

Edited by:
Dirk Hofäcker, Moritz Hess
and Stefanie König

DELAYING RETIREMENT

Progress and Challenges of
Active Ageing in Europe,
the United States and Japan



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Editors

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ISBN 978-1-137-56696-6 ISBN 978-1-137-56697-3 (eBook)
DOI 10.1057/978-1-137-56697-3

Library of Congress Control Number: 2016957776

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Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Macmillan Publishers Ltd.
The registered company address is: The Campus, 4 Crinan Street, London,
N1 9XW, United Kingdom

Preface

Throughout recent decades, both the scientific as well as the public discussion on older workers and their work-retirement transitions in Western economies has changed substantially. Up until the 1990s, both discourses have mainly evolved around the dominant trend of early retirement—that is, the widespread tendency to leave employment well before reaching mandatory retirement ages. The inevitable prospect of demographic ageing and its expected consequences for public pension systems, however, has prompted many policy makers to significantly revise their labor market and social policies and to promote longer working lives. On a supra-national level, such policy shifts have often been regarded as an integral part of a general strategy of “Active Ageing” meant to promote older people’s participation in various parts of society. The designation of the year 2012 as the “Year of Active Ageing and Solidarity between Generations” by the European Commission is indicative of this general policy reorientation in Western economies.

In line with this trend, research in the social and economic sciences has started to concern itself with the topic of active ageing, providing an overview of recent trends in public pension and labor market policies. This book complements earlier publications by a sociological perspective. It systematically connects the institutional changes at the national level described in earlier studies with its repercussions at the individual level, that is, the employment behavior of older workers and social inequali-

ties. In addition, particular attention in this respect is being given to the intermediate level of enterprises and workplaces which represent the “organizational context” where employment and retirement decisions are being made.

To that end, the book brings together experts from 11 European countries, the United States and Japan to demonstrate the variety of ways in which the general idea of “Active Ageing” has been put into practice both at the policy as well as at the enterprise level. The different nation-specific constellations are then systematically compared to recent trends in older workers’ employment, thus allowing for an evaluation of the relative effectiveness of different “policy mixes” in promoting longer working life. Particular attention is paid not only to the general aggregate trend but also to the development in social inequalities among the older workforce, that is, the question who might be winners and losers of the recent policy shift. As such, the book is of substantial interest not only to scientists in social, economic and political science, but also to policy makers, union and employer representatives and practitioners in promoting older workers’ employment. It is our sincere hope that the book will steer a lively, critical and fruitful debate about the development and consequences of active ageing policies, both negative and positive.

This research was financially supported through a generous grant from the German Science Foundation (DFG) between 2012 and 2016. At the same time, it would not have been possible without the voluntary dedication of the group of international experts that have devoted much of their time and energy to this research. We are deeply grateful for this commitment.

A number of other people have contributed to the success of our research. In particular, we would like to thank David Stich and Tilman Wörz who have served as student assistants to the project and have provided valuable contributions, both organizationally and with regard to contents. Lisa Schmidhuber from Linz also spent various months as a student assistant and guest researcher at the University of Mannheim and remained a valuable contributor to our project in the months thereafter. The Mannheim Centre for European Social Research (MZES) and its unique research infrastructure provided much needed help in bureaucratic and organizational matters as well. Both Dr. Michael Heldmann as

well as the secretary of the Work area A (Sociology), Beate Rossi, deserve special mention. Prof. Dr. Bernhard Ebbinghaus frequently provided helpful advice and guidance to the national and cross-national research. Jonathan Harrow's careful and critical editing work ensured the quality of language in our publications. Finally, the staff at Palgrave Macmillan, particularly Philippa Grand and Judith Allan, provided great support throughout the production of this book.

We are hopeful that the productive collaboration of this unique group of people has helped to eliminate most potential errors in this book; we, as editors, are responsible for those remaining.

Dirk Hofäcker
Moritz Hess
Stefanie König

Acknowledgment

The editors acknowledge funding from the German Science Foundation (DFG) for the project “Determinanten der Ruhestandsentscheidung in Europa und den USA. Ein internationaler Vergleich institutioneller, betrieblicher und individueller Faktoren” (HO 4810/1-1).

Contents

1 Retirement Transitions in Times of Institutional Change: Theoretical Concept	1
<i>Dirk Hofäcker and Jonas Radl</i>	
2 Trends and Determinants of Retirement Transition in Europe, the USA and Japan: A Comparative Overview	23
<i>Stefanie König, Moritz Hess, and Dirk Hofäcker</i>	
3 Determinants of Retirement and Late Careers in Estonia	53
<i>Marge Unt and Ellu Saar</i>	
4 Path Dependency Versus New Determinants of Retirement in the Czech Republic	73
<i>Lucie Vidovičová</i>	
5 Retirement in a Context of Strong Institutional Uncertainty and Territorial Diversities: The Case of Italy	97
<i>Sonia Bertolini, Nicola De Luigi, Barbara Giullari, Valentina Goglio, Roberto Rizza, and Federica Santangelo</i>	

6 Ebb and Flow of Early Retirement: Pension Reform and Labor Market Participation of Older Workers in Spain	123
<i>Elisa Chuliá, Luis Garrido, and Jonas Radl</i>	
7 Germany: A Successful Reversal of Early Retirement?	147
<i>Moritz Hess</i>	
8 From Early Exit to Postponing Pension: How the Dutch Polder Model Shapes Retirement	171
<i>Maria Fleischmann and Ferry Koster</i>	
9 Retirement Determinants in Austria: An Aging Society but a Hesitant Policymaker!?	195
<i>Lisa Schmidhuber, Heike Schröder, and Edmund Panzenböck</i>	
10 Employment and Retirement of Older Workers in the UK	221
<i>Matt Flynn and Yuxin Li</i>	
11 Japan: Determinants of Retirement in a Hyper-Aged Society	241
<i>Masa Higo, Heike Schröder, and Atsuhiko Yamada</i>	
12 The Gendered and Liberal Retirement Regime in Switzerland	269
<i>Ignacio Madero-Cabib</i>	
13 The Outdistanced Vanguard: Early Retirement Policy in Denmark as an Obstacle to Progress in Active Aging	291
<i>Stefanie König and Julia Schilling</i>	

14 Sweden: Steeply Rising Older Workers’ Employment Rates in a Late-Exit Country <i>Stefanie König and Gabriella Sjögren Lindquist</i>	315
15 The Increasing Heterogeneity of Retirement in the USA: Interactions Between State, Firm, and Individual Determinants of Later-Life Labor Force Withdrawal <i>David F. Warner</i>	337
16 Retirement Transitions Under Changing Institutional Conditions: Towards Increasing Inequalities? Comparing Evidence from 13 Countries <i>Moritz Hess, Stefanie König, and Dirk Hofäcker</i>	363
Index	379

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List of Figures

Fig. 1.1	A rational-choice model of retirement decisions	8
Fig. 2.1	Old age dependency ratio	24
Fig. 2.2	Employment rate for men aged 55–59 (<i>left</i>) and 60–64 (<i>right</i>)	27
Fig. 2.3	Annual replacement rates for a standard production worker	33
Fig. 2.4	Share of older workers (55–75) who participated in formal and nonformal education and training in the last 4 weeks in 2004, 2009, and 2014	36
Fig. 2.5	Share of full- and part-time employment for different age groups in 2014	38
Fig. 2.6	Perceived health status and life expectancy	40
Fig. 2.7	Percentage with tertiary education in 2011 by age group	42
Fig. 3.1	Percentage employment rates in different age groups, 1989–2012	55
Fig. 3.2	Educational levels of the 25- to 74-year-old population in 2012	66
Fig. 4.1	Employment rate of 55- to 64-year-old workers (%) in the Czech Republic compared to the EU 27 (total)	76
Fig. 5.1	Female employment rates by age groups in Italy: 1983, 1993, 2003, and 2012	102
Fig. 5.2	Employment rates for older workers (55–64) by gender and educational attainment in Italy	104

xx List of Figures

Fig. 6.1	Employment rate of Spanish born in Spain by age groups and sex	126
Fig. 6.2	Percentage of old age and/or permanent disability pensioners over total population (age 53–64)	128
Fig. 6.3	Employment rate of Spanish men and women born in Spain (age 53–64) by level of education	137
Fig. 7.1	Employment rates of female and male workers aged 55–64	150
Fig. 7.2	Employment rate of older workers aged 55–64 by education and gender	151
Fig. 8.1	Employment rate of older workers (55–64 years) and share of part-time employment in the Netherlands	173
Fig. 8.2	Average effective age of retirement in the Netherlands, 1970–2012	177
Fig. 8.3	Importance of job satisfaction and job control among older workers (aged 50–65)	186
Fig. 9.1	Employment rate (%) of workers aged 55–64	197
Fig. 9.2	Employment rate (%) of people aged 55–64 according to education level (education was coded according to the International Standard Classification of Education (lower = 0–2; intermediate = 3–4; higher = 5–6))	198
Fig. 9.3	Effective retirement age, 1970–2010	200
Fig. 10.1	Labor force participation rates of older workers 1983–2012 (%)	224
Fig. 10.2	Older workforce participation by occupational group	234
Fig. 11.1	Trends in the share of nonregular employees among workers aged 55–64 by gender, 1993–2013 (%)	246
Fig. 11.2	Percentage of employers who reported implementing mandatory retirement corporate policies at their workplaces by organizational size and industrial sector, as of January 2013 (%)	256
Fig. 12.1	Employment rate by gender and age group in Switzerland between 1996 and 2014	273
Fig. 12.2	Employment rate of older workers (aged 50–64) by gender and educational level in Switzerland between 1996 and 2014	274
Fig. 13.1	Employment rate by gender and age group	294
Fig. 13.2	Employment rate by education, age group, and gender in 2012	304

Fig. 14.1	Employment rate of workers aged 55–64 years	319
Fig. 15.1	Labor force participation rates of men age 55–64 and age 65 and over in the USA, 1948–2014	341
Fig. 15.2	Labor force participation rates of men in the USA by detailed Social Security relevant age groups, 1976–2014	343

List of Tables

Table 1.1	Cohort-adjusted employment exit rates for men/women aged 55–59 years, 1990–2014	5
Table 1.2	Cohort-adjusted employment exit rates for men/women aged 60–64 years, 1990–2014	6
Table 1.3	Driving forces of retirement timing in the early and late retirement era	17
Table 2.1	Effective and official retirement age by gender	31
Table 2.2	Public pensions as percentage of total pension as of 2013	34
Table 2.3	Share of older workers (55–75) who participated in training in the last 4 weeks in 2014	37
Table 2.4	Preferred retirement age	43
Table 2.5	Overview of country characteristics (categorization based only on the 13 countries in the book)	45
Table 6.1	Early retirement as of 2013: Penalties	136
Table 6.2	Exit rates from employment of Spanish men and women (born in Spain) toward retirement and disability	140
Table 11.1	Age at which employers set mandatory retirement corporate policies by industrial sector and organizational size as of January 2013 (%)	258
Table 14.1	Withdrawals of old age pensions, percentage of each cohort	324

1

Retirement Transitions in Times of Institutional Change: Theoretical Concept

Dirk Hofäcker and Jonas Radl

1 Introduction

Currently, we are witnessing a significant retrenchment of pension systems in most advanced economies that characteristically combines a slow but steady reduction in benefit levels with a stepwise increase in statutory pension ages over multiple decades. If we compare the scale of these cutbacks to those observed in the other main pillars of modern welfare states—unemployment protection, health, and long-term care—pensions are clearly the policy area with the most severe diminution of welfare state generosity. Nevertheless, public resistance to these cost-cutting reforms has remained by and large moderate, and the shift toward the paradigm of active aging is curiously little contested given the considerable

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economic losses for prospective pensioners that these policy changes entail.

How did we get to this point? For more than three decades, many European and other affluent societies have been following a trend of fostering older workers' exit from employment well before reaching formal retirement age. This early exit orientation originated mostly in the 1970s when the oil crises put an end to decades of sustained economic growth and initiated a period of high and persistent unemployment in European economies (Kohli et al. 1991). At the same time, domestic markets became more exposed to international competition, and this created the (perceived) need for increased labor force flexibility in order to adapt to swiftly changing economic challenges (Blossfeld et al. 2006). Allowing older workers to exit from employment prematurely took pressure from strained labor markets and was intended to "make way" for younger labor market entrants and thus reduce unemployment. At the same time, it enabled firms to shed those parts of their workforce with the highest wages and employment protection. For older workers themselves, taking early retirement provided a socially acceptable and financially attractive arrangement, given that early exits were frequently well buffered through generous public pension payments and occasionally further incentivized by employer top-ups. Under the conditions of economic recession and a tight labor market, early exit from employment thus represented a solution that all social actors were ready to support (Ebbinghaus 2006). In fact, this arrangement was such a compelling compromise that, in many economies, it turned from an initially short-term policy into a persistent labor market trend (Hofäcker 2010).

This consensus, however, came under increasing pressure when policymakers and public discourses became more and more aware of the trend toward demographic aging. Driven by falling fertility levels and rising life expectancy, European societies were moving inescapably toward an unfavorable shift in the ratio of younger to older people in general and employees to pensioners in particular. Soon the perception took hold that this trend was seriously endangering the financial sustainability of national pension systems, particularly those based on a pay-as-you-go mechanism. The foreseeable burden produced by demographic aging was exacerbated by existing early retirement policies that significantly wors-

ened the projected imbalance between pension contributors and recipients. As a reaction, many countries have undergone a substantial change in their policies toward older workers, reflected in a shift from the previously dominant policy of early retirement—promoting withdrawal from the labor force well before reaching statutory pension ages—to a policy explicitly fostering longer working careers and employment retention of older workers (Jepsen et al. 2002).

This introductory chapter takes this institutional shift as a starting point for developing a novel theoretical framework that conceptualizes work and retirement transitions within this changing institutional landscape. The need for a novel framework originates from the fact that even though recent research has provided a thorough *description* of the reversal of exit from employment (for example, Zaidi and Fuchs 2006), existing approaches have not been fully able to offer an effective *explanation* of this trend reversal. In explaining the previous early exit trend, much of the earlier literature has referred to two institutional factors that were considered to be its main drivers. On the one hand, there are institutional features that promote older workers' labor market exit. Such "pull factors" provide incentives for early labor force withdrawal embedded in, for example, public or occupational pension schemes that provide financially attractive early retirement pathways. "Push factors," on the other hand, relate to institutional or structural features that impede the continued employment of older workers (such as rigid labor markets or occupational hazards) and thus effectively crowd them out from the labor market.

We identify two additional institutional factors that impact on older workers' employment-to-retirement transitions and that have grown in importance throughout the shift from the early exit era to the active aging paradigm:

First, recent policy changes may have enhanced the preconditions for continuing work careers up to or even beyond formal retirement ages. These consist in explicit "positive" policies to promote older workers' employability (such as active labor market policies or lifelong learning initiatives); that is, integration factors facilitating active aging—which we term "maintain factors." Second, "negative" policies relating to the abolition or "rolling back" of previous early exit incentives (that is, cut-

backs in early retirement incentives, the raising of formal retirement ages, and a shift toward more private old age insurance) have increased the pecuniary need to remain employed until later ages. We shall refer to this latter group of institutional features as “need factors.”

Beyond outlining the inherent logic of pull, push, maintain, and need factors, this chapter links these macrolevel policies to the microlevel of individual retirement behavior. It outlines how the mutual interplay of different institutional factors influences both the timing of retirement as well as the degree of choice older workers experience in making their retirement transitions.

Based on the above conceptualization, the chapter develops a set of hypotheses about institutional developments and their effect on retirement patterns in different types of contemporary welfare states that are subsequently investigated in the country-specific chapters of the book.

2 From Early to Late Exit: Empirical Overview

Before turning to the explanation of older workers’ employment, however, we shall first empirically reconstruct this trend using the most recently available figures. To illustrate developments in older workers’ labor force attachment, we calculate cohort-adjusted employment exit rates of older workers that illustrate how far a cohort’s employment rate has decreased within a 5-year time span (see Ebbinghaus 2006, for details). To comprehensively look at both exit trends in the late 50s as well as in the early 60s, we calculate exit rates for the age groups 55–59 and 60–64 compared to their employment levels 5 years earlier (that is, at age 50–54 or 55–59). In order to contrast the early exit era with the expected reversal toward active aging, we present trends since the early 1990s (the tail end of the “heydays” of early exit) until most recently in 5-year intervals. Exit rates are calculated separately for men and women in order to be able to observe gender-specific patterns in employment participation and exit behavior. Because employment rates refer only to the economically active population in employment, they thus consider

the unemployed to have de facto withdrawn from the active labor force. Given that joblessness often reflects an enduring status for older workers and that a number of countries have effectively used unemployment as an artificial “pathway” into early retirement (see Blossfeld et al. 2006; Guillemard and van Gunsteren 1991), this treatment, however, appears justified for the age groups under study. In fact, the well-known difficulty in gaining reemployment among jobless older workers is at the core of the debate on *agism* (Bytheway 2005).

Tables 1.1 and 1.2 present the exit rates for male and female workers in their late 50s (that is, the observed change in percentage points from

Table 1.1 Cohort-adjusted employment exit rates for men/women aged 55–59 years, 1990–2014

MEN	1990	1995	2000	2005	2010	2014
Switzerland	–	–	7.77	10.12	3.67	3.92
UK	10.60	21.50	11.67	8.23	10.41	5.59
USA	9.25	13.24	9.72	11.39	12.84	7.08
Japan	3.93	3.97	5.75	3.68	4.71	2.13
Denmark	3.46	8.55	5.74	4.30	9.56	5.86
Sweden	6.57	17.58	6.88	4.54	3.05	1.90
Austria	–	–	28.84	30.27	15.83	9.93
Germany	20.49	25.22	22.06	14.28	3.59	2.85
Netherlands	14.72	25.99	16.99	14.27	6.28	11.47
Italy	23.66	32.27	33.13	30.62	23.03	15.66
Spain	10.80	25.72	11.40	13.92	19.38	20.56
Czech Republic	–	–	17.60	7.09	7.50	3.78
Estonia	–	22.71	17.51	1.12	15.11	–1.76
WOMEN	1990	1995	2000	2005	2010	2014
Switzerland	–	–	8.56	6.90	5.72	6.69
UK	15.23	18.26	16.80	11.58	11.93	11.25
USA	7.57	11.41	12.80	12.50	10.42	9.45
Japan	11.37	13.29	13.42	11.64	8.68	5.15
Denmark	12.65	29.40	5.34	2.76	8.06	9.94
Sweden	7.55	16.32	10.33	7.47	4.37	3.85
Austria	–	–	56.50	41.38	24.41	25.32
Germany	23.78	21.90	21.78	14.78	6.69	2.93
Netherlands	12.65	23.74	17.61	19.09	8.83	12.78
Italy	36.80	42.30	33.58	20.64	17.70	10.66
Spain	9.15	16.75	12.34	1.88	13.16	13.81
Czech Republic	–	–	56.50	41.38	24.41	25.32
Estonia	–	53.07	36.99	7.48	16.83	3.93

Source: OECD 2016, own calculations

Table 1.2 Cohort-adjusted employment exit rates for men/women aged 60–64 years, 1990–2014

MEN	1990	1995	2000	2005	2010	2014
Switzerland	–	–	31.74	30.09	21.00	22.42
UK	33.98	39.75	28.45	24.08	27.83	25.97
USA	29.62	33.17	28.25	25.30	26.49	18.47
Japan	20.29	22.98	28.88	26.72	21.20	15.62
Denmark	37.12	41.83	51.04	41.91	41.66	32.57
Sweden	26.66	40.67	32.18	23.43	19.06	16.27
Austria	–	–	73.62	70.95	51.24	54.26
Germany	54.85	62.38	56.75	45.83	31.17	23.12
Netherlands	62.43	67.67	55.04	53.91	34.84	28.90
Italy	48.28	54.80	48.19	46.36	46.76	38.30
Spain	36.58	47.49	34.61	32.87	43.27	44.29
Czech Republic	–	–	68.49	52.98	53.36	42.05
Estonia	–	57.40	39.57	25.58	34.86	11.35
WOMEN	1990	1995	2000	2005	2010	2014
Switzerland	–	–	46.40	37.92	34.11	29.78
UK	55.21	52.67	52.25	45.77	46.18	38.42
USA	27.84	31.78	31.74	26.03	25.06	25.24
Japan	21.84	27.23	32.49	31.60	24.38	21.34
Denmark	50.43	65.20	54.62	55.91	57.62	46.90
Sweden	28.41	42.55	38.40	27.58	27.36	18.70
Austria	–	–	71.05	68.91	60.33	66.03
Germany	70.89	72.34	68.70	55.96	40.38	26.99
Netherlands	54.95	65.61	58.60	55.15	39.14	35.74
Italy	49.45	62.60	59.36	60.50	61.84	38.62
Spain	31.02	32.16	29.15	22.89	30.43	32.41
Czech Republic	–	–	60.86	60.37	67.34	63.54
Estonia	–	60.17	41.14	20.65	38.87	32.76

Source: OECD 2016, own calculations

50–54 years to 55–59 years of age, 5 years later) and their early 60s (that is, from 55–59 years to 60–64 years, 5 years later) for the countries featured in this book ordered by their typical assignment to standard welfare or labor market typologies (see e.g. Blossfeld et al. 2006). What immediately becomes apparent is that only comparatively few employment exits appear to take place in the 50s (see Table 1.1). This is particularly the case for male workers, with a maximum of around one-quarter of older workers exiting employment within this age span.

Exit rates are clearly lowest in the Anglo-Saxon and Scandinavian countries in which they take values of around 10 % or less throughout

the observed time period. In contrast, in Austria, the Czech Republic, Estonia, Germany, the Netherlands, and Spain, exit rates are around 20 %. In virtually all countries, a general and largely continuous decline in exit rates can be observed since the mid-1990s that probably reflects the political shift throughout this period. The only notable exception is Spain's volatile labor market in which exit rates show large fluctuations and remain around 20 % until the mid-2010s.

Findings for women in their 50s appear to largely mirror those for men of the same age, though occasionally at higher levels. Particularly in Austria, Italy, and Eastern European countries, women's exit rates appear to be substantially higher, with around one-half of all women in their early 50s leaving employment in the following 5 years in the late 1990s up to the millennium. Yet, particularly among these countries, exit rates drop notably between 2000 and 2014, so that by the year 2014 in, for example, Austria and the Czech Republic, only around one-quarter of women in their 50s have withdrawn from employment.

Significantly higher exit rates are being observed for both men and women between their late 50s and early 60s, the prototypical age span for early retirement (see Table 1.2). Again, clear cross-country/cross-regime differences can be observed with the lowest exit rates (around 30–40 %) in Anglo-Saxon and Scandinavian countries as well as in Spain. Exits in the late 50s/early 60s are clearly more pronounced in Continental and Eastern European countries in which they make up between one-half and three-quarters of the working population. Trends over time once again indicate a sharp decline starting during the 1990s in most countries. By the year 2014, only around one-third of employed men and women effectively have left the active labor force within this age interval. Only in Austria, Italy, and the Czech Republic (and—to a lesser extent—Denmark) do exit rates remain comparatively high. As for the younger age group, exit rates among women in their early 60s appear to exceed those of men. These findings capture traditional gender differences in employment as well as conventional patterns of coupled retirement with wives often retiring simultaneously with their usually older husbands (for example, Denaeghel et al. 2011).

Taken together, the presented employment exit figures confirm the general shift from an early exit orientation in the late 1990s toward the

postponed retirement of older workers since the millennium. The most pronounced changes occur for workers in their late 50s and early 60s, whereas employment exits in the early to mid-50s are fairly uncommon by now and observed in substantial numbers in only a few countries. However, even here, a trend reversal can be observed.

3 Explaining Retirement Transitions

3.1 A Rational-Choice Approach

How can these observed shifts in individual employment exit behavior be explained? Or in other words: What drives older workers' decisions to either remain in employment and prolong their career or exit via one of the various pathways into early retirement?

We base our explanation on a rational-choice approach to retirement decisions that was first put forward by Hofäcker (2010) and is summarized in Fig. 1.1. This approach rests on the assumption that the employment of older workers can be considered as the outcome of a rational decision

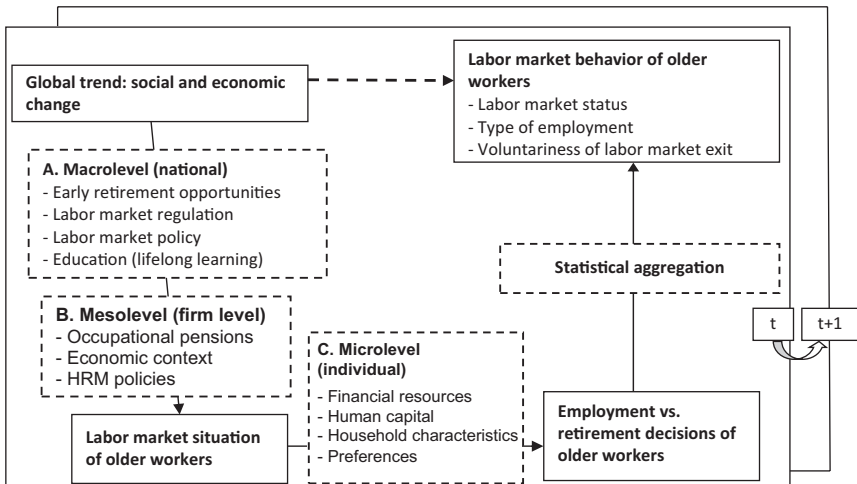


Fig. 1.1 A rational-choice model of retirement decisions
 Source: Own illustration

by older workers who, at a given point in time, opt either for a continuation of their working careers or for a (permanent) exit from employment.

Yet, by relating this to findings from international comparative life course research (for example, Leisering 2003; Mayer 2004), we have to assume that this is not an entirely free decision and not without external restrictions. Instead, it is shaped systematically by nation-specific context conditions that create either (positive) opportunities or (negative) constraints for continuation of, or exit from, employment. Such opportunities or restrictions may be provided through public policies such as the characteristics and regulation of national labor markets or the provision of public welfare, but particularly through public pension systems and other programs affecting old age incomes.

The effect of such policies on retirement processes, however, depends on how far these policies are in line (or at odds) with firm-level policies toward older workers. On the one hand, complementarities between the policy and firm levels will lead to a mutual reinforcement of either restrictions or opportunities. If, for example, both public and firm-level policies provide strong incentives for an early withdrawal from employment while simultaneously constraining opportunities for work continuation, rational older workers will probably decide for a premature exit from employment. Vice versa, if both public as well as firm-level policies provide strong disincentives for an early exit while, at the same time, supporting older workers' employment (for example, through providing continued education and training), it would be rational for older workers to prolong their careers.

On the other hand, contradictions between public and firm-level policies may lead to a weakening of public policy effects. For example, public policies to foster the employment of older workers may be counteracted by firm-level policies that are still oriented toward shedding or "crowding out" older workers from employment. One of the explicit aims of this book is to investigate empirically how the context conditions for older workers at the public policy and at the firm level interact, and to what extent they create self-reinforcing or mitigating effects.

However, results of research on aging and social stratification (for example, Blossfeld et al. 2006) suggest that the effects of public and firm-level policies—be they mutually reinforcing or contradictory—may not

impact uniformly on a country's entire workforce. Instead, even under identical context conditions, the available alternatives for labor market behavior may vary between different groups of older workers depending on factors such as their financial situation, their human capital, or their household situation. Older workers with high levels of education and better health, for example, may find it easier to remain in work, given that more (and better) options for employment continuation are available to them, whereas lower-educated workers may be far more constrained in their choice. Similarly, older workers with access to extensive financial resources may find it easier to decide for or against a continuation of employment, whereas older workers with limited material resources will be forced more often to continue employment in order to make ends meet. One of the aims of this book is to reconstruct these patterns of social inequalities and the ways in which they may have changed during the gradual shift from early exit to active aging policies. Have they remained stable, have active aging policies been able to reduce interindividual inequalities, or has their significance even risen throughout the last decades?

Taken together, the explanatory model outlined above allows a reconstruction of retirement decisions of older workers based on a complex model that treats individual decisions at the microlevel as being not only bounded by both contextual conditions at the public policy level but also dependent on individual characteristics of older workers themselves. It thus avoids the reductionist assumption of retirement transitions as being entirely free decisions of the individual under merely financial constraints (as often put forward in economic theory), but treats individuals as rational actors under specific constraints and opportunities. Variations in individual employment behavior *within countries* may then be explained as the outcome of interindividual differences in socioeconomic characteristics that either foster or constrain the opportunities for either early exit or continued work. Variations in individual employment behavior *between countries* may then be explained as the result of cross-national differences in the specific contextual conditions that affect older workers' employment or retirement choices. One of the major aims of this volume is to reconstruct the institutional logics at the policy and firm level—and particularly their change over time—in order to better reconstruct

the (changing) employment behavior of older workers. In the following, we shall thus turn to a more systematic reconstruction of nation-specific context conditions that feature prominently in conventional explanations of retirement processes.

3.2 Classical Explanations of Early Exit

Which factors can be held responsible for the cross-national variation in exit behavior for older workers? The clear majority of approaches to answering this question stem from the 1990s and early 2000s when the prime analytical focus was on explaining the—at that time still largely persistent—trend toward early exit. Various theoretical approaches have attempted to explain the observable *international* variation in (early) retirement. In providing a synthetic overview of these explanations, we follow previous research (Ebbinghaus 2006; Ebbinghaus and Hofäcker 2013; Kohli et al. 1991; Radl 2013) that has categorized these explanations under the labels of “pull” and “push” factors.

3.3 Pull Factors

The concept of institutional “pull factors” rests on the assumption that economic incentives in public pension or other welfare state transfer systems¹ provide financially attractive opportunities for older workers to withdraw from active employment prematurely such as early exit options without (or with little) actuarial reduction in pension accrual. Figuratively speaking, these incentives thus “pull” older workers out of the labor market through different types of financially attractive “offers that one does not refuse” (Bellmann and Janik 2007). The retirement decisions of older workers are thus regarded as being largely voluntary, because older workers decide for a (favored) early exit from work instead of a continuation of their employment. Indeed, economic research based on macro- as well as microdata (see, for example, Blöndal and Scarpetta

¹ Examples of such alternative “welfare state subsystems” for early retirement are disability benefits and unemployment pay schemes (Guillemard 1991; Kohli et al. 1991).

1999; Gruber and Wise 1999, 2004) has demonstrated empirically that countries providing strong actuarial incentives for retirement before mandatory ages are frequently among those that also exhibit the lowest employment ratios among older workers. In addition to incentives found in public pensions, additional lump sum payments by the employer or employer-sponsored occupational pension plans may exert strong incentives for a premature employment exit. As empirical studies indicate (for example, Bellmann and Janik 2007; Dorn and Sousa-Poza 2010; Hutchens 1999), these incentives often mutually reinforce each other, because payment of employer-based “top-ups” is found most frequently in those countries in which public retirement incentives are already high.

In recent years, this *pull* approach to explaining early retirement has gained much support among international organizations such as the World Bank, the OECD, or the EU Commission. These have argued that to reverse early retirement successfully, financially attractive early exit options have to be phased out and retirement ages (or contribution years needed to receive a full pension) need to be increased.

3.4 Push Factors

Recent sociological studies, however, have pointed out that employment exit decisions of older workers cannot be explained by pension system incentives alone, but that a broader spectrum of institutional framework conditions needs to be taken into account (Blossfeld et al. 2011; Ebbinghaus and Radl 2015; Hofäcker 2010, Solinge and Henkens 2007; Wang 2012). Unlike the economic labor supply approach, which treated retirement transition mainly as the outcome of free individual decisions of older employees to either continue working or exit employment under given financial constraints, these studies have highlighted that retirement decisions may not always be the result of one’s own deliberate choice. Instead, older workers may face labor market difficulties that make it hard for them to effectively continue their careers. Various contextual conditions were considered to act as such “push factors”. Most obviously, economic downturns or labor demand shocks and the frequently associated rise in unemployment worsen older workers’ labor market chances