

**MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER – FINLAND**

Challenges on Dutch and Finnish roads towards extending citizens' working life: The current debates.

Peer Review on “Activation of elderly: increasing participation, enforcing employability and working until the age of 67”

The Netherlands, 31 May to 1 June 2010

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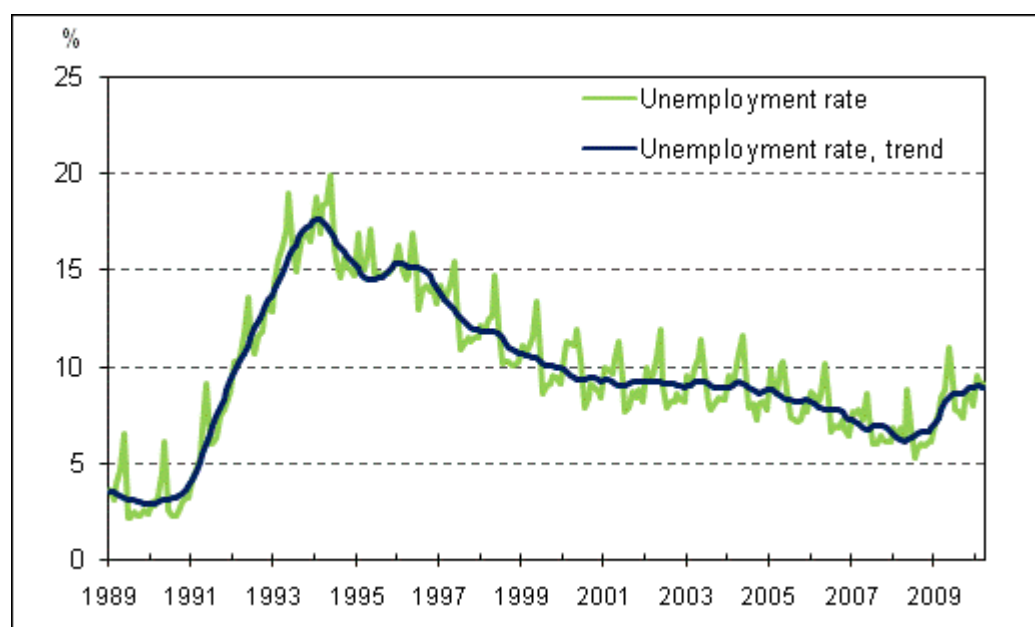
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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Finland's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

Until the beginning of the still ongoing fiscal crisis, Finland was gradually reaching the level of nearly full employment. This development took place during a period of almost two decades. In the early 1990s Finland faced an unusually severe crisis with a rapid rise of unemployment from about 5-6% to about 18%, within less than two years. Due to the recession in the 1990s, the Finnish banking world was restructured and came out healthier, enabling Finland to meet the 2008 crisis positioned quite favourably in comparison with many other countries. The long-term employment development is illustrated by the following table.

Table 1: Unemployment rate and trend of unemployment rate 1989/01 – 2010/03¹



Thus, the current unemployment rate (March 2010) is 9.1% compared to 8.3% a year ago. During 2009, the employment rate decreased by 2.3% being 68.3% on average. The government's long-term goal is 75%. The labour force supply also decreased in 2009 by 25,000. One of the reasons for this is because the outflow of the "baby boom generation" is now starting to have a real effect. While two years ago there were threats of labour force shortage, even in the short term perspective the government now states that the growth of unemployment postpones the immediate risk of labour force shortage². The losers of the current crisis have been young and men. Men have suffered from the downturn of exports in particular. The number of unemployed job-seekers among men under 25 increased in 2009 by 73.5% while the figure among women in the same age cohort was 'only' 32%.

¹ Labour Force Survey, Statistics Finland 27.042010

² Työllisyyskertomus vuodelta 2009. TEM-julkaisu 20/2010.

It is noteworthy that, despite the recession, the relatively positive development continued in 2009 in two respects. First, the number of the long-term unemployed decreased until the end of 2009. At the same time, the expected average retirement age increased by 0.4 year to 59.8 years. Labour force participation rate within the age group 55-64 was in March 2010 still 0.4% higher than in March 2009.

Like the Netherlands Finland has now entered a phase of slow recovery.

2 ASSESSMENT OF THE POLICY MEASURE

In the following sections the reform underway in the Netherlands will be compared to the debate ongoing in Finland. The Dutch Host Country Paper introduces a set of policy measures at an early phase of implementation. Finland is now in a turning point where new policies for extending citizens' working life are in the process of being developed and debated.

In Finland the issue of extending citizens' working lives and the postponement of the retirement age is a very topical issue. The government set up two working groups consisting of mainly social partners. The first working group – the 'Rantala group' - is aimed at reforming the rules of the game (the retirement age, new rules for the unemployment pension, etc). The second working group – the 'Ahtela group' – worked on reforming working life "from the inside", trying to seek structures within companies and the workplaces suitable to help extend working lives. The first group could not achieve a unanimous set of proposals and withheld from making them. The Ahtela group ended up with a number of detailed suggestions and proposed a set of sub-working groups to continue the work. Frustrated by the slow advancement with the social partners, the government asked the OECD to give Finland country-specific advice for further actions. However, at the end of the day, the government set up six sub-working groups for the further preparation of measures to be taken in order to lower the retirement age (indicated by 'retirement age expectancy' equal to the expected average retirement age at the age of 25). The target set for the working groups was to find the appropriate measures by which the current actual retirement age expectancy could be raised from 59.4 years by, at least three years by 2025. The current pension system was reformed in 2005 and includes a flexible retirement age between 63 – 68 years, incentives for staying longer in work through a step by step increasing accrual rate (1.5% until the age of 53, during 53-62 1.9% and between 63 – 68 by 4.5%), cutting the relative amount the paid pensions by the life expectancy coefficient (the longer the life-expectancy of each cohort at the age of 62, the lower the pension will be in relation to the full pension). This will then encourage people to go on working in order to obtain full pension entitlements and reforming the unemployment pension (by abolishing the unemployment pension entitlement from those born in 1950+ and giving them instead an extension of the unemployment benefit until 65) and the part-time pension (by raising the lower boundary age to 56 years for those born in 1946 or before and to 58 years for those born 1947+) as its core elements.

The Ahtela group made concrete proposals in three policy fields: 1) measures to be taken for improving work ability, 2) measures for improving well-being at work, 3) measures to lengthen the early phases of careers (by making transitions from the basic education to the secondary education and to the higher education faster and more effective) and improve employability throughout working life. The measures in the first field included actions aimed at more preventive and effective occupational health services and enhancing the availability of good quality occupational health services as well as earlier intervention with work related disabilities. The most important reform in the second field was the establishment of new 'Centres for well-being at work' to provide individual work places with practical tools and services. Proposals in relation to the third topic were mainly about ensuring flexible

transitions between different levels of education, smoother progress of studies, and linking education more closely with working life.

In the statements on the Ahtela group by the social partners, national agencies and research institutes, the controversies and political disagreements became evident, shedding light on the issues relevant to reforming the policies in Finland. In general terms, employers were quite critical about the Ahtela group outcomes. The Research Institute of the Finnish economy (ETLA) criticises the Ahtela group of ambiguous pondering on links between health, occupational health and the length of careers arguing that the Ahtela report barely references research in the field, did not assess costs, and there was no timetable for the reforms. ETLA argues that there is actually evidence that laying off older workers has led to a significant improvement in companies' productivity. Also, it is unclear whether increasing well-being at work really increases productivity. ETLA (and the Confederation of Finnish Industries EK) would like to see a removal of early retirement schemes, improvement of the incentives of the disability pension funding, and the raising of eligibility ages for some pension forms as methods for extending the citizens work life.

The labour unions, on the contrary, expressed their satisfaction with the Ahtela group. The Central Organisation of Finnish Trade Unions (SAK), the Finnish Confederation of Professionals (STTK) and the Confederation of Unions for Professional and Managerial Staff in Finland (Akava) considered that suggestions made by the Ahtela group were enough to achieve the goals set for the working groups. The Labour Institute for Economic Research (Palkansaajien tutkimuslaitos) argued in its statement that the hypothesis behind the working groups has been an overemphasis on the retirement age and the length of careers as a core prerequisite for economic growth. The Research Institute sees the age policy only as one method to the future growth of the economy affecting mostly labour force availability. According to them, a more critical factor in the forthcoming years will be the issue of how to create new jobs and, in contrast to earlier predictions in Finland, unemployment and underemployment will be serious problems. The Research Institute also emphasises the significance of education. Better educating the workforce as well as enhancing staff participation in in-work training will increase the retirement age quite significantly. The Research Institute also argues that the life expectancy coefficient applied in Finland from the beginning of 2010 will in the years to come have a long-term effect on the pensions paid. By reducing the amount of pensions paid, this also reduces the macroeconomic pressures on the pension system as well as strongly encourages people to work longer.

The Finnish Institute of Occupational Health makes a strong point of the fact that the number of work disability pensions among the age group 16 – 34 has increased by 37% during the years 2003 – 2008. The calculations made by the Institute show that the total costs of young people's disability pensions are nearly as high as those in the age group 55+. The increase in costs in this field is largely due to the rise in mental health issues faced by young men. Mental health disorders should therefore be given increasing consideration in the occupational health system.

The National Institute for Health and Welfare (THL) emphasises in its statement the significance of a well functioning basic health care system. It suggests that the 'Centres for well-being at work' suggested by the Ahtela group could be organised as part of the normal nationwide system of Health Care Centres thus enabling SMEs and the unemployed, for example, a better access to the services. THL makes, for its part, a strong case of the socioeconomic and regional differences in Finland as a basis for the argument that lengthening of careers cannot be achieved by the efforts of the occupational health system alone.

The Finnish Centre for Pensions³ (Eläketurvakeskus) gives a generally positive assessment of the Ahtela report by pointing out that the proposals made by the group are based on research evidence on the factors affecting how long people are willing to work and when they want to retire. The crucial element in implementing the Ahtela proposals will be the workplace level. In particular, the proposals made regarding well-being at work, the right timing of sickness treatment, as well as the development of methods to assess work disabilities are the most meaningful aspects in the Ahtela report.

The OECD sent its requested report⁴ to the Prime Minister at the beginning of March. It based its report mainly on the 2009 report⁵ on Finnish disability policies and very much repeated what the conclusions were then. The main points the OECD now wanted to make were the following. First, Finland was recommended to abolish the early retirement pension at age 62 and, second, to raise the lower level of the pension age from 63 to 65. These two measures, taken simultaneously, “greatly improve the incentives to work longer.” These main arguments, as well as the thesis that “soft measures alone will not necessarily extend people’s working lives” were received with mixed feelings in Finland and interpreted as favouring this or that pre-determined opinion. Most importantly, however, the OECD report kicked the ball back to Finland. The government, for its part, passed the ball to the six working groups. The outcomes of the working groups are expected next autumn.

In comparison with the Netherlands, some similarities and differences are obvious. Both countries are raising the retirement age within the same period of time, by the year 2025. The Netherlands start from a higher current retirement age. According to the OECD report, the effective retirement age for Finnish men is 60.2, for Dutch men 61.6, and for Finnish women 61.0 and for Dutch women 61.3 years, respectively. Thus, the Dutch goal for the age of 67 becomes understandable.

Both the Finnish and Dutch reforms are a mix of measures covering several policy fields. The Dutch reform looks perhaps a little more concise while the Finnish reform at its current stage may be seen rather diverse, even dispersed. The Dutch reform looks well defined and concrete. The Finnish reform, seems to put perhaps more emphasis on reforms regarding the workplace level by renewing the occupational health system and by introducing many new structures to promote well-being at work.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

Due to the current state of the reforms both in Finland and the Netherlands, no serious studies of effectiveness are available. On the other hand, the situation is still open in many respects and the forthcoming developments may turn out to be rather unpredictable. For example, both the Finnish and the Dutch government are facing parliamentary elections. In Finland, the election will be in spring 2011. However, a set of dimensions or variables may perhaps be detected from the Dutch and Finnish reforms in their current phases for outlining some key elements for a successful reform in extending people’s working life.

The basic requirements for policy making seem to be how the policy enhances productivity of the economy and how willingly it is received by the citizens. In order to meet these two questions the successful reforms have several issues to tackle: How does the reform

³ The Finnish Centre for Pensions is the central body of the Finnish statutory earnings-related pension scheme and an expert in pension provision.

⁴ OECD: Increasing the effective retirement age in Finland. Report by OECD to the Prime Minister of Finland. 02.03.2010.

⁵ OECD (2009). Sickness, Disability, and Work: Breaking the Barriers.

enhance sustainable participation in the working life, how does the reform address workplace development, and what incentives especially for the employers does the reform afford regarding productivity. Furthermore, regarding the policy implementation structure, there are issues of early retirement schemes (existent - non-existent), the definition of the retirement age (one-off or flexible transition), and the question of post-retirement encouragement (or not) for work life participation. It is evident that the activation policy of older workers calls for a new level of networking capability of the players as well as mechanisms of learning from 'best practices'. The following heuristic analysis of the themes present in Finland and the Netherlands illustrates these 'success factors'.

Table 2: Themes present on the Dutch and Finnish reform agendas

	Finland	The Netherlands
Increasing productivity	Extending working lives seen as a concern of the future of welfare state	Extending working lives seen as a concern of the future of welfare state
Citizens' mentality (willingness for longer participation and higher retirement age)	Since 2005 retirement age has risen, studies indicating willingness to work longer	Increasing willingness but only to 65 years.
Enhancing sustainable participation	Currently step-by-step accrual incentives at ages 53-62, 63-68, part-time pension lower access age raised recently, enhancing employees' employability, lengthening careers, developing VET more working-life driven, enhancing adult VET participation, developing guidance systems. Several policy measures adopted for the elderly and those 'hard-to-place'.	Several financial incentives to work longer, personal learning budgets (ILA), career planning and Life-Long learning.
Workplace development	'Centres for well-being at work', more intensive collaboration among general and occupational health care, employee and employer organisations, insurance companies and agencies.	Age-aware HRM and the WAI index key elements of the reform
Employer incentives	Not yet on the agenda in a strong sense	Both positive fiscal (e.g. for employing the elderly and unemployed 59+) and mandatory incentives present.
Early retirement schemes	Still present but in a revised form	Abolished earlier
Retirement age	Currently flexible transition 63-	A general shift from 65 to 67 by

definition	68, debate on a higher and fixed age coming on the agenda	the year 2025, flexible to 68 now agreed by social partners. Lower bound for employees in more stressful jobs under consideration.
Post-retirement encouragement	Financial incentives at 63 - 68	Cash payments
New level networking	Called for at the workplace level and at national level.	Social dialogue between social partners well-established.
Mechanisms for learning from 'best practices'	On the agenda as a general idea	First steps taken

Thus, it may be seen that most of the 'success factors' are addressed in both countries. The future of the policies will in both countries greatly depend on the future of the political climate. In this respect there is certainly some uncertainty in the air.

4 QUESTIONS

1. What can be said about the Dutch people's willingness to work longer? How has it developed during the last ten years?
2. Are there new policy openings in the Netherlands for enhancing better collaboration and networking among the players?
3. What are the political prospects of continuing the Dutch reform after the election?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • Slow recovery started • The participation rate of older workers only slightly affected by the recession. • Young men now at risk for unemployment and also for early disability pensions.
Assessment of the policy measure
<p>Both the Finnish and Dutch reforms are a mix of measures covering several policy fields. The Dutch can be assessed as a more concise effort while the Finnish reform at its current stage is rather diverse, even dispersed, but also holistic. The Finnish reform seems to put perhaps more emphasis on reforms regarding the workplace level by renewing the occupational health system and by introducing many new structures to promote well-being at work.</p>
Assessment of success factors and transferability
<p>Productivity of the economy, citizens' mentality, participation and employability, workplace development, employer incentives, existence and content of early retirement schemes, the definition of the retirement age (one-off or flexible transition), post-retirement encouragement for work life participation, new level of networking and cross-sectoral collaboration, and mechanisms of learning from 'best practices' are identified as key 'success factors'.</p>
Questions
<ul style="list-style-type: none"> • What can be said about the Dutch people's willingness to work longer? How has it developed during the last ten years? • Are there new policy openings in the Netherlands for enhancing better collaboration and networking among the players? • What are the political prospects of continuing the Dutch reform after the election?