55 ans ayant des possibilités de récupération d'autonomie. L'impact du nouveau régime d'invalidité devrait être étudié avec attention, en vue notamment de la suppression éventuelle du système de quotient patronal (PEMBA) actuellement en place. Il faudrait procéder à l'évaluation de l'impact tant du dispositif PEMBA que de l'exonération de la composante fixe des cotisations d'assurance invalidité récemment accordée aux employeurs lorsqu'ils emploient et embauchent des travailleurs âgés avant de décider de les supprimer.
- *Éviter de s'en tenir à des mesures basées sur le seul critère de l'âge, comme la déduction de l'impôt sur le revenu pour les seniors pourvus d'un emploi.* Cette exonération fiscale devrait être mieux ciblée ; les travailleurs âgés ne constituent pas un groupe homogène. La proposition du groupe de travail sur les seniors et l'emploi de ne faire bénéficier de ce crédit d'impôt que les personnes ayant dépassé l'âge moyen de la retraite aujourd'hui (61.5) et celles qui ont des revenus inférieurs à la moyenne semble appropriée pour améliorer l'efficacité par rapport à son coût de cette déduction. La première étape consiste à évaluer l'impact des différents niveaux d'exonération fiscale sur les travailleurs âgés ayant de faibles revenus, afin de réduire au minimum les effets d'aubaine.

- *Améliorer la transparence quant aux pensions qui seront versées à l'avenir.* Les caisses de pension doivent fournir davantage d'informations sur les droits à pension déjà acquis et projetés des travailleurs. Une plus grande transparence des caractéristiques des régimes de pension, comme les dispositions relatives à l'indexation, peut favoriser une meilleure adhésion au système actuel et encourager les individus et les familles à prendre des mesures suffisamment tôt pour garantir leur revenu au moment de la retraite.

### ***Éliminer les obstacles à l'embauche et au maintien dans l'emploi des travailleurs âgés***

- *Étudier de près les effets de la nouvelle législation interdisant la discrimination fondée sur l'âge.* Si l'on veut que la nouvelle législation atteigne les objectifs affichés, il faut largement informer à son sujet. Son application doit être surveillée, de même que ses retombées sur l'emploi des travailleurs âgés.
- *Encourager et suivre la mise en place de programmes favorisant la diversité des âges.* Il est peu probable que la législation interdisant la discrimination liée à l'âge soit suffisante en elle-même pour faire changer les attitudes et les pratiques des employeurs. Il faut aussi mettre en place des programmes favorisant la diversité des âges dont la promotion sera assurée par le biais de campagnes d'information organisées à l'instigation du gouvernement et des partenaires sociaux. Ces programmes devraient mettre en avant les mérites d'une structure par âge équilibrée des effectifs par entreprise, du transfert de connaissances de génération en génération et de la participation des travailleurs âgés aux processus d'innovation, qui portent tant sur l'apprentissage tout au long de la vie et sur la promotion de la santé. Les travaux du nouveau groupe d'action *Les seniors au travail* devaient être axés sur ces questions.
- *Éliminer les obstacles à l'emploi après 65 ans.* De nombreuses conventions collectives prévoient que l'emploi prend fin automatiquement lorsque le salarié atteint l'âge de 65 ans. Lorsque la poursuite de l'activité après l'âge de 65 ans est autorisée, elle ne permet pas d'acquérir des droits à pension supplémentaires. Les travailleurs âgés de 65 ans et plus devraient avoir les mêmes droits et obligations que les autres travailleurs, payer eux aussi des cotisations

de sécurité sociale calculées sur la base de leur rémunération et avoir le droit d'acquérir des points de retraite supplémentaires.

- *Continuer à encourager la non-prise en compte du critère d'âge dans les licenciements collectifs.* Le principe selon lequel « le groupe de licenciés doit être représentatif de la structure par âge de l'effectif de l'entreprise » devrait être plus largement encouragé. Étant donné qu'il repose sur la non-prise en compte du critère de l'âge dans les licenciements, il pourrait aboutir à une protection plus uniforme des différents groupes de salariés contre les licenciements, indépendamment de leur âge et de leur ancienneté.
- *Assurer une plus large diffusion des bonnes pratiques.* Certaines entreprises ont adopté des pratiques innovantes pour fidéliser leurs travailleurs âgés, mais il y a eu beaucoup moins d'initiatives prises pour embaucher des personnes de plus de 50 ans. Les associations patronales devraient tirer parti des meilleures pratiques et les faire connaître à leurs membres – par exemple en les diffusant largement sur l'Internet, comme c'est le cas dans d'autres pays de l'OCDE comme l'Autriche.
- *Mettre en œuvre de bonnes pratiques dans le secteur public.* Tout en s'efforçant de parvenir à un équilibre optimal dans la structure par âge de ses effectifs, le secteur public devrait éviter autant que possible de recourir à des mesures de cessation anticipée d'activité. L'État, qui est un employeur de premier plan, devrait adopter des mécanismes au financement adapté qui encouragent la mobilité interne et externe et la participation des travailleurs à la formation professionnelle permanente en milieu de carrière dans le secteur public.

### ***Promouvoir l'employabilité des travailleurs***

- *Promouvoir l'apprentissage tout au long de la vie à tous les âges.* Apprendre de manière continue tout au long de la vie est une solution évidente pour améliorer l'employabilité des travailleurs âgés. Dans le contexte d'une stratégie d'apprentissage tout au long de la vie, un objectif important politiquement serait d'atteindre les personnes qui ne sont pas habituées à suivre des formations – c'est-à-dire les travailleurs peu instruits et faiblement qualifiés – et de concevoir des outils et des méthodes de formation adaptés à chaque groupe d'âge pour accroître les

motivations et, par là même, une plus forte participation à la formation continue de tous les groupes d'âge. Étant donné que le délai plus court de récupération des investissements faits dans la formation des travailleurs âgés sera toujours un obstacle à l'avenir, il serait important dans un premier temps de lisser le volume des investissements par un transfert des fonds investis (tant publics que privés) des groupes jeunes vers les groupes de travailleurs à mi-carrière, autrement dit les 35-50 ans.

- *Envisager de réinstaurer en faveur des entreprises des déductions au titre de la formation des travailleurs âgés peu qualifiés.* Des observations récentes ont montré que le manque de possibilités de formation offertes aux travailleurs âgés peu qualifiés est essentiellement un problème de demande. Compte tenu des dysfonctionnements du marché des capitaux ou de la formation, ces salariés peuvent ne pas être en mesure d'assumer leur part des coûts (financiers ou non financiers, par exemple le temps à consacrer à la formation). Les comptes-formation individuels et les chèques-formation ne suffiront pas. Les travailleurs peu instruits peuvent avoir des difficultés particulières à négocier avec leurs employeurs au sujet du contenu et de la qualité des programmes de formation. Pour davantage inciter les entreprises à investir de plus grosses sommes dans la formation des travailleurs âgés peu qualifiés, des déductions fiscales ciblées pour les entreprises pourraient être nécessaires pour obtenir de façon durable des résultats satisfaisants dans le domaine de la formation.
- *Élaborer des instruments qui valident les compétences acquises en cours d'emploi.* Actuellement, ces compétences ne sont pas suffisamment évaluées ou mesurées. Ce facteur désavantage particulièrement les chômeurs âgés, dont les qualifications initiales peuvent être dépassées. Une validation est nécessaire pour que ces qualifications soient bien reconnues et pour les rendre transparentes pour les employeurs potentiels.
- *Améliorer les conditions de travail de tous les travailleurs.* Instaurer de meilleures conditions de travail pour tous les travailleurs tout au long de leur vie professionnelle est une mesure qui aura des retombées bénéfiques durables : le travail est moins pénible et le retrait précoce de l'activité moins fréquent. Promouvoir l'amélioration de la santé au travail est une mesure complémentaire essentielle.

- *Mettre en place un dispositif distinct pour les accidents du travail.* Les Pays-Bas sont le seul pays de l'OCDE qui, en ce qui concerne les accidents du travail, n'est pas doté d'un dispositif qui fait la distinction entre ces accidents et l'invalidité en général. La mise en place d'un dispositif distinct contribuerait à prévenir les facteurs liés aux accidents et à l'invalidité qui sont à l'origine du nombre élevé de bénéficiaires de prestations d'invalidité.
- *Accélérer et évaluer la mise en œuvre des initiatives destinées à aider les demandeurs d'emploi âgés à revenir sur le marché du travail.* Les services de l'emploi devraient élaborer une stratégie originale pour faire revenir dans l'emploi les plus de 50 ans. Ils devraient concentrer leurs efforts sur l'aide à la recherche d'un emploi, l'évaluation des compétences et les possibilités de recrutement dans le secteur privé, en tenant compte des conditions régnant sur le marché du travail local. Les responsables de la réinsertion du secteur public devraient rassembler des informations sur les bonnes pratiques et les diffuser largement auprès de tous les prestataires aux niveaux local et national. Le ministère des affaires sociales et de l'emploi devrait faire réaliser des études d'évaluation.

Les travailleurs âgés aux Pays-Bas traversent actuellement une période de transition entre les réformes des pensions, de la préretraite, du régime d'invalidité et des allocations de chômage, d'une part, et l'introduction, d'autre part, du compte d'épargne individuel tout au long de la vie. Beaucoup dépendra de la manière dont les réformes seront mises en œuvre à l'avenir. Le partage des responsabilités entre tous les acteurs sera la condition essentielle de la réussite sur le terrain. Il est capital, cependant, de veiller à la cohérence des politiques et d'aller de l'avant pour faire adopter un ensemble complet de mesures qui aboutira à un allongement de la vie active.

## INTRODUCTION

The Dutch population will age considerably over the next 50 years – a situation that will pose many challenges, even if the rate of ageing in the Netherlands is projected to be slower than in most other OECD countries. For one thing, unless action is taken to increase the participation rates of older workers, labour force growth will slow considerably. That could lead to growing labour shortages, which could in turn create bottlenecks and a slowdown in economic activity.

To ensure that labour force participation rates increase further and that older workers are retained in employment longer, there need to be better incentives to continue working in terms of financial rewards, suitable training opportunities and improved working conditions. At the same time, it will be imperative to engage employers and influence their thinking with regard to hiring and retaining older workers. The main purpose of this report is to reflect on the different avenues of reform that will need to be pursued to meet these objectives.

*Chapter 1* sets out the scale of the challenges ahead. It highlights the importance of improving the employment prospects of older workers as the key to meeting the ageing challenge. *Chapter 2* examines the labour market situation and identifies areas where action is required to improve labour market outcomes for older workers. *Chapter 3* discusses the supply-side factors influencing the labour force participation rates of older people and how incentives to work are affected by benefit levels and eligibility criteria in the welfare system. But removing supply-side barriers to employment is not enough: actions on the demand side are also needed. Thus, *Chapter 4* looks at the challenges faced by employers and their attitudes towards hiring and retaining older workers. *Chapter 5* looks at barriers these older workers themselves face in gaining access to better jobs and remaining in them longer. Finally, *Chapter 6* takes up issues of policy coherence and co-ordination.



## *Chapter 1*

### **THE CHALLENGE AHEAD**

It is becoming clear throughout OECD countries that unless living longer translates into working longer, population ageing is likely to lead to higher public expenditures and slower economic growth. In terms of broad demographic trends, the speed and the magnitude of ageing in the Netherlands is modest compared to other OECD countries. However, if participation does not significantly improve, the labour force will stabilise at around the 2000 level or decline slightly over the next few decades. To offset some of the resulting pressure on the Dutch economy, it will be important to increase participation of older workers in the labour market.

#### **1. The demographic realities**

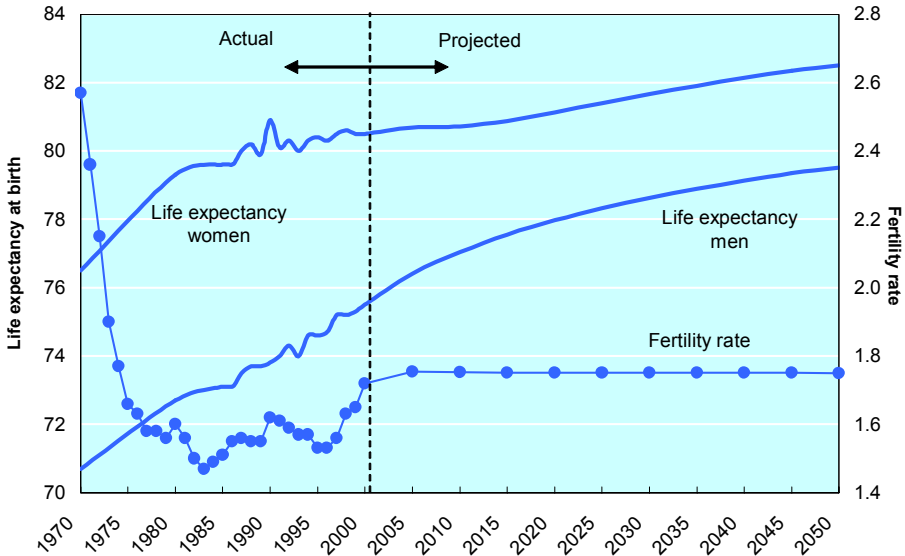
The factors behind population ageing in the Netherlands are declining fertility rates and rising life expectancy. The total fertility rate fell from almost 2.6 in 1970 (*i.e.* above the replacement rate of 2.1) to 1.5 in 1983, but then recovered to 1.7 in 2000 with a steep upward trend after 1996 (Figure 1.1). It is projected to increase slightly in the early 2000s to reach 1.75 in 2005 and to remain constant thereafter.<sup>1</sup> In 2000, life expectancy at birth was 75.5 years for men and 80.5 years for women. By 2050, life expectancy is projected to increase further, to 79.5 years for men and 82.5 years for women. Finally, immigration policy will also play a role. The total annual net immigration rate is assumed to fluctuate during the period 2000-2050 around 1.8‰ of the population, the average increase during the period 1970-2000 being 2.0‰ of the population. The Netherlands has had a positive immigration surplus since the early 1960s, which partly explains the slower ageing process (OECD, 2005b).

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1. The population projections used in this report are based on the main variant of those produced by Statistics Netherlands (CBS).



Figure 1.1. Life expectancy at birth and total fertility rate, Netherlands, 1970-2050

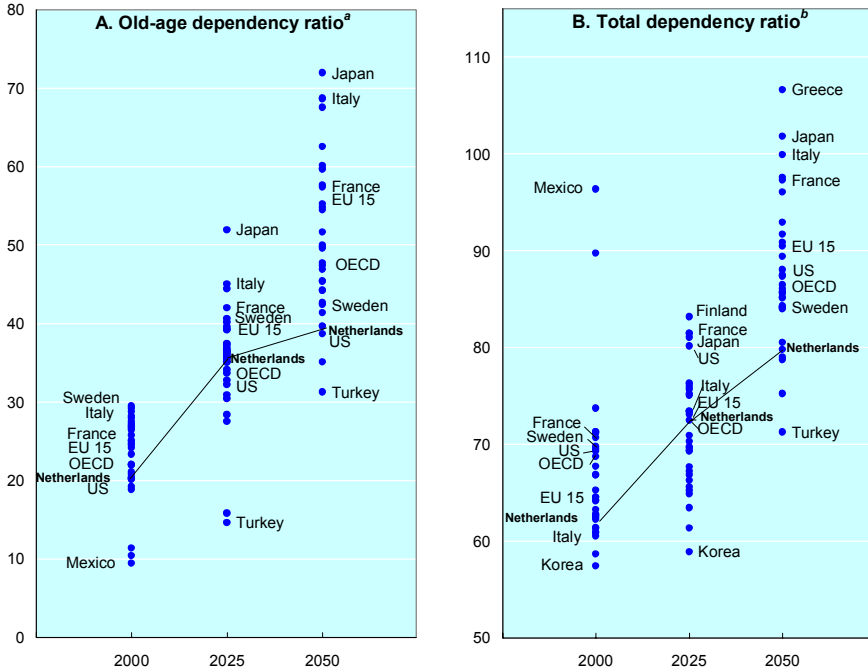


Source: Statistics Netherlands (CBS).

Based on present life expectancies at different ages, workers retiring at age 65 can expect to receive a pension for an average of about 16 years in the case of men and 19 years in the case of women. A broad indicator of the rising economic burden that an older society may place on the working-age population is the old-age dependency ratio, *i.e.* that of the population aged 65 and over to the population aged 20 to 64.<sup>2</sup> At around 22% in 2000, the Netherlands now has the average old-age dependency ratio in the OECD area (Figure 1.2). The population in the Netherlands is, as already mentioned, projected to age less rapidly than that in most other European countries. The increase will be stronger between 2000 and 2025 than between 2025 and 2050. Its old-age dependency ratio is projected to double to 40% in 2050, but its rank among OECD countries will be one of the lowest, close to the ratio of the United States.

2. The old-age dependency ratio is conventionally defined in relation to the population aged 15 to 64. However, in most OECD countries teenagers aged 15 to 19 are more often than not still in school, and so this group has been excluded from the definition of the working-age population.

Figure 1.2. **Demographic dependency ratios, 2000-2050**  
Percentages



a) Ratio of the population aged 65 and over to the population aged 20-64.

b) Ratio of the sum of the population aged below 20 and the population aged above 64 to the population aged 20-64.

Source: National population projections (central variant); and UN, *World Population Prospects 1950-2050 (2002 Revision)* for Ireland, Greece, Hungary, Luxembourg, Mexico and Turkey.

These changes in the old-age dependency ratio convey only part of the burden that may result from population ageing. There will be also young dependents to support. The total dependency ratio takes this factor into account, since it is defined as the ratio of the combined population of children and teenagers (aged less than 20) and the elderly (65 and over) to the population of working age (20 to 64). For the Netherlands, this ratio is expected to increase in parallel with the old-age dependency ratio in the next 25 years, but at a somewhat faster rate after 2025 (Figure 1.2B).

## 2. Potential impacts of ageing on the labour force

The ageing of the Dutch population is likely to have a range of economic and social consequences. Clearly there will be upward pressure on public spending in terms of pensions, health and long-term care. Since fewer people in employment will have to support a growing number of people outside the labour market, the ageing process is also likely to create intergenerational tensions. These might be exacerbated if the younger working generation is required to finance a rapidly growing cohort of retirees through increased taxes.

Table 1.1. **Labour force participation rates by age and gender, 2000**  
As a percentage of the population in each age group

	Men			Women			Total		
	25-49	50-64	65-69	25-49	50-64	65-69	25-49	50-64	65-69
<b>Netherlands</b>	<b>94.5</b>	<b>67.0</b>	<b>9.7</b>	<b>75.6</b>	<b>39.4</b>	<b>3.1</b>	<b>85.0</b>	<b>53.3</b>	<b>6.2</b>
Luxembourg	95.3	57.7	4.3	67.6	28.0	2.6	88.1	43.0	3.4
Belgium	94.3	53.7	3.1	77.5	28.6	1.6	89.0	41.0	2.3
Germany	94.1	64.1	7.4	77.8	45.1	2.8	88.4	54.6	5.0
France	94.8	63.2	3.7	79.3	50.5	2.5	80.4	56.8	3.0
United Kingdom	92.9	72.5	14.9	76.8	54.5	8.5	60.8	63.4	11.6
United States	92.4	75.6	30.1	77.3	61.0	19.4	85.0	68.0	24.4
EU-15	93.3	66.6	12.4	75.2	43.2	5.7	83.7	54.7	8.8
OECD minimum <sup>a</sup>	86.5	50.0	3.1	28.6	22.1	1.3	60.8	40.4	2.2
OECD average <sup>b</sup>	93.3	70.2	21.2	73.3	46.6	10.4	83.3	58.2	15.5
OECD maximum <sup>b</sup>	97.2	95.2	65.5	87.5	83.2	38.0	91.9	89.2	51.2

a) The data refer to Hungary for men aged 25-49 and 50-64 and to Turkey for women aged 25-49 and 50-64. For the 65-69 age group, the data refer to Belgium for men and the Slovak Republic for women.

b) The data refer to Japan for men aged 25-49 and to Iceland for women aged 25-49, 50-64 and 65-69, and men aged 50-64. For men aged 65-69, the data refer to Mexico.

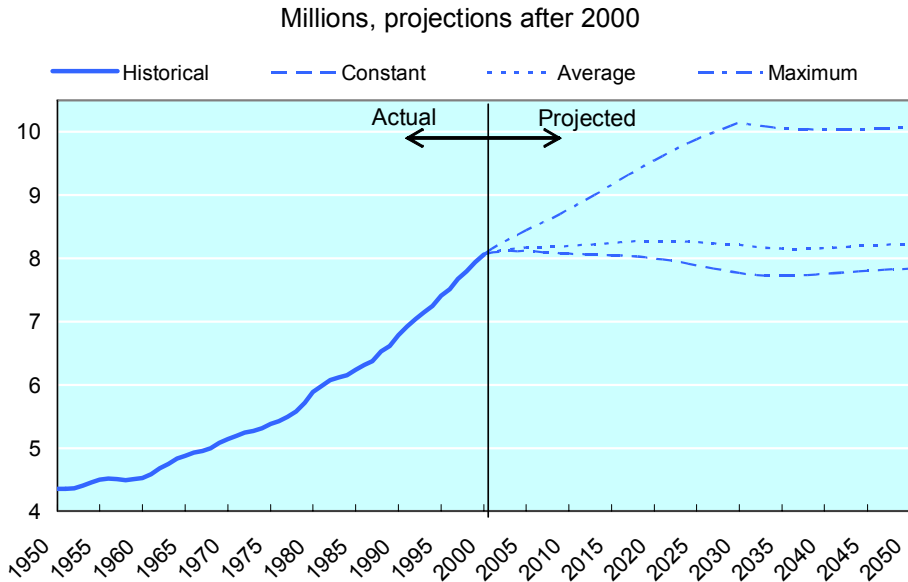
Source: European Labour Force Survey and national labour force surveys.

The future size of the labour force will depend not only on demographic changes but also on how participation rates change over time. In 2000 the participation rate of those aged 50-64 was much lower than that of prime-age persons (Table 1.1). In 2000 the participation rate for older women reached only 40% for those 50-65 and 3% for those 65-69. The rate in the Netherlands after

the age of 50 was below the OECD average, particularly for the age group 65-69.

Participation rates are not easy to predict accurately. The extent to which labour force growth will be influenced by changes in these rates can be broadly illustrated using three scenarios based on the 2000 levels (Figure 1.3):

Figure 1.3. **Labour force growth, Netherlands, 1950-2050<sup>a</sup>**



a) The Constant scenario assumes that participation rates by five-year age groups and gender remain constant at their 2000 levels. The Average scenario also assumes constant participation rates up to and including the age group 45-49, but for the older age groups they are projected to increase so that by 2030 they are at the same level as the OECD average of 2000. The Maximum scenario assumes that participation rates by age and gender converge by 2030 with the corresponding maximum rate observed across OECD member countries in 2000 and remain constant thereafter.

Source: OECD estimates based on labour force surveys and Statistics Netherlands (CBS) demographic projections for the Netherlands (main variant).

- The “Constant scenario” assumes participation rates by age and gender to remain constant at their 2000 levels. Accordingly, the Dutch labour force is projected to contract slightly, to around 7.8 million in 2050 from its level of 8.1 million in 2000.

- The “Average scenario” assumes participation rates for the older population will converge over the period 2000-2030 with the corresponding OECD average level of 2000 and remain constant thereafter. In this case, the Dutch labour force will stay almost constant and reach 8.2 million in 2050.
- The “Maximum scenario” assumes participation rates by age and gender will converge over the period 2000-2030 to the corresponding OECD maximum level of 2000 and remain constant thereafter. For the Netherlands this results in a particularly steep increase in participation rates, especially for older age groups. Under this scenario, the Dutch labour force peaks at a level of around 10.1 million in 2030 and levels off thereafter.

These scenarios show a wide range in the size of the labour force over the next half-century. Under the Constant scenario, its growth is projected to decline slightly, by 0.06% per annum (Table 1.2). Alternatively, under the Average scenario, an increase in participation rates for the older population would result in the labour force growing at a rate of 0.04% per annum. Under the Maximum scenario, labour force growth would be larger, 0.44%. This growth is, however, much lower than that experienced between 1980 and 2000, a period characterised by a very strong average annual growth of the labour force (2.6%), mainly in part-time work (see Chapter 2).

The “constant” scenario is applied to other OECD countries to compare the Netherlands projected changes with those for other countries (Figure 1.4). Over the next two decades the Netherlands fares rather better than on average in the EU and this positive gap may even increase further over the period 2020-2050, since the rate of decline in the Dutch labour force could be a lot less steeper than in most other EU countries.

Population ageing will also be reflected in an older workforce (Figure 1.5). Currently, older workers (*i.e.* aged 50 and over) account for around 19% of the labour force. However, assuming participation rates by gender and five-year age groups do not change, 24% of the labour force will be aged 50 and over in 2020, and 22% in 2050.

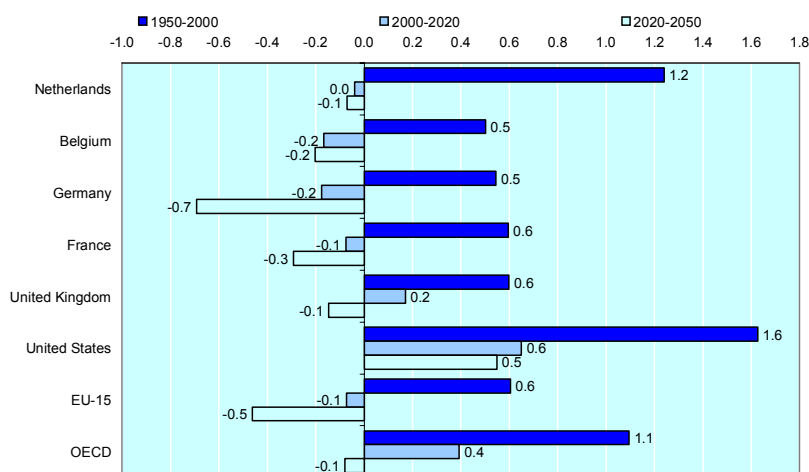
Table 1.2. **Labour force growth, Netherlands, 1980-2050**  
Average annual growth

	Historical		
	2.6		
Scenarios <sup>a</sup>	Constant	Average	Maximum
2000-2010	0.02	0.16	0.85
2010-2020	-0.09	0.10	0.84
2000-2020	-0.04	0.13	0.85
2020-2050	-0.07	-0.02	0.17
2000-2050	-0.06	0.04	0.44

- a) The Constant scenario assumes that participation rates by five-year age groups and gender remain constant at their 2000 levels. The Average scenario also assumes constant participation rates up to and including the age group 45-49, but for the older age groups they are projected to increase so that by 2030 they reach the OECD average recorded in 2000. The Maximum scenario also assumes constant participation rates up to and including the age group 45-49, but for the older age groups they are projected to increase so that by 2030 they reach the OECD maximum recorded in 2000 and remain constant thereafter.

Source: OECD estimates based on labour force surveys and Statistics Netherlands (CBS) demographic projections for the Netherlands (main variant).

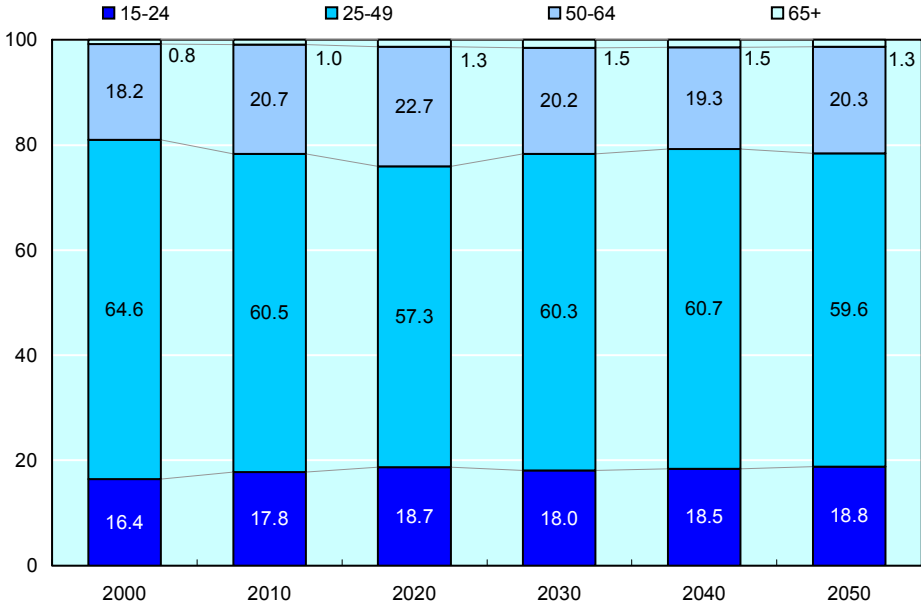
Figure 1.4. **Labour force growth in OECD countries, 1950-2050<sup>a</sup>**  
Average annual percentage



- a) The projections of labour force growth over the period 2000-2050 assume that participation rates by five-year age groups and gender remain constant at their 2000 levels.

Source: OECD estimates.

Figure 1.5. **Ageing labour force over the next 50 years, Netherlands<sup>a</sup>**  
 Percentage of the total labour force



a) The projection of labour force growth assumes that participation rates by five-year age groups remain constant at their 2000 levels.

Source: Dutch labour force survey and OECD estimates.

If the Netherlands manages to increase the participation rates of older workers, the labour force growth will be stronger – and that would alleviate most of the challenges in the context of population ageing. As will be clear from the next chapter, there is wide scope for increasing the participation rates of both older men and older women in the Netherlands.

## *Chapter 2*

### **OLDER WORKERS IN THE DUTCH LABOUR MARKET**

The purpose of this chapter is to set the scene in terms of the labour market situation facing older workers. The first section looks at characteristics and long-term trends of age-specific activity and inactivity profiles. In the second section, the employment structure with regard to older workers is discussed in more detail.

#### **1. Activity and inactivity among older people**

##### ***A. High inactivity, particularly for women***

Employment rates of Dutch men decline significantly from age 57 onwards. There is a sharp fall between 59 and 61, and an eventual drop to 14% at age 65 (Figure 2.1). Before the age of 60, the main source of income of non-employed men is from disability. For example, at the age of 55, 13% of men receive disability benefits, 4% unemployment benefits and social assistance, and 2% pension income. At age 60 more men are inactive than employed, and among inactive men, the most frequent status is disability (21%) followed by retirement (16%). The employment rates of Dutch women decrease constantly between 50 and 59, from an already low level (57%), dropping to only 4% at age 65. At age 53, only half of the women are employed, 33% of them receive no income, and around 7% receive disability or unemployment benefits and social assistance. From 65 to 69, a small minority of people are still employed. For example, at age 67, 8% of men and only 1% of women are working, mainly in a self-employed capacity.

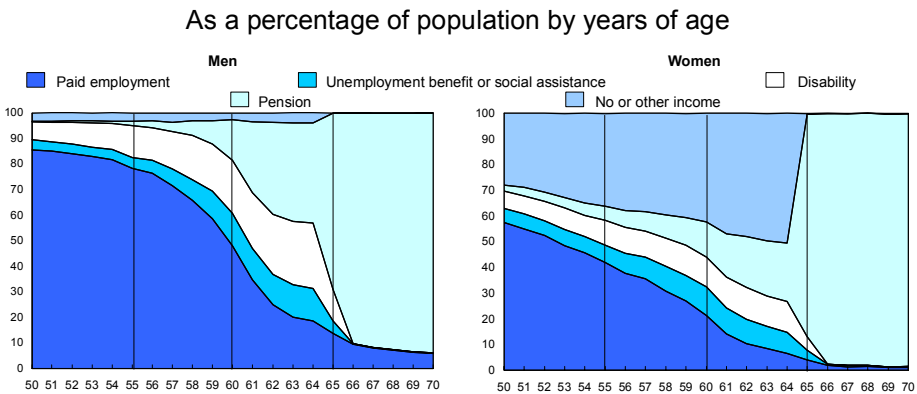
##### ***B. Long-term employment and unemployment trends***

Trends over the past thirty years illustrate a gradual increase in employment rates of women aged 50 and over from a very low initial level (Figure 2.2). By contrast, men experienced a downward trend in their employment rates until 1986; the drop was particularly steep for the age



group 60-64. A turnaround followed, mainly for the age group 50-59 and particularly in the second half of the 1990s, which was marked by a very good economic situation.

Figure 2.1. **Labour force status by age, gender and source of income,<sup>a</sup> Netherlands, 2000**



a) Labour force status is defined in accordance with the main income source.  
 Source: Huynen *et al.* (2004), on the basis of the Regional Income Study Panel.

In the Netherlands, unemployment (as defined by the ILO) to population ratios for older persons have remained almost consistently below the ratios for prime-age persons and youths (Figure 2.3). In part this reflects the fact that until 2004, unemployed people older than 57 and a half were exempted from job-search and were no longer counted as unemployed according to the ILO definition. Another reason is that older workers use exit routes other than unemployment insurance, such as early retirement or disability schemes. Unemployment has increased since 2001 for all age groups as a result of the marked economic slowdown.

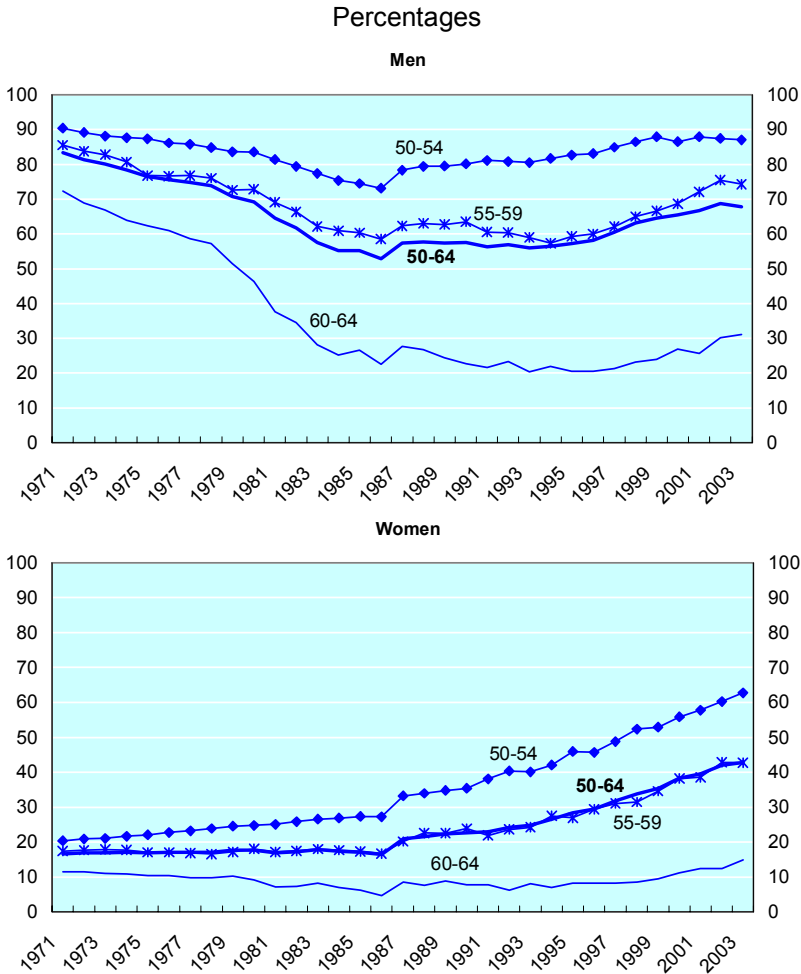
### C. *Where the Netherlands stands in comparison with the OECD*

#### *Higher inactivity rates than the OECD average, mainly for women*

The inactivity rate for older Dutch people is slightly higher than that in the OECD area (Table 2.1). However, older women are much more frequently inactive than the corresponding OECD average. This is also the case for older men aged 60-64. In addition, closer examination of the reasons for inactivity reveals a picture quite different from that of other OECD countries: 14% of older Dutch people are inactive due to illness or disability, in contrast with 9%

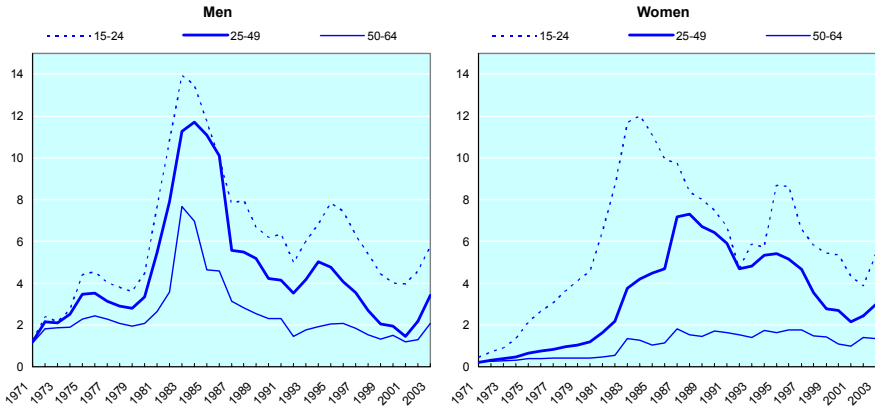
on average in the OECD. Also, more than one-fifth of older women are inactive because of family responsibilities in the Netherlands. This share increases with age, reaching one-third for the age group of 60-64, whereas that for prime-age women is the same on average as in OECD member countries. There seems to be great scope for mobilising older inactive people.

Figure 2.2. **Employment rates by age and gender, Netherlands, 1971-2003**



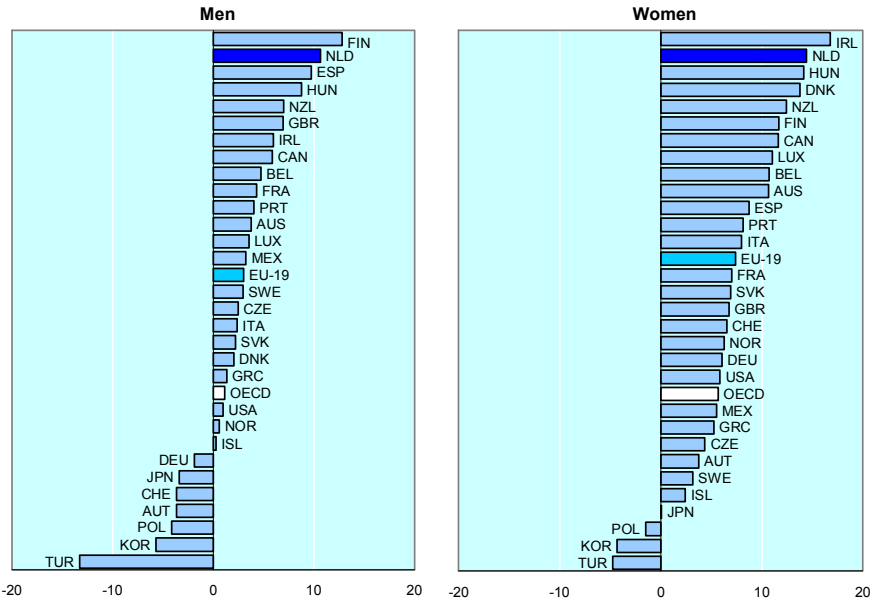
Source: Dutch labour force survey.

Figure 2.3. **Unemployment to population ratio by age and gender, Netherlands, 1971-2003**  
Percentages



Source: Dutch labour force survey.

Figure 2.4. **Evolution in employment rates of older workers in OECD countries, 1995-2003<sup>a</sup>**  
Percentage points



a) 2002 data for Iceland and Luxembourg.

Source: National labour force surveys.

**Table 2.1. Labour market status by age and gender, Netherlands and OECD member countries, 2001**  
As a percentage of population in each age group

	25-49		50-64		50-54		55-59		60-64		Total			
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women				
<b>Netherlands</b>														
<b>Active</b>	<b>94.8</b>	<b>77.1</b>	<b>86.0</b>	<b>41.3</b>	<b>54.6</b>	<b>90.0</b>	<b>59.5</b>	<b>74.8</b>	<b>72.6</b>	<b>42.5</b>	<b>57.6</b>	<b>25.8</b>	<b>11.9</b>	<b>18.9</b>
Employed	93.5	75.4	84.5	66.8	53.8	88.8	58.3	73.6	71.4	42.1	56.8	25.3	11.7	18.5
Unemployed	1.3	1.7	1.5	1.0	0.8	1.2	1.2	1.2	1.2	0.4	0.8	0.5	0.2	0.4
<b>Inactive</b>	<b>5.2</b>	<b>22.9</b>	<b>14.1</b>	<b>32.2</b>	<b>45.5</b>	<b>10.0</b>	<b>40.5</b>	<b>25.3</b>	<b>27.4</b>	<b>57.5</b>	<b>42.5</b>	<b>74.2</b>	<b>88.1</b>	<b>81.2</b>
Discouraged	0.4	0.5	0.5	0.7	0.8	0.6	0.8	0.7	0.4	0.9	0.7	1.1	1.1	1.1
Retired	0.0	0.0	0.0	15.7	9.7	12.7	1.0	0.7	8.5	6.4	7.5	49.4	28.5	39.0
Illness or disability	2.4	5.2	3.8	13.1	14.4	7.0	12.7	9.9	16.2	17.4	16.8	19.3	18.5	18.9
Family responsibilities	0.4	14.5	7.5	0.4	27.2	13.8	0.4	22.8	11.6	0.4	27.7	0.4	33.3	16.9
Other	2.0	2.7	2.4	2.3	5.2	1.7	3.2	2.5	1.9	5.1	3.5	4.0	6.7	5.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>OECD average<sup>a</sup></b>														
<b>Active</b>	<b>92.7</b>	<b>76.9</b>	<b>84.8</b>	<b>68.1</b>	<b>57.7</b>	<b>87.3</b>	<b>68.5</b>	<b>77.8</b>	<b>72.7</b>	<b>48.7</b>	<b>60.4</b>	<b>42.8</b>	<b>28.5</b>	<b>35.4</b>
Employed	87.8	71.4	79.6	64.9	45.1	84.1	65.5	74.7	69.7	47.1	58.1	41.7	28.0	34.6
Unemployed	4.9	5.5	5.2	3.2	2.7	3.2	3.0	3.1	3.0	1.6	2.2	1.0	0.5	0.8
<b>Inactive</b>	<b>7.3</b>	<b>23.1</b>	<b>15.2</b>	<b>31.9</b>	<b>42.3</b>	<b>12.7</b>	<b>31.5</b>	<b>22.2</b>	<b>27.3</b>	<b>51.3</b>	<b>39.6</b>	<b>57.2</b>	<b>71.5</b>	<b>64.6</b>
Discouraged	0.3	0.5	0.4	0.7	1.0	0.6	1.1	0.8	1.0	1.3	1.2	0.8	0.6	0.7
Retired	0.0	0.0	0.0	18.6	22.1	3.5	3.6	3.6	13.8	18.1	16.2	44.2	40.1	42.2
Illness or disability	2.8	2.9	2.9	9.0	9.0	6.3	7.2	6.8	9.5	8.7	9.1	10.0	8.7	9.3
Family responsibilities	0.3	14.6	7.4	0.4	17.9	0.3	15.9	8.1	0.3	18.8	9.7	0.3	17.9	9.4
Other	3.9	5.1	4.5	3.2	2.7	2.1	3.7	2.9	2.6	4.4	3.5	1.9	4.1	3.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

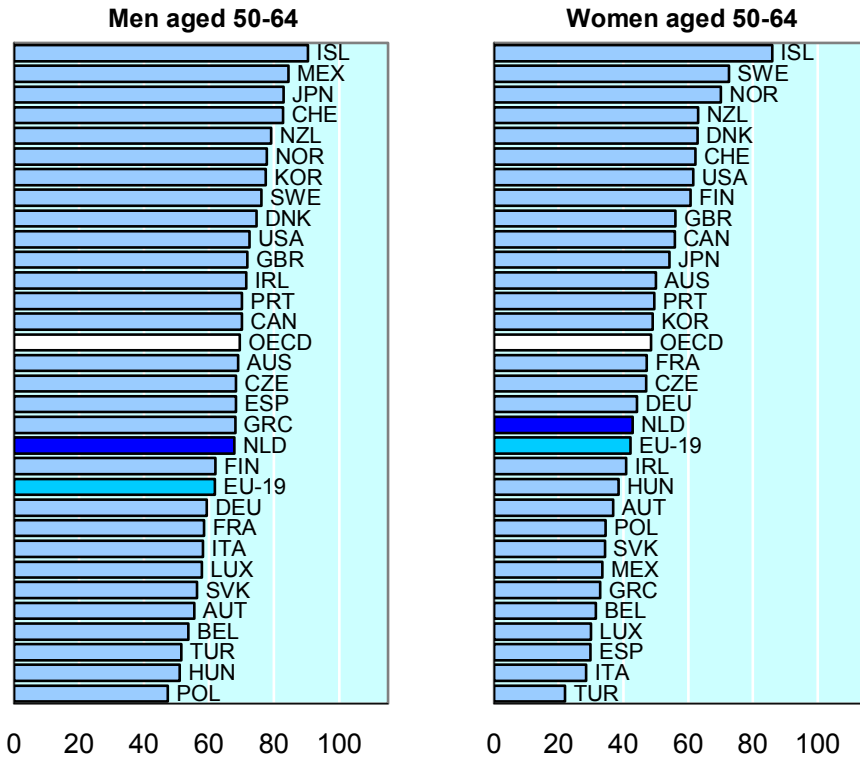
a) The OECD average excludes Australia, Canada, Korea, Japan, Mexico, New Zealand and Turkey.  
Source: OECD estimates based on labour force surveys.

*Employment rates have increased significantly but remain below the OECD average*

The Netherlands is one of the OECD countries that have best succeeded in reversing the declining trend in employment rates for older workers over the past decade, after Finland for men and Finland and Ireland for women (Figure 2.4). In particular, the Netherlands has experienced a large increase of 10 percentage points in employment rates for older men. (It should be noted that the continued increase for women all over the OECD area is to a considerable extent a cohort phenomenon.)

Figure 2.5. **Employment rates of older workers by gender in OECD countries, 2003<sup>a</sup>**

Percentages



a) 2002 data for Iceland and Luxembourg.  
Source: National labour force surveys.

However, this increase in older worker employment rates has been achieved during a period in which the economic situation improved dramatically, from a low initial level. Among 30 OECD countries, the rank of the Dutch employment rates for older persons rose from the 8<sup>th</sup> lowest in 1995 to the 13<sup>th</sup> lowest in 2003 (11<sup>th</sup> lowest for men and 13<sup>th</sup> lowest for women) and is still below the OECD average for both men and women in 2003 (Figure 2.5). It seems that much remains to be done in the Netherlands to further improve employment among older persons. Taking the whole of older people, the rank of the Netherlands in 2003 was the 12<sup>th</sup> lowest for the group aged 50-64 and the 8<sup>th</sup> lowest for the group over 65. In this last group, only 4% of the population was employed in the Netherlands while the OECD average was 11%.

### *Unemployment rates are low*

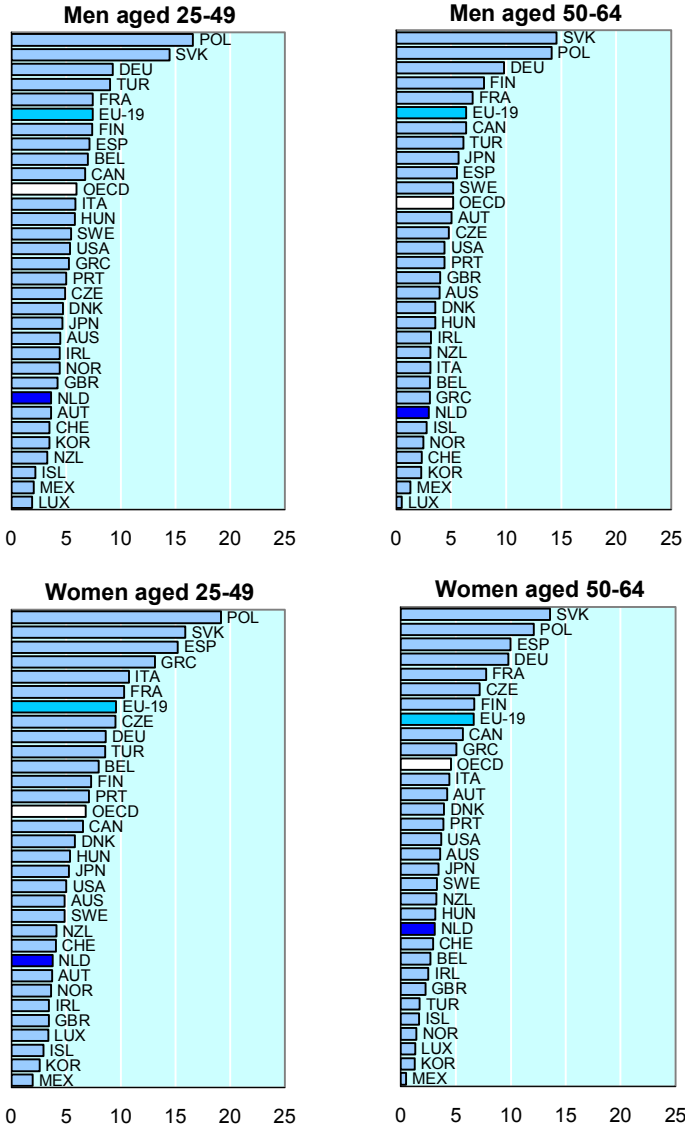
One of the major characteristics of the labour market status of older Dutch people is low unemployment.<sup>3</sup> This is also the case for prime-age workers (Figure 2.6). Regardless of age group or gender, Dutch unemployment rates are far below the EU average<sup>4</sup> or the OECD average.

As in the majority of OECD countries, older Dutch people have lower unemployment rates than prime-age workers (Figure 2.6). But once they lose their jobs, they tend to need more time to find another job. A disproportional share of long-term unemployment among older unemployed is a typical feature across OECD countries. The Netherlands is no exception to this pattern (Table 2.2). The incidence of long-term unemployment among older men is nearly 50% higher than prime-age men and this figure is even higher (70%) in the case of women. However, by international standards, the incidence of long-term unemployment in the Netherlands is not particularly high. Prime-age men and women and older men suffer a lot less often from long-term unemployment than their counterparts in the EU and the OECD member countries.

- 
3. Comparison of unemployment levels among countries is not straightforward. Salverda (2003) argues that the embedding of the part-time labour market in other areas of life such as education or household care may differ across countries and/or change over time and exert distorting effects on the role of open unemployment.
  4. EU-19 includes all OECD countries belonging to the EU.

Figure 2.6. **Unemployment rates by age and gender in OECD countries, 2003<sup>a</sup>**

Percentages



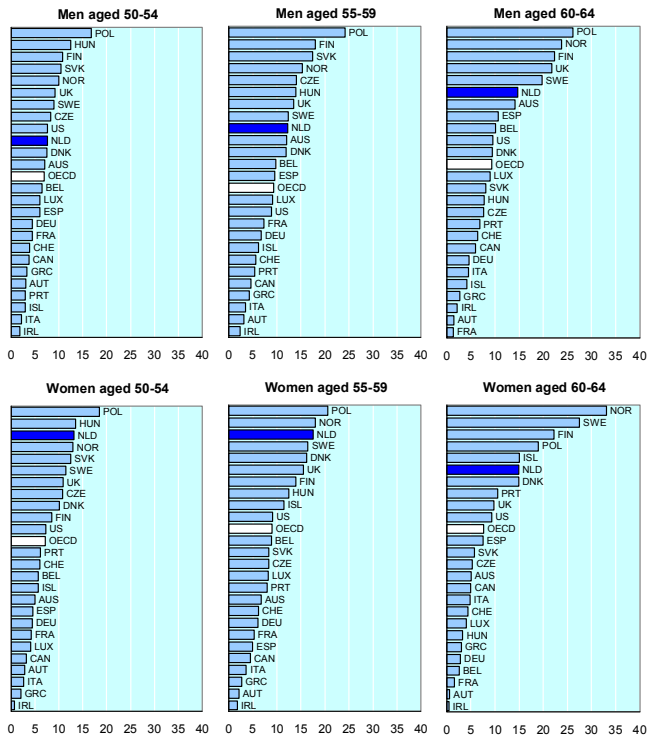
a) 2002 data for Iceland and Luxembourg.  
 Source: National labour force surveys.

Table 2.2. **Incidence of long-term unemployment in some OECD countries, 2003**  
As a percentage of total unemployment

	Total		Men		Women	
	25-49	50-64	25-49	50-64	25-49	50-64
<b>Netherlands</b>	<b>32.4</b>	<b>50.5</b>	<b>31.9</b>	<b>47.2</b>	<b>32.9</b>	<b>56.3</b>
Belgium	50.1	66.4	48.6	70.8	51.7	57.8
Germany	48.6	64.1	47.1	62.9	50.5	65.5
France	43.7	62.2	43.6	64.4	43.8	59.9
United Kingdom	26.4	35.4	31.0	38.9	19.4	27.5
EU-19	47.8	58.4	46.7	57.6	48.9	59.5
OECD	41.3	54.2	38.5	52.5	44.6	56.9

Source: National labour force surveys.

Figure 2.7. **Inactivity status because of illness or disability in OECD countries,<sup>a</sup> 2003**  
As a percentage of population



a) Weighted average of the 25 countries shown on the figure.

Source: OECD estimates based on the European labour force survey and on ILO data for non-European countries.



### *Disability is high*

At the same time, one of the aspects characterising the Netherlands is a widespread use of the country's disability scheme, particularly among older people. Inactivity rates due to illness or disability among older persons in the Netherlands are far above the OECD average (Figure 2.7). There is thus evidence that the strong rise in long-lasting disability insurance, beginning in the mid-1970s, masks a substantial increase in hidden unemployment, especially among older disabled people.

## **2. The employment structure with regard to older workers**

### **A. Part-time work is frequent for all, particularly for women**

The Netherlands has the second highest share of part-time work (after Switzerland) for both prime-age and older workers (Table 2.3). Although the share of prime-age men working part time is close to the OECD average, those for both prime-age and older women are more than double the OECD average. In the Netherlands as in most OECD countries, part-time work is more frequent among women than men and among older workers than prime-age workers.

The policy governing part-time work in the Netherlands is however a general one. Part-time work is accessible to all workers, regardless of age. Under the Adapted Working Hours Act, each employee who has been working for an employer for at least one year is entitled to adjust their working hours unless there are compelling commercial or work-related reasons for not doing so.

Even if employment rates are increasing in the Netherlands, substantial part-time employment and work absences among older workers could reduce effective labour supply in terms of hours worked. Thus, it is important to take into account the average hours worked by older workers. After an adjustment for hours worked per week,<sup>5</sup> employment rates of older women drop significantly from a ranking of 17<sup>th</sup> to 25<sup>th</sup> out of 28 countries where data are available; the rank of older men remains unchanged (Table 2.4). The differences in weekly hours worked between older men and women are the third largest after Switzerland and Iceland. Indeed, Dutch older women work only 23 hours per week on average, the shortest hours among OECD countries.

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5. It would be preferable to make an adjustment on the basis of annual rather than weekly hours worked, but the relevant data by age are not available.

Table 2.3. **Part-time work by age and gender in OECD countries, 2003<sup>a</sup>**

As a percentage of total employment

	Both		Men		Women	
	25-49	50-64	25-49	50-64	25-49	50-64
Switzerland <sup>b</sup>	30.7	34.3	7.7	9.3	58.6	66.6
<b>Netherlands</b>	<b>26.6</b>	<b>31.6</b>	<b>4.5</b>	<b>11.7</b>	<b>53.7</b>	<b>63.7</b>
Australia	23.5	27.5	7.7	12.8	42.8	47.9
Germany	21.6	23.5	4.4	6.3	42.4	46.6
Iceland	21.4	18.8	6.1	4.4	38.8	34.3
Norway	21.2	25.0	7.0	8.5	37.2	43.7
Japan	21.1	27.3	8.5	14.8	39.8	45.8
United Kingdom	20.6	28.6	4.0	11.6	41.2	49.8
Belgium	19.9	23.4	4.1	10.1	39.5	45.7
Austria	19.6	17.6	3.5	4.0	39.7	38.6
New Zealand	19.1	21.9	5.9	9.9	34.4	36.8
Sweden	18.3	21.5	7.0	10.5	30.6	33.1
Turkey	16.6	31.0	11.8	25.8	31.3	43.1
France	15.3	16.4	3.7	5.4	29.1	29.8
Denmark	15.3	16.8	5.8	6.5	26.4	28.9
Ireland	13.7	20.3	2.9	6.6	27.8	44.7
Luxembourg	12.6	9.9	1.5	1.0	28.4	27.5
Canada	12.4	16.0	4.8	7.8	21.1	26.2
Mexico	11.5	14.4	4.2	6.6	24.4	33.0
Italy	8.8	6.8	2.7	3.2	18.3	13.8
United States	7.9	9.4	2.8	4.7	13.5	14.1
Finland	7.8	14.4	3.8	11.1	12.2	17.8
Spain	7.5	6.6	2.0	1.5	15.7	17.7
Poland	6.6	14.3	4.3	11.6	9.3	17.7
Portugal	6.3	16.0	2.2	8.2	10.9	25.9
Korea	5.4	9.6	3.1	7.9	9.1	12.0
Czech Rep.	3.7	6.6	0.9	3.7	7.3	10.6
Greece	3.5	3.8	1.4	1.8	6.6	7.8
Hungary	2.8	5.3	1.3	3.8	4.4	6.9
Slovak Rep.	1.8	4.3	0.7	2.3	3.0	7.1
Unweighted average	14.1	17.4	4.3	7.8	26.6	31.2

a) 2002 data for Austria, France, Iceland, Korea, Luxembourg, Mexico and the United States.

b) Apprentices included. The part-time is defined with an occupancy rate less than 90%.

Source: OECD database on part-time work.

Table 2.4. **Employment rates for older workers adjusted by hours worked, 2003<sup>a</sup>**

	Unadjusted employment rate				Adjusted employment rate				Weekly hours of work <sup>a</sup>	
	Men		Women		Men		Women		Men	Women
	Rate (%)	Rank	Rate (%)	Rank	Rate (%)	Rank	Rate (%)	Rank		
Australia	68.9	15	49.9	12	62.8	16	35.2	15	36.5	28.2
Austria	54.8	24	35.9	20	54.8	22	31.1	20	40.1	34.7
Belgium	53.7	25	31.4	25	50.1	27	22.5	27	37.3	28.7
Canada	70.2	14	55.8	10	68.4	14	46.4	8	39.0	33.3
Germany	59.2	20	44.2	16	57.1	19	32.6	18	38.6	29.6
Denmark	74.6	9	62.9	5	69.9	10	52.7	5	37.5	33.5
Spain	68.3	17	29.8	26	70.7	9	27.1	23	41.4	36.4
Finland	62.0	19	60.7	8	53.4	24	44.3	9	34.4	29.2
France	58.5	21	47.2	15	55.5	21	38.3	14	38.0	32.5
United Kingdom	71.8	11	56.1	9	67.0	15	38.8	13	37.3	27.7
Greece	68.1	18	32.8	24	68.9	12	30.7	21	40.5	37.5
Hungary	51.0	27	38.4	19	52.8	25	38.9	12	41.4	40.5
Ireland	71.4	12	40.8	18	68.6	13	27.4	22	38.4	26.8
Iceland	90.5	1	85.9	1	110.1	1	72.6	1	48.7	33.8
Italy	58.2	22	28.5	27	56.7	20	23.5	26	39.0	33.0
Japan	82.9	3	54.2	11	94.7	2	48.5	7	45.7	35.8
Korea	77.5	7	48.9	14	54.3	23	33.7	17	28.0	27.5
Mexico	84.5	2	33.5	23	81.2	4	25.6	24	38.5	30.5
<b>Netherlands</b>	<b>68.3</b>	<b>16</b>	<b>43.1</b>	<b>17</b>	<b>62.6</b>	<b>17</b>	<b>24.9</b>	<b>25</b>	<b>36.7</b>	<b>23.1</b>
Norway	77.8	6	70.2	3	71.3	8	52.9	4	36.7	30.2
New Zealand	79.2	5	63.1	4	77.5	5	49.3	6	39.1	31.2
Poland	47.3	28	34.4	21	46.3	28	31.5	19	39.2	36.7
Portugal	70.2	13	49.4	13	69.7	11	42.8	10	39.7	34.7
Slovak Rep.	56.2	23	34.2	22	58.4	18	34.3	16	41.5	40.1
Sweden	76.1	8	72.6	2	75.2	6	64.3	2	39.5	35.4
Switzerland	82.7	4	62.2	6	85.8	3	39.7	11	41.5	25.5
Turkey	51.5	26	22.0	28	52.1	26	20.3	28	40.4	36.9
United States	72.5	10	61.6	7	74.2	7	58.2	3	40.9	37.8
<i>OECD average</i> <sup>b</sup>	<i>68.1</i>		<i>48.2</i>		<i>66.8</i>		<i>38.9</i>		<i>39.1</i>	<i>32.5</i>

a) 2000 data for Finland, Japan and Switzerland.

b) The OECD average excludes the Czech Republic and Luxembourg.

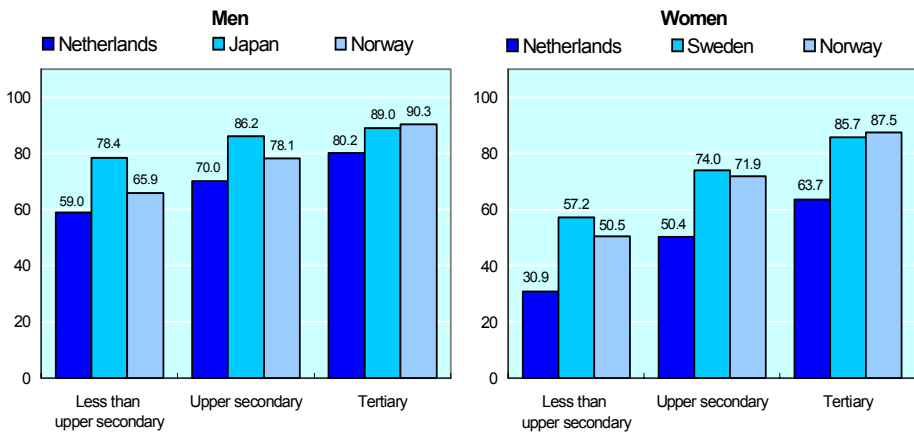
Source: National labour force survey and OECD database on hours.

## **B. Highly skilled workers remain employed longer**

In most OECD countries, employment rates are linked to levels of educational attainment. In the three countries shown in Figure 2.8, this correlation holds for older workers. Norway and Japan have generally high employment rates for older men but the highest are for older men with tertiary education; the first top among all OECD countries two countries for older

highly educated women are Norway and Sweden.<sup>6</sup> In comparison with the two countries, older Dutch workers have the following characteristics: *i*) lower employment rates for all educational categories and for both genders; *ii*) larger differences between genders for all educational levels; *iii*) larger differences between educational levels for women. It is clear that Dutch older women, even highly educated ones, are a large untapped resource. In a country like Iceland, educational levels do not make much difference to employment rates. In the case of the Netherlands however, enhancing educational levels will make an important difference (see Chapter 5).

Figure 2.8. **Employment rates of older workers by education level, 2002**  
Percentages



Source: OECD (2004f), *Education at a Glance*, Paris.

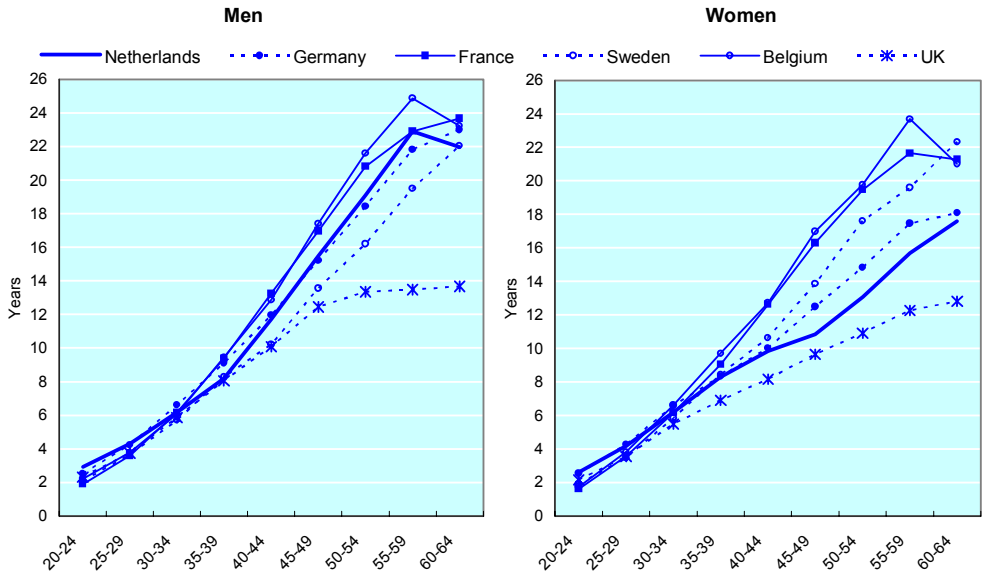
### C. *Continuous employment throughout working life?*

Not surprisingly, average job tenures rise steadily with age, at least until some older ages (Figure 2.9). Average job tenure for men in the Netherlands is high – in sharp contrast to countries like the United Kingdom, which is generally noted for having a flexible labour market. Job tenure decreases for men aged 60-64, indicating a decline in job security from age 60 onwards.

6. Iceland is in fact the country with the highest OECD employment rates for older workers, irrespective of their level of education or their gender.

Dutch women have significantly lower job tenure from age 40 onwards, compared with women in other countries, apart from the United Kingdom. After age 40, the gap in job tenure between Dutch men and women increases significantly, and this gap is larger than in other countries.

Figure 2.9. **Average job tenure of employees in selected OECD countries by age and gender, 2004**



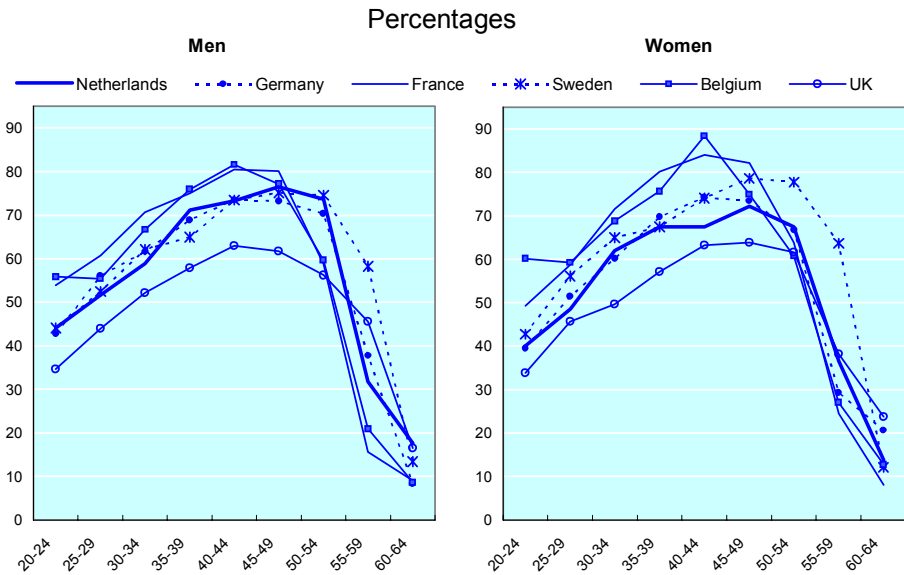
Source: European Labour Force Survey.

A drawback of using average job tenure as an indicator of job stability is its masking of compositional effects (and changes). A better one is the five-year job retention rate, which takes the proportion of all workers still with the same employer five years later.<sup>7</sup> A comparison of retention rates across selected OECD countries confirms the relatively high job stability up to age 50 for both Dutch men and women (Figure 2.10). For Dutch older workers, however, job retention rates drop very quickly, as they do in Germany, France and Belgium.

7. Retention rates used in this chapter are estimated using cross-sectional data on job tenure, not from directly observing job retention. They are calculated by taking the ratio of the number of workers in any given five-year age group with at least five years of job tenure to the total number of workers in the preceding age group five years earlier.

In contrast, the United Kingdom has lower retention rates for younger workers than the Netherlands, but has better job security for workers in their late 50s as in Sweden.

Figure 2.10. **Retention rates of employees in selected OECD countries by age and gender, 1999-2004<sup>a</sup>**



a) Retention rates refer to the proportion of workers in 1997 who were still in the same job five years later in 2002. The age groups refer to a worker's age in 1997. The data are based on labour force surveys covering all workers.

Source: European Labour Force Survey.

Under-utilisation of the female workforce is one of the longstanding issues in the Dutch labour market. Older generations of Dutch women were characterised by low employment rates, high inactivity rates, a high share of part-time work, short working hours and short job tenure. Younger female generations should be better mobilised on the labour market. Compared to other OECD countries, older Dutch men have relatively high inactivity rates and low employment rates. All the opportunities of early exit routes will be explored in Chapter 3.



### *Chapter 3*

## **INCOME SUPPORT AND WORK INCENTIVES: STRIKING THE RIGHT BALANCE**

Striking the right balance between guaranteeing an adequate income for the elderly and not undermining work incentives is a challenge facing all OECD countries. The consequences of ageing for the financial sustainability of the pension system are outside the scope of this book. However, some features of the pension system, such as provisions for early retirement, have a bearing on the objectives of prolonging working life and increasing the employment participation of older people; these will be reviewed here. The chapter also examines the widespread recourse to disability benefits in the Netherlands, particularly among older persons.

Pension, early retirement, disability and unemployment arrangements in the Netherlands are part of an intricate and complex framework of laws and national regulations. They are also the result of collective labour and other agreements between the social partners at national, branch and individual firm level. All these schemes should be considered simultaneously because they may act as alternative routes for early exit from the labour market.

The purpose of this chapter is to gauge the adequacy of the current pension and social security benefits for older workers in the Netherlands, and to assess the likely impact of these arrangements on the low effective retirement age but also on the rapid rise of the employment level of older people witnessed in recent years as indicated in Chapter 2. The impact of the recently introduced income tax deduction for older people still in employment will also be considered.

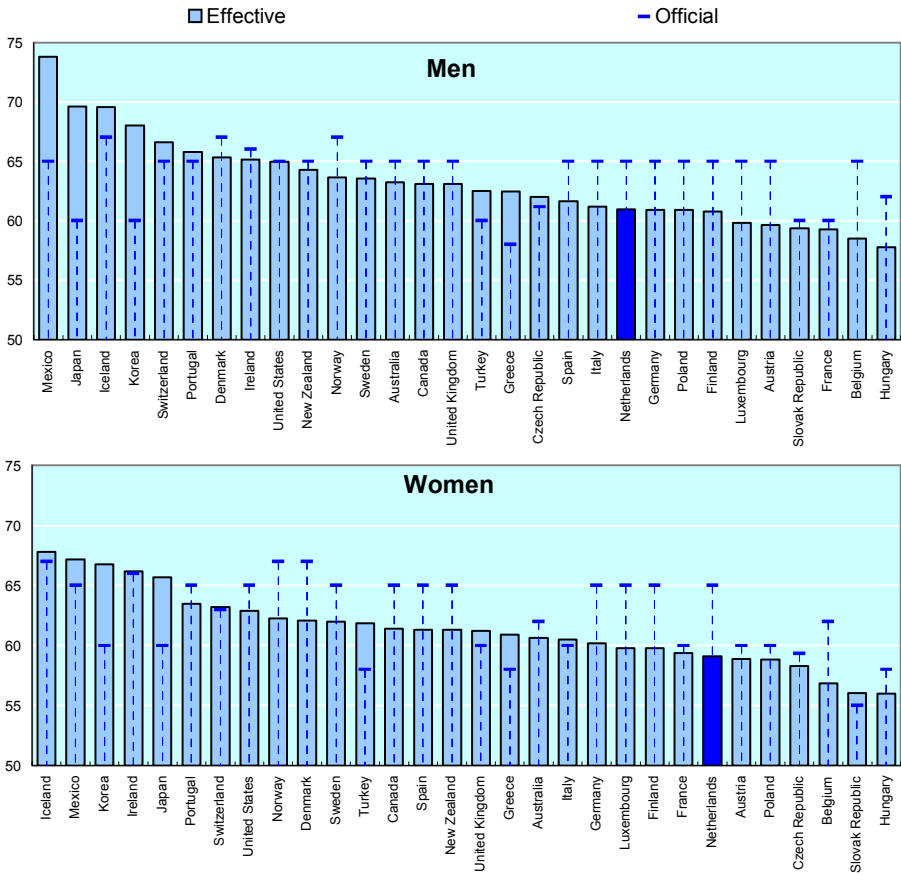
### **1. A low effective retirement age**

While the official retirement age in the Netherlands is 65, the effective retirement age is much lower. For the period 1997-2002, it was 61 for men and 59.1 for women (Figure 3.1). In international comparison the average effective



age of retirement is low in the Netherlands and the gap between the official and the effective ages is large, particularly for women.

Figure 3.1. **Effective and official age of retirement in OECD countries, 1997-2002<sup>a</sup>**



a) The average effective age of retirement is derived from the observed decline in participation rates over a five-year period for successive cohorts of workers (by five-year age groups) aged 40 and over.

Source: OECD estimates derived from the European Labour Force Survey and national labour force surveys.

There is wide scope for increasing labour force participation rates for older people by discouraging the use of various early retirement pathways. In 2002, 13% of persons aged 50-64 were on disability benefits, 6% on early retirement schemes, 3% on unemployment benefits and 3% on social assistance.

## **2. A balanced pension system**

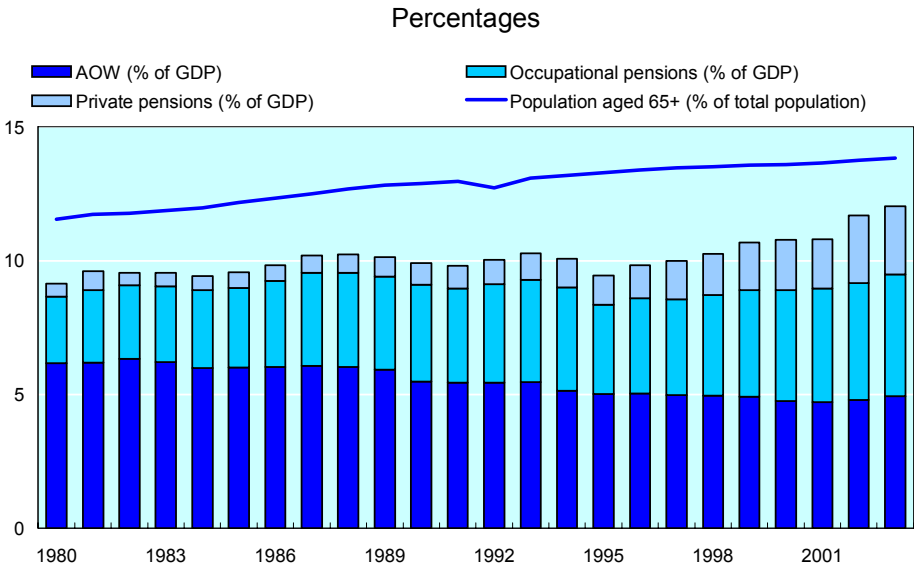
The Netherlands has a balanced system of old-age pensions, comprised of the familiar three (Ministry of Social Affairs and Employment, 2003):

1. The basic old-age public pension scheme (AOW) under a statutory national insurance scheme providing an equal pension for all residents.
2. The collective occupational pension schemes, to which employers and employees contribute in that takes the form of an individual fully funded pension.
3. The private pension scheme, consisting of private provisions that are neither statutory nor part of the collective occupational pension schemes.

It is often argued that the Dutch pension system is better equipped than those of many other OECD countries to resist external shocks and demographic developments. The first pillar may be sensitive to demographic changes and the second pillar can resist them relatively well but is exposed to fluctuations in inflation, interest rates and share prices. However, there are currently concerns about the long term financial sustainability of the system.

On average, the basic old-age pension constitutes around 40% of the pension income of persons older than 65, while occupational schemes constitute another 40% and the third pillar 20% (Figure 3.2). Total contributions to the three pillars have been equalled around 15% of GDP for several decades. Total annual pension payments from the three amount to close to 10% of GDP, but are on the rise because of the growing number of third pillar pensions. In fact, the basic pension's role has been declining while that of occupational pensions and (more recently) these private pensions have increased. The growth of occupational pensions has not fully compensated for the decline in the basic pension.

Figure 3.2. **Basic old-age pensions (AOW), occupational pensions, private pensions and population aged 65+, Netherlands, 1980-2003**



Source: Statistics Netherlands (CBS).

The basic old-age pension and private pensions – the first and third pillars – are considered first. More attention is subsequently paid to the second pillar covering the collective occupational pension schemes and the early retirement schemes, both of which affect older workers more directly. The official age of retirement – 65 – is established in the first pillar to pay the basic old-age pension.

#### A. *First and third pillar pensions*

The first pillar is a pay-as-you-go (PAYG) pension financed through contributions paid by employees and the self-employed. The government has set an upper limit to the AOW contribution rate equal to 18.25% of taxable earnings and a special fund was created in 1997 to ensure the sustainability of the basic old-age pension. This fund receives annual deposits from general tax revenues. The pension is paid at the age of 65 and not before.<sup>8</sup> The entitlement

8. According to the government this age is “written in stone”, but in the public debate some suggest raising it to 67 while others propose a flexible approach as, e.g. in Sweden.

is not based on contributions but on years of legal residence of the individual in the Netherlands: 50 years between the ages of 15 and 64 are needed to build up the full entitlement, which is equal to the net minimum wage (*e.g.* 55% of the average wage).

If a pensioner has no other real source of income than a reduced AOW pension because they have not lived long enough in the country to be entitled to a full pension, they can apply for a supplementary pension under the Social Assistance Act. The number of AOW claimants receiving supplementary pensions has risen steadily in recent years. The majority of these claimants are members of non-Western ethnic minorities.

The AOW level is not means-tested and is not affected by earned income. Even though it was individualised in 1985, its level depends on whether the person lives alone or with a partner. For instance, the benefit for two persons aged 65 and over living together is equal to the net minimum wage<sup>9</sup> while a pensioner living alone receives 70% of that amount. The AOW level is indexed to average growth in collective agreement wages (Carey, 2002). Normally, pension payments are adjusted every six months. However, the Indexing Conditions Suspension Act allows indexation to be suspended for any period. This was done in the early 1990s owing to unfavourable economic conditions. Indexation was fully restored in 1996 and has continued to 2004 when it stopped. The full indexation should again be in place in 2006.

The third pillar of the Dutch pension system is based on private pension arrangements with an insurer. This can take the form of annuity insurance as well as endowment (lump sum) insurance. Though increasing, the role of the third pillar in the overall system is still minor (Figure 3.2). It can supplement the basic pension and possibly also an insufficient occupational pension, *e.g.* for the self-employed. People can draw on their savings at any time before the age of 65, but no information is available about the numbers that actually do. Contributions to life annuity insurance receive the same tax treatment as those to occupational pensions up to various limits depending on individual circumstances. In particular, contributions are tax deductible provided they do

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9. This is the case when both are 65 and over. The work-related earnings of a partner aged less than 65 will affect the level of the allowance. Of the total gross income from employment, 15% of the gross minimum wage is exempt, together with a third of the remainder. If an individual's monthly income is more than EUR 1 137 (as at 1 January 2004), then the allowance does not apply.

not result in a total pension entitlement – including AOW and an occupational pension – built up over 40 years that exceeds 100% of final salary at age 65.

### **B. Second-pillar pensions**

*Occupational pensions are managed by the social partners within a legal framework*

The second pillar is more developed than anywhere else in the OECD area except Switzerland. In most countries in 2001, total investments in occupational pension schemes amounted to around 5% or less of GDP, although they represented 50% or more of GDP in Canada, the United States, the United Kingdom and Iceland, and more than 100% in the Netherlands and Switzerland (OECD, 2004b).

Management of the second pillar falls under the responsibility of the social partners and is based on mutual agreements involving most employers and employees.<sup>10</sup> It consists of pension funds or private insurance companies contracted by employers.<sup>11</sup> These funds or companies operate within a legal framework that provides the basis for collective action, and under the financial supervision of a special authority – the Pensions and Insurance Supervisory Authority (PVK) – which recently merged with the Dutch Central Bank. Individual contributions to the second pillar are tax-deductible according to a “reversal rule” (pension receipts are taxed) but the level of taxes is lower – both because income from pensions is lower than pre-retirement income, and because tax rates are lower above the age of 65.

Almost all (96%) occupational pension schemes are based on defined benefits. Most aim to pay an old-age pension of 70% of final salary or career-average salary after 40 years of contribution. This replacement rate takes into account the AOW pension through an adjustment known as the *AOW*

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10. In 2001, an estimated 16% of the workforce was not covered. Social partners and government aim to lower this percentage. A number of pension schemes still do not allow employees with a non typical labour contract (home workers, employees with labour contracts for a fixed period, minimum-terms workers) to participate.

11. In 2003, 740 funds covered 5.3 million contributors and were valued at EUR 492 billion. Several Dutch pension funds, such as the pension fund for civil servants (ABP), are among the largest in the world.

*franchise*. In view of this relationship between the two pillars, occupational pensions are also known as supplementary pensions.

Target replacement rates combining public and private pension benefits are used in many OECD countries (*e.g.* Canada, Finland, Sweden and to some extent the United Kingdom and the United States where workers are often sent statements estimating their expected overall pensions). Often, the target replacement rates are part of labour negotiations; they are also influenced by tax rules, which limit deductibility to a combined maximum benefit from the public and private systems. Pearson and Martin (2005) qualified the use of target replacement rates in diversified systems as a promising approach, but the integration is more difficult for defined-contribution plans since the final benefit produced by such plans is subject to uncertainty.

*Occupational pensions are changing, often in the right direction*

In December 1997 the social partners, via the Labour Foundation, concluded an agreement (henceforth the Pension Covenant) with the government stipulating that pension schemes should be adapted to new conditions in the labour market such as the dwindling number of couples with only one breadwinner, the coverage of uninsured workers, pension rights for surviving relatives, and costs, particularly regarding early retirement.

Many changes have indeed taken place, regarding (*e.g.*) the earnings basis for determining the pension but also the starting age of the pension. Until 2003 most employees were enrolled in schemes that related the pension to the last salary they received. However, since 2004 more than 75% of contributors are enrolled in some type of career-average salary scheme (PVK, 2004). Such plans may be a way to deal with individual changes in the course of working life, *e.g.* transitions from full-time to part-time jobs and vice versa.

The age at which occupational pensions can be drawn is generally 65, when the basic old-age pension is paid. However, the minimum age has dropped considerably in recent years as actuarial neutrality has been introduced into the system, leaving more flexibility for individuals to choose their date of retirement. As a result of these arrangements, retirement at

age 60 to 62 is now possible for up to 40% of contributors as against only 1% in 1998 (Table 3.1).<sup>12</sup>

In many occupational pension schemes, continuing to work after age 65 is permitted but will not result in additional pension entitlements (Soede and Bijkerk, 2003). There are also collective agreements through which employment automatically terminates when the employee reaches the age of 65. In terms of social security contributions however, there is a clear difference between workers who are below and above the age of 65. Workers aged 65 and over fall outside the scope of the Unemployment Insurance Act, the Disability Benefits Act and the Sickness Benefits Act. This makes it cheaper for an employer to take on a worker after they have reached 65, and some temporary agencies specialise in the placement of older workers (see Chapter 5). It is not common practice among Dutch workers, however, to work after 65: in 2003, the employment rate of people aged 65 and over is only 4%, far below the OECD average of 11%. The income tax system also plays a role, because wage income is taxed at a higher average rate than pension income.

Table 3.1. **Occupational pensions: active contributors<sup>a</sup> by minimum age of retirement, Netherlands, 1998-2004**

As a percentage of active contributors

	1998	1999	2000	2001	2002	2003	2004
55–59	0.1	0.1	0.1	0.1	0.1	0.1	0.1
60	0.7	0.7	0.7	0.8	0.9	9.0	11.9
61	0.0	7.9	8.2	8.4	8.7	10.8	10.9
62	0.3	0.5	3.2	6.7	8.0	17.5	17.5
63	1.5	1.4	1.4	1.4	1.3	1.3	1.3
64	0.4	0.3	0.3	0.3	0.3	0.0	0.0
65	96.9	88.9	85.9	82.3	80.5	61.2	58.1
n.a.	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

a) Workers who are contributing to a pension scheme.

Source: Pensions and Insurance Supervisory Authority (PVK, 2004).

12. At present, the minimum age that has to be reached before one can retire with 70% of the earnings in accordance with tax law is 60, but there are some categories with different pension ages such as airline pilots, military personnel and ambulance personnel.

The state pension and private occupational pensions can be combined with earned income without limitations. To enable people to combine work and retirement, some pension schemes allow members at the end of their career to work less hours and receive a partial pension. If a part-time job is accepted during the last ten years before the regular retirement age, pension rights can be accrued as if the person held a full-time job, on the condition that the part-time job fills at least half the hours of a full-time job. According to surveys held on behalf of insurers, many workers seem keen on such a set-up.

The acceptance of a job at a lower level of pay (“demotion”) negatively affects pension rights based on a recent earnings average. The government intends to oblige pension funds to take away the negative effects of such transitions, for instance by taking into account the highest salary for pension rights.

There is currently a great deal of pressure to change indexation rules. No law compels pension funds to index pension benefits. The latter are only indexed if this is stipulated in the pension plan and only if the return is sufficient. In practice, the pension board of each fund decides each year whether or not there will be an indexation and how much the indexation will be.

#### *More transparency is needed*

Pension fund regulation is currently being tightened as a consequence of the recent financial crisis. In an effort to restore their solvency, pension funds have raised contribution rates sharply.<sup>13</sup> There is also a massive shift towards schemes that relate the pension to the average career salary, and pension funds increasingly tend to suspend indexations on pensions. OECD (2004a) has recommended improving transparency in the implementation of occupational pension schemes, in order to raise the public’s pension awareness.

The Dutch government is already promoting the provision of information by pension administrators via the forthcoming Pension Act. In order to prevent people making the wrong choices and to ensure that each employee knows what his/her pension is going to be well ahead of his/her 65<sup>th</sup> birthday when it is too

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13. Contribution rates increased from 10.5% of gross wages on average in the private sector in 2002 to an expected 13% in 2003 and 14% in 2004; the corresponding increases in the public sector are from 12% in 2002 to 15.25% and 19% in 2003 and 2004, respectively.



late to act, the Ministry of Ministry of Social Affairs and Employment has given a start-up subsidy to organisations for older people to set up a major campaign for information on pensions.<sup>14</sup>

### **C. *Early retirement and pre-pensions in the second pillar***

Early retirement schemes (VUT) were first introduced as a temporary measure in the late 1970s. They were the result of collective negotiations to allow older workers to retire early and “make room in employment” for young people, for whom the unemployment rate was very high. VUT schemes are separate from occupational pension schemes and financed on a PAYG basis by a levy on the gross wage bill.<sup>15</sup> Part of the cost is met by the employers. VUT benefits are not linked to past contributions. To be eligible for a VUT scheme, in addition to having reached the specified age threshold, the employee should have worked for (at least) the last ten years in the same sector. The government subsidised the VUT schemes through tax exemptions, applying the “reversal rule” used for occupational pension schemes.

In the early 1980s, up to 20 000 persons were on VUT. The number increased to some 150 000 by the early 1990s and remained flat thereafter. In the 1997 Pension Covenant, the government and the social partners agreed that the funding of early retirement would no longer be PAYG and that capital savings were to be set up with the strengthening of individual rights. The social partners rapidly replaced VUT with pre-pension schemes.<sup>16</sup> These are fully funded and integrate elements of actuarial neutrality, *i.e.* people leaving on pre-pensions can only receive what they have in their individual funds. However, (often) long transition periods were established during which part of the contributions would still be PAYG to support older workers who would not have had sufficient opportunity to build up individual entitlements. Pure VUT schemes are now available to

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14. “You yourself are responsible for your pension” will be the slogan used to draw the attention of the general public to [www.pensioenkiijker.nl](http://www.pensioenkiijker.nl); this is a joint initiative of the government, business and trade unions, pension umbrellas, consumer organisations and associations for older people.
  15. There are more than 300 different VUT schemes.
  16. Some “pre-pension” schemes have been integrated with occupational pension systems, so that benefits can be drawn above a minimum age with the amount varying by age of exit.

only 2% of employees while fully funded pre-pensions apply to 87%. By 2010, only a tiny fraction of VUT obligations will remain and most transition schemes will have expired by 2015. The case of public sector employees illustrates the changes (Box 3.1).

**Box 3.1. Transforming public sector employees' VUT into pre-pension**  
Replacement rates by age, type and period

Type	VUT	Transition schemes		Pre-pension <sup>a</sup>		
Period	original	April 1997 - December 2002		as of January 2003		
Birth date		< April 1942	April 1942 - March 1947	< April 1942	April 1942 - March 1947	> March 1947
55	0	27	25	27	25	18
56	0	30	28	30	28	21
57	0	35	32	35	32	24
58	0	40	38	40	38	28
59	0	48	45	48	45	33
60	80	59	55	59	55	40
61	80	75	70	75	70	51
62	80	75	70	100	93	70
63	80	75	70	100	100	100
64	80	75	70	100	100	100

- a) The maximum is 100% even if it should be more according to actuarial neutrality. The remainder will be added to the old-age pension (AOW) at 65.

VUT was restricted even before the Pension Covenant of December 1997. The age moved up from 60 to 62 and the replacement rate was lowered from 80 to 70%. At the same time actuarial neutrality was incorporated, enabling early retirement at a lower age but also with lower income. The right-hand column comes closest to full actuarial neutrality.

Source: Euwals *et al.* (2004).

*Pre-pensions and occupational pensions include many incentives to continue working...*

Compared to VUT schemes, pre-pensions and occupational pensions embody the principle of actuarial neutrality *vis-à-vis* the age of retirement. As a VUT scheme furnishes a fixed replacement rate from a certain age, usually around 60, the maximum benefit is supplied immediately from the earliest

possible age at which one may leave the labour market.<sup>17</sup> This shift from VUT schemes to actuarially neutral schemes may lead to a substantial delay of the effective exit date (Box 3.2).

### Box 3.2. Retirement plan choices under different systems in the Netherlands

Results from a survey indicate that the shift towards actuarially neutral schemes may lead to a substantial delay of the retirement date for those who want to retire at the age of 60 or younger (Van Dalen and Henkens, 2002). By contrast, the age group 61-64 will hardly change behaviour.

#### To what extent do actuarially neutral schemes influence the intended retirement age?<sup>a</sup>

Initially chosen retirement age (years)	Do not delay their retirement age (%)	Do delay (%)	Average years delay
55 or younger	0.0	100.0	7.6
56-59	6.8	93.2	4.2
60	14.5	86.5	2.2
61-64	64.2	38.8	0.4

a) The sample refers to people of working age.

Source: Survey on opinions and attitudes on aspects of population and welfare, Netherlands Interdisciplinary Demographic Institute, 2000.

In a VUT scheme, individual occupational pension rights continue to accrue until 65 as if the retiree had continued to work. Given that the original purpose of VUT schemes was to create employment opportunities for younger persons, additional earnings are disallowed and early retirees cannot accept another job. Income from additional jobs is deducted from the VUT benefit. Pre-pensions and occupational pensions, by contrast, allow people to also engage in paid work. They also have lower replacement rates than VUT schemes. Apparently, the predominant situation is now a flexible

17. This is the reason why VUT is known as the “offer one can't refuse”.

pension scheme providing 70% of previous gross earnings to close to 60% of all employees covered (Table 3.2).<sup>18</sup>

Table 3.2. **Replacement rates of VUT and flexible pensions,<sup>a</sup>  
Netherlands, end 2002**

As a percentage of employees covered

Replacement rates	VUT	Flexible pension
70%	4	65
70–75%	14	8
75–80%	82	26
80–85%	-	1
Total	100	100

a) Pre-pensions and occupational pensions.

Source: Labour Inspectorate.

There is a range of minimum ages at which the pre-pension can take effect. For a majority of pre-pensions the age is 55, normally with very low replacement rates as illustrated by the case of civil servants (Box 3.1). Most pension funds, by adjusting replacement rates, consider the age of 62 as the standard early retirement rate (Van Dalen and Henkens, 2002). In 2002 the average entry age into VUT was 60.3, while that for pre-pensions was 61.3 years.

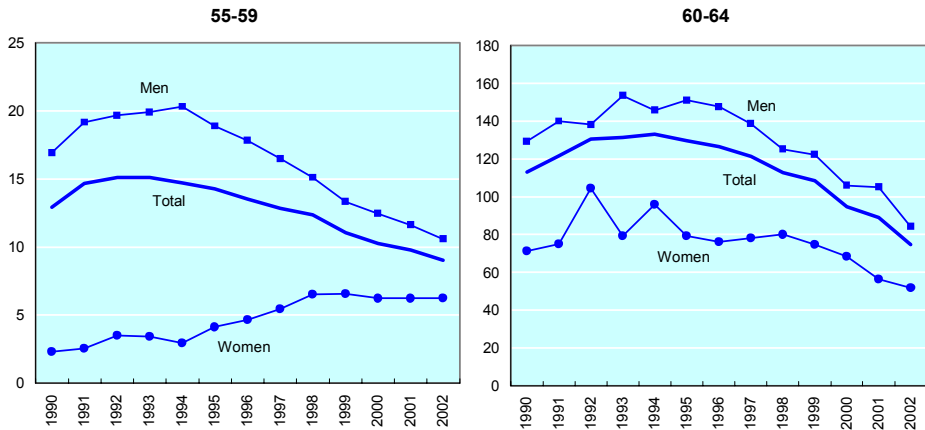
#### *They are reflected in the growth of employment among older workers*

The ratio of people in early retirement schemes to those still at work has declined substantially, particularly for men (Figure 3.3). Plausible reasons are the transformation of VUT schemes into less generous pre-pension schemes and also the good economic situation with job opportunities for all, including older workers. The change was the strongest for men aged 55-59: the ratio of people in early retirement to those still at work declined from 20% in 1993 to 11% in 2002. The decline was also significant for the oldest subgroup, especially for men.

18. No breakdown by age is available and therefore it is not known how many older workers are covered by this flexible scheme.

Figure 3.3. **Persons in early retirement schemes<sup>a</sup> by age and gender, Netherlands, 1990-2002**

As a percentage of total employment by age and gender



a) Early retirement schemes refer to VUT, pre-pension and occupational pension schemes which allow retirement before 65.

Source: Data provided by the Ministry of Social Affairs and Employment.

### *Current policy debate*

In 2004, the socio-economic debate in the Netherlands centred strongly on changes proposed to the early retirement system. The government intended to withdraw the tax deductibility of the VUT and pre-pension contributions as a means to encourage older workers to stay in employment.<sup>19</sup> At the same time it proposed to establish a life-course savings scheme that would operate on a voluntary and individual basis, aiming to support workers in the “rush hour of life” (Box 3.3). Better balancing of work and private life could prevent early withdrawal from the labour market through the disability option. The life-course scheme also intends to help people maintain their human capital.<sup>20</sup> Individuals that use their savings to invest themselves in their training during their life cycle will be better prepared and motivated to work longer.

19. This measure was already proposed in the White Paper “Promoting the Participation of Older Workers in the Labour Process”, published by the government in 2000.

20. The need for life-course arrangements is argued by Bovenberg (2004).

### Box 3.3. The life-course savings scheme

**Initial proposal.** Tax facilities for individual savings were to be introduced in 2006; these would be used for income in periods of leave taken by the employee without breaking the employment relationship. The aim was to alleviate households from the burden of the “rush hour in the life cycle”, especially those with young children, though other use was also allowed. The savings would be organised privately with banks and insurance companies. The plan was a generalised replacement of a parental leave scheme that met with little success. A maximum of 10% of annual earnings were to be exempt from income tax if saved for a life-course scheme, up to a cumulative total of 150%. With this, one could stop working for two years at 70% of earnings, several times during a working life. This income was subject to taxation applying the usual “reversal rule” of pension savings.

**Revised proposal.** a) Use of the savings is now also allowed for early retirement, helped by an increase in the cumulative savings up to maximum 210% (compared to 150% initially) with an unchanged annual maximum contribution of 12%, permitting an income of 70% for three years; b) Collective arrangements may be proposed to the workers who can decide individually, and pension funds are allowed to pay out to the contributors the value of their present pre-pension savings; collective options may be attractive because of lower transaction costs; c) To promote solidarity with the low paid, a tax discount will be given to people when they take up the leave of EUR 183 for each year of saving. For example, in the case of 40 years of saving aimed at early retirement for a person earning the minimum wage, 4.1% gross (2.7% after tax) should be set aside in the life-course scheme to earn three years of retirement at 70% (assuming interest on savings matches individual annual wage increases). Use for parental leave will earn additional tax credit.

No clear evaluation yet exists of the potential take-up or labour market effects. There is no indication that labour market activity will become more attractive (Keuzenkamp *et al.*, 2004). Employment conflicts could arise: the employer has to approve the leave as it is not a legal right, as parental leave is. Job mobility across employers may suffer as people with accumulated savings, perhaps partly paid for by their present employer, may be less attractive to new employers.

Unions opposed abolishing early retirement and had strong doubts about the effects of the life-course savings scheme on solidarity, especially with regard to the low-paid who might not be able to contribute significantly on a voluntary basis.<sup>21</sup> An agreement was reached between the government and the social partners on 5 November 2004 (Box 3.4). The life-course savings scheme

21. The unions organised a wave of industrial action, culminating in a 300 000-strong demonstration on 2 October 2004.

is now adapted to make room for early retirement as one of the aims of individual saving. Workers who have participated in a pension scheme for 40 years can retire at the age of 63. Moreover, they can make use of their life-course savings scheme to save towards retiring before 63. This means that a worker who has paid his retirement contributions for 40 years and makes full use of his life-course savings scheme can retire at 60. However, the tax deductibility of the VUT and pre-pension contributions will be abolished in 2006 for everyone under the age of 55 on 1 January 2005. Only those aged 55 and over can continue to contribute to early retirement on existing fiscal conditions and be entitled to use it.

#### Box 3.4. The 2004 social agreement

The government agreed to:

- Retain existing early retirement for workers aged 55 and over on 1 January 2005.
- Allow pre-pension at the age of 63, for persons with 40 (attributed) accrual years.
- Allow use of the life-course savings scheme for early retirement (for instance three years at 70% of previous earnings).
- Make the life-course savings scheme more attractive to the low-paid with an additional tax credit.
- Largely adopt the Social and Economic Council (SER) proposal for disability benefits (see Box 3.4 and Section 3.A below).
- Lower the age threshold below which systematic re-evaluation of incumbent disability insurance recipients will take place, from 55 to 50 years.
- Postpone abolishment of short-term unemployment insurance until 1 April 2005 enabling social partners to agree on an alternative, conditional on an equal reduction in expenditures.

The unions agreed:

- To prolong wage moderation in 2005.
- To completely abolish pure early retirement schemes in due course.
- To accept the quantitative reduction of unemployment insurance expenditure.
- With employers that during the first two years of sickness employees will be paid no more than cumulatively 170% in total of their previous earnings.

The practical significance for older workers of changing to the life-course savings scheme will very much depend on the outcome of collective negotiations in 2005 between unions and employers, and on the interest that employers will have to pay into their employees' savings accounts as a supplement. In the present situation, employers contribute significantly to early retirement funding (see Table 3.3). Employers may supplement their employees' life-course savings schemes on the condition that they allow equal entitlements to employees who choose not to participate. However, the total contribution of 2.9% of the annual wage in 2003 will not be sufficient to enable savings of 210% that allow three years of early retirement at 70%. In the end, collective negotiations – which aim at cost-neutrality – may lead to anything but a continuation of the present early retirement opportunities. There are also strong tax incentives to take the accumulated time off before retirement; otherwise the whole accumulated sum is taxed as income in the year before retirement.

Table 3.3. **Contributions to VUT and flexible pension schemes, Netherlands, 1997-2003**

As a percentage of wage

	1997	1998	1999	2000	2001	2002	2003
<b>VUT only</b>							
Total contribution	2.2	2.2	2.6	2.6	2.1	2.0	2.2
of which from employees	0.7	0.7	0.9	1.1	0.6	0.6	0.6
<b>VUT/flexible combinations</b>							
Total contribution	5.7	5.3	4.7	3.7	3.8	4.1	2.9
of which from employees	2.4	2.3	1.8	1.4	1.4	1.4	1.4
<b>Total</b>							
Total contribution	4.2	3.9	3.7	3.3	3.4	3.7	2.9
of which from employees	1.7	1.6	1.3	1.3	1.2	1.3	1.0

Source: Labour Inspectorate.

### 3. Social security benefits are being extensively reformed

#### A. Disability

*Disability is pervasive among workers*

Disability benefit receipt is widespread in the Netherlands. The number of people on disability benefits is much higher than in many other OECD countries (see Table 2.1). According to a recent OECD study on disability policies in 20 countries (OECD, 2003a), the Netherlands is one of the most generous



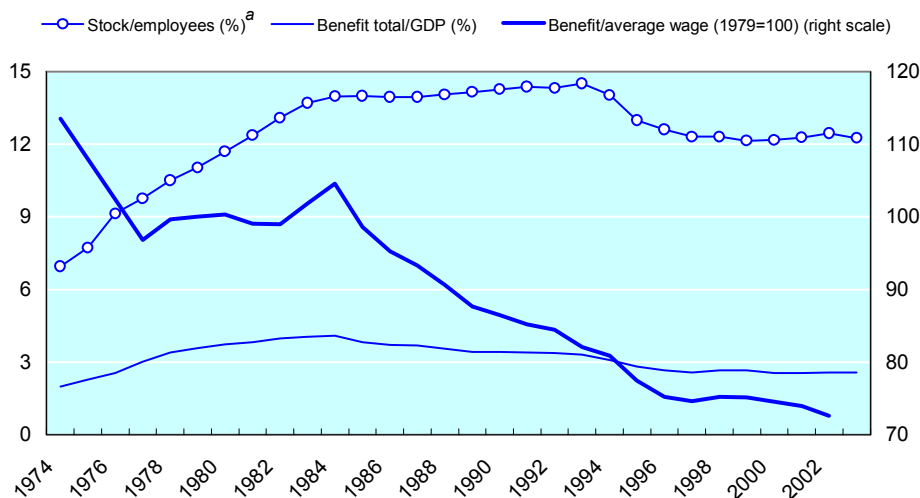
countries in terms of coverage and benefit levels. In 2003, 787 000 working persons received disability benefits (WAO),<sup>22</sup> of which 61% were aged 50 to 64. The scheme accepts people with different rates of disability in seven bands ranging from 15% to 80% or more. A significant share of beneficiaries (25%) has a job and many within this share are partially disabled; among the older age group (55-64), one-third of the partially disabled and nearly one-tenth of the fully disabled have a job (SER, 2002).

The level of the first-stage disability benefit is wage-related, and its duration increases with age.<sup>23</sup> The level of the follow-up benefit is partially related to the minimum wage, and its reduction decelerates with age. Older people thus get higher benefits for a longer period. A 35-year-old person would get 70% wage replacement for six months, after which it would drop to about 55%. A 55-year old person would get the same 70% for three years, and the percentage would only drop to about 65% thereafter. The practical impact of these benefit formulas, however, is lessened: about 80% of the workforce are covered by collective agreements according to which benefits are topped up to 100% in the first year of disability benefit receipt, 90% in the second, 75% in the third and 70% for many subsequent years or even until age 65 (OECD, 2003a).

Current spending on disability insurance for employees relative to GDP (2.6%) is comparable to the 1976 level, though the number of disabled people concerned relative to employment is well above that level (Figure 3.4). The number of disabled persons grew rapidly until 1983 and then much more gradually until 1993. It has been falling since, and now represents 12% of employees. The decline in the replacement rate of the disability benefit was brought about by government policies – *e.g.* the nominal lowering of all benefits in 1983 followed by a long freeze; the lowering of the benefit ratio for full disability from 80 to 70.5% of previous earnings in 1985 and to 70% in 1987; and the introduction of a reduced follow-up benefit in 1993. The ratio of the average disability benefit to average wages declined by more than 25%.

- 
22. The “1 million” disabled persons (cited in OECD, 2004a) include disability schemes for self-employed (57 000) and young persons who never had a job (138 000).
  23. The duration is one-half year if age 33-37, to three years if age 53-57, six years if age 58, and until 65 if 59 or older.

Figure 3.4. **Disability insurance for employees (WAO): incidence of stock, costs, and relative average benefit level, Netherlands, 1969-2003**



a) Employees working at least 12 hours per week.

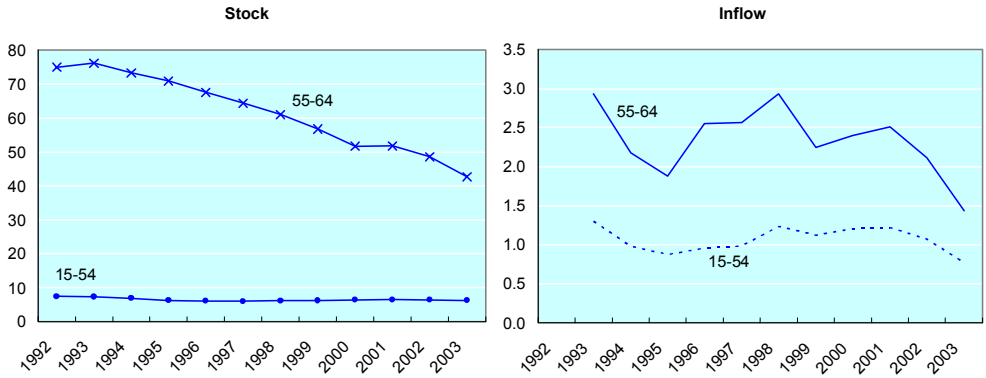
Source: Social Security Agency (UWV).

#### *Disability is becoming a less frequent exit route to early retirement*

The number of disability benefit recipients is much higher among older workers aged 55-64 than among younger workers aged 15-54. However, the difference between the two groups has tended to narrow (from ten times higher to seven times higher – see Figure 3.5) because inflows into disability among older workers has dropped dramatically – in 1999, they were lower for people aged 55-64 than for people aged 45-64 (Table 3.4). As a result, the role of disability as a road to early retirement for older workers is now modest. As shown in Fouarge *et al.* (2004), among older workers who withdrew from the labour market in the 1995-2000 period,<sup>24</sup> about 91% of the retirees made a direct transition from work to retirement while 2% retired from disability, 4% from unemployment and 3% from inactivity.

24. The data used for this research were obtained by matching register and survey data, mainly the Regional Income Study, the Population Register and the Labour Force Survey.

Figure 3.5. **Disability benefit recipients by age, 1992-2003**  
As percentage of total employment



Source: Social Security Agency (UWV).

Table 3.4. **Age-specific disability benefit inflow rates, and ratio over age group 35-44, 1999**

	Inflows per 1 000, by age group					Ratio over age group 35-44				
	20-34	35-44	45-54	55-59	60-64 <sup>a</sup>	20-34	35-44	45-54	55-59	60-64
Australia	3.2	5.1	8.6	17.7	14.6	0.6	1.0	1.7	3.5	2.9
Austria	0.7	2.2	9.5	34.9	5.1	0.3	1.0	4.2	15.6	2.3
Canada <sup>b</sup>	0.4	1.0	2.4	4.7	4.1	0.4	1.0	2.3	4.6	4.0
Denmark	1.6	3.1	7.0	11.1	11.1	0.5	1.0	2.3	3.6	3.6
France <sup>b</sup>	0.2	0.7	1.9	4.7	0.0	0.2	1.0	2.8	6.9	0.0
Germany	0.6	2.3	6.9	18.5	16.6	0.3	1.0	2.9	7.9	7.1
Italy <sup>b</sup>	0.1	0.4	2.8	1.4	1.5	0.2	1.0	6.4	3.3	3.5
Mexico	0.0	0.1	0.3	0.7	4.1	0.1	1.0	3.6	8.4	48.0
<b>Netherlands</b>	<b>8.3</b>	<b>11.6</b>	<b>15.6</b>	<b>12.0</b>	<b>12.5</b>	<b>0.7</b>	<b>1.0</b>	<b>1.3</b>	<b>1.0</b>	<b>1.1</b>
Norway	3.3	8.5	18.2	36.9	60.0	0.4	1.0	2.1	4.3	7.1
Poland	1.6	7.1	18.1	11.7	2.7	0.2	1.0	2.5	1.6	0.4
Portugal	1.2	2.0	7.7	19.8	30.5	0.6	1.0	3.8	9.9	15.2
Spain <sup>b</sup>	0.4	1.6	3.6	8.4	9.0	0.3	1.0	2.3	5.3	5.7
Sweden	1.9	5.0	9.6	19.8	31.6	0.4	1.0	1.9	4.0	6.3
Switzerland	2.4	4.4	8.5	14.1	12.4	0.5	1.0	1.9	3.2	2.8
United Kingdom	9.7	12.4	17.8	22.3	11.8	0.8	1.0	1.4	1.8	0.9
United States	2.7	4.5	7.8	13.9	12.8	0.6	1.0	1.7	3.1	2.8
OECD (17)	2.3	4.2	8.6	14.9	14.1	0.4	1.0	2.7	5.2	6.7

a) No or reduced inflow for this age group in countries with statutory retirement ages below 65 (men and women in France, and women only in Australia, Austria, Italy, Poland, Switzerland and the United Kingdom).

b) Contributory disability benefit programme only.

Source: OECD (2003a).

The main explanation for the large number of older persons on disability lies not in the inflows of new older workers but in the ageing of younger disabled persons who have received disability benefits for a long duration. As a result, the time spent on disability benefits explains most of the number of disability benefit recipients. The majority of those aged 55 to 64 may already have been on benefit before they even turned 50 (see Table 3.5).

Table 3.5. **Disability benefits<sup>a</sup> by duration, Netherlands, 1998 and 2003**

	Percentages					
	<6 years		6-15 years		>15 years	
	1998	2003	1998	2003	1998	2003
15-54	44	49	37	33	19	18
55-64	21	26	50	40	29	34

a) Employees, self-employed and youths.

Source: Statistics Netherlands (CBS).

Nevertheless, the prevailing rates of inflow into disability among older workers are still a source of concern. After a very successful reduction in benefit inflows in the early 1990s, there has been an unexpected upsurge in the disability inflow rate in the late 1990s (Figure 3.5). The same phenomenon happened in the Netherlands as in the United States: people taken off the disability benefit rolls after a revision of the disability insurance scheme often re-entered the rolls a few years later (OECD, 2003a).

The high number of disability benefit recipients in the Netherlands, as in the Nordic countries, is partly explained by high disability prevalence (*i.e.* larger shares of the population with health problems). Table 3.6 confirms that the incidence of health problems across the age groups is high: 40% of all persons in the older age group have a health problem – defined independently from disability – as against 21% of younger persons. For formal disability, the probabilities are almost twice as high for older workers as they are for younger ones. Older persons still in work have an illness or a handicap less often on average than those in the total population (30% incidence of health problems against 40% on average). The analysis of Fouarge *et al.* (2004) shows that, quite understandably, health problems leading to sick leaves are a major explanation of transitions into disability in comparison to early retirement or unemployment.

Table 3.6. **Health problems and disability by age, Netherlands, 2002**

As a percentage of population

	With an illness or handicap <sup>a</sup>	Of which disabled
Total population		
15-54	21	14
55-64	40	28
Total	24	16
Working population		
15-54	18	10
55-64	30	18
Total	19	11

a) Handicap is defined as sickness or handicap for at least six months.

Source: Dutch labour force survey.

*The philosophy is to intervene early and extensively*

Policy making aimed at diminishing disability benefit take-up has designated sickness as the preliminary stage of disability and targeted the behaviour of employers as much as employees. Following a comprehensive approach, extensive measures have been taken on both sides that are strongly entwined with measures in other areas such as work organisation and working conditions on the firm side, and check-ups and re-integration on the side of the individuals receiving benefit, as regulated in the Gatekeeper Act introduced in April 2002.

*Changing employers' behaviour is an important policy target*

Disability provisions can affect employer behaviour if they enable organisations to get rid of employees without bearing the full costs, *e.g.* because of uniform insurance contributions. Since the early 1990s, several important measures have been taken to discourage the use of disability schemes as a device for dismissal, and to change work organisation to prevent sickness and disability. Employers have been obliged to pay longer for sick and disabled employees, thus postponing their application to the disability scheme. There was a gradual privatisation of the costs for the mandatory sick pay period until 1996. The privatisation took effect by obliging the employer to pay at least 70% of the salary for the first year of sickness. As of 1 January 2004, this period was extended to two years. Employers are allowed to take private insurance to cover the new risk. The change has had a clear effect on the expenditures on official sickness insurance and may have concerned older workers to a greater

extent than younger ones. Private expenditure on sickness insurance and pay is not available.

Most collective labour agreements stipulate sickness pay entitlements for employees of 100% of wages. To discourage this, the government recently proposed a legal obligation for employers to limit sickness payments during the second year of sickness to 70% of earnings (and only for earnings up to the maximum insured by the sickness insurance). There was the double threat of lowering the sickness benefits of employees who would have received more than 70%, and refusing to extend collective agreements that still top up this percentage. However, the proposal was withdrawn as part of the 2004 Social Agreement, which also rested on the unions' promise made to employers to negotiate a reduction of pay to no more than 170% of previous earnings during the two years of sickness that employers have to cover (Box 3.4, p. 70).

In addition, experience-rating of disability insurance premiums paid by employers was introduced in 1998 to discourage use of the disability benefit scheme as a workforce management tool (Box 3.5). This may have produced the unintended side-effect of employers becoming reluctant to hire persons with an increased risk of ending up in the disability scheme, including older persons in particular and disability benefit recipients who apply for a job. To reduce the disadvantages for these jobseekers, several measures have been taken as early as 1998 to relieve a new employer of some of the potential costs, either through a reduction of employer contributions or by taking away part of the future risk. As a general measure (since 2002) employers get various contribution exemptions if they hire a disabled person. In the interests of stimulating employment of older workers, the employer is exempted as of 1 January 2004 from paying the fixed part of the disability benefit contribution for any incumbent employee aged 55 years and over and for all new hires aged 50 and over. The exemption is granted on the condition that the employee was not hired within six months of the end of a previous labour relationship, to prevent misuse.

The social partners and the government have agreed to a drastic revision of disability insurance, with the aim of permanently lowering inflows into the new scheme to 25 000 annually (see Box 3.6). The new disability system, to be introduced in January 2006, will change access criteria, entitlements, and the organisation of disability insurance. The criteria for disability will become very stringent. Not only will full disability be medically defined; in addition, the handicap will be expected to last for the next five years, all on the basis of standardised specifications and prognoses. The present relation between

disability benefit and age, which determines the start date and level of the follow-up benefit, will be abolished. The present system of disability insurance will, however, remain in force for incumbent beneficiaries.

### Box 3.5. Experience-rating in disability insurance since 1998

The PEMBA Act (1998) replaced a *bonus-malus* system introduced in 1992 and abolished at the end of 1995 (Amber Act) because of strong opposition by employers. PEMBA splits the disability benefit contribution paid by employers into a fixed and variable part. The latter should cover the costs of the first five years during which a former employee receives disability benefit. Contributions fluctuate round a nationwide percentage depending on a firm's behaviour in comparison to the national average. For small companies the individual variation was replaced by an industry average in 2003. Instead of paying the variable contribution, the employer can choose to carry his own risk and take private insurance (only 2% of employers did so, representing 6% of insured wages). Since 1998 fixed contributions declined from 7.55% (of applicable wages) to 5.05%. By contrast, maximum variable contribution increased from 1.12% to 8.52%, while the variable minimum contribution increased from 0.09% to 0.59%. The share of the variable part in total contributions has increased rapidly – from 3% in 1998 to 29% in 2003. Costs of private insurance and own risks are unknown.

The government is of the opinion that PEMBA has not had the desired effect: rather than taking preventive measures, most employers have privately insured themselves against the extra costs. This opinion contrasts with new research by CPB that shows a significant effect on flows into the disability scheme (Koning, 2004). Relating a firm's inflows to its experience-rating reveals a 15% decrease driven by *ex post* rather than *ex ante* incentives: once they record an increase in contributions, firms decide to increase preventive activities.

PEMBA will nonetheless likely be abolished in the near future in line with the agreement on disability concluded between the social partners in the Social and Economic Council in March 2002. The abolition was requested by the employers. A minority of Council members preferred to keep PEMBA until there is evidence that the other measures have had diminishing effects. Arguments in favour of abolishment are that employers already pay for two years of sickness and have to supplement the wages of those with a considerable handicap who are not admitted to the new disability scheme; that in the proposed new system of disability insurance only "irreparable" disability, which employers are unable to influence, is retained; and that PEMBA adds to the labour costs of older workers because of their higher risk of disability. The first and the second argument remain to be proven in practice – as argued by the opposing Council members. The third argument seems to have lost force given the changing risks pictured in Figure 3.5 and the introduction of the contribution exemption for older workers.

As part of the 2004 Social Agreement the government has adopted the SER proposal for a new disability insurance and agreed to abolish PEMBA, but it will do so retrospectively (1.5 years) after the introduction of the new scheme and only if the decrease in inflows materialises.

### Box 3.6. The new disability insurance scheme

The Social and Economic Council (SER) proposal of 2002, now adopted by the government, will take effect on 1 January 2006 and apply to persons who suffered disability after 1 January 2004. The present scheme remains in force for those already receiving a disability benefit. The new scheme will still cover all disabilities irrespective of their causes.

The new scheme will be split into three groups:

- The first group, *i.e.* people with a disability of less than 35%, will no longer receive a benefit. Instead the employment relation is maintained and the employer will have to adapt the workplace if necessary.
- The second group, *i.e.* people who are fully (80% or more) disabled, will receive disability benefits based on 70% of final salary. During the first five years, the disability rate of this group will be re-evaluated through an annual medical examination. Those who fall below 80% will be integrated in the third group with an income guarantee of one year.
- The third group includes people with a substantial capacity loss (35-80%). Earnings loss will be compensated on the condition of remaining in employment for at least 50% of the ability percentage. The compensation amounts to 70% of the difference to previous earnings.

The second group benefits from a public scheme while employers have either to take private insurance for the third group or choose the public insurer (UWV) and carry the costs for the first group. However, employers who succeed in keeping a partially disabled employer at work are exempted from paying sick leave if this person becomes ill again within five years and receive a partial disability discount on social security contributions. The discount is given also for any person with a partial disability they hire.

Benefit level will be increased to 75% of previous earnings for the second and third groups again in retroaction in July 2007, 1.5 years after the introduction of the new scheme and only if the fall in inflows materialise.

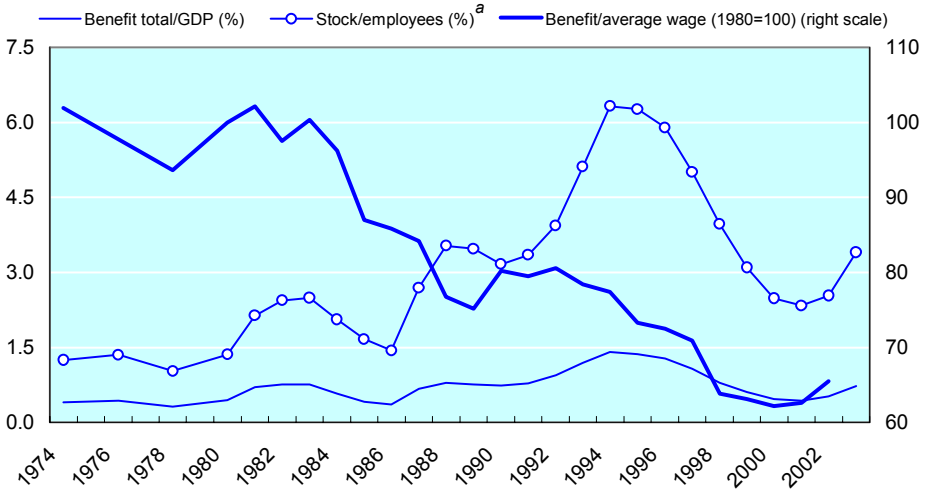
## **B. Unemployment**

*Unemployment is less pervasive than disability in the labour market*

As in the case of disability insurance, the average unemployment benefit for employees (WW) has fallen relative to prices and average wages (Figure 3.6). Unemployment benefit spending relative to GDP is much less than for disability, and the number of unemployed people is below that of disability benefit recipients.



Figure 3.6. **Unemployment insurance for employees (WW): incidence of stocks, costs and relative average benefit level, 1974-2003**

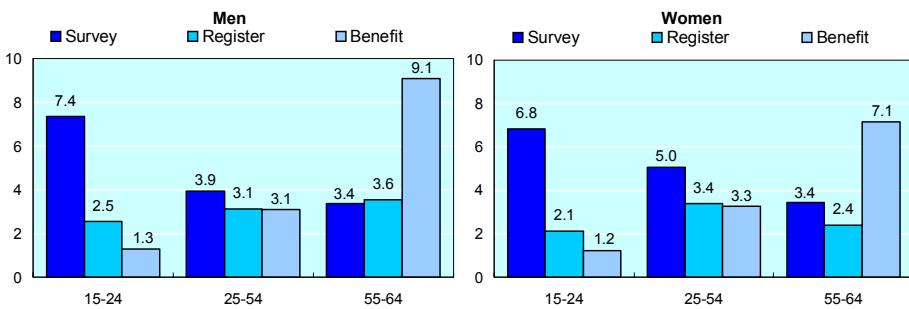


a) Employees working at least 12 hours per week.

Source: Social Security Agency (UWV), Statistics Netherlands (CBS) and National Accounts.

Figure 3.7 indicates that older workers receive unemployment benefits much more often than younger workers; they are also less active in seeking a job and are less often registered with the Public Employment Service (PES).

Figure 3.7. **Different unemployment rates,<sup>a</sup> Netherlands, 2003**  
As a percentage of the labour force



a) Survey: Persons actively looking for work of more than 12 hours per week.  
Register: Persons looking for work and registered with the PES.  
Benefit: Persons receiving unemployment benefits.

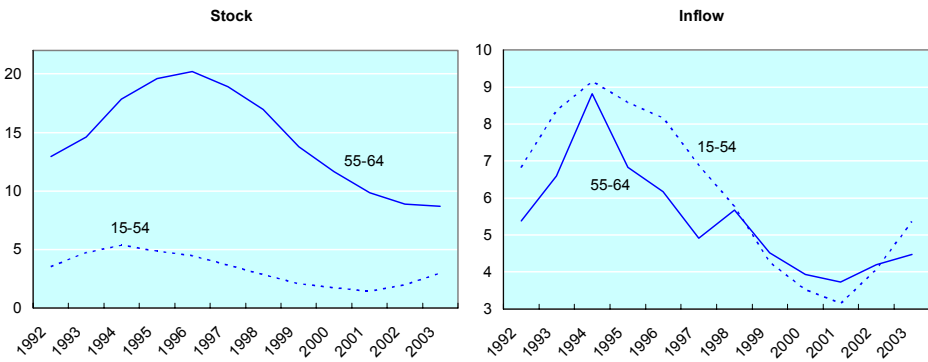
Source: Statistics Netherlands (CBS).

*Incidence and risk of unemployment of older workers has converged with that of younger workers*

The number of people in unemployment relative to the number in employment is higher for older people than for younger ones but the gap has narrowed considerably since the mid-1990s (Figure 3.8). The converging figures reflect a shortening in unemployment benefit durations for older persons. However, this does not result from reform in unemployment insurance. Rather, it is the outcome of the normal functioning of the labour market, as highlighted by the absence of any age difference in inflows into unemployment benefits. It would seem that unemployment is not a special exit option for older workers.

**Figure 3.8. Unemployment benefit recipients by age, 1992-2003**

As a percentage of total employment



Source: Social Security Agency (UWV) and Statistics Netherlands (CBS).

Inflows into unemployment among older workers are higher than inflows into disability. In 2003, inflows into unemployment represented 3% of employment (Figure 3.8), compared to 1.5% for inflows into disability (Figure 3.5). In the coming years, tighter access to disability and early retirement schemes could result in increased inflows into unemployment. When older workers have access to long-lasting unemployment benefits without having to look for a job, there is a risk of unemployment becoming an early retirement route (Mooij, 2004). In Finland, this effect is known as the unemployment “tunnel” (OECD, 2004d). The tunnel refers to individuals who at the age of 57, after having been on ordinary unemployment benefits for two years, can have their unemployment benefits extended to the age of 60 and then transferred to an unemployment pension until the legal age of retirement of 65.

*Unemployment benefits have been or will be restricted*

To prevent long-term unemployment becoming a pathway into early retirement, a number of measures affecting the set-up of unemployment insurance were recently taken or proposed by the government. First, from 1 January 2004, the second-stage unemployment benefit (up to 70% of the minimum wage), which was intended to bridge the period up to retirement for unemployed older workers, was abolished for persons who have become unemployed on or after 11 August 2003. Those aged 57.5 or over at the start of unemployment could receive the second-stage unemployment benefit for 3.5 years, after expiry of the four- or five-year standard first-stage benefit; younger persons could receive it for up to two years. Second, new legislation was recently adopted in parliament to make the duration of the standard unemployment insurance benefit dependent on the individual's full work history only, replacing the present combination of the history of the last five years together with the person's age. It seems unlikely that the change will have a significant effect on older workers in the near future. There will be a transition period during which the work history will be counted from the year 1998 onward, while before that the person age will still count. This new approach became effective as of January 2005. Third, at the end of April 2005, the government unanimously adopted the recommendations of the Social and Economic Council (SER) about the future of the Unemployment Insurance Act (Box 3.7) and will write them into law.

*No more job-search exemption for older workers*

Job-search exemption was introduced in 1982 for the older unemployed on benefits aged 57.5 or more. On 1 January 2004, the obligation of the unemployed to actively look for a job was reintroduced for the older unemployed aged 57.5 years or more on unemployment insurance as well as on social assistance. Some exemptions remain: those aged 64 on the first day of unemployment; those who moved from disability benefit to unemployment benefit and are 57.5 years or older on 31 January 2003; and those without recent work experience (unemployed for more than one year). Those whom the employment services or municipalities deem to have little or no chance of obtaining a job can also be exempted. There should thus no longer be an age distinction as regards the obligation to facilitate one's re-integration into the labour market or in applying the terms "suitable work" or "generally acceptable work".

In order to remove potential barriers preventing older unemployed people from returning to work at a lower wage than before, the government has proposed that in cases of multiple unemployment spells, unemployment benefit will be based on the previous (higher) salary. This rule should apply to persons aged 55 or more at the date of dismissal without time limitation.

**Box 3.7. Social and Economic Council (SER) proposals  
on unemployment benefits in Spring 2005**

- People will only be eligible for unemployment benefits for a maximum of 38 months instead of five years as previously.
- Stricter criteria will have to be met. To be eligible for an unemployment benefit, a person will have to have worked 26 weeks during the 36-week period. At present, the criterion is 26 weeks of the preceding 39 weeks. To offset that, the first two months of unemployment benefits will be raised to 75% of the last wage and will then be reduced to 70%. At present, unemployed workers receive 70% at the outset.
- The duration of benefits for young workers will be reduced from a maximum of six months to a maximum of three months. People who meet the 26-week criterion but who have not received a minimum of 52 days of pay during at least four of the past five years (the so-called “4-of-5-criterion”) will only be granted benefits for three months. This allowance is based on their last wage and will consist of two months at 75% of their last wage and the final month at 70%. At present, this group (mainly consisting of youths) is eligible for an unemployment allowance of six months at 70% of the minimum wage.
- Older workers who become unemployed are eligible for a special non-income-related allowance at welfare level after their right to unemployment benefits expires. People who become unemployed after their 50<sup>th</sup> birthday will no longer have to use up (a part of) their personal assets before becoming eligible for this special allowance. If a person becomes unemployed after turning 60, their partner’s income will be excluded when determining their eligibility for the special allowance. These provisions will be introduced temporarily and will be evaluated in 2010.
- A test will be introduced to make it easier to determine who is responsible in cases of redundancy – the employer or employee in question (pertaining to the dismissed worker’s right to unemployment benefits). This will ease the burden for employers, workers and the judiciary because so-called pro forma legal proceedings are no longer necessary. The result is lower costs and easier dismissal procedures.

*Pension rights may stop while in unemployment*

Generally, if an employee becomes unemployed, the build-up of pension rights continues on account of the Fund for Continuation of the Pension Insurance only if he is older than 40. Build-up of pension rights is usually included in early retirement (VUT) and in disability benefits. This provides a strong incentive for unemployed people younger than 40 to return to work.

**4. An extra income tax deduction for people still employed after 57**

Following the 2001 reform, the Dutch income tax system contains various tax credit provisions, *i.e.* reductions in the amount of tax due that are independent of the level of income. All persons with an income from labour (including from own enterprise) benefit from these reductions; the aim is to reduce the poverty trap. Employees receive the reduction automatically, as employers withhold the income tax and transfer it to the tax authorities.

In April 2002 the tax deduction was increased specifically for older workers to make employment financially more attractive to them and to help change the culture of early retirement. Table 3.7 shows the evolution of the deductions and the income threshold from which the full deduction applies. The threshold level is close to the adult minimum wage. As a percentage, the beneficial effect is largest at the threshold level, amounting to a maximum of 4.3% of net income for those aged 62-64 in 2004. The age of 57 roughly corresponds to the age from which unemployed persons are (now) no longer exempted from active job-search. A lower age was not chosen in an attempt to mitigate the (deadweight) costs of the measure.<sup>25</sup>

In the 2001 discussion preceding introduction of the extra tax deduction for older workers, the government argued that it was an efficient measure to promote older people's labour participation. The argument was based on a study of the macroeconomic effects of several types of possible tax measures aimed at diminishing the poverty trap and stimulating labour supply (CPB, 2001). The study concluded that a deduction for older workers (EUR 250) would be

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25. In 2002 the average annual wage earnings of older women were slightly above the threshold level and the effect on their income will be relatively large, though a significant part of this group, around 28%, earn below the threshold and therefore are entitled to less than the full amount. Older men on average earn more than twice the threshold amount; for them the net effect on income will often be smaller.

cheaper but also less effective than other options. The positive effect on the employment of older workers (+0.16%) is counteracted by an opposite effect for the rest of the population, resulting in a small aggregate outcome (+0.10%). The effect will be more pronounced towards the low-paid older workers, including those working part time. Actually, for earnings above the threshold level, the scheme may encourage people to opt for a gradual retirement and search for a part-time job in order to benefit from the tax credit (if the applicable retirement scheme allows it) rather than to stay in full-time employment.<sup>26</sup>

Table 3.7. **Income tax deductions, Netherlands, 2001-2005**

	2001	2002 <sup>a</sup>	2003	2004	2005
	<b>Euros</b>				
General (below 57)	920	949	1 104	1 213	1 287
57 to 59 years	920	1 119	1 339	1 454	1 532
60 or 61 years	920	1 289	1 574	1 694	1 775
62 to 64 years	920	1 460	1 809	1 935	2 019
65 and over	412	654	826	899	969
Threshold income <sup>b</sup>	14 717	15 374	17 029	17 652	17 733
Expected costs (million)		73	102	104	108
	<b>Extra discount as a percentage of threshold income</b>				
57 to 59 years		1.1	1.4	1.4	1.4
60 or 61 years		2.2	2.8	2.9	2.8
62 to 64 years		3.3	4.1	4.3	4.1

a) 2002 concerns April to December.

b) The threshold income is decided by parliament as part of the annual tax plan.

Source: Ministry of Social Affairs and Employment.

Other types of tax incentive toward working longer have been proposed. Recent data needed for a proper evaluation of the effects are not yet available, but it seems plausible that the current eligibility covering all older workers irrespective of their income level from a relatively low starting age may have

26. At the request of the Taskforce on Older People and Employment, CPB (2002) studied a more substantial income tax deduction for older workers (EUR 3 750). Greater positive effects on older workers (+0.75%) were found, but so were larger negative effects for the rest of the population. As a result, aggregate employment effects (+0.16%) were similar and certainly not worth the financial input. In fact they were small compared to actual growth in the employment rate of older workers in recent years.

large deadweight effects. Groot *et al.* (2004) advocate Australian-style cash bonuses to be given to people when they reach the age of 62, 65 or 70 while still being employed. The Taskforce on Older People and Employment, in its final report (2003b), suggested to increase the tax credit to EUR 2 500 a year for those above the present average age of retirement (61.5) and to allow only those on lower to average incomes to be eligible.

## 5. Key issues

Older workers in the Netherlands find themselves in a transition phase between the reforms of pension, early retirement, disability and unemployment benefits on the one hand, and the introduction of a life-course savings scheme on the other.

Important decisions concerning the pension system have already been taken by the government in agreement with the social partners in the second half of the 1990s. Public pension funding and actuarial neutrality in the second pillar are key elements. In particular, PAYG early retirement schemes are replaced by capital-funded and actuarially neutral pre-pension schemes. There is also a massive shift towards pension schemes based on the career average wage instead of the final wage. Pension fund regulation is currently being tightened as a consequence of the recent financial crisis and it is possible to suspend indexations on pensions. However, there should be greater transparency in the implementation of changes to occupational pension schemes in order to raise the public's pension awareness.

Older workers form a very disparate group, so a single retirement formula would not suit the wide variety of situations. The ideal solution is to offer greater individual choice as to the conditions of retirement while respecting the general principles of redistribution and actuarial neutrality. It is also important to take into account increased life expectancy, in line with which the official retirement age (currently 65) should rise gradually – as should the minimum age at which flexible retirement can be taken under supplementary pension schemes.

The reduction and restriction of entitlements to disability and unemployment benefits are well under way. The shares of older workers transiting into disability or unemployment have declined significantly more than those of younger workers. The higher disability benefit inflow rates for older workers correlate with a higher incidence of health problems. The main labour

market difficulty for older persons is to find a job once on disability or on unemployment, but this also applies to age groups below 50.

Successive disability reforms have put less emphasis on further increased outflows from disability benefits than on measures aimed at retaining workers in employment. One such measure is the obligation for employers to keep workers during two years of sickness or partially disabled workers with a handicap below 35%. The success of such measures remains to be proved. No systematic evaluation of the total costs to the economy of sickness and disability is available that could help determine whether the balance of privatising such risks would be positive.

Extensive control of persons flowing into disability, as regulated in the Gatekeeper Act, and periodic reassessments of those who could recover seem efficient in reducing the number of disabled persons. However, progress in this area should be carefully monitored in order to make the right decisions in due time, particularly concerning the possible abolition of the experience-rating scheme (PEMBA).

More generally, the Netherlands is the only OECD country in which the general disability programme covers all disabilities irrespective of their cause. In particular, it is the only country with no work-injury scheme separating work-related injuries (which are to be covered by compulsory private insurance) from general disabilities. The government has put on hold plans to introduce a new scheme for work injuries and occupational diseases as proposed by the Donner Committee in 2001. Introduction of this new scheme would help prevent accident and disability factors that have contributed to the dramatically high number of disability benefit recipients. Promoting better health at work is essential for achieving better working conditions for an ageing labour force (see Chapter 4).

Actions taken to restrict long-lasting unemployment benefits, particularly for older workers, are in the right direction. One example is the recent abolishment of the second-stage unemployment benefit, often used as an early retirement route. The reintroduction of the active job-search requirement for new jobseekers over the age of 57 and a half also gives the right message that the labour market is open to older workers. However, more active placement measures are crucial to help older persons find a job and avoid the risk of long-term unemployment and social exclusion (see Chapter 5).



Finally, financial incentives to working longer, such as the extra tax deduction of older people in employment, should be better targeted. Older workers are not a homogeneous group and measures based solely on age should be avoided. The proposal of the Taskforce on Older People and Employment to limit the tax credit to those above the present average age of retirement (61.5) on lower to average incomes seems a good way to improve the cost-effectiveness of that measure.

## *Chapter 4*

### **ENCOURAGING EMPLOYERS TO HIRE AND RETAIN OLDER WORKERS**

This chapter addresses barriers on the employers' side to hiring and retaining older workers. The role of employers deserves more attention than it often receives (Lindeboom, 2000). Good practices in the private sector and in the public sector should be better diffused. Early retirement schemes are still too often used to support economic restructuring and cutbacks. The chapter discusses two areas that can affect the labour market situation of older workers: hiring and firing, and pay and productivity in relation to age. Initiatives from the government and the social partners to change employers' attitudes and practices *vis-à-vis* older workers are then presented.

#### **1. Hiring and firing: discrimination and employment protection**

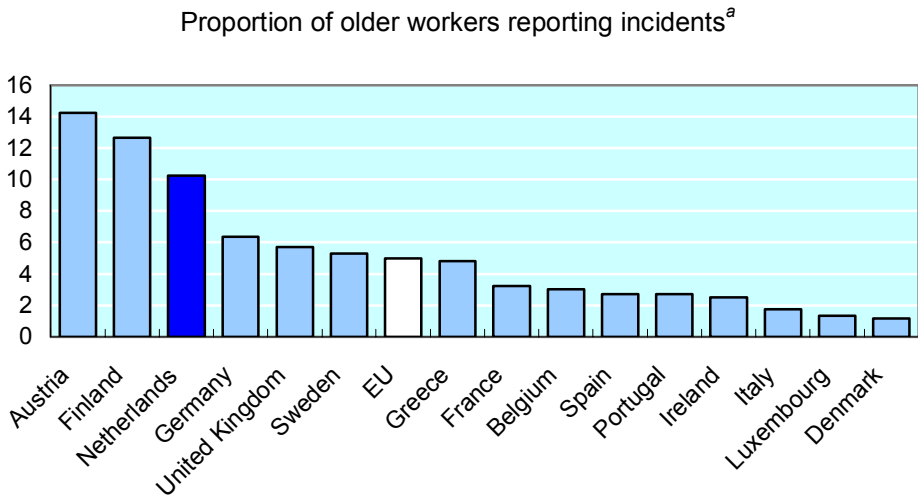
##### ***A. Prohibition of age discrimination***

In the Netherlands, a special law on equal treatment in employment by age was recently enacted on 1 May 2004; as long ago as 1983 however, equal treatment legislation was laid down in Article 1 of the Constitution.<sup>27</sup> Survey evidence suggests that in 2000, a small but significant proportion of older workers experienced age discrimination in their workplace directly or indirectly, and that perceived age discrimination at the workplace is on average more frequent in the Netherlands than across the European Union (Figure 4.1).

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27. According to Article 1, all people in the Netherlands (which means all people on Dutch territory) shall be treated equally in equal circumstances. Discrimination on the grounds of race, religion, belief, political opinion, gender, or on any other grounds whatsoever shall not be permitted. The phrase "any other grounds whatsoever" covers implicitly age.

Figure 4.1. **Age discrimination at the workplace in European countries, 2000**



a) The questions are: "Over the past 12 months, have you been subjected at work to age discrimination?" and/or "In the establishment where you work, are you aware of the existence of age discrimination?".

Source: European Foundation, Third European Survey on Working Conditions, 2000.

The new law bans age discrimination with regard to labour, thus implementing the corresponding European directive of November 2000. All forms are prohibited, unless there are objective justifications for making a distinction. The prohibition on age discrimination will not apply if the discrimination *a)* is based on employment or labour market policies to promote employment in certain age categories, provided such policies are laid down by a law; *b)* relates to the termination of an employment relationship because the person concerned has reached the legal retirement age under the General Old-age Pensions Act (AOW) or a more advanced age laid down by law or agreed between the parties.

Furthermore, the new law provides for protection against dismissal and victimisation, and includes a shifting of the burden of proof. In fact, the Equal Treatment Commission is authorised to investigate alleged violations and give an opinion on these complaints. The opinion of the Commission is not legally enforceable. However, experience indicates that an opinion expressed by it usually receives a follow-up.

### Box 4.1. The Expertise Centre for Age and Society (LBL)

The Expertise Centre for Age and Society (LBL), a government-funded institute, has collected a large amount of information on age policy and age discrimination. Maintaining a register of alleged cases of the latter, it received 125 complaints in the first half of 2004, up from 63 in the first half of 2002. Activities of the LBL also include improving the expertise of staff councils and trainers, (future) personnel officers, employers, workers and placement agencies to prevent age discrimination. The Centre organises regular conferences and study days on this issue. For example, a study day on 1 May 2005 will monitor the first effects of the new law one year after its introduction, with contributions by lawyers, academics and representatives of the Equal Treatment Commission and of the Minister of Social Affairs and Employment.

It is too early to assess the effects of the ban on age discrimination. The law may negatively affect certain advantages older workers have had, *e.g.* more holidays in collective agreements and other employment arrangements. Meanwhile the fact that no age limit is specified in job advertisements does not in itself imply that all applicants are treated equally. Applicants may be reluctant to file a complaint with the Equal Treatment Commission and take an employer to court. The effects of the new law will largely depend on a concomitant change in employer attitudes – which the law may encourage in the longer run. However, the experience with other types of discrimination, especially with respect to ethnic minorities,<sup>28</sup> is not encouraging.

The adoption of the general ban on age discrimination was preceded in December 2003 by another law generally banning discrimination of chronically ill and disabled persons. As the labour market is one of the areas covered in this law, it is relevant for older workers because the incidence of disability grows with age (see Chapter 3). Given the high percentage of over-55s who are disabled, this ban may be as effective as that on age discrimination. The law stipulates that an individual's workplace should be reasonably adapted if necessary.

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28. There is clear evidence of this type of discrimination (Niesing *et al.*, 1994). In spite of the many actions undertaken by government and the social partners since the Scientific Council for Government Policy's advice of 1979, the overrepresentation of minorities in unemployment has hardly diminished.

### B. Older workers “hiring intensity” is below the OECD average

As shown in Chapter 2, the employment rate of older people has significantly increased since the mid-1990s. Most of this is due to the fact that people retain their position to at least age 57: the average tenure at 57.5 years in 2002 was close to 23 years for men and a little more than 15 years for women (Figure 2.9). However, part of this favourable development is due to new hires, from either voluntary or involuntary mobility. Table 4.1 shows how the hiring situation of older workers compares with that of other groups in 1995 and 2003. The figures are actually called “hiring intensities” – calculations in which the hiring rate for a specific age group is divided by the hiring rate for all employees. If this ratio equals one, the hiring intensity corresponds to that of the average in the workforce. This exercise shows that the hiring intensity decreases significantly with age. There is a small increase in the relative hiring intensity among men aged 50-64 between 1995 and 2003, and a small decline among older women.

Table 4.1. **Relative hiring intensity by age and gender, Netherlands, 1995 and 2003<sup>a</sup>**

		25-49	50-64	50-54	55-59	60-64
Total	1995	0.80	0.26	0.30	0.20	0.27
	2003	0.86	0.28	0.32	0.21	0.43
Men	1995	0.79	0.20	0.21	0.18	0.22
	2003	0.88	0.28	0.27	0.25	0.50
Women	1995	0.81	0.37	0.44	0.23	0.38
	2003	0.82	0.31	0.40	0.16	0.34

a) The hiring rate is defined as the share of employees with tenure of less than one year in their current job.

Source: European Union Labour Force Survey.

Lower hiring intensities for older workers are not specific to the Netherlands; they are found in all OECD countries (Table 4.2). Older workers in the Netherlands display a hiring intensity far below the average in the OECD area. Across countries there are large variations in hiring intensities for older workers – ranging from 0.22 in Belgium to 0.75 in Korea.

Table 4.2. **Relative hiring intensity by age in selected OECD member countries, 2003**Ratio of the hiring rate for employees in each age group to the hiring rate for employees of all ages<sup>a</sup>

	15-24	25-49	50+
Australia <sup>b</sup>	1.82	0.90	0.46
Austria	2.53	0.85	0.29
Belgium	3.60	0.85	0.22
Canada	2.39	0.81	0.42
Czech Republic	2.70	0.88	0.65
Denmark	2.35	0.93	0.46
Finland	3.09	0.83	0.35
France	3.42	0.85	0.33
Germany <sup>c</sup>	2.57	0.90	0.42
Greece	2.80	0.87	0.50
Hungary	2.69	0.92	0.46
Iceland <sup>c</sup>	2.24	0.86	0.42
Ireland	2.32	0.76	0.35
Italy	3.03	0.93	0.39
Japan	3.77	0.76	0.53
Korea	2.81	0.78	0.75
Luxembourg <sup>c</sup>	3.25	0.88	0.29
<b>Netherlands</b>	<b>3.36</b>	<b>0.86</b>	<b>0.28</b>
Norway	2.86	0.89	0.31
Poland	2.87	0.86	0.47
Portugal	2.56	0.84	0.36
Slovak Republic	2.60	0.82	0.63
Spain	2.34	0.92	0.40
Sweden	3.19	0.92	0.32
Switzerland	2.58	0.86	0.34
United Kingdom	2.47	0.83	0.49
United States <sup>b</sup>	2.46	0.86	0.44
<b>Unweighted average</b>	<b>2.77</b>	<b>0.86</b>	<b>0.42</b>

a) The hiring rate is defined as the share of employees with tenure of less than one year in their current job.

b) 2004 data.

c) 2002 data.

Source: Australian Bureau of Statistics, Labour Mobility Survey for Australia; Japanese Ministry of Health, Labour and Welfare, Basic Survey on Wage Structure; Korean Ministry of Labour, Survey Report on Wage Structure; US Department of Labor, Bureau of Labor Statistics, Job Tenure Supplement to the Current Population Survey; and for the other countries, Eurostat, European Union Labour Force Survey.

### C. *Employment protection is close to average for the OECD area*

Employment protection rules may also affect employers' hiring behaviour. Levels of protection vary greatly across countries, and in some cases are in practice higher for older workers because protection increases with seniority in the job. High levels of protection can help some permanent employees keep their jobs, but can at the same time deter new hires and encourage the use of temporary contracts. Its effect on the overall employment rate of older workers is therefore ambiguous. It may also happen that strict employment protection rules encourage employers to offer attractive early retirement packages to older workers when they need to shed labour, in which case these workers could end up bearing the brunt of company restructurings.

OECD (2004c) has ranked general employment protection in the Netherlands as close to average for the OECD area. The dismissal process in the Netherlands is governed by a dual system (Box 4.2). Concerning older workers in particular, the rule prevailing in the Centres for Work and Income (CWI) allowing selective dismissal – *i.e.* the compulsory selection of older workers – was abolished in 1995, one of the first signs of a changing perspective on older people's labour participation (Delsen, 2002). The "last-in-first-out" (LIFO) rule and the principle of "dismissals mirroring the age composition of the workforce" are now more generally applied. In case of collective dismissals (ten or more employees), the employer may choose between the LIFO rule and the mirror principle. Recently, the CWI noted that only one-sixth of the employees involved in a collective dismissal of 20 or more are selected by their employers based on the mirror principle.

There is no clear evidence that these rules are making the dismissal procedure more difficult for older workers than for younger ones – quite the contrary. Figure 4.2 gives the rate of dismissal via the CWI as a percentage of employees in the preceding year (after correction for the numbers of dismissals for reasons of disability, which increase greatly with age). For women as well as men the rate of dismissal is higher for the oldest age group, between 1.2% and 1.3% of workers aged 55-64 compared to 0.7% for the age group 45-54. Also, the rate of approval of proposed dismissals is higher for older workers (82% as against 76% on average in 2003). Unfortunately, no such breakdown is available for court dismissals. The combined number of dismissals by the CWI and by courts, some 2.5% of all older workers, stays below the inflow into unemployment (4.5% of all older workers for 2003 – see Figure 3.8). Many job losses are due to the termination of a temporary contract and not to a dismissal.

#### Box 4.2. The dual system in the Dutch dismissal process

An employer can dismiss a worker either by requesting prior permission from a public administrative body – the Centre for Work and Income (CWI) – or, since the 1970s, by requesting a civil court to dissolve an employment contract. The two methods are markedly different.

If the procedure is conducted via the CWI, no severance pay is required but the outcome is more uncertain and the procedure usually takes a long time. The CWI is required to apply the current regulations for dismissal. After the CWI has approved the dismissal and the notice period has passed, the dismissed employee can still ask court compensation for unfair dismissal and reinstatement.

Civil courts usually dissolve the employment contract but require relatively high severance pay for the employee, based partly on age. Moreover there is no appeal possible against the decision of the civil court to dissolve the employment contract.

Use of the civil court increased greatly in the 1990s. In 2003, the CWI treated 85 881 requests for approval of dismissals, of which 84% were approved, while civil courts received 78 491 requests for dissolution of employment contracts. In practice, large companies prefer the dismissal procedure via civil court despite its higher monetary costs. Conversely, small businesses often prefer the CWI procedure for providing an *ex ante* judgement on whether the proposed dismissal is fair or not. By doing so they protect themselves against the risk of having to pay high compensation in case of unfair dismissal.

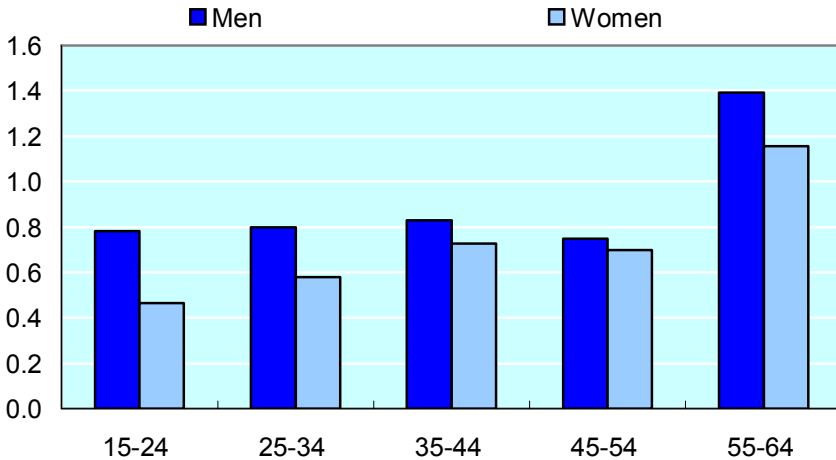
The dual system has been under discussion since 1998, when the government established an advisory commission. In November 2000 the commission recommended that the administrative route be abolished. However, in July 2003 the social partners united in the Labour Foundation asked the government to retain the dual system. Since then, courts have made the rules for severance pay more uniform across the country. The procedures for dismissal on economic grounds (which involve the CWI) have also been changed.

The government is now proposing to replace the LIFO rule with the mirror principle for dismissals of any number of employees. This should now become the leading evaluation principle by the CWI, and there will be a more narrow focus on the specific category of jobs involved. The ultimate effects on older workers are difficult to establish a priori. The changes should lead to more uniform protection against redundancy for different employee groups irrespective of their age and seniority. Furthermore the government has proposed to offer the social partners the possibility of setting their own criteria, such as knowledge, skills, etc.



Figure 4.2. **Dismissal requests<sup>a</sup> accepted by the CWI by age and gender, Netherlands, 2003**

As a percentage of employees in 2002



a) Excluding dismissal for disability. As percentages are based on either gender or age, those combining the two factors were estimated.

Source: Ministry of Social Affairs and Employment.

#### **D. Flexible contracts: mainly before 25 or after 60**

Non-permanent contracts and temporary agency work are other aspects of employment legislation that lend flexibility to hiring and firing. The Dutch law allows a maximum of three consecutive fixed-term contracts for an individual employment relationship, with a total duration of three years. With a fourth term, the contract will automatically become permanent. Collective labour agreements can stipulate a lower or larger number.

A *Flexicurity* agreement was concluded between the social partners in 1996 and became law in 1999. According to the 2002 Equal Treatment of Temporary and Full-time Workers Act, no distinction can be made in employment conditions between permanent and temporary jobs, unless it is objectively justified. All these initiatives improved the position of temporary workers, enabling the build-up of pension rights and stipulating that people become formal employees of the temporary agency after working for it for some time. However, the estimated 16% of the workforce not covered by an occupational pension scheme are mainly temporary workers. A number of pension schemes still do not allow employees with an atypical labour contract to participate.

Table 4.3. **Temporary workers by age and gender, 2002**

Percentage of employment

	Men		Women		Total	
	25-49	50-64	25-49	50-64	25-49	50-64
<b>Netherlands</b>	<b>9.4</b>	<b>3.1</b>	<b>14.7</b>	<b>10.3</b>	<b>11.7</b>	<b>5.7</b>
Germany	7.3	4.2	8.2	4.4	7.7	4.3
Spain	37.3	15.9	47.0	18.4	41.1	16.7
United Kingdom	4.0	4.8	6.3	5.7	5.1	5.2
Sweden	10.8	6.5	17.7	7.1	14.1	6.8
Canada	9.4	9.2	11.6	9.4	10.5	9.3
EU-15	10.2	5.6	13.7	6.8	11.8	6.1
OECD <sup>a</sup>	10.8	7.8	14.9	12.6	12.5	9.7

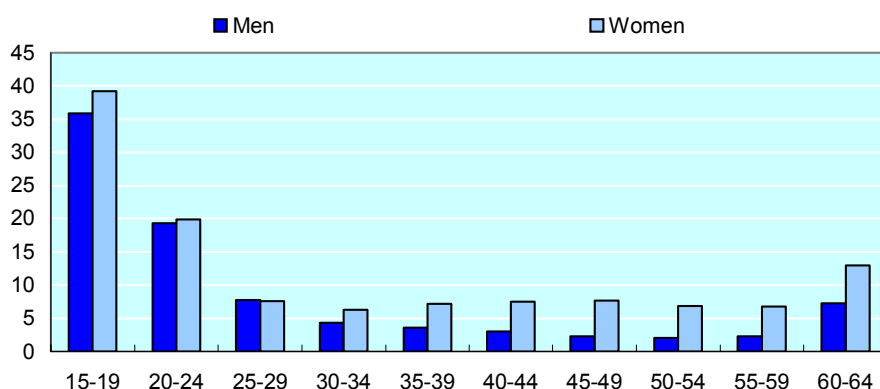
a) The unweighted average does not include Australia, Korea, the United States, New Zealand or Poland.

Source: Labour force surveys.

The Netherlands has an incidence of temporary work close to the OECD average for prime-age workers. For older workers, the incidence is lower, particularly for men (Table 4.3). Flexible contracts are highly concentrated among young workers. The incidence among older workers is certainly less, but in the 60-64 age group it exceeds that of the intermediate age range (Figure 4.3). Also, the incidence among the oldest subgroup has increased significantly (Figure 4.4), though the absolute figures are low.

Figure 4.3. **Flexible contracts<sup>a</sup> by age and gender, Netherlands, 2002**

As a percentage of all employees

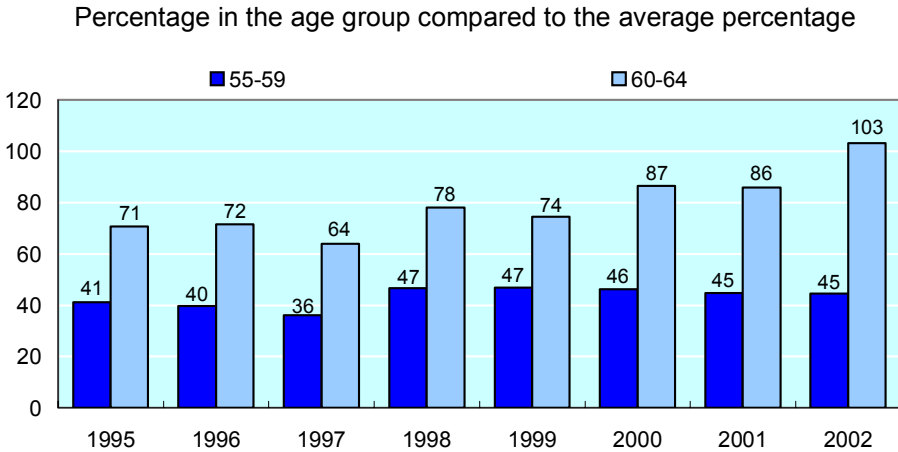


a) Temporary workers and employees with a non-permanent contract.

Source: Dutch labour force survey.

It is impossible to say whether this reflects the preferences of employers, employees or both. However, according to the labour force survey in 2002, 20% of temporary employees aged 50-64 declared that they could not find a permanent job, compared to 30% for the 25-49 age group.

Figure 4.4. **Concentration of flexible contracts<sup>a</sup> among older workers, 1995-2002**



a) Temporary workers and employees with a non-permanent contract.

Source: Dutch labour force survey.

## 2. Pay and productivity

The reluctance of employers to hire or retain older workers may also reflect more objective factors. In some countries, older workers may be seen as being too expensive: specifically, the increase in the cost of employing people as they get older may not be matched by increases in productivity. In the past, wage systems built on seniority rather than on individual performance may have made sense: an implicit contract that pays workers less than their value early in their careers and more than their value later may buy worker loyalty. However, in the era of an ageing labour force, this becomes less sustainable for companies as the proportion of older workers who are being paid more than their productivity rises relative to the proportion of younger workers, who are being paid less than their productivity.

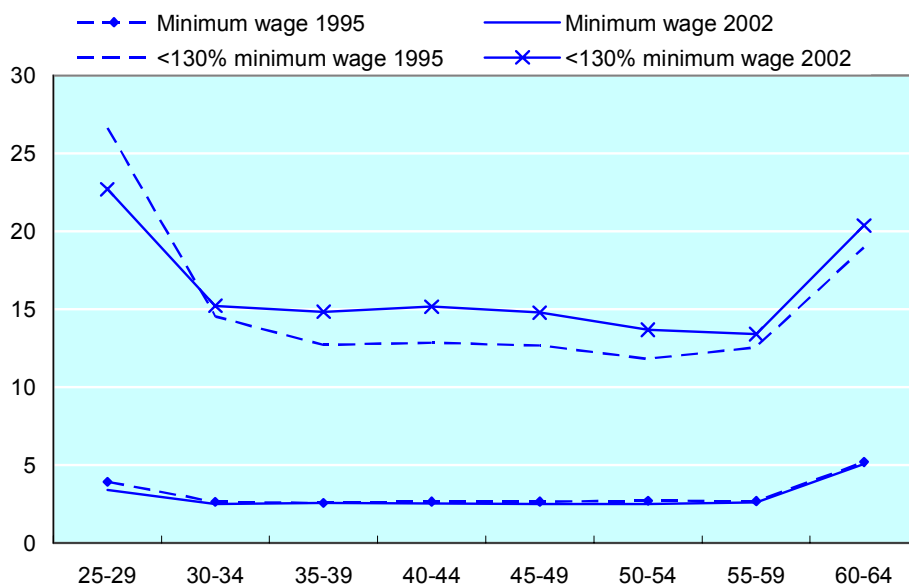
### A. *Wage regulation*

Three types of regulation are potentially important factors behind firms' pay policies: the nationwide statutory minimum wage, which is based on law; collective labour agreements between employers' associations or between individual firms; and trade unions and government subsidies on wages.

*Minimum wage particularly concerns the two age group extremities*

The Dutch minimum wage is best known for its special long tail for young workers, ranging from 30% of the adult minimum wage at age 15 to 100% at age 23. There are no special provisions for older workers. The Dutch minimum wage is defined on a full-time basis and can vary by collective agreement; part-time workers are entitled to it on a pro-rata basis. The oldest subgroup of workers earns the minimum wage more often than other adults (Figure 4.5). The incidence of neighbouring wage levels up to 130% of the minimum wage is also clearly higher for the oldest workers and (generally) growing.

Figure 4.5. **Workers earning up to 130% of the minimum wage by age, Netherlands, 1995 and 2002**  
As a percentage of workers



Source: Statistics Netherlands (CBS).

*Seniority wages are covered in most collective labour agreements*

The second type of wage regulation concerns collective labour agreements that specify, with varying detail, the wage scales applying to most jobs. According to biannual reports of the Labour Inspectorate based on a sample of collective agreements, seniority-related pay probably is covered in most, if not all, collective labour agreements. However, extra provisions for older workers do not concern the wage scales. Instead they focus on working time, training and organisation of the workplace. Some 14% of the agreements have arrangements for productivity-related compensation. Those may affect older workers' pay to the extent that their productivity is different.

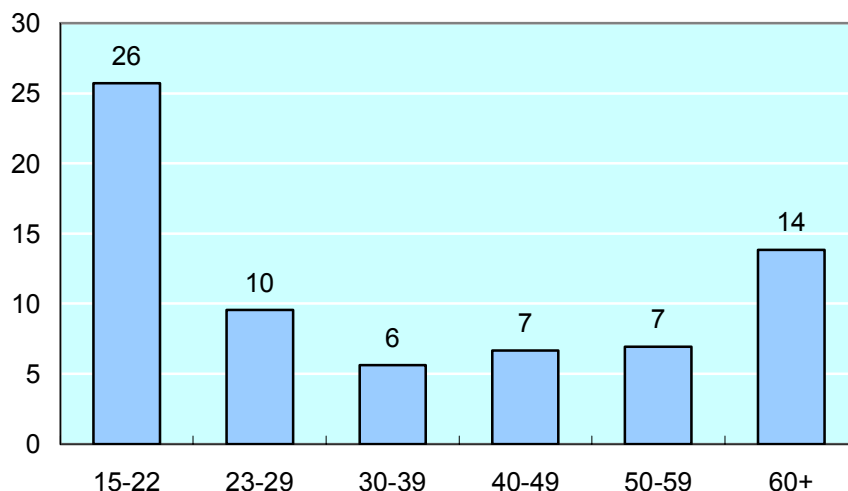
*Exemption of the fixed employers' contribution to disability insurance in the case of older workers*

A third potential factor determining wage costs relates to government subsidies on wages. No special subsidies for older workers existed until very recently. The general subsidy on low wages (SPAK), up to 110% of the minimum wage in 2004, is granted to employers through a reduction in taxes and social security contributions. The subsidy was introduced in 1996 and at the beginning was very successful in terms of take-up. In recent years, the government decided to greatly diminish its amounts and coverage and to abolish it in the years 2003-2005 because it has proved ineffective with great deadweight loss (see, e.g. Mühlau and Salverda, 2000). At its zenith in October 2001, the subsidy was granted for some 11% of the labour force. A rough estimation of its incidence by age is shown in Figure 4.6. It appears to figure significantly in the case of the oldest workers – 14% of employees aged 60 or more received it in 2001 – though absolute numbers are small. What is not certain, however, is the extent to which the measure contributes to the retaining of older workers.

An exemption of the fixed employers' contribution to disability insurance was introduced for older workers in 2004; labour costs for this group are to be lowered by 5%. As explained in Chapter 3, this measure concerns any incumbent employee aged 55 years and over and all new hires aged 50 and over. A much larger deadweight loss than with SPAK is plausible, given the wider coverage of older workers than SPAK. The amount, however, is smaller. While SPAK paid a maximum of EUR 1 093 annually in 2004, the value of the disability insurance exemption can be estimated at about EUR 750 for earnings at minimum wage level.

Figure 4.6. **Low-wage subsidy (SPAK) by age, Netherlands, October 2001**

As a percentage of employees in the private sector



Source: Ministry of Social Affairs and Employment dataset on working conditions.

Table 4.4. **Expected consequences of an ageing workforce among employees,<sup>a</sup> Netherlands, 2002**

Percentage of employers answering

	(Highly) unlikely	Neutral	(Highly) likely	Total
Increase in the labour costs	7	20	73	100
Greater resistance to change	12	31	57	100
Increase in absenteeism	9	35	56	100
Increase in know-how and experience	14	30	56	100
Change in work organisation	17	31	52	100
Need to improve working conditions	14	36	50	100
Less enthusiasm for new technology	16	34	50	100
Fewer conflicts within the organisation	30	55	15	100
Negative effect on organisation's image	40	45	15	100
Increase in productivity	52	41	7	100

a) 1 019 employers were interviewed.

Source: Remery *et al.* (2003).

## **B. Age, productivity and wage**

### *Mixed perceptions of older workers*

Surveys reveal that Dutch employers have mixed perceptions of older workers. Results of one large-scale survey among Dutch employers show that a majority – no less than 73% – tend to associate an ageing workforce primarily with rising labour costs, with only 7% mentioning a rise in productivity (Remery *et al.*, 2003 – see Table 4.4). However, the main positive aspect associated with older workers, *e.g.* more know-how and experience, is acknowledged by 56% of employers.

This survey also points out that positive views about older workers are negatively correlated with the share of older workers in the organisation; organisations that are the most positive about older workers are also the ones with a small percentage of older staff. Remery *et al.* argue that if exposure to older workers leads to a less positive idea about their productivity, that must imply that older workers really are less productive. If productivity does not improve with age, employers will opt to recruit employees from other age categories.

In another survey however, De Koning *et al.* (2003) find that employers are quite favourable to older workers, which seems more consistent with the rapid rise in older workers employed since the mid-1990s. Among employers, 80% find that people aged 55 and over function just as well as younger employees in the firm. The remaining 20% think in equal proportions that they perform either better or worse. Asked about the relationship between the productivity and wage costs of employees aged 55 and over, the answers are more negative. One-fifth of employers think the productivity of older workers is low compared to their wage costs; seven out of ten think the relationship is in balance; and less than one-tenth think their productivity is higher than wage costs.

Comparing the attitudes of employers and that of the Dutch population as a whole, Van Dalen and Henkens (2003) stress that employers, mainly older ones, have a more favourable opinion than the population as a whole. They are less inclined to support statements that older people are less productive or less reliable than younger employees, whereas a larger part of the population think they are less productive though more reliable.

*New research questions traditional views of older workers' lower productivity*

New scientific studies that try to establish the relationship between age, productivity and wages more objectively also come to diverging conclusions. Gelderblom, De Koning and Kroes (2003) think that optimistic views on the productivity of older workers rest on proffering socially desirable answers. In a study relating a firm's value added per full-time equivalent employee as a measure of productivity to the shares of six different age categories in the firm's workforce, they find a negative contribution from the oldest category, aged 55 and over. They also find a slight decrease in wage costs for the same age group, but one much smaller than the productivity decrease. Interestingly, they find an upward shift to a higher age before the decline in productivity sets in compared to similar research they performed ten years ago (Gelderblom and De Koning, 1992). The literature survey in Skirbekk (2003) comes to a similar conclusion. In contrast to these studies, Aubert and Crépon (2004) find no significant difference between the age profile of wage and productivity in a very detailed study for France that extensively controlled for firm heterogeneity. Part of the problem as they see it is that older workers are concentrated in less productive firms.

A study commissioned by the Dutch Taskforce on Older People and Employment (Box 4.3) also concludes favourably about the productivity of older workers (Groot *et al.*, 2004). On the basis of newly collected data, it distinguishes between the effects of age on the one hand and experience on the other, and finds that older persons are more productive because of longer experience. The discrepancy between wages and productivity concerns the non-profit sector of the economy and the low-skilled more than others. Older workers are not less productive in the non-profit sector but organisations are less able to reap proper returns from their work. Notably, they find that young firms in the profit sector manage to receive relatively high returns from the work of older workers – this underlines the role of firm heterogeneity found by Aubert and Crépon (2004). The conclusions of Groot *et al.* (2004) constitute an important starting point for the work of the action group *Grey at Work* (Box 4.3).

*Divergence of older workers' wages and productivity may be small*

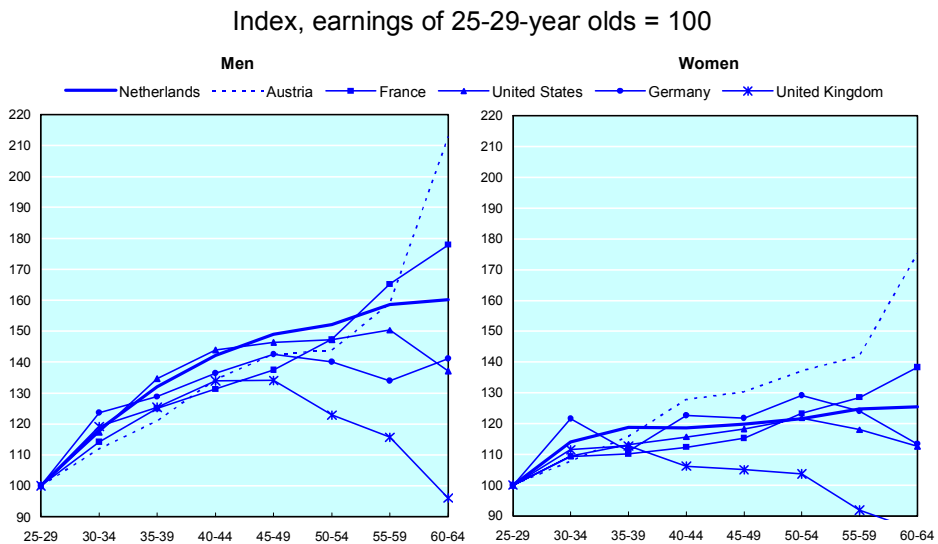
Earnings for men increase sharply with age in the Netherlands. Figure 4.7 compares the age earnings profiles of six OECD countries for full-time workers and shows that, for men, after Austria and France, Dutch earnings increase most – and well before older age. Figure 4.8 shows, however, that age earnings profiles have become somewhat flatter since the mid-1990s. Such curves



represent a cross-section of profiles for different age groups and their steepness does not in itself indicate that earnings of older workers are necessarily high. It may well be that earnings of younger workers are low. For women, wages of the oldest age categories are higher compared to those of younger workers but in the same proportion as in the United States and Germany.

It is important to note that these earnings profiles have not been corrected for compositional differences, *e.g.* by skill level, job level or type of industry. They reflect the bias that highly skilled and better paid workers are the ones who usually work at a later age. Once corrected, the profiles appear to be much flatter (Figure 4.9).<sup>29</sup> What shows up particularly for men is the familiar decline at the end of working life – the inverted U-shape.

Figure 4.7. **Age earnings profiles by age and gender in selected OECD countries**

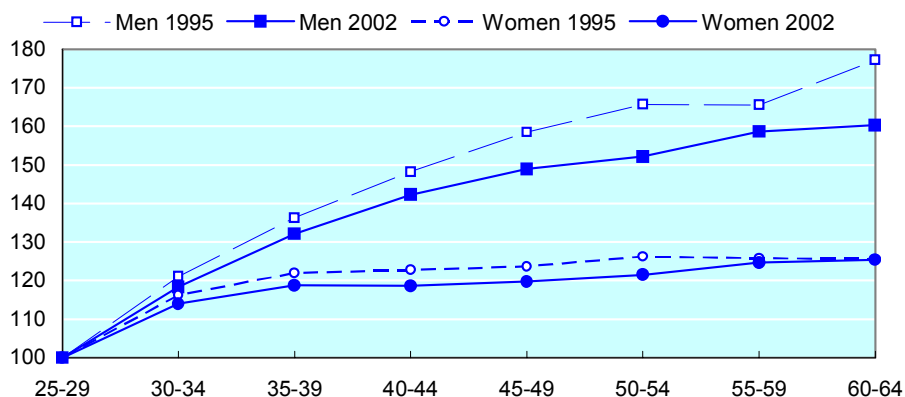


Source: Netherlands: *Enquête werkgelegenheid en lonen*, Statistics Netherlands (CBS), 2002; Austria: Microcensus and “Wage Tax Statistics” (MZ Lst Data), 2001; Germany: German Socio-economic Panel, 1998; United Kingdom: Labour Force Survey, 2002; France: *Enquête emploi*, 2002; United States: Current Population Survey, average of the years 2001-2003.

29. Youths’ minimum wages were accounted for separately in the estimation of the age profile to prevent their strong effects from being projected on adult age.

Figure 4.8. **Age earnings profiles<sup>a</sup> by age and gender, Netherlands, 1995 and 2002**

Index, earnings of 25-29-year olds = 100

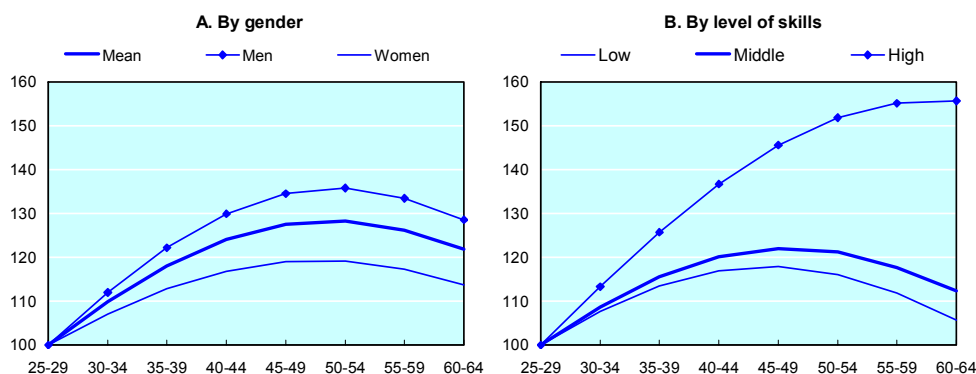


a) Full-time workers.

Source: Statistics Netherlands (CBS), *Enquête werkgelegenheid en lonen*.

Figure 4.9 **Corrected<sup>a</sup> earnings profiles, Netherlands**

Average earnings-profile position 25-29 years=100



a) Estimations from an hourly wage regression based on single years of age presented here using five-age-years averages.

Source: Heyma *et al.* (2004).

Corrected profiles by level of skills are also shown in Figure 4.9. The profile for the low-skilled appears to be extremely flat. The oldest group earns only 12% more than the young adult reference group. High-skilled workers, by contrast, make substantial progress over their working life and lift up the average curve.<sup>30</sup> Nevertheless, highly skilled older Dutch workers have a much higher employment rate than the two less-skilled groups (Figure 2.8).

### 3. Raising awareness and spreading good-practice solutions

Raising awareness among employers is important, since the issue of retaining older staff is generally not placed high on the list of priorities by companies and organisations – even in the face of possible labour shortages. Several initiatives from the government and the social partners have been pursued in the Netherlands in order *a*) to better inform employers that in the years to come they will depend strongly on older workers to meet their labour demand and *b*) to help them to anticipate and act on this development.

#### A. *The Taskforce on Older People and Employment*

In 2001 the government established the high-level Taskforce on Older People and Employment, aimed at convincing employers to change their perceptions and attitudes towards older workers (Box 4.3). In the time the Taskforce has been active, it has served as a forum for the principal stakeholders. The Taskforce has succeeded in reaching key players both nationally and regionally. Its final report was presented to the State Secretary of the Ministry of Social Affairs and Employment on 10 December 2003.

A cabinet position was drafted in April 2004 in response to the recommendations of the Taskforce (Ministry of Social Affairs and Employment, 2004). The priority remains still to convince all parties of the use of – indeed urgency for – older people continuing to work. The Ministry of Social Affairs and Employment has therefore decided to launch an information campaign aimed at employers and workers. This campaign will continue to 2007.<sup>31</sup> Early retirement has to make room for continuing to work. A two-track policy will be followed. In the first, information will be given to employers, employees, personnel executives, works councils and employers' and employees'

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30. No difference occurs between private and public sector for the low-skilled, but the highly skilled have a steeper curve in the former (Heyma *et al.*, 2004)

31. Each year, EUR 1 million will be allocated to this communication process.

organisations concerning the new legislation and regulations to be introduced, in order to encourage the labour force participation of older people at later ages. The second track is to involve NGOs<sup>32</sup> and third parties engaged in promoting the labour force participation of older people. In particular, the work of the Taskforce on Older People and Employment will be continued by an action group Grey at Work, established in December 2004.

#### Box 4.3. Older People and Employment and Grey at Work

In June 2001 the government established the high-level Taskforce on Older People and Employment to identify factors that can help increase labour market participation among the 50-plus age group. It comprises representatives of employers' organisations and trade unions, the private sector, minorities, organisations representing older workers, researchers, politicians and the media. The Taskforce's prime activity was to change attitudes in the workplace toward older workers. It issued two interim reports, in 2002 and 2003: *Rather Honey than Vinegar* and *Count Yourself Lucky*. It also commissioned many studies, staged 64 projects seeking best practices for keeping older persons in work, and delivered its concluding report in December 2003. The latter, titled *And They Worked Happily Ever After*, offers many suggestions for removing impediments to higher labour force participation among older people. In its conclusions with regard to employers, it advocates distributing among companies an "age mirror" checklist containing 25 key questions for stimulating awareness, and suggests improvement in a number of areas. These include the ongoing promotion of human resource management best practice (e.g. awarding the *Cum l'Oude* prize); encouraging employment planning for those aged 50 and over, in fact obliging employer and employee to discuss this every two years with the help of experts and trainers; and checking collective agreements with positive measures regarding health, training and mobility to see whether they are in conformity with the new ban on age discrimination.

To carry on the work of the Taskforce, the government established in December 2004 the action group Grey at Work. During the coming three years, the members of the action group will promote the cultural change needed to keep older workers in work longer. Voluntarily continuing to work after the age of 65 will be up for discussion. This goes hand in hand with a new financial stimulus for companies, introduced in December 2004, to encourage age-aware human resource policies with a three-year budget of EUR 21 million. The subsidy is available for temporary projects that fight prejudice, adapt human resource policies to older employees, experiment with changing job tasks for older employees or improve the labour market outlook for this group.

32. There are many specialised NGOs, such as Age Proof or Netherlands Platform for Older People in Europe (NPOE). Age Proof is researching and developing methods relating to work and health for employers and workers. NPOE's aim is to improve the status of older workers in society by launching and/or supporting innovative projects throughout the EU.

### **B. Arrangements implemented by the social partners**

The social partners are key actors in the sphere of older workers. Arrangements to change employer and employee attitudes and practices regarding older workers were already introduced in the late 1990s. Their *Agenda 2002* agreement of December 1997 and the preceding report *Age and Work* of July 1997 already mentioned all the elements that are still present in the current policy debate: non-discriminatory hiring, access to training, career advice, adapted tasks, and adapted working hours and conditions.

A study of arrangements for older workers in a representative sample of collective labour agreements (Spijkerman and Klaassen, 2002) finds that virtually all collective agreements contain special provisions for older workers. None excludes employees above a certain age from specific functions while agreements covering 80% of employees allocate more holidays to older workers. The latter provisions face an uncertain future however, because of possible incompatibility with the new ban on age discrimination. Agreements covering 75% of all employees contain provisions for adapted working time, such as overwork, weekend work, irregular hours and shift work, and for about two-thirds of all employees working hours can be reduced. Agreements mentioning demotion (the acceptance of a job at a lower level of pay) cover 22% of employees, while career switches for older workers apply to 8%. Interestingly, only two out of the 126 agreements under study include explicit age-specific agreements for working conditions.

Studying collective agreements may be considered a fair method for assessing the usefulness of an instrument but recent research indicates that companies may be unaware of many of the provisions for their sector in spite of the fact that the agreements are legally binding (De Koning *et al.*, 2003). Naturally, the existence of a provision does not automatically imply its (frequent) use. For example, demotion is a taboo according to the Ministry of Social Affairs and Employment, and there is little reason to believe that it occurs on a regular basis in spite of the stipulations in various collective agreements.

One initiative from the employer side (the General Employers' Association Netherlands, AWWN) is *Proage*, launched in 2001 together with the German, Danish and Irish Employers' Associations and the Bertelsmann Foundation. This is essentially a large-scale awareness campaign directed at the members of the participating organisations and beyond. The aim is to diffuse explicit examples of best practices in order to influence the cultural behaviour of

managers and workers. *Proage* has reached a broad audience through the webpage [www.proage-online.org](http://www.proage-online.org) and the national employers' associations. In the Netherlands, AAVN has mainly stressed the message that best practices should no longer follow the tradition of focusing on older workers, but should instead reveal the perspective of an individual worker, regardless of age (AAVN, 2002). A new project is currently being implemented on age management (Verhoeff, 2004). If on the whole many Dutch enterprises in the private sector are starting to think about the impact of an ageing society, only a few are already implementing measures aimed at retaining older staff. They still have reservations about employing, and especially hiring, older people.

### **C. Measures taken by enterprises towards older workers**

Many measures implemented as part of an age-conscious human resource policy aim at accommodating or “sparing” older staff, such as additional leave/increased holiday entitlement, prolonged career interruptions or reduced workload (Table 4.5). Remery *et al.* (2003) argue that these measures are often costly and reduce the employability of older workers. As a result, employers tend to reserve this privilege for employees who are of particular value for the organisation. Organisations with relatively large numbers of highly educated staff tend to be most likely to have a comprehensive age-conscious personnel policy. Apart from the measures aimed at this valued category of employees, most incentives are designed to encourage older workers to stop working, at least on a partial basis, rather than giving them the feeling that the organisation is trying to keep them on the staff. More needs to be done to give the impression to older workers that their work and experience matter for their firm and for Dutch society more generally.

In the public sector, signals to older workers are particularly ambiguous. The legal status held by public sector workers involves various provisions designed to make staying in the labour market more attractive to older civil servants. Those aged 57 and over can reduce their working hours at a less-than-proportional salary decrease. There is also an option to downgrade: civil servants aged 57 and over can, at their own request, take in a lower-grade job. In the event of a reorganisation, the guiding principle is to transfer workers (including older workers) to another job. Various human resource instruments can be used to assist the mobility process, such as training and having older workers fill coaching and mentor roles. Only if these instruments are unsuccessful can VUT schemes allowing civil servants aged 57 and over to retire early be used – but temporarily, only in individual cases, and subject to

strict conditions. In the course of recent expenditure cuts in 2004, resulting in the loss of more than 10% of jobs in central government, the Minister of the Interior and Kingdom Relations introduced an early retirement scheme for older workers as a temporary measure. The scheme aimed at preventing younger workers from being involuntarily dismissed, and thereby also at preventing the existing imbalance in the age composition of the central government workforce from worsening. In 2004, the number of participants in this early retirement scheme was in fact two and a half times the number in 2003; 40% of them had insufficient savings and will receive an income supplement from the government.

**Table 4.5. Degree to which employers<sup>a</sup> implement measures, or consider implementing measures, aimed at retaining older staff, Netherlands, 2002**

	Is being implemented	Is being/will be considered	Will not be considered
Part-time early retirement/ part-time prepension	51	27	22
Additional leave/ increased holiday entitlement	62	21	17
Prolonged career interruptions	12	34	54
Age limits for irregular work	35	22	43
Exemption from working overtime for older workers	34	32	34
Flexible working hours	47	32	21
Training programmes for older workers	21	46	33
Reducing workload for older workers	41	44	15
Reducing older workers to a lower rank and a loss of salary (demotion)	7	38	55
Ergonomic measures	65	22	13

a) 1 019 employers were interviewed.

Source: Remery *et al.* (2003).

#### 4. Key issues

Since the early 1990s, Dutch governments have sought to change employers' perceptions of older workers. The employment rate of older people has significantly increased since 1995 in a context of strong and labour-intensive economic growth. However, concrete measures to promote labour market prospects were only implemented in the early 2000s when the labour market was tight and labour shortages were increasing. The downturn that followed has had an impact on perceptions as to the urgency of the problem in the short term (Van Dalen and Henkens, 2005). Early retirement schemes are once again used widely in cases of economic restructuring.

Employers do not actually experience the pressure of ageing among their workers; nor are they confronted with labour shortages. They often think that the phenomenon of ageing will not affect their companies and they do not feel the need to take preventive measures. Further age awareness-raising within companies should be promoted in the public and private sectors along with sound policies on working conditions.

The state should serve as a model employer and implement good practices with regard to older public sector workers. It could give the public sector a better lead by doing more to encourage mid-career internal and external mobility, and by ceasing to promote early retirement among civil servants.





## *Chapter 5*

### **ENSURING THE EMPLOYABILITY OF OLDER WORKERS**

Reforming pensions and income support arrangements to promote longer working lives and encourage employers to be more receptive to an age-diverse workforce are only part of the battle. The extent to which older workers remain active in the labour market will also depend on their employability, and that will be determined mainly by three factors. First: what opportunities do they have to maintain and develop their skills? Second: do they suffer from poor health or face unsuitable working conditions? Third: if they are unemployed or seeking to change jobs, do they have access to good employment services, career advice or incentives? This chapter will examine the employability of older workers in the Netherlands in relation to each of these dimensions.

#### **1. Health and family circumstances matter**

Working at older ages is nowadays considered more an option than an obligation by the Dutch. There is still a general consensus that it is “normal” to stop working before the age of 65. In a general opinion survey on the problems of ageing, respondents aged 20-64 were asked whether they would personally like to continue working until the age of 65 (Verzijden and Fransen, 2004).<sup>33</sup> Of those in employment, 39% would prefer not to continue, 25% are indifferent, and 33% would like to carry on. Thus, though the modal group would rather stop earlier, the majority would prefer to continue working or is indifferent. Yet, there is massive opposition to introducing a formal obligation for people to continue working and abolishing early retirement schemes. In addition, a substantial majority think that organisations are underutilising older workers’ capacities and many favour flexible working times, adapted work places or organisation and tax advantages for older workers.

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33. This survey was carried out by the Ministry of Health, Welfare and Sports. There were 900 respondents.

Similar questions were asked in a general survey of a large sample of workers aged 50 and over.<sup>34</sup> It concluded that 18% would like to continue until the age of 65 whereas 63% would not (Table 5.1). In fact, health conditions and autonomy at work play a large role in this. Health is the main determinant at the individual level. Workers in an excellent state of health are three times more likely to prefer working longer than those in poor or mediocre health condition, although only 35% among the healthy group prefer to continue working. Autonomy at work also appears to be an important determinant: persons with no autonomy are very unresponsive to the idea of working to the age of 65.<sup>35</sup> Finally, better-educated workers also prefer to work longer than low-educated workers.

Table 5.1. **Do workers aged 50 and over want to work until 65?**  
Netherlands, 2003

Percentages

	Want to work until 65	Do not want	Do not know
<b>All<sup>a</sup></b>	18	63	19
<b>Health conditions</b>			
Excellent	35		65
Very good	29		71
Good	19		81
Mediocre	11		89
Poor	12		88
<b>Autonomy at work</b>			
Always	29		71
Often	19		81
Sometimes	22		78
Never	7		93

a) 1 872 workers aged 50 and over.

Source: Ministry of Health, Welfare and Sports: National Survey of Working Conditions: first wave.

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34. The first wave of the National Survey of Working Conditions (2003) covers a sample of 10 000 persons.
35. The importance of autonomy for continuing work might explain why older workers are overrepresented in small firms: 22% of employees aged 60-65 are employed in organisations with less than ten employees, compared to 16% of all workers.

Henkens and Van Solinge (2002) also investigate the role home-life plays in decisions on early retirement among workers aged 55 and over and their spouses. As continuing to work until 65 is hardly supported by partners, a vast majority of older workers (almost 80%) would like to leave the labour force before the legal age of 65. This applies to married males' early retirement in particular: only 6% of male workers' female partners are in favour of their partners working until 65. Many respondents believe that withdrawal from work allows them to remain healthy and that their health will improve if they stop working. Even more than their actual health status, this belief is one of the top determinants of older workers' intention to retire early. Usually, employers leave that decision to the employee as it is influenced by individual reasons.

## **2. Education and training of older workers**

Education plays a key role in providing individuals with the knowledge, skills and competencies needed to participate effectively in the labour market. As seen in Chapter 2, the labour market outcomes of older people are indeed strongly linked to their level of education, with higher levels resulting in higher employment rates (Figure 2.8). Furthermore, the ongoing shift from the production of goods to services, together with technological change, has increased the need for more skilled and mobile workforces. Since job requirements are continually changing, individuals have to acquire new skills and upgrade their existing ones regularly. Thus it is vital that workers of *all* ages have real opportunities for vocational education and training and lifelong learning activities.

### **A. Educational attainment**

Over 35% of older men and more than half of older women were low-skilled in 2002, while the percentage for the 25-49 group was less than 30% (Table 5.2). Compared to Germany, Sweden (except for older men), Switzerland, the United Kingdom and the United States, the Netherlands has a very high proportion of low-skilled persons in both the prime-age and older population groups. For men however, this proportion is close to the OECD and EU averages.

Table 5.2. **Low-skilled population in selected OECD countries by age and gender, 2002<sup>a</sup>**

	Percentages			
	25-49		50-64	
	Men	Women	Men	Women
<b>Netherlands</b>	<b>27.7</b>	<b>29.1</b>	<b>35.3</b>	<b>53.5</b>
Germany	12.1	16.6	13.0	26.9
Sweden	13.9	10.6	31.1	26.7
Switzerland	11.4	14.4	15.7	25.4
United Kingdom	10.8	14.3	21.9	30.2
United States	13.2	10.8	14.1	14.3
EU-19	26.1	27.3	38.5	50.1
OECD	28.9	30.3	38.3	44.5

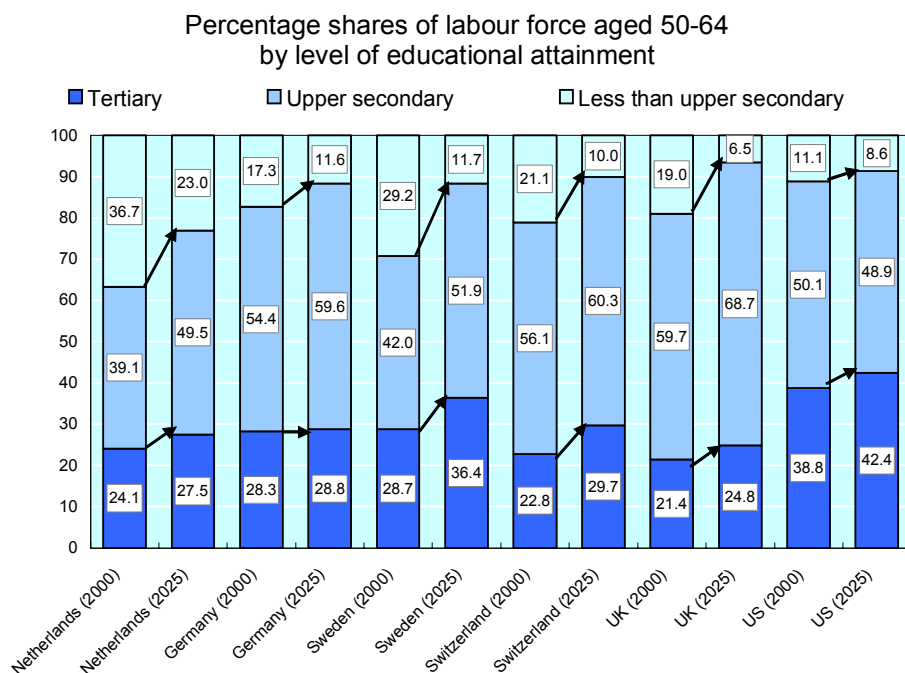
a) Low-skilled is defined as less than upper secondary educational attainment.

Source: OECD (2004f), *Education at a Glance*, Paris.

Thus, the educational attainment level of the older generations is fairly low in international comparison and the gap between young and old is pronounced, particularly in the case of women. On the one hand this is bad news in terms of chances to up- and re-skill older workers. Research indicates that initial education has an important role to play in lifelong learning: people who have completed general upper secondary education take part in enterprise training to a larger extent. On the other hand, this a challenge to the social partners to encourage, with the assistance of the government, the accreditation of prior learning, validation of experience and skills certification (EVC), as a means of upgrading the educational level of older people.

In 2000, about 37% of Dutch workers aged 50-64 had not completed high school. This is a much higher proportion than in the United States; there, the proportion is only 11% (Figure 5.1). Some improvement is expected in the future but the situation will probably not change dramatically. The results of simple extrapolations suggest that by 2025, 23% of older workers will not have completed high school. Even though the future older workers will have better qualifications and training than the current cohorts, the proportion of unskilled workers will remain high and the proportion of high-skilled low in international comparison.

Figure 5.1. **Education level of older workers in selected OECD countries, 2000 and 2025**



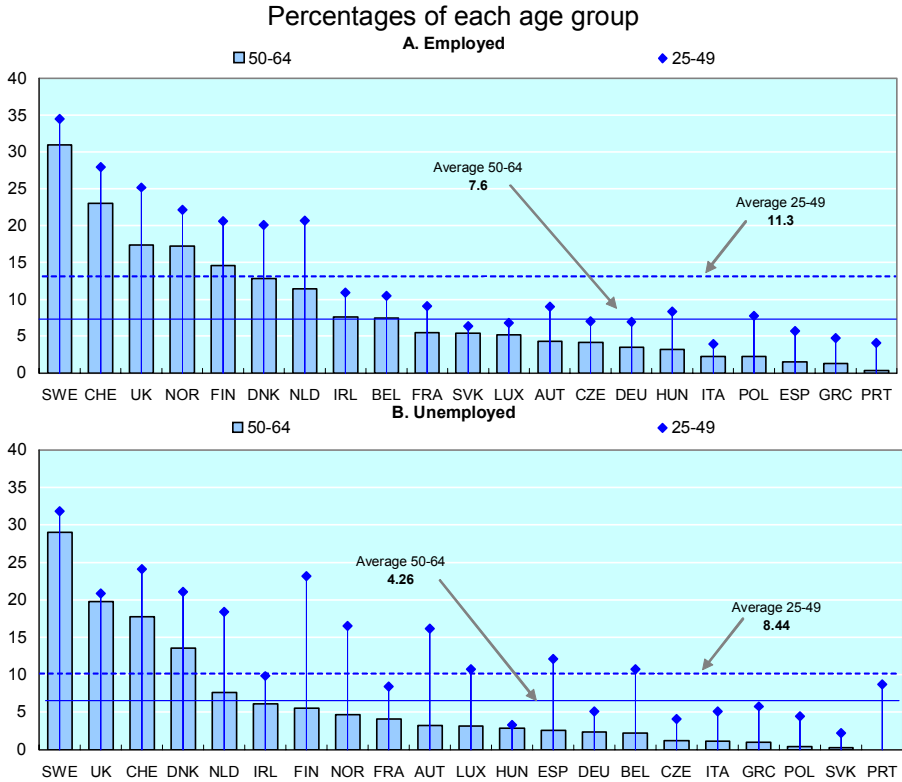
Source: For 2000, OECD (2002), *Education at a Glance*, Paris; for 2025, OECD estimates based on that data and obtained by applying participation rates by educational attainment, gender and five-year age group for the population aged 50-64 to the corresponding population.

## B. Skills and training

*Dutch training attendance is below the best-performing European countries*

In all European countries, the incidence of training declines with age; in the Netherlands however, the gap between younger and older workers is particularly large. Figure 5.2 indicates that in 2003 in the Netherlands, 11.5% of workers aged 50-64 have received some education or training in the past four weeks while the corresponding proportion for those aged 25-49 is 21%. Participation in training, particularly that of younger workers, is higher in the Netherlands than on average in other European countries, even though the Nordic countries, Switzerland and the United Kingdom invest more in further education and training for all workers.

Figure 5.2. **Participation in training in some European countries, <sup>a,b</sup> 2003**



- a) The question was: Have you received some education or training in the past four weeks?
  - b) The average corresponds to the 21 countries shown on the figure.
- Source: European Union Labour Force survey.

In the Netherlands as in other countries on average, older unemployed people participate less in training than older employed people (the shares are, respectively, 11.5% and 7.6%). This contrasts with Sweden, where around 30% of older people, whether or not employed, participate in training.

Various Dutch studies point out that older people are underrepresented among training participants (SER, 2002). One problem in particular is the shorter expected working life of older workers relative to younger workers, and thus the shorter period that both employers and older workers themselves may have to recoup any investment in training. Attitudes and prejudices of senior management play a role, as employers still do not see the need for investing in older workers in order to keep them longer (De Koning *et al.*, 2003). As

presented in Table 4.5, one-fifth of employers have implemented training programmes for older workers, while 46% are considering implementing such programmes and 33% are not (Remery *et al.*, 2001).

In this respect, adult continued learning and training can play a fundamental role in addressing the lack of formal education or basic skills that may be a source of persistent labour market disadvantage for workers as they age. An issue is that those with low skills may have had bad experiences with education and training early in their lives and so are reluctant to engage in formal training activities. These barriers may therefore require interventions at much younger ages. More flexible and short or modular courses need to be made available to older workers; these should build on existing skills and competences. Recognition of prior learning and validation of experience are also key instruments.

### ***C. Measures to promote further education and training***

The lifelong learning principle receives a good deal of attention from the Dutch government. The general philosophy is that individuals should be responsible for their own employability, while the government and the employer must create the necessary preconditions. This holds for younger as well as older workers, and implies active support from the government throughout the country. An action plan was launched at the end of 2004, and the Ministry of Education, Culture and Science and the Ministry of Social Affairs and Employment recently initiated a specific project-unit, “Learning and Working”, to implement the plan’s activities and strongly encourage working and learning for workers and the unemployed.

#### *Training measures promoted by the government*

In 1998, the government made in-firm training, particularly training of employees aged 40 and above, more attractive to employers through additional tax reductions. A report commissioned by the Ministry of Finance in 2001 (SEOR, 2001) concluded that the effect of the reductions was minimal (if positive for older workers) and so the incentive was abolished in 2004, including the provision for older workers. The report showed that the low take-up of training for low-skilled and older workers cannot be attributed to the employer as much as to the preferences of the individuals themselves. In order to boost participation in training, especially of low-skilled and older workers, the report recommended encouraging and facilitating the individual responsibility of the worker with regard to his/her own employability.



Groot *et al.* (2004), in a report to the Taskforce on Older People and Employment, advocate reconsidering the removal of the tax deduction for the training of older workers. New evidence from OECD (2004c) stressed that corporate tax deductions might be required to convince firms to invest more in training those low skilled and older, and to sustain satisfactory training outcomes because the lack of training opportunities for low-skilled and older workers is mainly a demand problem. Given capital or training market imperfections, employees might not be able to afford their share of the cost (either financial or non-financial, *i.e.* the time training takes). But individual learning accounts or individual vouchers will be not enough. Low-educated workers may find it particularly difficult to negotiate with their employers about the content and quality of training programmes. In 2001 the government launched an experiment with individual learning accounts (ILAs) that involved eight pilot organisations. The ILA works as a savings account, dedicated exclusively to training for employees and jobseekers. Responsibility for learning is put mainly on the individual. Funding from the government (EUR 450 per account) was supplemented by contributions from participants and employers, or from training funds. A total of 1 200 accounts were opened in 2001. A second round of experiments was begun in late 2002 and a third is scheduled for 2005, with the specific aim of gaining insight into whether ILAs encourage the training of lower-educated workers. There is no specific evaluation of whether ILAs are effective in the case of older workers, but they could well improve the employability of those older workers with low education levels.

The Netherlands is working on further implementing accreditation of prior learning and validation of skill certification (EVC). In 2000 it began to finance a new institute referred to as the “Knowledge Centre for EVC”; funding was scheduled to cover the period 2001 to 2004. The main focus of this knowledge centre is on those already employed. Following a favourable evaluation, it was decided to continue subsidising the centre in 2005. Around 6 000 employees from 500 firms and institutions took part in an EVC measure in 2001-2002.

To implement EVC as part of re-integration activities, an Empowerment Centre has been established with the help of European Union funds (EQUAL). The Dutch Knowledge Centre for EVC and the Empowerment Centre support several projects aimed at the development of older people. The government is working on a further standardisation of procedures and quality. Acceptance by employers will depend on the level of quality of the assessment.

*Training is part of practically all collective labour agreements*

At the initiative of the unions, the social partners agreed in 1996 on the need to improve the training of the workforce. Older workers were mentioned as a specific category and a financial stimulus was advocated. The recommendations were very general, and primarily aimed at raising awareness levels. It was suggested that training plans be drawn up within companies.

In 2004, 99% of employees were covered by a collective agreement containing training provisions of one sort or another. The most widespread of these were related to present or future job tasks. In about a third of the agreements there is a right and/or duty to participate in training.

Skill certification and accreditation of prior learning is a rather new phenomenon in collective labour agreements. According to a survey of 125 larger agreements, 9% contained such arrangements in 2003. In 2000, this was the case in only 3%.

In collective negotiations, substantial sectoral funds have been set apart – contributions were tax-exempt and placed on the same footing as the direct spending on training – but they seem to be underutilised (Waterreus, 2002). About 100 funds now cover 40% of all employees; annually they provide EUR 400 million on training and job creation. They contribute to the financing of formal vocational education (albeit at a diminishing rate), but increasingly they also finance more general training that can enable people to move to other sectors. These funds could be utilised to improve the employability of older workers, but it is unknown to what extent older workers already profit from their activities.

### **3. Working conditions**

Poor working conditions are another factor that may be pushing older workers into early retirement. It is important to adopt a life cycle perspective when seeking to improve working conditions. For instance, improvements in occupational health and safety for workers of all ages will help future generations of older workers remain in employment longer. This life cycle perspective underlies Finland's National Programme for Ageing Workers, which seeks to maintain the working capacity of the labour force at both younger and older ages (OECD, 2004d). Clearly though, certain types of work environment and work task may be particularly onerous for older workers.

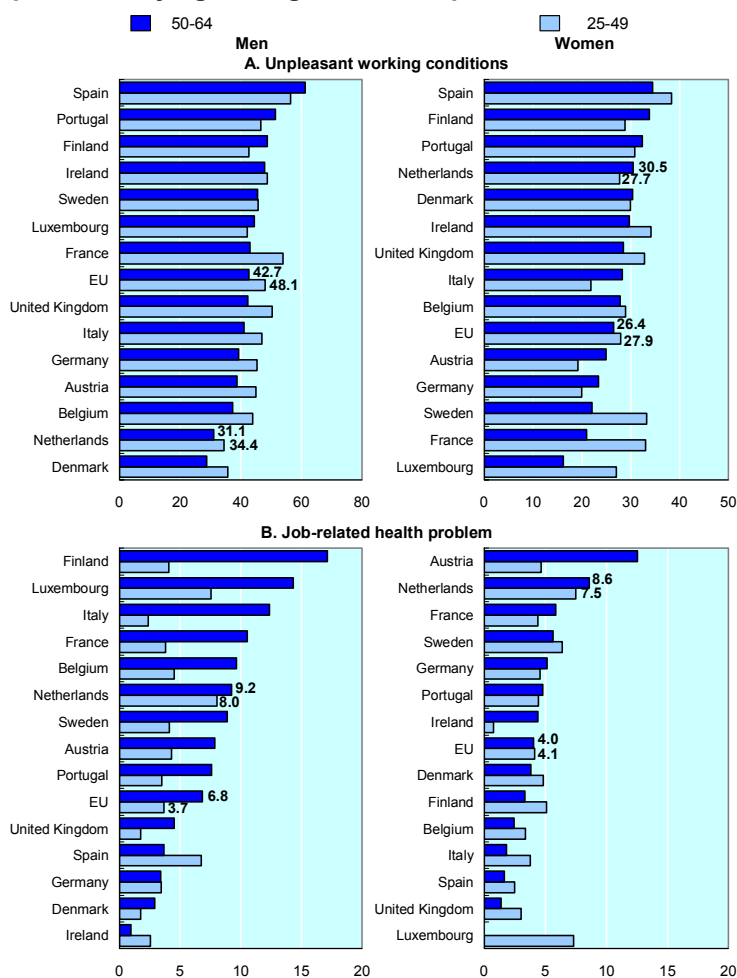
The number of registered incidences of work-related illnesses is significantly higher for workers aged 45 and over than for those aged below 45. In terms of category of illnesses, this applies especially to psychological and behavioural troubles and to ear problems. By contrast, the incidence of musculoskeletal and tissue-related injuries is lower compared with workers aged 50 or less. As an example, the high proportion of ear problems among workers over 50 may be explained by the fact that older workers have been exposed to noise for longer periods of time, and that ear protectors were less frequently used in the past.

According to the European Survey of Working Conditions, a large proportion of older workers report that at least one aspect of their job or work environment involves poor working conditions. Conditions in the Netherlands compare well to other EU countries for older men, but less well for older women (Figure 5.3). Incidence of job-related health problems is particularly high for Dutch women. The average amount of sick days rises with age. However, data on absenteeism due to sickness by age reveal that older workers report in sick less frequently than other age groups but for a longer duration if they do (Nauta *et al.*, 2004). Absenteeism has more to do with the length of stay in a job than with the age of the employee.

Sickness and disability insurance reforms (Chapter 3) place several obligations on employers with regard to their sick workers. Since 1998, employers have had to pay explicit attention to working conditions and contract monitoring with a specialised, private occupational health service (OHS), of which about 90 exist in the Netherlands. The OHS is a certified institution created from the Occupational Health Act, which advises the employer and worker and takes care of sick leave counselling, the inventory and evaluation of occupational hazards, and industrial medical examinations. The Gatekeeper Act also obliged employers and long-term sick employees to discuss possible re-integration at the workplace from the beginning of the sickness period. After six weeks of an employee's illness, the OHS analyses the problem and advises on the re-integration process of the employee.

After 13 weeks of illness, the employer and employee draw up a written plan for re-integration. The plan will be evaluated regularly and, if necessary, adapted. The aim is to prevail over passivity and not wait until the moment when people would qualify for entry into disability insurance after one year (now two) of sickness. Access to disability insurance after sickness became conditional on submission of a proper report enabling evaluation of the re-integration efforts undertaken. For the first two years, the employer is responsible for the re-integration process. After this period, responsibility for re-integration passes to the Social Security Agency (UWV).

Figure 5.3. **Unpleasant working conditions and job-related health problems by age and gender, European countries, 2000<sup>a,b</sup>**



- a) Workers reporting unpleasant working conditions refer to all workers who report that they are exposed during at least half of their working time to one or more of the following conditions: vibrations from hand tools or machinery; loud noise; high or low temperatures; breathed-in vapours, fumes, dust or dangerous substances; handling dangerous products; or radiation such as X-rays, radioactive radiation, welding light or laser beams.
- b) Workers reporting absence of five days or more during the last 12 months because of work-related health problems.

Source: European Foundation, European Working Conditions Survey 2000.

In addition, the legal framework for health and safety assigns responsibility for working conditions to employers and employees. In 1999, in an effort to encourage the improvement of working conditions and so reduce absenteeism, the government – supported by the social partners – introduced a subsidy for setting up branch-wide tripartite agreements on working conditions between employers and employees. When the approach was introduced in 1999, the aim was to reach at least 20 working-condition agreements by the end of 2002. With 50 agreements reached at the end of 2003, this objective has been amply achieved. In the second phase (2003 until 2008) – apart from preventing people from exiting the labour market – urgent attention is given to reducing absenteeism and strengthening re-integration policy. A total of forty-two economic sectors will be eligible. Evaluation in 2003 found that the approach has been more or less successful. Agreements cover 46% of the working population and contribute to a marked drop in absenteeism. Finally, for people with a work handicap, special funds are available to adapt the workplace. Employers are responsible for state-of-the-art office furniture and computers, etc., but the law on re-integrating labour-handicapped persons into employment (REA Act) covers costs resulting from particular needs due to a handicap.

#### **4. Active labour market policies**

Over the past two decades, governments in OECD countries have made major efforts to give unemployed people widened access to the labour market, particularly through the operation of public employment services and active labour market programmes. However, in many cases this help has been targeted to younger workers; only recently has the “activation” of older workers become, at least to some degree, a priority. Often, public employment services have not thought it worthwhile to help people thought to be too old to have promising work prospects. Pathways back into the workforce are elusive everywhere for older workers, except in the United Kingdom (OECD, 2004e). The New Deal 50 Plus scheme in that country has demonstrated the importance of qualified and motivated advisers with more time to spend on personalised follow-up (Box 5.1).

##### **A. Activation of older workers in its infancy**

Currently, the basic approach guiding active labour market policies (ALMPs) in the Netherlands, as well as in other European countries, is a comprehensive strategy (Box 5.2). The core of this approach is that an unemployed person should be offered work, or a strategy leading to work, within one year of becoming unemployed. The chances of being offered a re-integration strategy vary with age: the 45-to-54 age group receives it most

frequently. Heyma *et al.* (2003) explain that persons older than 55 are so close to the age where they are eligible for (pre-)pension that re-integration efforts for this group are undertaken reluctantly. Among those not being offered a strategy, people between 55 and 57 years old figure prominently (UWV, 2004).

The present status of people aged 57.5 years and older in the comprehensive strategy is somewhat unclear. Before 2004, as they were exempted from the obligation of job-search, they were entitled to join the comprehensive approach on a voluntary basis. One new feature is that following reintroduction of the obligation for older jobseekers to register for work, older workers are now invited to a re-integration interview with the CWI and UWV case managers. The main aim is to facilitate their return to the labour market, preferably in the sector in which they worked previously. On the instructions of the Ministry of Social Affairs and Employment, the national CWI has developed a special information module for workers aged 45 + ([www.werk.nl](http://www.werk.nl)). This module is aimed at older employees but also at employers who want to employ them. The CWI has also established and tested a workshop primarily intended to teach older workers job application skills. Demand appears to be high and interest is growing.

#### Box 5.1. New Deal 50 Plus in the United Kingdom

**Eligibility:** this is a volunteer programme available to individuals aged 50 and over who have been receiving for the past six months and currently receive income support, jobseeker's allowance, incapacity benefit, severe disability allowance, or any combination thereof.

**Non-pecuniary benefits:** entrants into the programme have their own personal adviser at their local jobcentre. Personal advisers provide individuals with a broad range of support: they draw up individual action plans, prepare CVs and application letters, assist in job-search and organise training courses and other volunteer activities intended to upgrade employability.

**Financial incentives:** until recently, upon becoming gainfully employed, individuals were paid an employment credit directly through their personal adviser. It was payable in three stages and for up to 52 weeks. However, in April 2003 the employment credit was replaced, and financial benefits will now fall under the umbrella of the Working Tax Credit (WTC). Individuals aged 50 and over working more than 16 hours per week will now receive the "50 Plus element" of the WTC for 52 weeks. After this period, individuals (those on low incomes working 30 hours or more) will continue to receive basic WTC entitlements.

**Training:** a training grant is available upon taking up employment. It can be used towards improving existing skills and learning new skills to help remain employed.

### Box 5.2. The comprehensive ALMP strategy in the Netherlands

The Dutch government is committed to helping the unemployed find work in line with the Employment Strategy adopted by the European Union in 1997. Before that year, the principle of a comprehensive strategy already existed for unemployed youths. In 1999 the government decided to widen it; the objective was to obtain full coverage for all adults in 2002. The aim of the strategy is to offer assessment, training, job mediation, or a combination of measures to all those who enter unemployment with a low probability of finding work on their own initiative within 12 months of registration. The idea is to prevent long-term unemployment and therefore to target new inflows first, evaluating an individual's chances to find a job without help. In 2003, 85% of the newly unemployed in the target group received an offer.

All jobseekers must register with the Centre for Work and Income (CWI) where they undergo employability screening. If they are job ready, they are classified in phase 1. The CWI affords each jobseeker the same priority regardless of age, gender or ethnicity.

Jobseekers who are classified in Phases 2, 3 or 4 undergo a qualifying intake and are sent on to the Social Security Agency (UWV). Every jobseeker referred to the UWV is quickly given a customised re-integration strategy and re-integration counselling by their UWV case manager. The emphasis lies on a tailor-made approach. The government has concluded a performance-related agreement with the UWV whereby at least 85% of new jobseekers (*i.e.* jobseekers who have entered Phases 2, 3 and 4) must be offered work within 20 days after being referred by the CWI. These performance-related agreements must be met regardless of the length of time unemployment benefit has been claimed. If the benefit claimant reaches the end of his entitlement before the end of the re-integration process, his case is transferred to the municipality where his situation will be re-evaluated.

The contracting-out of re-integration services is a major trend in the reform of the Public Employment Service in Australia, the United Kingdom and the Netherlands since January 2002 (Bruttel, 2004). Jobseekers older than 50 are a separate target group within the subcontracting procedure. Specialised re-integration companies have been hired to provide services for this group of hard-to-place jobseekers facing several barriers to employment.<sup>36</sup> A survey has found that placement agencies for older workers operate in the same way as those for younger jobseekers; the only difference is that those for older workers have to put in extra effort to help their clients find a job. Employers still often

36. The other target groups are jobseekers with social economic problems, jobseekers Phase 2, jobseekers Phases 3 and 4 and jobseekers from ethnic minorities.

have to be convinced to take on an older worker. There are also private temporary agencies specialised in the placement of older workers.

Bruttel (2004) suggests that in order to avoid creaming and parking – which are both to the detriment of hard-to-place jobseekers – a governance mix is necessary, in which financial incentives to providers are complemented by performance benchmarking, control and monitoring. There must be safeguards to make sure that services are delivered equitably to all jobseekers, not only those that earn the highest profit margins for the providers.

### ***B. Responsibility for ALMPs transferred to the municipalities***

In recent years the Netherlands has seen a shift in responsibilities for labour market policies. For a long time, these policies were essentially the task of the national government; local governments received instructions to implement them. The PES was part of the Ministry of Social Affairs and Employment and long debates regarding ALMPs such as the Youth Guarantee Plan were entirely a national affair. Often, ALMPs took the form of direct job creation in the public or non-profit sector. The Melkert jobs, named after the Minister of Social Affairs and Employment responsible for their creation in the mid-1990s, are the best-known example. They were replaced by the ID-jobs (entry-level and step-up jobs). These jobs had three goals, namely providing employment for the long-term unemployed; leading the beneficiaries to regular employment if possible; and improving public employment services. In practice they took the form of direct employment creation with public funds, primarily in local governments and health care.

Since the mid-1990s, responsibility for ALMPs has been transferred to the municipalities. The first step concerned the WIW (the Jobseekers Employment Act) scheme in 1998, which gave municipalities a budget with which to encourage and help unemployed youth (under 23) and the long-term unemployed to find a job. WIW jobs were mainly organised in two forms: either the municipality would hire the jobseeker and lend him or her out to a company (which paid part of the salary), or a company would offer a jobseeker a temporary contract (and receive a wage subsidy from the municipality). The second step, as of January 2004, has concerned the WWB (Work and Social Assistance Act) scheme, which replaces both WIW and ID. The scheme aims to activate people receiving social assistance benefits or no benefit, and to promote tailor-made local solutions.



Starting in January 2004 municipalities received two budgets, for social assistance benefits and for re-integration activities, enabling local decision-making about priorities. However, these came with a budget cut, particularly for re-integration programmes. The municipalities were given time until January 2005 to decide how to fulfil their responsibilities.

Reintroduction into the Work and Social Assistance Act (in January 2004) of the obligation of job-search applies to the unemployed between 57.5 and 64 years of age. Municipalities confronted with the most disadvantaged cases are allowed to evaluate an individual's chances of returning to a regular job, and to release a person from obligations of re-integration and job-search in cases where the distance to the labour market is deemed unbridgeable. The re-integration process for older unemployed people should be reinforced in order to prevent long-term unemployment and social exclusion.

### **C. *Subsidised employment is diminishing***

Over the 1990s subsidised employment – apart from the traditional sheltered workplaces – increased significantly, from slightly more than 10 000 in 1990-1991 to between 80 000 and 90 000 in 2000-2001. In 2002, the government decided to stop subsidising direct job creation and shifted the entire responsibility from itself to the municipalities and (simultaneously) from the Ministry of Social Affairs and Employment to the ministries responsible for the fields where the public jobs are located (health, education, security, environment, sport). After protests that many (useful) jobs could be lost, the government concluded an agreement with the municipalities and the social partners promising a temporary two-year subsidy aimed at transforming 10 000 ID jobs into regular jobs.

Table 5.3 indicates that older persons are slightly overrepresented in subsidised employment: 15% of the total, compared to 11% of total employment and 9% of total unemployment. This mainly relates to sheltered jobs and job creation for the long-term unemployed.

In terms of the effectiveness of ALMPs, little is known in general and virtually nothing is known with regard to age in the Netherlands. Young people exit subsidised employment more often for negative reasons (dismissal due to labour disability and other dismissal) than for positive reasons (regular work or education) compared to older people – *i.e.* the measure achieves the desired effect (regular work) more often for older participants (UWV, 2004). According to De Koning (2004), evaluation studies have not been commissioned in the

Netherlands recently because the Ministry of Social Affairs and Employment no longer sees this as its responsibility.

Table 5.3. **Subsidised employment<sup>a</sup> by age, end 2003**  
As a percentage of each group

	20-44	45-54	55-64	20-64
	<b>Subsidised employment</b>			
1- WIW jobs (Jobseekers Employment Act)	60	25	15	100
2- WIW work experience	81	15	4	100
3- ID (Entry-level and step-ups jobs)	59	32	10	100
4- WSW (Sheltered Employment Act)	50	33	17	100
Total (1-4)	54	31	15	100
% of labour force	1.8	2.9	3.0	2.2
	<b>Employment and unemployment</b>			
Employment	65	24	11	100
Unemployment	72	19	9	100

a) Excluding employment in private sector with wage subsidies.

Source: Social Security Agency (UWV).

## 5. Key issues

There is still no general consensus in Dutch society about longer working lives. Health problems should receive more attention. Also, care should be taken about introducing measures that are soon thereafter abolished (*e.g.* training deduction), because there is a risk that this will negatively affect the credibility and effectiveness of policies: the latter will be judged to be erratic. The OECD recommends reconsidering removal of the corporate tax deduction for the training of older workers, as new evidence strongly suggests that for low-skilled workers and older workers the lack of training opportunities is mainly a demand problem (OECD, 2004c).

Concerning training issues, it is important to take a life cycle approach. The experiences of workers at younger ages will have an impact on their labour market decisions and outcomes when older. For example, workers who have ample opportunities mid-career for upgrading their skills or for learning new skills may be better placed in terms of labour market outcomes when older than those with fewer opportunities. Thus, a number of policy interventions to encourage greater investment in training should, in fact, focus on workers at mid-career ages. In France, lifelong learning and vocational training among experienced workers is being promoted more generally through a national collective agreement on “employee lifelong access to training” (OECD, 2005a).

The government and the social partners should continue to promote health and safety at work for older workers, who tend to suffer the most serious workplace accidents and have a higher-than-average mortality rate. Preventive measures should also be taken. Rather than recognising a permanent right to early retirement for those in strenuous jobs, action to alleviate difficult working conditions should be taken upstream.

Efforts to help older jobseekers find a job should be stepped up; evaluations are lacking here and should be introduced. A potential problem with decentralisation and the contracting out of ALMPs is the lack of co-ordination between the different institutions dealing with older jobseekers. It is essential that the activation process be properly monitored now that all responsibility has shifted to the municipalities, and that for the implementation of ALMPs to subcontractors.

## *Chapter 6*

### **ENSURING THAT POLICIES ARE COMPREHENSIVE AND COHERENT**

The previous chapters have set out a range of specific actions that could be taken to encourage greater labour force participation by older people. The clear indication is that a comprehensive package of measures is required. But it is also important that these measures are coherent with other policies to mobilise potential labour resources more generally in the Netherlands. Therefore, the purpose of this chapter is to raise a number of issues concerning the comprehensiveness and coherence of employment policies to cope with population ageing.

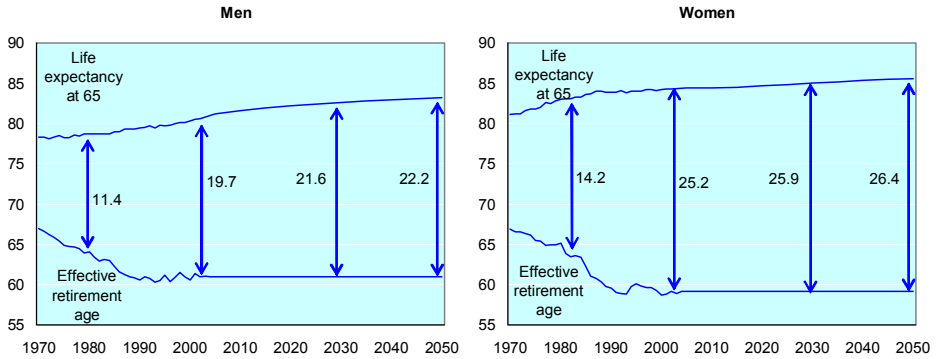
#### **1. More coherence between living longer and working longer**

Living longer is a great opportunity, but a problem for society is that living longer has not translated into working longer. Quite the contrary: in parallel with the increase in life expectancy, the effective age of retirement has gradually fallen. The gap between the two could in 2050 reach 22 years for men and 26 years for women if the effective retirement age remains constant (Figure 6.1).

#### **2. Getting the economic fundamentals right**

Rather than older and younger workers competing over a fixed number of jobs, the empirical evidence points to a positive relationship between employment outcomes for the two groups. As can be seen from Figure 6.2, an increase in employment rates for older people tends to be structurally associated with an increase, not a decrease, in rates for younger people. This underlines the importance of macroeconomic and other policies in helping boost labour demand more generally. Workers of all ages benefit from the removal of demand-side barriers to employment, and from product markets that are dynamic and responsive to new business opportunities.

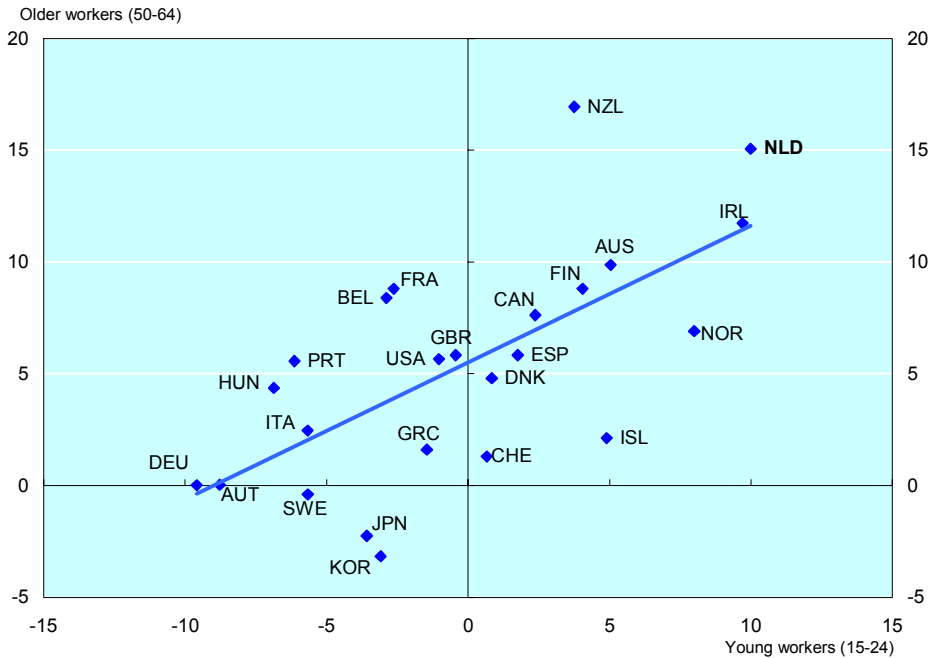
Figure 6.1. Long-term retirement trend in the Netherlands by gender



Source: Statistics Netherlands (CBS) and OECD Secretariat estimates on the basis of age-specific labour force participation rates. The effective retirement age is constant as from 2002.

Figure 6.2. Complementary employment outcomes for older and younger workers

Percentage point change in employment-population ratios, 1992-2002



Source: OECD Labour Force Statistics.

Another message of Figure 6.2 is that in the last decade, there was a decrease in the employment rate of older people in only three countries, Korea, Japan and Sweden. In these three countries, the issue is to maintain very high employment rates. By contrast, there was a decline in the employment rate of young people in more countries than an increase. Given the trend towards increasing pursuit of education, this is to be expected. Countries that show healthier employment rates for young people, such as the Netherlands, have a strong overlap between education and employment because most students combine study and work.

Thus, older and younger workers will face better employment prospects if economic growth and overall employment growth are strong. In particular, their opportunities will be enhanced by tackling barriers to job creation more generally. Areas for action include unemployment benefits, wage and non-wage labour cost flexibility, working-time flexibility, the entrepreneurial climate, product market competition and training. It is important that the Netherlands continue to pursue reform in these areas, as outlined in the OECD Jobs Strategy recommendations and later formulated specifically for the Netherlands in the different OECD *Economic Surveys on Netherlands* (see Appendix 1 of the latest survey, describing the follow-up on OECD recommendations for structural reform since 2002 in OECD, 2004a).

### **3. Policy co-ordination and coherence**

As discussed in the previous chapters, the reasons why workers leave the labour market are complex and may involve a range of issues, including income support arrangements, employer attitudes and practices, access to employment services and training, health status, and working conditions. This means that policy action is required on many fronts, and that a co-ordinated approach is necessary if these actions are to be mutually reinforcing. For example, the reintroduction of the obligation of job-search for the older unemployed should be co-ordinated with activation measures already in place for that group. At the same time, it will be increasingly important to ensure that assistance to older jobseekers is better targeted. Otherwise, the potentially positive impact of the reintroduction of the obligation of job-search on labour force participation of older workers may be offset by an increase in the proportion of older workers in long-term unemployment.

As shown throughout this volume, the Netherlands has taken several measures that may help meet the challenges that an ageing population would pose. New policies and initiatives to improve participation rates for older people were

introduced, involving diverse government approaches to policy advice and development, consultation with the social partners and a continuing reform process.

Some firms in the Netherlands have already implemented policies towards older workers and the Dutch government is encouraging this further by subsidising employers to develop such policies via a new financial incentive introduced in December 2004 for the period 2004-2007. These efforts should be continued. However, to raise participation rates among older workers and to respond to challenges posed by population ageing more generally, there may be a need for broader measures applying to different areas of the labour market.

Older workers are a very diverse group, and the disadvantages that some of them face are associated not only with age but also with other factors shared with younger workers. Therefore, employment policies not specifically targeted to older workers may nevertheless benefit them. In this respect, the Netherlands is on the right track in developing life-course policies that increase choices and opportunities at early stages of the life cycle. Opportunities to take leave through the new individual life-course savings scheme should help workers cope with their family responsibilities and enable them to invest in training to be better prepared and motivated to work longer. If people have been out of the labour market for longer periods at younger ages, or if younger or middle-aged workers do not receive enough training, incentives and policies to encourage older workers back to work may come too late. This is particularly the case for Dutch women who, much more often than Dutch men, work part time and have interrupted working careers. Therefore, in designing packages of measures for older workers or older job seekers, it is important to think beyond the target group.

Finally, any strategy to encourage greater labour force participation of older people will have to deal with a number of difficult choices. For example, measures to promote gradual retirement could encourage some workers to postpone retirement but, if they also encourage other full-time workers to switch to part-time work at an earlier age than previously, this could result in a reduced effective labour supply. In other words, there may be a trade-off between increasing flexibility in work/retirement transitions and increasing the effective labour supply of older people.

#### **4. Directions for policy**

There is an obvious risk that labour force growth will stagnate over the next few decades, which could lead to growing shortages and a slowdown in economic activity. The key to minimising these negative consequences is to

ensure that the labour resources of growing cohorts of older people are more fully mobilised. This will require action on both the supply side and the demand side. A major challenge for policy is to find an appropriate balance between measures to remove early retirement incentives and those that promote better employment opportunities for older workers.

On the supply side, incentives to encourage individuals to carry on working longer could be particularly improved by adjusting the retirement age in accordance with demographic trends and by preventing the new individual life-course savings scheme from becoming an alternative route to early retirement. Extensive monitoring of persons applying for a disability benefit should be pursued, and periodic reassessments for those judged to have possibilities of recovery should be extended to people aged 50-55. The tax credit should be more targeted, i.e. limited to those above the average age of retirement and those on lower-to-average incomes.

Recommending further reforms on the supply side is not incompatible with calling for more effective measures to stimulate labour demand. These supply-side measures also need to be supported by changes in employer attitudes and practices that will foster greater retention and hiring of older workers. An age-neutral approach to hiring and firing should help progressively achieve an optimal balance in the age composition of workers within firms. This will certainly require spreading information about age discrimination, removing barriers to work after 65, and promoting age-diversity programmes in firms.

Moreover, older workers need to be given better access to better jobs. Training opportunities for older and low-skilled workers should be strengthened and expanded, but this will have little or no effect if the lack of motivation among these groups to participate in training is not addressed. Finally, to help older people back to work, they should have the same opportunities to participate in vocational rehabilitation as other age groups.

The range and cross-cutting nature of these measures suggest that they are likely to be more effective if taken as part of a government-wide strategy to tackle the various financial disincentives and barriers to employment facing older people. Any such strategy should be formulated, implemented and monitored in close co-operation with government authorities, the social partners and non-governmental organisations representing older people.





## GLOSSARY

ABP	Public Sector Pension Fund
ALMP	Active Labour Market Programme
AOW	Public Pension Scheme Act
AWVN	General Industrial Employers Association
CBS	Statistics Netherlands
CPB	Bureau for Economic Policy Analysis
CWI	Centre for Work and Income
EVC	Validation of Skill Certification
ID-jobs	Entry-level and Step-up Jobs
ILA	Individual Learning Account
LBL	Expertise Centre for Age and Society
LIFO	Last-in-First-out
NIDI	Netherlands Interdisciplinary Demographic Institute
NPOE	Netherlands Platform for Older People in Europe
OHS	Occupational Health Service
OSA	Institute for Labour Studies
PAYG	Pay-As-You-Go
PES	Public Employment Service
PVK	Pensions and Insurance Supervisory Authority
REA	Law on the Re-integration of Labour Handicapped Persons in Employment
RMO	Council for Social Development
SCP	Social and Cultural Planning Office
SER	Social and Economic Council
SEO	Economic Research
SEOR	Foundation for Economic Research Rotterdam
SPAK	General Subsidy on Low Wages
STAR	Labour Foundation
SZW	Social Affairs and Employment
TNO	Netherlands Organisation for Applied Scientific Research
UWV	Social Security Agency
VUT	Early retirement
WAO	Disability Insurance Act

WIW	Jobseekers Employment Act
WSW	Sheltered Employment Act
WW	Unemployment Act
WWB	Work and Social Assistance Act

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# Ageing and Employment Policies

## Netherlands

In the face of rapid population ageing and the trend towards early retirement, there is a need to promote better employment opportunities for older people. Much has been said about the need for reform of old-age pensions and early retirement schemes but this may not be sufficient to raise employment rates for older people significantly or to reduce the future risk of labour shortages. Both governments and firms will need to take active measures to adapt wage-setting practices to ageing workforces, to address the extent to which other welfare schemes act as pathways to early retirement, to tackle age discrimination and to improve the job skills and working conditions of older workers. In addition, older workers will need to change their own attitudes towards working longer and acquiring new skills. Little is known about what countries have been doing or should be doing in these areas.

This report on the Netherlands is part of a series of around 20 OECD country reports that are intended to fill this gap. Each report contains a survey of the main barriers to employment for older workers, an assessment of the adequacy and effectiveness of existing measures to overcome these barriers and a set of policy recommendations for further action by the public authorities and social partners.

*This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume.*

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