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## Retention and Re-integration of older workers into the labour market: What works?

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# Retention and Re-integration of older workers into the labour market: What works?

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The “IAB-Discussion Paper” is published by the research institute of the German Federal Employment Agency in order to intensify the dialogue with the scientific community. The prompt publication of the latest research results via the internet intends to stimulate criti-cism and to ensure research quality at an early stage before printing.

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## Abstract

Although the labour market situation of older workers has significantly improved over time, opportunities to work at older age still vary considerably across EU countries. To trace diverging developments and to assess what works best in retaining employment and bringing older unemployed back to work developments in five countries are analysed: Germany, France, the Netherlands, Norway and Austria. By re-viewing the available evidence we find that the strengthening of financial incentives (or more precise "financial penalties") induced by pension reforms and the phasing out of country-specific pathways to early retirement have had more effect on extending working lives than anything else. Re-integration after a job loss and the risk of persisting unemployment, however, remain specific problems of the elderly. Government sponsored programs to support the re-integration of unemployed senior workers show rather mixed results.

## Zusammenfassung

Obwohl sich im letzten Jahrzehnt die Arbeitsmarktsituation älterer Arbeitnehmer in allen EU-Ländern verbessert hat, gibt es erhebliche Länderunterschiede im Hinblick auf die Erwerbsbeteiligung Älterer. Um unterschiedliche Entwicklungen zu dokumentieren und zu beurteilen, was am besten im Hinblick auf die Verlängerung des Erwerbslebens und bei der Wiedereingliederung älterer Arbeitsloser funktioniert, wird die Situation in fünf Ländern analysiert: Deutschland, Frankreich, Niederlande, Norwegen und Österreich. Zahlreiche empirische Befunde zeigen, dass finanzielle Anreize bzw. "finanzielle Sanktionen" durch Rentenreformen und die Abschaffung länderspezifischer Wege in den vorzeitigen Ruhestand mehr Einfluss auf die Verlängerung des Arbeitslebens haben, als alle anderen Maßnahmen. Die Wiedereingliederung nach einem Verlust des Arbeitsplatzes und das Risiko der Langzeitarbeitslosigkeit bleibt über Ländergrenzen hinweg jedoch ein spezifisches Problem älterer Arbeitnehmer. Staatlich geförderte Programme zur Unterstützung der Wiedereingliederung von älteren Arbeitslosen zeigen eher gemischte Ergebnisse.

**JEL-Klassifikation:** I38, J14, J21, J26, J68

**Keywords:** employment and unemployment of the elderly, active labour market policy, workplace policies

## 1 Introduction

The labour market situation of older workers has significantly improved over time. In the last decade employment ratios went up and tend to adjust to the situation of younger age groups. Even the age groups 60 and older are lagging now less far behind than 10 years ago.

Opportunities to work at older age, however, still vary considerably across EU countries. We focus on the development in five countries: Germany, France, the Netherlands, Norway and Austria to trace diverging developments and assessing what works best in retaining employment: Strengthening financial incentives by “rewarding” later retirement (pension and benefit reforms, phasing out of early retirement schemes) or encouraging employers to retain older workers through active aging policies at the workplace?

Although progress has been made in extending working lives, severe problems are remaining in bringing older unemployed back to work. In all five countries the transition rates from unemployment to unsubsidized jobs are low. This means that a major challenge is to enhance job mobility of older workers characterised by low hiring rates and a high incidence of long-term unemployment. By reviewing the available evidence of targeted re-integration measures for older unemployed we try to find out what types of programmes work best in bringing senior workers back to work.

## 2 Recent labour market developments for older workers

### 2.1 Development of employment ratios

Among the five comparison countries, the increase in participation rates of senior workers (55-64) was particularly pronounced in Germany and the Netherlands. Employment ratios<sup>1</sup> went up in the last 15 years by 24 percentage points in the Netherlands and 28 percentage points in Germany (Figure 2.1). Whereas Norway have had the highest employment ratio of senior workers already for more than two decades, Germany recorded the strongest increase in Europe in the last decade.

Although employment ratios in the cohorts near to retirement as well as for women are generally lower, it's the recent increase in female employment in the age group 60-64, which attributed most to the increasing employment ratio of older workers. Figure 2.2 shows that the employment ratio of 60-64 old German women increased by 36 percentage points between 2000 and 2015 compared to 32 percentage points of men in the same age group. Official German statistics, however, might overestimate the number of older workers actually working. The relative intense use of partial retirement as “block model” is identified misleadingly as part-time work. In the “block

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<sup>1</sup> To adjust the absolute numbers according to demographic effects I calculate employment ratios (instead of employment rates) by relating employment to the population of the same age group to assess whether the labour market participation of older workers really increased.

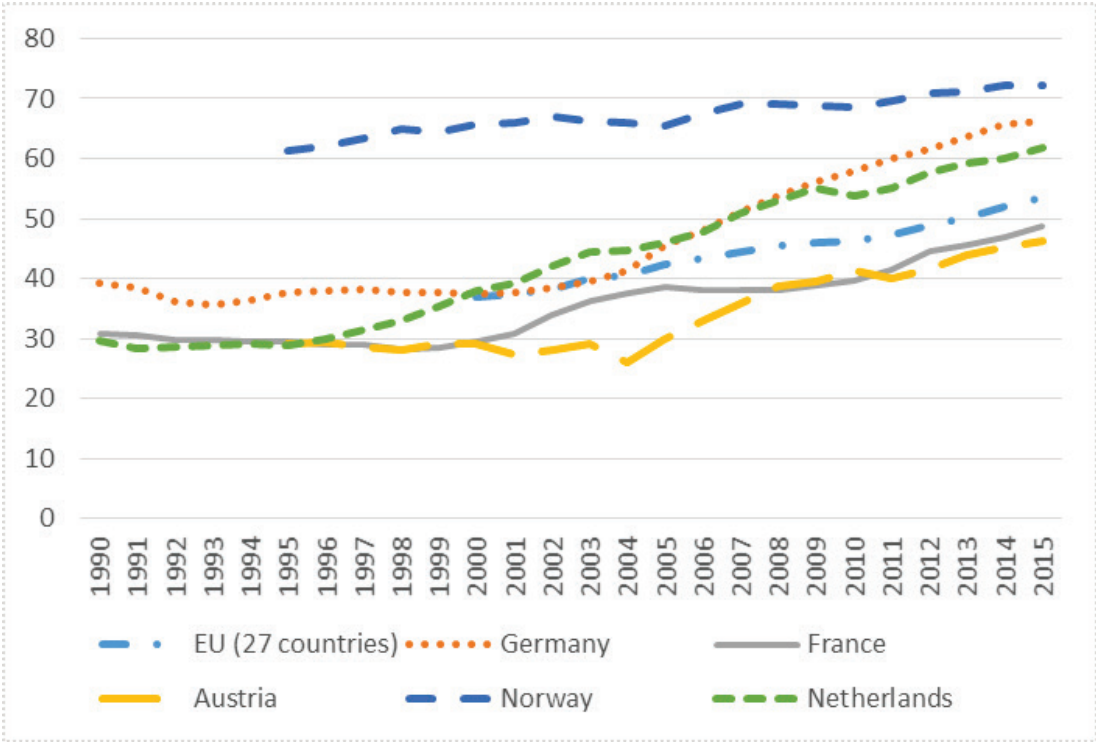
model” a period of full-time work is followed by a period of not working. Both periods, however, are counted as employment.

Employment rates for older workers still vary considerably by educational level. In all countries there is a clear divide between those who are well-educated and well-off and those who are unskilled and poor. This is, however, not an age-specific phenomena but cuts across all age groups irrespective of age (Sonnet et al. 2014, 317).

The better employment performance of older workers is particularly notable following the global financial crisis. While older workers tended to withdraw in large numbers from the labour market following major recessions in the 1970s, in the 1980s and in the early 1990s, they have stayed in the labour force and even increased their participation following the 2008/2009 crisis (OECD, 2013a).

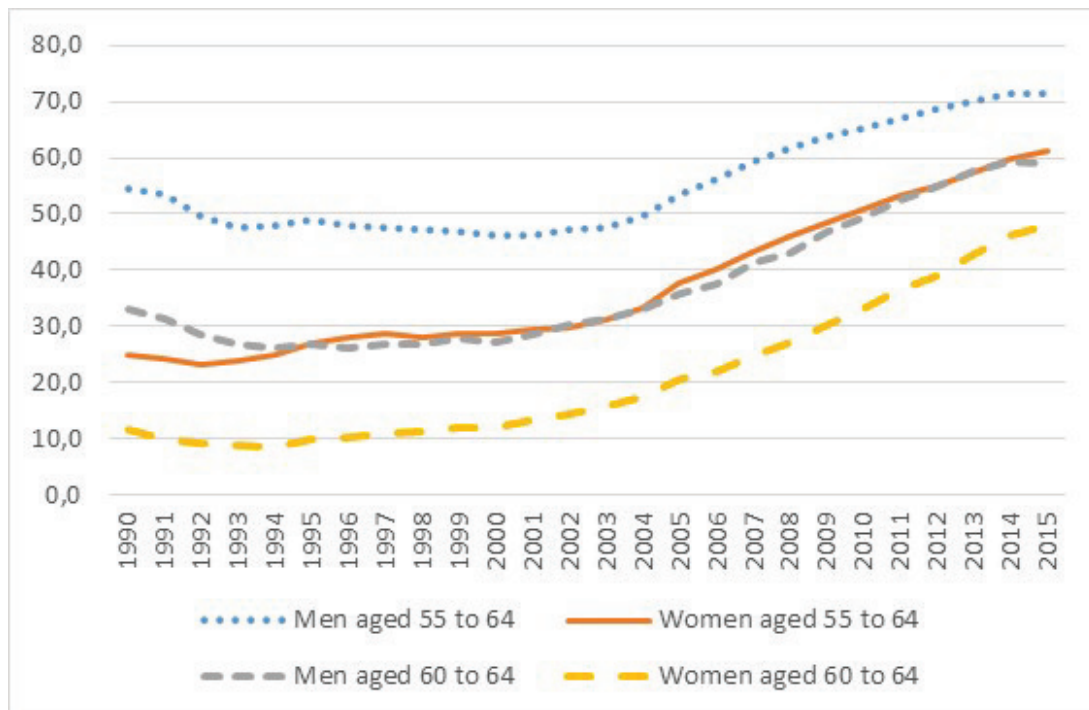
Despite a clear trend to extend working lives, working after the age of 65 remains uncommon. According to EU-LFS data from 2014, only 9.6 percent of all persons of the age group 64-74 were still in employment in Germany, 7.4 percent in Austria, 11 percent in the Netherlands and 4.2 percent in France. Working longer is more extended in Norway where 22.9 percent in the age group 65-74 are still in employment.

**Figure 2.1**  
**Employment ratios of people aged 55 to 64; in percent of the population in the same age group**



Source: Eurostat. Labour Force-Survey (EU-LFS)

**Figure 2.2**  
**Gender specific employment ratios of senior workers in Germany in percent of the population in the same age group**



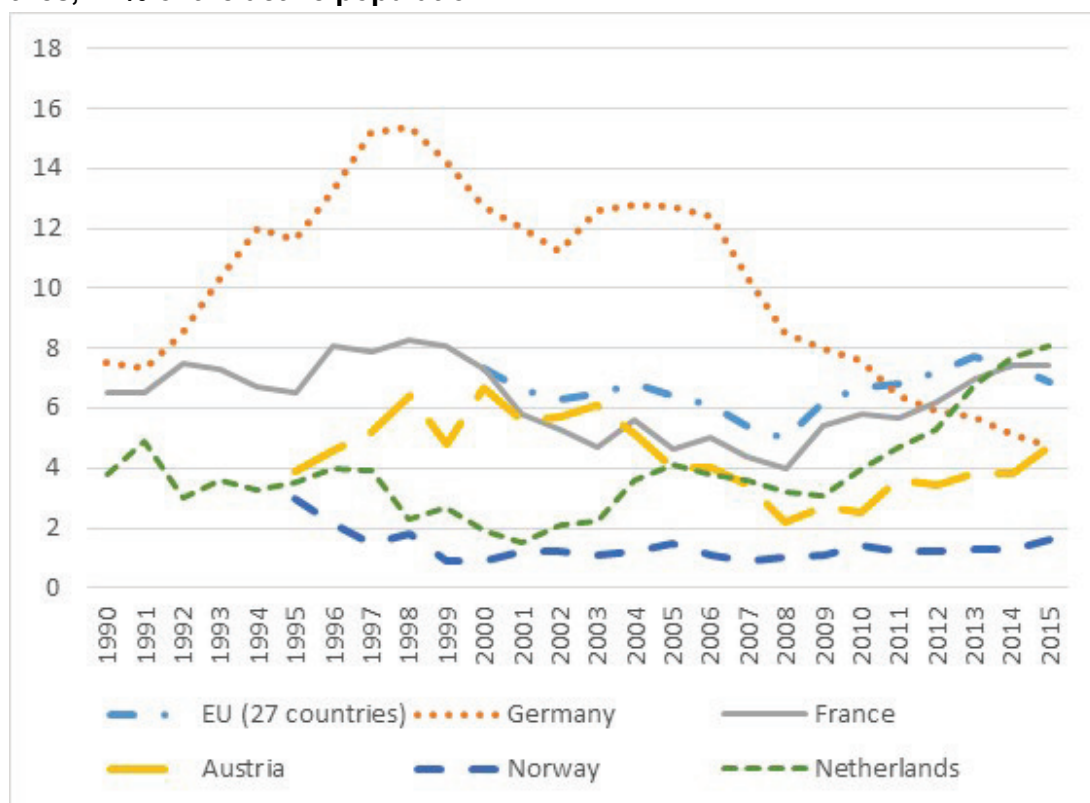
Source: Eurostat. Labour Force-Survey (EU-LFS)

## 2.2 The evolution of non-employment

### 2.2.1 Unemployment

The evolution of unemployment among the age group 55-64 is less uniform than the evolution of employment. Figure 2.3 shows that unemployment among older workers has been comparatively low in Norway already since the early 1990s whereas in Germany unemployment among senior workers decreased since the late 1990s from a comparatively high level. This is not the case in France, Austria or the Netherlands where unemployment rates for older workers are re-increasing since 2008/2009 (Figure 2.3).

**Figure 2.3**  
**Evolution of unemployment rates of people aged 55 to 64 in selected countries, in % of the active population**

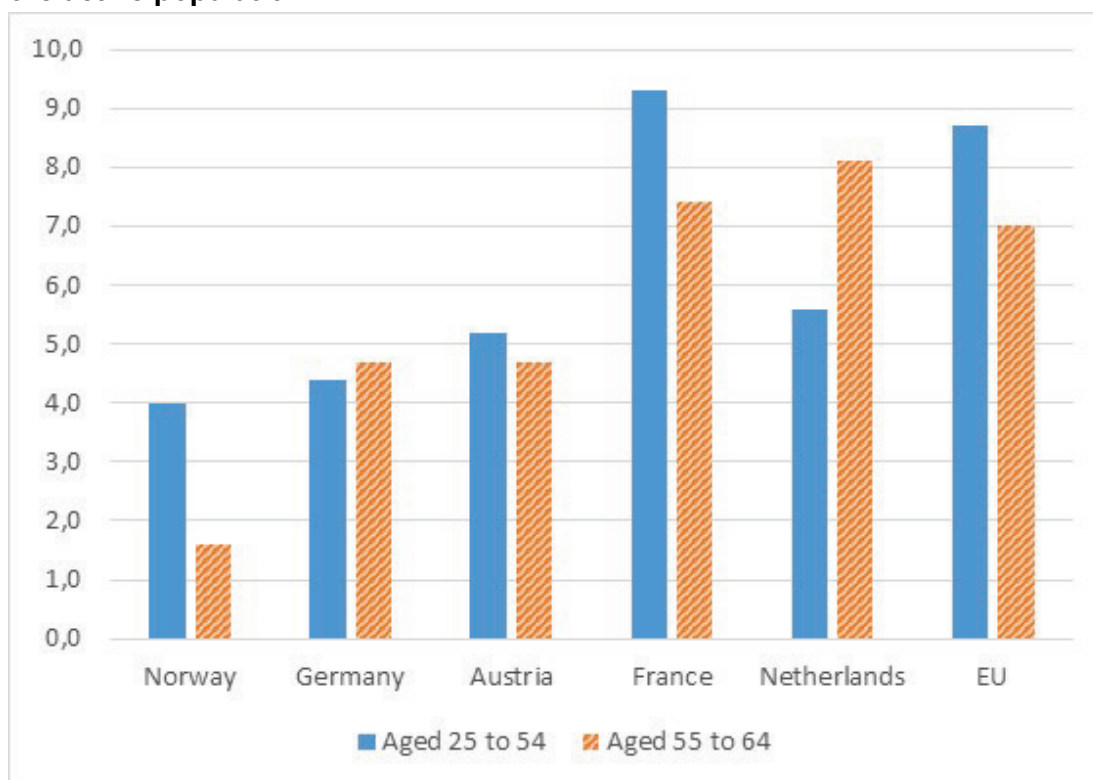


Source: Eurostat. Labour Force-Survey (EU-LFS)

The unemployment rate of older workers in Germany is now one of the lowest in the European Union. In the course of time, the labour market position of the elderly has become more and more favourable, until it has finally come to an approximation to the middle-aged persons. The “age gap” between the unemployed in the age group 55-64 (4.7%) and the reference group 25-54 (4.4%) has nearly been closed (Figure 2.4).



**Figure 2.4**  
**Unemployed aged 55-64 compared to unemployed aged 25-54 in percent of the active population**

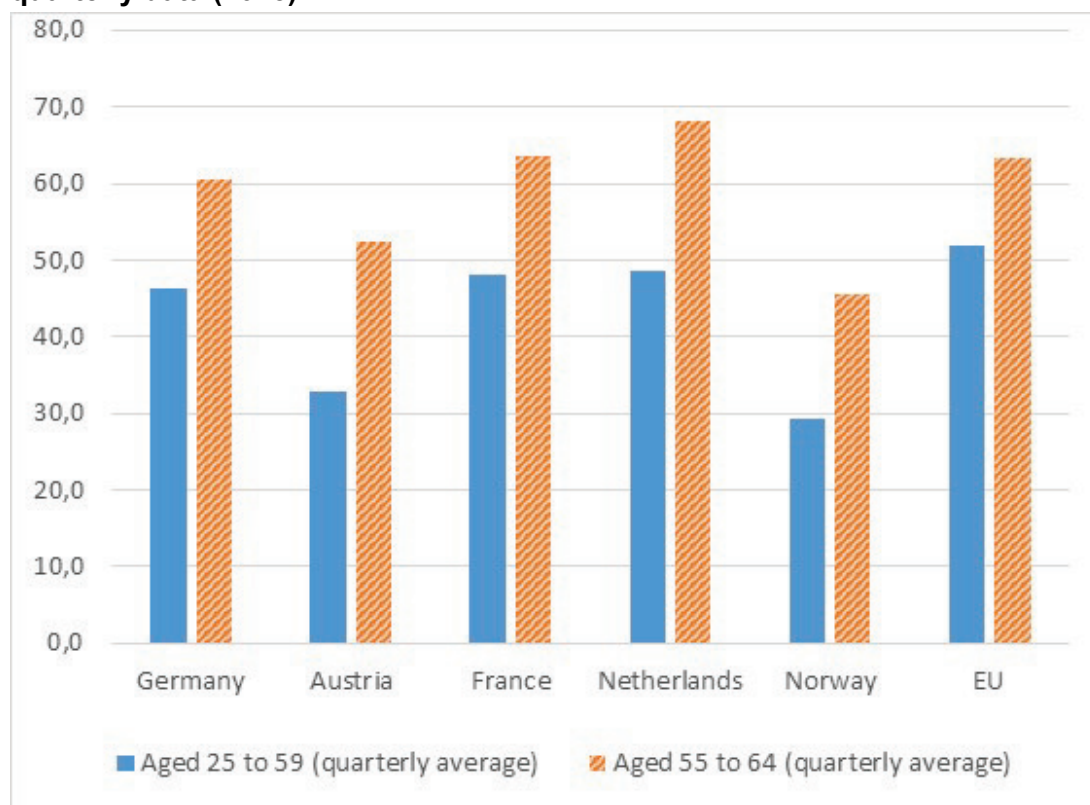


Source: Eurostat. Labour Force-Survey (EU-LFS)

## 2.2.2 Long-term unemployment

Despite these positive developments, unemployed older workers continue to face severe difficulties in finding a new job. The difficulties result in higher long-term unemployment (LTU). Re-integration after a job loss and the risk of persisting unemployment remain specific problems of the elderly. Figure 2.5 shows that the incidence of long-term unemployment among older unemployed is higher in all five countries than in the reference group of 25-59. The age gap is most pronounced in Austria and the Netherlands. In both countries the increase in the LTU share of older workers (55-64) has been especially steep in recent years. This is partly due to the business cycle. Both countries have suffered from low or even negative economic growth since 2012. The high long-term unemployment among older people, however, is generally more a structural than a cyclical problem. Independent of the economic situation advanced age is a general risk factor. Being 51 or over halves the chances of making a transition from unemployment to employment compared with persons aged 30-50 years. As older unemployed suffer not seldom from multiple obstacles such as the co-existence of lacking skills and health problems they face serious difficulties to re-enter the labour market (Beste/Trappmann 2016).

**Figure 2.5**  
**Long-term unemployed aged 25 to 59 and 55 to 64 in % of all unemployed, quarterly data (2015)**



Source: Eurostat. Labour Force-Survey (EU-LFS)

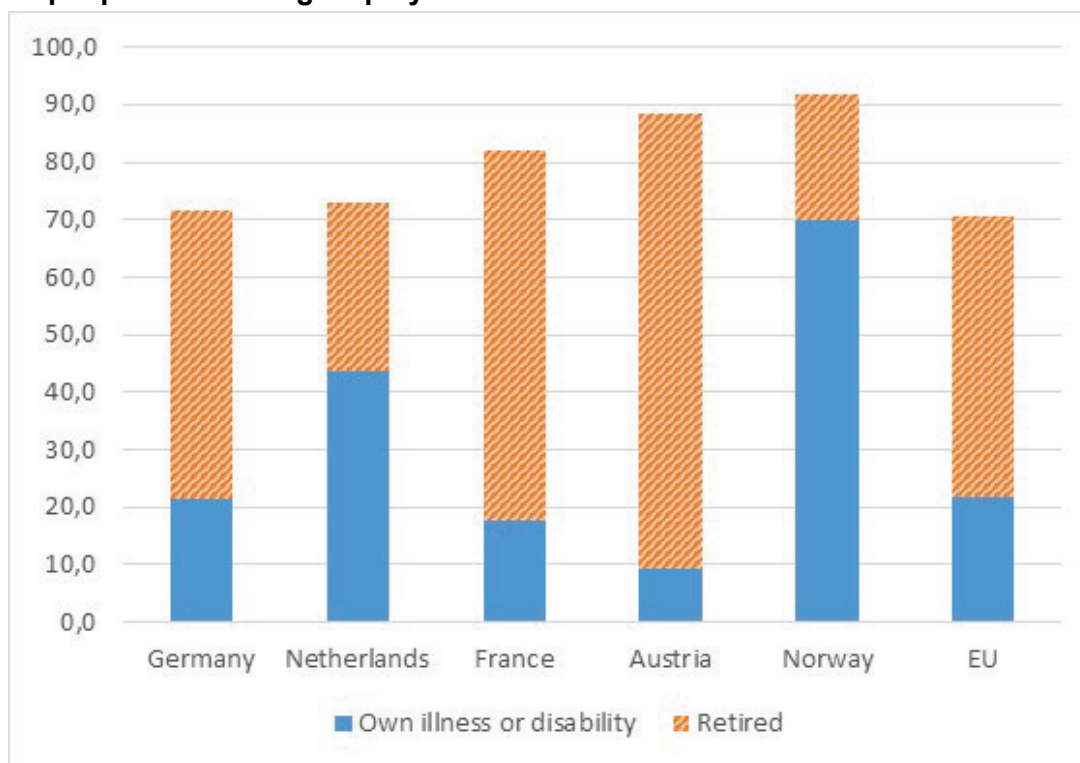
A closer look at skill levels of German long-term unemployed shows that the age effect is particularly pronounced among highly skilled which runs counter to their general risk of unemployment. The age gap is lower among low skilled because of their lower job tenure across all age groups whereas high skilled individuals usually have a high job tenure. But when they are dismissed, they are hardly hired any more in old age (Brussig et al., 2016, 121-122).

### 2.2.3 Inactivity

Unemployment, however, only reflects part of the picture about the labour market situation of older workers. Low unemployment rates are often associated with high disability and inactivity rates which points to the fact that early retirement via social benefits is still a salient feature in many countries although the possibilities to leave the labour market prematurely have become increasingly restricted. Disability insurance (DI) and unemployment insurance (UI) have been widely used as early retirement pathways in the past. Each country had (and still has) its specific retirement pathways. In Germany as well as in France early retirement via the unemployment compensation system has been prevalent. In the Netherlands and Norway the use of disability pensions have been particularly striking whereas in Austria invalidity pensions to retire early prevailed. The comparatively low unemployment rate of senior workers in Norway could, thus, be largely explained by displacement effects. Figure 2.6 shows that 70 per cent of the Norwegian non-employed are not seeking employment due to disability or own illness. That's why a large share of people aged 55-64 outside the labour

force are being counted in labour force statistics as “inactive” and not as “unemployed”.

**Figure 2.6**  
**Reasons for not seeking employment (2015) for people aged 55 to 64, in % of all people not seeking employment**



Source: Eurostat. Labour Force-Survey (EU-LFS)

### 3 Retention in employment: What works?

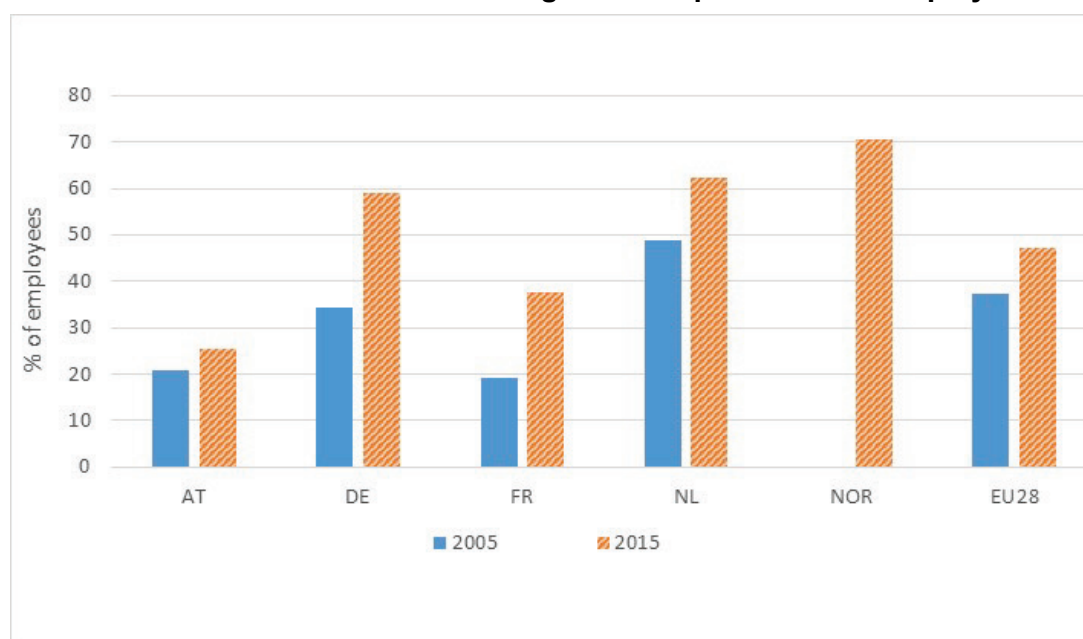
Differentiating between retention and hiring rates clearly indicates that the increase in employment rates of older workers is driven by job retention and not by job mobility (hiring). The rates of older workers who remain in the same firm after the age of 60 have increased largely in the past decade (Figure 3.1). Higher retention rates are reflected by higher effective labour market exit ages which increased in all countries but to a varying degree<sup>2</sup> (Figure 3.1).

Older workers obviously postpone their retirement decisions. On the one side, changes in financial incentives by raising the statutory pensionable age and introducing actuarial deductions for early retirement as well as the closing of exit routes are strong pull factors to extending working lives. Retirement decisions are also affected by the degree of flexibility in combining income from work and pensions. On the other hand, employers' initiatives to retain older workers by making use of various human

<sup>2</sup> Starting from a comparatively high level in Norway (63.7 years) the effective retirement age increased over the period 1995-2014 only by 0.4 years. In France, the increase was 0.9 years starting from a low level (58.9 years). In Austria (58.9) it increased by 1.3 years, in Germany (60.3) by 2.4 years and in the Netherlands (58.7) by 3.2 years (<http://www.oecd.org/els/public-pensions/ageingandemploymentpolicies-statistics-on-average-effective-age-of-retirement.htm>).

resource practices (e.g. employer provided training for older workers or an active health management) could be an important push factor.

**Figure 3.1**  
Retention rates<sup>3</sup> of workers after the age of 60 in percent of all employees



Source: Eurostat. Labour Force-Survey (EU-LFS)

### 3.1 Effects of strengthening financial incentives

There are a number of studies demonstrating the causal effects of pension and benefit reforms on the increase of senior employment. Engels et al. (2016) find, for example, sizeable effects on female employment of a German pension reform in 1992 combining an increase in the normal retirement age for women and the introduction of cohort-specific deductions for early retirement<sup>4</sup>. Similar results have been found for Austria by Manoli and Weber (2016). The observed increase in employment after a reform in 2000 are mainly explained by individuals who keep their pre-retirement jobs longer. Increasing the retirement age by 2 years for men and 3.25 years for women between 2000 and 2006 reduced retirement by 19 percentage points among affected men and by 25 percentage points among affected women and increased employment by 7 percentage points among men and 10 percentage points among women (Staubli und Zweimüller, 2013). Hanel and Riphahn (2012) analysing a Swiss reform that increased the normal retirement age for women find also relatively large effects on employment.

<sup>3</sup> Employees currently aged 60-64 with job tenure of five years or more as percentage of all employees aged 55-59 previously; Date for Austria and the Netherlands from 2007 instead of 2005; no data available for Norway in 2005.

<sup>4</sup> Engels et al. (2016) find furthermore not only a substitution of early retirement into unemployment but also a shift in unemployment periods. Unemployment prior to the age of 60 was reduced whereas after the age of 60 increased. The use of unemployment benefits as a bridge to retirement is delayed after the reform.

In most countries, the possibilities to leave the labour market prematurely have become increasingly restricted as a consequence of the retrenchment and gradual phasing-out of *de facto* early-retirement options. Behavioural responses to an increase in the early retirement age (ERA) are large. Geyer and Welteke (2017) show, for example, that employment rates among women increased by about 26 percent after a German reform in 1999 effectively raising the early retirement age for women by three years to at least 63. The increase in the ERA did not increase inactivity nor substitution into other social security programs such as unemployment or disability benefits.

In Germany, nearly all formal early retirement regulations and incentives for early labour market exit have been abolished in recent years. One might expect as a consequence an increase in “open” unemployment due to these changes. What is striking, however, is that although the so-called “58er-Regelung”<sup>5</sup> has been eliminated in 2008, the age-specific unemployment rates did not go up. Hence, the increase in employment in the age group 55-64 was obviously higher than the increase in unemployment in this age-group.<sup>6</sup> This has, however, not been the case in Norway and the Netherlands where similar exemption rules for older workers have also been eliminated. In the Netherlands the abolition of the exemption rule in 2004 for persons 55-59 has increased employment but also disability claims<sup>7</sup>. The study by Lammers et al. (2013) find an increase in job finding by 6 percent points of Dutch women and 11 percentage points of Dutch men within two years after becoming unemployed and an increase by 4 and 9 percentage points in the number of men and women receiving a disability allowance.

Pension and early retirement reforms as well as reforms tightening the eligibility rules for disability insurance (DI) programs go often along with substitution effects (Inderbitzin et al., 2016). Despite considerable substitution effects such reforms also show substantially positive effects on employment. Gradual increases in the ERA in Austria, for example, led to an increase in the unemployment rate by 10 percentage points among men and 11 percentage points among women. The increase in unemployment was larger for unhealthy individuals and blue-collar workers (Staubli and Zweimüller, 2013). Van Sonsbeek and Gradus (2013) estimate the decrease into the inflow into DI in the Netherlands after such reforms to over 60 percent. There is, however, no

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<sup>5</sup> Unemployed 58 plus have been eligible for unemployment benefits without having to look for work and, thus, have not been counted in the unemployment statistics anymore.

<sup>6</sup> Changes to benefit eligibility might also have influenced these developments. Older workers who entered UI till end of 2004 might rationally have expected to claim generous, wage-indexed benefits until entering retirement. The lower lump sum benefits for older long-term unemployed after the Hartz IV reform in 2004 makes such an option less attractive. Additionally, the “pension at 63”, introduced in July 2014, for those who have paid into the retirement system for 45 years might also contribute to lower not only employment but also unemployment among the elderly.

<sup>7</sup> From the age of 57.5 onwards, unemployment benefit recipients in the Netherlands, were not required to actively search for a job – they could stay unemployed until they turned 65, from which age they would receive retirement benefits. No impact studies on the abolition of similar regulations in other countries, e.g. in Norway or Germany are available.

conclusive evidence on spill-over effects on employment and unemployment. Effects on employment and unemployment are often heterogeneous according to labour market history and labour market attachment.

In contrast to other countries, France, has not been tightening unemployment rules after the age of 50 very effectively. Unemployment benefits for bridging the transition period to retirement are still widely used. The maximum duration to unemployment benefits rises to seven years after age 58. In effect, unemployed persons who are 61 years of age can continue to draw benefits until they reach full pension age. This might be one factor explaining the underperformance of France with respect to employment ratios of older workers compared to the other countries (see Fig. Figure 2.1 above).

In general, there are two main lessons from these evaluation studies. First, strengthening the financial incentives to remain in employment have been effective in all countries. Second, a strategy to extend the working live of older workers could only be effective when all provisions and possible substitution effects of different social security programmes to retire early are taken into account.

### **3.2 Effects of workplace policies**

In many countries, the number of establishments having an active aging policy at the workplace has increased. By incorporating policy measures into their personnel policy employers aim to retain older but experienced workers. Policies that address the workplace and employers' behaviour, however, have been scrutinized less intensively by empirical research than the effect of strengthening financial incentives. Hence, there is only limited evidence on the role workplace policies and practices play in encouraging or discouraging longer work lives or about the mechanisms through which such practices operate. Moreover, the effects of measures to prevent health problems, improving work ability and promoting career development for older employees are often inconclusive (see Midsundstad et al., 2012, Zwick, 2011, Behagel et al., 2014).

One reason for the poor results might be that special workplace policies are too un-specific. This seems to be the case in Norway. The first Norwegian tripartite agreement on a "More Inclusive Working Life" (IW agreement) was signed in October 2001 by the government and the social partners in order to counteract early retirement as an effect of workplace conditions. Research, however, has found that the senior initiatives most commonly offered by Norwegian firms fail to produce the desired effects, as they provide benefits to workers who would continue working anyway. Reviewing IW practices, the OECD (2013b, 119) concludes that to be effective such initiatives need to be differentiated among occupations, sectors and industries, and implemented in a preventive approach.

Employer provided training is considered to be such a preventive approach deemed to improve the employability of older workers. Inclusion of older workers in firm-specific training is, however, still low in many countries, especially in small and medium

sized (SME) establishments (Bellmann and Leber 2008). Firms often associate little or no benefits to investing in training for older workers.

Studies examining the relationship between employers' provided training and retention and wages of older workers obtain inconsistent findings. Important questions remain. For example, the question if employers should include older workers in the standard training programs offered to the rest of their workforce, or if they should create targeted training programs for older workers. By using a broad sample of establishments and matched data from the Linked Employer-Employee Data (LIAB), Berg et al. (2016) examine relationships between establishments' training programs, wages, and retirement among older men and older women. The authors find that when establishments offer special training programs targeted at older workers, women - and especially lower wage women - are less likely to retire.

Government subsidized training might compensate for low firm-specific training in SMEs. Studies on publicly funded training programs in a number of European countries, however, fail to find any significant effect on labour market outcomes for older people. One of the few programs to find a small but positive effect is the German WeGebAU programme. WeGebAU aims to improve the employability of older employed workers and prevent them from leaving work by subsidizing their further training. The job-training subsidy is targeting workers who are at least 45 years old in small and medium-sized firms. Dauth and Toomet (2016), evaluating the program, find that participants are approximately 2.5 percentage points more likely to remain in paid employment two years after treatment. Postponed labour market withdrawal (avoiding early retirement) is the main driver of the positive effects. The program has potentially a substantial effect on job satisfaction while the influence on human capital, and hence involuntary layoffs, is rather limited. All in all, participation rates in the programme have been generally low. This is probably due to the fact that small and medium-sized enterprises as well as older people are equally difficult to achieve for further training.

To sum up: The possibilities in extending working lives by retaining older workers in employment is influenced by a number of different pull and push factors within, as well as, outside the workplace. Available evidence for establishments' pro-retention programs find – at best - small effects. In contrast, the strengthening of financial incentives (or more precise “financial penalties”) induced by pension reforms and the phasing out of country-specific pathways to early retirement have had more effect on extending working lives than anything else.

## **4 Re-integration of older workers: What works?**

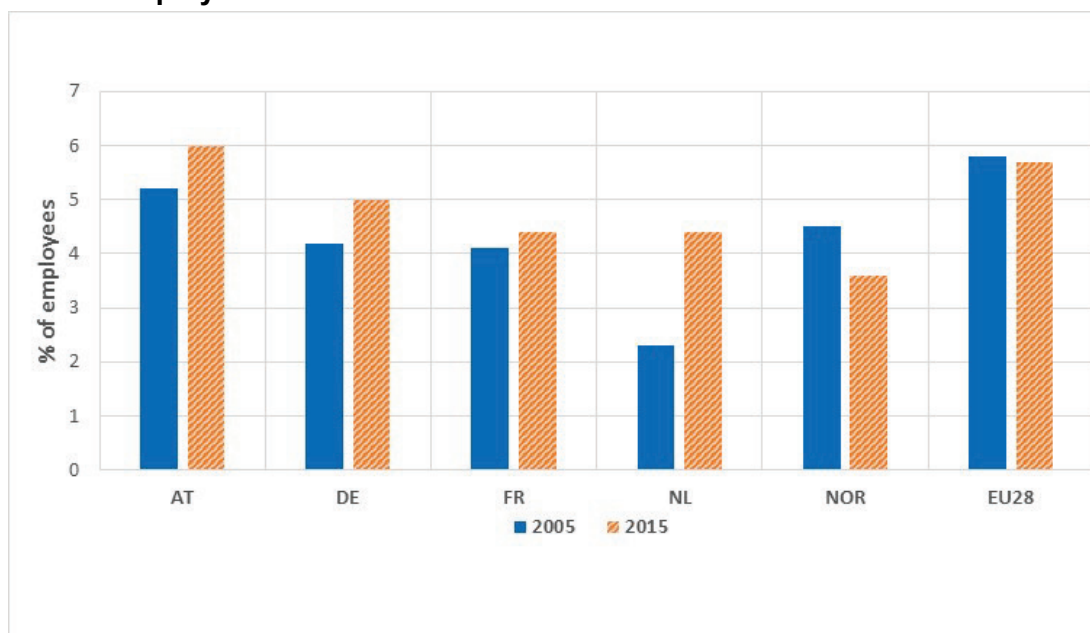
Available data clearly demonstrates that older workers are generally less likely to become unemployed, but also less likely to be hired.

### **4.1 Recruitment behaviour of employers**

Although hiring rates of older workers have increased in the past decade they are still low in all five countries. Less than 4 percent of the 55-64 old jobseekers are likely to

be hired if seeking a new job in Norway. In France (4%), the Netherlands (4%) Germany (5%) and Austria (6%) the hiring rates are only slightly higher (Figure 4.1).

**Figure 4.1**  
**Employees aged 55 to 64 with job tenure of less than one year as percentage of total employees**



Source: OECD, older workers scoreboard; data for Norway and the Netherlands from 2007 instead of 2005

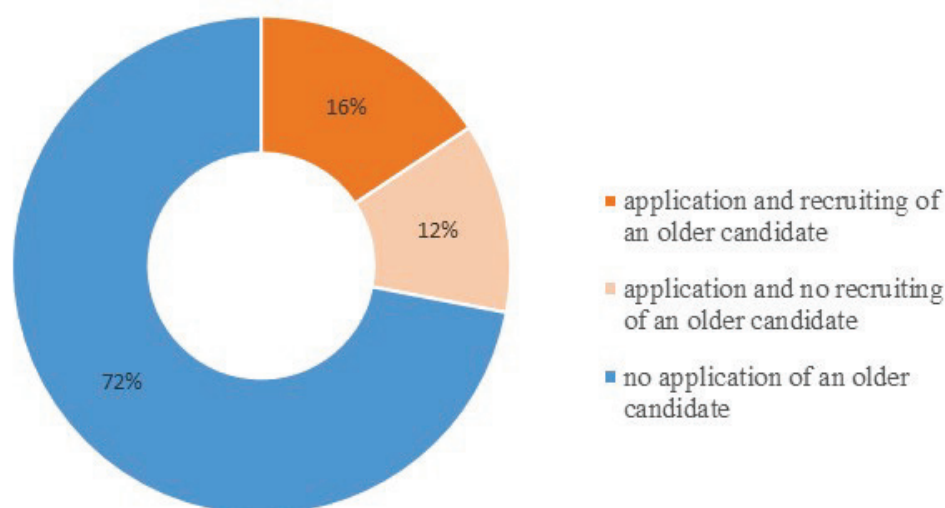
There are several reasons why firms may be reluctant to hire older workers. The productivity of older workers might be one concern. Furthermore, if firms rely on seniority or efficiency wages as an incentive device, potential years of remaining tenure might seem too short for hiring older workers. Employers might also have negative perceptions about the adaptability of older workers. Such attitudes may be based on more or less objective factors (e.g. lack of IT skills) or on stereotypes about the weakness of older workers. The latter can be seen as age discrimination in the workplace.

However, the evidence whether firms really discriminate against older applicants is not that clear cut. The German IAB establishment survey, for example, find that employers consider older workers as generally more reliable and showing a stronger work ethic than their younger colleagues. Across countries, firms which employ workers above age 50 indeed value them as an asset and HR managers develop a more positive image of age (Bonoli and Hinrichs, 2012). The IAB Establishment Panel also reveals that a considerable share of firms do not recruit older workers because they did not receive any applications from them. Survey results from 2004 have shown that about 75 percent of the firms did not have an application of older job seekers. These figures are confirmed by more recent results from the IAB Job Vacancy Survey, where firms were asked in 2014 whether they have received applications from older workers and, if they had, whether they hired them. 72 percent of the establishments did not receive applications by older workers. Out of the establishments who got an application (28%), 16 percent ended up hiring the person (Figure 4.2).



Brussig and Bellmann (2008), however, point out that there are remarkable differences between firms receiving applications and firms willing to recruit older job candidates. The firms, older jobseekers know of and that they regard as “good employers” may not be hiring them. This suggests that older workers might be more successful modifying their search behaviour.

**Figure 4.2**  
**Job applications and recruitments of older workers**



Source: IAB Job Vacancy Survey; Czepek and Mocall, 2017

## 4.2 Support measures for the re-integration of older unemployed

To overcome the mentioned hiring and job finding barriers governments have set up different active labour market programmes (ALMP) to support the re-integration of older unemployed in the labour market. Services and programmes for both, employers and jobseekers are in place in all five comparison countries. The question whether the needs of older unemployed people are best met by specially targeted measures, or by an all-age mainstreaming approach is topical in most countries. The legal basis is often vague. In the German Social Code III there are only few support measures targeted at older workers as they are usually not a specific legal category.

Participation in ALMPs decreases generally with age. Only in some Scandinavian countries there is a general right for older workers to get access to ALMP measures. In Norway, for example, unemployed persons aged 64-67 whose benefits are expiring have been guaranteed a place in an active programme since 2011. In the Netherlands, in the aftermath of the Great Recession, temporary measures have been introduced to improve the labour market position of older workers, such as part-time working schemes, hiring subsidies, special job-application training and subsidised retraining programmes. Additionally, to compensate for the risk of old workers becoming ill or disabled, a no-risk insurance was introduced for employers who hire old unemployed workers (Graaf-Zijl et al., 2015). In contrast, in Germany, participation of older workers in ALMPs have been decreasing since 2009. Compared to the share of the

elderly among the unemployed (~20%), the 55 plus unemployed are underrepresented in ALMP measures accounting for about 10 percent of participants. Moreover, their re-integration rates to employment for more than 6 months and subject to social security (32.5%) are lower than the re-integration rates across all age groups (43.2%) (BA, 2016).

More important than activation shares and gross integration rates, however, is to know about the effectiveness of targeted programs. Standard empirical evaluations of labour market policy consider the direct effects (“treatment effects”) of single programmes on their participants in terms of outcome variables like unemployment duration, re-employment rate or earnings after unemployment. They try to answer the key counterfactual question: “What would have happened to a programme participant if he or she had not participated in the programme? Hereinafter, evidence on the causal impacts of different programmes targeted to older unemployed are reviewed.

#### **4.2.1 Job search coaching**

Older workers who become unemployed after a long and stable (and often higher-paid) job are often confronted to accept reductions in remuneration and/or qualification requirements. Older unemployed lack often realistic search strategies and they - as well as the job advisers - are, on average, overly optimistic about the chances of a prompt return to work. This leads to the non-application to or even non-acceptance of certain positions which would be accepted on realistic grounds. Consequently, the counsellors have trouble with initial profiling, particularly for the group at greatest risk of long-term unemployment, and the unemployed themselves are not very realistic in their salary expectations.

This was the starting point of a Swiss experimental programme aimed to re-orientating older unemployed in search methods. A target training program on job search and coaching of self-marketing skills was set up and its effects were tested in northern Switzerland. The coaching program, focused on older job seekers (45+), turned out to increase the job finding of participants by 9 percentage points. The treatment combined individually targeted coaching (54 days in small groups) with high frequency counselling (every second week). To increase the effectiveness the intervention happened early in the unemployment spell. The treatment effect was driven by a reduction of reservation wages and an increase in search efficiency. The treated did not intensify their search in term of applications but the search was more targeted and more successful. Arni (2011) found short-run effects on motivation, self-confidence and beliefs. The job seekers overestimate their chances slightly less with respect to job interviews and salaries. Overall, the focus on realistic expectations and on search strategy appears to be important for program success. However, the more intensive coaching and counselling tend to boost the effectiveness of the job search only for “pre-seniors” in the 45-54 age group. For the age group 55 plus it was less successful. One explanation might be that the seniors believe less in the chances that the reorientation of their job search might bring about. Nonetheless, the experiment showed that assessing behaviour can provide a fruitful base for targeted policy design.

## 4.2.2 Compensating older workers for accepting lower wages

The problem of (lower) market wages employers are willing to pay to older workers due to perceived lower productivity and (higher) reservation wages is addressed in several countries. The reservation wage below which older unemployed are unwilling to accept a new job is generally higher because commonly they received higher wages before becoming unemployed than younger workers. Reluctant to accept job offers with lower wages older workers run the risk of increasing barriers to re-employment because companies judge longer periods of unemployment as a signal for low productivity. Compensating for lower wages by a differential re-employment benefit for jobs taken up after becoming unemployed might thus be a promising way to align market and reservation wages.

In Switzerland as well as in Germany government subsidies have been introduced to incentivise an early labour market re-integration. In the case of the Swiss “*Zwischenverdienst*” (intermediate wage), the unemployment insurance bears 70-80 percent of the difference of the wage differential between the last job (insured wage) and the newly offered job for 12 months at longest. In the German income safeguarding program (*Entgeltsicherung*) the differential between the former wage and the new one has been subsidized with 50 percent in the first and 30 percent in the second year by the unemployment insurance for unemployed aged 50 and above. A major difference between both schemes is, however, that in Switzerland the time staying in such an intermediate job extends the claim period of the intermediate wage earner. This has not been the case in Germany. Compensation payments were mainly addressed to formerly relatively well-earning and rather well-educated persons. The German instrument, introduced on an experimental basis in 2003, has hardly been used and was finally removed in 2011 without being evaluated (Brussig et al., 2016, 65). In contrast, the Swiss “intermediate wage” is seen as one of the most effective active labour market instruments and is used widely. It seems particularly effective for long term unemployment persons with low qualification and poor re-employment chances (Gerfin/Lechner, 2005).

## 4.2.3 Hiring subsidies

A possibility to compensate for a perceived lower productivity is to subsidize employers for hiring or retaining older workers. Population aging in many countries has motivated governments to provide wage subsidies to employers. If firms expect older workers to be less productive, targeted temporary wage subsidies like the German “*Eingliederungszuschuss*” are a way to open the door for older workers. It can also help to change the firms’ attitude towards older workers.

A number of empirical studies have investigated how wage subsidies influence employers’ hiring and employment decisions and whether the subsidies are likely to be efficient. Surveys and meta-analyses find that wage subsidies are generally effective in bringing the unemployed back to work (Card et al. 2015). However, these studies often do not consider older workers or, targeted older workers are rather “pre-seniors”

in the 45-54 age group like in the Austrian wage subsidy program (*Eingliederungsbeihilfe*). Eppel et al. (2011) find a positive overall effect of the Austrian program despite considerable deadweight effects. Positive effects were greatest for the long-term unemployed and the young “elderly” aged 45-54. Results from Finland suggest that wage subsidies targeted at older workers may be effective in preventing early retirement but do not boost employment in the workforce as a whole (Huttunen et al., 2013).

Boockmann et al. (2012) looked at whether hiring subsidies for older workers in Germany led to more hiring and, thus, to earlier transitions from unemployment to employment compared with the situation in which no subsidies are available. Exploiting the fact that specific eligibility conditions and variants of the targeted wage subsidies have changed repeatedly during the course of the last decade, the authors evaluate a change that was introduced in 2002 extending eligibility from the long-term unemployed to all unemployed workers aged 50 and older. Drawing on a large database of administrative records, the study compared workers aged 50–50.5 years at the time they entered unemployment (eligible workers—the treatment group) and workers aged 49–49.5 years (non-eligible workers—the control group). Remaining unemployed became less likely after the German hiring subsidy was extended to all workers 50 plus but the subsidy did not have a sizeable effect. A similar finding was obtained for another change in 2004 which restricted eligibility, but with the effects reversed. The evaluation study found a consistent support for an employment effect of hiring subsidies only for women in East Germany. Concerning other population groups, firms’ hiring behaviour is hardly influenced by the program and hiring subsidies mainly lead to deadweight effects. According to Bookmann (2015, 9) the conclusion from these evaluations is, that wage subsidies are not a panacea for increasing the hiring of older workers.

#### **4.2.4 Integrated programs**

Older unemployed suffer not seldom from multiple obstacles such as health problems or social barriers to re-enter employment. This leads to the question if integrated programs addressing individual barriers could help to find the way back to work. The German Ministry of Labour set up an integrated large-scale program for unemployed welfare recipients aged 50 and over in 2005.

The goal of the programme “Perspective 50 plus – employment pacts in the regions” (2005 - 2015) was to increase older workers’ labour market participation through individual support to the long-term unemployed and mobilisation of the regional or local networks to promote recruitment of older workers. Essential was the mobilisation of local responsibilities and the establishment of regional networks through “employment pacts” (partnerships) in the respective regions where the programme was implemented. The main activities in the employment pacts consisted of services to both, employers and older long-term unemployed persons. Services to employers included integration subsidies of up to 50 percent of the wage for 36 months at the longest. 34 percent of the employment contracts were supported by an integration subsidy. Many participants had no vocational qualifications, and participating immigrants often had

language difficulties. Individualised counselling supported the development of employability and the removal of personal and social barriers to enter employment.

Participation rates in the programme were high. Up to one third of all older unemployed (~ 200.000 persons) participated yearly. Despite a large experimental leeway for the implementing actors, hardly any age-specific re-integration approaches have been developed. This might suggest that there is no need to develop new targeted ALMP measures for older workers. Existing measures were combined following a common integration strategy including ALMP but also measures for which the other regional partners were responsible (e.g. health promotion).

The program have shown that job search coaching, hiring subsidies and intensified front-line working as well as networking groups for 50 plus could improve employment outcomes for unemployed claimants of means-tested unemployment benefits (ALG II). Yearly re-integration rates to employment for more than 6 months and subject to social security varied between 20 percent and 30 percent. The evaluation by Knuth et al. (2013) suggests that the effects have been significant for participants compared to non-participants. However, like in the Swiss coaching program, it were primarily the younger "seniors" aged 50-59 who benefited from the programme.

## **5 Conclusion**

In theory, the labour market position of older workers may be related to demand-side as well as supply-side incentives. Efficient policies to retain and re-integrate older workers depend on a wide range of interrelated factors. The available evidence suggests, however, that financial incentives have been decisive in extending working lives. Pension reforms raising the statutory pensionable age and introducing actuarial deductions for early retirement as well as the phasing out of early pensions and functionally equivalent schemes and side tracks into a disability status have more effect on average retirement behaviour than anything else.

The rather limited research on the role workplace policies and practices play in encouraging longer working lives such as employer provided training or an active health management finds at best small positive effects.

Despite considerable progress made in achieving the policy goal of increasing employment among older workers, re-integration after a job loss and the risk of persisting unemployment remain specific problems of the elderly across all countries under scrutiny. All in all, there does not seem to be an easy solution to the poor labour market situation of older unemployed. Government sponsored programs to support the re-integration of unemployed senior workers show rather mixed results. Beyond demand sided hiring barriers such as a perceived lower productivity, older unemployed suffer not seldom from multiple obstacles such as the co-existence of lacking skills and health problems. Evaluation findings show that individualised support following a common integration strategy including measures like job search training, hiring subsidies and health promotion seem to be the most effective overall approach.

Hence, there is a role for measures targeted specifically at older worker but they should be integrated into individual action plans. A major challenge remains for (low income) groups nearing retirement. They should be better activated as most evaluation studies have shown low or no effects for the age group 60 plus. Beyond a more individualised approach taking into account personal capacities according to the individual state of health, adapting employers', employees' and jobseekers' notions of what is "old" and "near retirement" to the changing institutional circumstances remains an important challenge for the future.

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