



Federal Ministry
of Labour and Social Affairs

BETTER WORKING LIFE FOR OLDER PEOPLE



**Report by the Federal Government
in pursuance of Section 154(4)
Book Six of the Social Code
on Raising the Standard Age of Retirement to 67**

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Obligation to report in pursuance of Section 154(4), Book VI of the Social Code

"As of 2010, the German Government shall report to the legislative bodies every four years on employment trends among older workers and provide an assessment of whether raising the standard retirement age still appears warranted, accounting for developments on the labour market and the economic and social situation of older employees and of whether the legal provisions adopted can be retained. In this report, the Federal Government shall propose suitable measures for maintaining the target level of provision before tax of 46 per cent beyond the year 2020, while ensuring a stable contribution rate."

SUMMARY AND ASSESSMENT OF THE FEDERAL GOVERNMENT

Longer working life through demographic change

Tomorrow's working world will be different to the one we know today. The German population is getting smaller and older. The age pyramid is undergoing fundamental change. By 2030, many members of the high birth rate generation, the so-called baby boomers - will have entered retirement. For this reason, the number of 20 to 64-year-olds will have declined up to then by over 6 million, while the number of 65-year-olds and older will have risen by more than 5 million. The numerical ratio of the over-64s to the 20 to 64-year-olds will be one to two, as compared with one to three today. The main reasons for this are the persistent low birth rates and longer life expectancy. By 2030, men aged 65 can expect to live well over 19 additional years on average and women, almost another 23 years, an increase of over two years on today. Longer life expectancy also means more years in good health.

Demographic change will result in a substantial contraction of the labour pool, which will also be considerably older. The future task for businesses, social partners and also policymakers will be to frame suitable conditions for enabling an ageing labour force to maximise productivity and innovation. This can be done, if in-company labour organisation and workplace design are tailored to the specific abilities and competencies of older employees.

The aim must be to share the burden resulting from demographic change equitably over all generations. Strengthening the generational contract will avoid distribution conflicts between young and old, provided the necessary change of course is made early on. If this not done in good time, larger adjustments will be needed later. To safeguard social welfare and international competitiveness, we need to harness more labour potential in future through greater labour-force participation by older people. This is possible, as evidenced by Switzerland and the Scandinavian countries. These countries have proven that it is not only necessary but also feasible to adjust the supply of and demand for jobs to the abilities and needs of different age groups.

Numerous EU member states have now started with far-reaching reforms of their pension schemes and many have already decided to raise age limits. Germany will increase age limits in small increments, extended over a period of 18 years. The new standard retirement age of 67 will first apply to cohorts as of 1964, today's 46-year-olds and younger. It will rise gradually up to 2029, starting with one month a year, so that it will increase to 65 years and one month in 2012. Early retirement will still be possible in future: Insurees with at least 35 years of pension entitlement times can still retire as of 63, but they must accept certain deductions. For particularly long-term insurees who have worked in socially-insured employment for at least 45 years, have brought up children or cared for family members, a new type of pension has been created. They can also still enter retirement at 65 without any entitlement reductions.

The economic and social situation of older employees much improved

Personal income increases in the course of life and is higher on average for older than younger employees. The state of health of older workers has also improved. Studies show that they are healthier today than previous generations. Never in the history of the Federal Republic has there been an age cohort that was as healthy and active as today's 65-plus generation. They are as socially involved as younger people and the integration and participation of older citizens in society has continued to improve in recent years. The old are younger than ever and will be increasingly able to lead a longer healthy life.

Labour market upswing of particular benefit to older employees

The German labour market has emerged stronger from the crisis. Compared with the lowest figures since German reunification, unemployment has risen a little again in 2009 but to a remarkably small extent considering the magnitude of the international financial and economic crisis. Unemployment already fell again in the first six months of 2010, declining to below three million in October 2010, a measure of the stability and robustness of the German labour market.

Gainful employment among older people has developed particularly well in recent years. In 2007, Germany had already exceeded the EU target for 2010 of raising the employment rate among the over 55s to at least 50%. The number of older socially-insured employees has also risen substantially. This development has not just benefited the 55s to under 65s, but particularly also those aged between 60 to under 65: Their employment rate has almost doubled since 2000, currently recording about 40 per cent.

According to the latest figures from Eurostat, this rate came to as much as 41.1 per cent in the second quarter of 2010. The employment rate among socially-insured employees in the age range of 60 to 64 has also doubled since 2000 and amounts to about 23 per cent. As this development shows, the shift towards a longer working lifespan has already started and is proceeding apace.

This positive trend will continue. Longer labour-force participation by older employees makes a major contribution to raising economic growth potential, as ascertained by the German Council of Economic Experts. The Federal Government already promotes this with a number of initiatives.

Better working life for older employees

In future, we face the risk of a large labour shortage. The German economy can therefore no longer afford to do without the potential afforded by older workers. Increasingly, companies see the need for action and are adapting to the changed age pattern of personnel. They know that they can only enhance their production potential but also their capacity for innovation and productivity in future, if they take greater account of the needs of older employees. Many of them are already changing their workforce organisation by providing measures for in-company health promotion, qualification

and continued education. Policymakers are supporting this process with a number of initiatives and the social partners are also already starting to do their part, as can be seen from the wage agreement in the chemicals industry, for example - Working Life and Demography.

The longer participation of older employees in working life is an economic necessity and makes business sense. For the individual, longer working life affords a chance to contribute knowledge and experience, continue to shape developments and take part in social life. Policymakers, businesses and social partners must in future do more to arrange working conditions to cater better for age and ageing. Older employees are efficient and motivated; they have many different abilities and competencies and can draw on extensive experience.

A frequent practice in the past, early retirement has fostered a disparaging attitude towards the capabilities of older employees. Their potential has been ignored for too long. Studies show, however, that older employees are more or less as capable as young ones. Workplaces must therefore be adapted more closely in future to the capacities and needs of all age groups. This calls for a mix of measures: a sustainable personnel policy, in-company health promotion, improved compatibility of job and family as well as lifelong qualification and continued education.

Assessment of the Federal Government

The German Parliament decided to raise the standard retirement age to 67 in 2007 as a suitable response to demographic developments and the prospective changes in the age structure of the population. The goal is to consolidate the financial resources for statutory pension insurance. As of 2012, the age limits will be gradually raised from 65 at present to the end of 67th year over a period of 18 years. The 67-year limit will only apply for cohorts as of 1964, today's 46-year-olds and younger. Raising the standard retirement age is not, however, just a pension-policy measure, it is also intended to convey a clear message to society and business and industry to change their attitude towards the new potential of older employees and take appropriate action.

The German Government remains committed to its decision to raise the statutory retirement age limit, which it sees as necessary and still considers justifiable. It will help safeguard prosperity, ensure generational equity and strengthen the international competitiveness of Germany.

Longer average lifetime also means an increase in the time people remain healthy and capable in older age. Developments on the labour market in recent years confirm the Federal Government's view. Labour-force participation and labour-market opportunities have much improved for the older generation in particular. With their adherence to the new standard retirement age, policymakers have laid a firm foundation for the realignment now underway.

The current social debate on the higher standard retirement age shows the need for an objective review of the chances and challenges of changes in working life, as described in this report. The paradigm shift already begun must continue. A longer working life is not a threat; it is an opportunity for people to enjoy greater prosperity and participate more, provided this process does not take place suddenly and is jointly planned with all stakeholders over a prolonged period. A lengthy transition period will allow us to make the necessary adjustments and spread the impacts of demographic change equitably over generations. The higher age limit will avoid overburdening the younger generation and raise income for future pensioners, which will in turn safeguard the general welfare in our country and pave the way for a better working life for older people.