

Author: Dr. Charlotte Fechter

Affiliation: University Koblenz-Landau, Institute for Social Sciences, Department of Economics, fechter@uni-landau.de

Executive Summary of Fechter (2019): Propensities to Work at an Old Age in Germany

In Germany, the logic of the old-age security system traditionally relates to an early retirement regime. In the country's classical logic, compensation and provision are the primary tools of welfare mechanism. The German industrial model values long-term employment ties by setting incentives for early labour exits. Since the reform of 1957, the pay-as-you-go pension type was (re-)introduced. Thus, the number of working individuals pay contributions to finance pensions of current retirees. Contributions also generate earning points for the personal (fictional) pension balance. An individual obtains an adequate retirement benefit with continuous employment and an average income throughout an individual's life course. However, three developments stressed this relationship. First, demographic change challenges the long-term financial sustainability of social security systems. Second, labour market reforms of the early 2000s substantially increased forms of marginal employment marked by low-contribution accumulation. And lastly, the pluralisation of living arrangements correlates with the de-standardisation of life courses. With the stabilisation of labour potential, relieving the social security fund was pursued. Thus, the policy to extend working life (*Active Ageing*) was introduced and implemented by delaying retirement ages and closing early retirement pathways. Securing longevity risks through prolonged labour market integration has become the new norm (e.g. deductions to pension wealth to prevent early retirement). In theory, three significant benefits relate to *Active Ageing*: Later collections of retirement benefits relieve the social security fund as contributions are increased; retaining in the labour market has positive impacts for health; and, third, longer working lives compensate de-standardised employment careers. Two main arguments (micro level and macro level) are drawn into consideration to answer the question of how older workers have adapted their exit patterns in the context of changing retirement institutions in Germany.

1. Institutional incentives lead to labour market retention if personal preferences are maximised.
2. New retirement transitions stimulate the labour market participation concerning the principle of individualising risks towards higher self-responsibility.

Empirical content

Four (published) articles provide a comprehensive overview of the effects of *Active Ageing* on late labour market exit patterns in Germany. The main arguments were tested using different data, i.e. German Socio-Economic Panel (GSOEP), Survey of Health, Ageing and Retirement in Europe (SHARE) and linked data of (SHARE) with register data of the German Pension Fund (SHARE-RV), covering several quantitative methods, i.e. fixed effects regression model, survival analysis, multi-channel sequence analysis and OLS-regressions.

Key findings

The key findings below reveal the impacts of *Active Ageing* on retirement transitions by evaluating the associated benefits and welfare effects. Studying employment among older individuals reveals heterogeneous changes in the patterns of late careers:

- Later exits from the labour market are associated with labour de-standardisation.
- Prolonged employment is not a rational choice across all labour market groups.
- More employment is not necessarily linked to higher pension benefits.

New forms of retirement processes result in early and late exits depending on the group affiliation. On the one hand, the potential to prolong late careers is challenged for some groups. On the other hand, for those individuals exiting later, market-induced risks emerge.

- New modes in German welfare are characterised by less compensation, causing policy demand.

In sum, various effects of extended working lives are found. For the first main argument, it is concluded that delaying labour exits is far from a rational choice across all labour market participants. On the contrary, the lack of compensating German social policy in prolonging working careers is precarious for specific labour market participants. Inferring for the second main argument, traditional modes of welfare politics decide on economic performances despite strengthening elements of self-responsibility. Understanding employment as the primary provision mechanism is far from the norm across different social groups.

Policy recommendations

Prevention of unequal ageing, require several political measures are needed for both groups: individuals managing to extend working lives and for those excluded from this opportunity. Several ideas are supported covering three main principles focussing on the maintenance of a stable labour force potential in light of demographic changes.

- (1) Enable the standard of living not only for people in favourable labour market conditions.
- (2) Guarantee individual and institutional financial sustainability through fulfilling careers.
- (3) Facilitate social policies for those individuals who are unable to postpone the statutory retirement age.