The Social Protection Committee

Promoting longer working lives through pension reforms

First part

Flexibility in retirement age provision

Report by the Social Protection Committee

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1. INTRODUCTION

As recently reflected in the 2006 Synthesis Report on Adequate and Sustainable pensions[1], nearly all Member States are in a process of increasing incentives to retire later and reforming their Social Protection systems in order to promote longer working lives. Indeed, Member States have clearly highlighted that raising the effective retirement age is a key channel to adapt pension systems to ageing of populations and the 2006 Synthesis Report identified policies to provide for flexibility in retirement age as an area for further analysis and for exchange of good practices between Member States.

This SPC horizontal study focuses on statutory pension provisions that introduce flexibility in retirement provision, thus putting the emphasis on the role of the design of statutory pension systems in promoting longer working lives. Another horizontal SPC study will focus in the second half of 2007 on the dimension of early exits from the labour market and in particular the contribution of different types of schemes (notably specific early retirement schemes, unemployment schemes, private pension schemes or disability schemes). The timing of this second horizontal study is also determined to allow benefiting from the results of the 2006 Labour Force Survey module on transitions from work into retirement (that will be available in the second half of 2007).

As reflected in the 2006 Synthesis Report, most Member States review pension provisions in order to delay retirement age and a number of Member States have introduced more flexibility in the choice of the retirement age, in order to contribute to the general increase of working lives, thus also giving individuals more choice in their retirement decisions. This can be done through modifying incentives to retire later, introducing windows within which one can retire but also by reforming possibilities to combine pensions and earnings, either through partial retirement (taking up only partly the pension) or through the option to cumulate earnings and pension benefit.

[1] SEC(2006)304 of 27/02/2006
http://ec.europa.eu/employment_social/social_protection/docs/2006/rapport_pensions_final_en.pdf

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The objective of this report is to identify good practices that enable to give people more transparency and choice when taking up their pensions and also enable longer working lives. A number of Member States have introduced such possibilities and it seems useful to develop mutual knowledge on issues such as the design of incentives, eligibility conditions, contribution of flexible retirement to adequacy of income of older people, ability of the labour market to provide appropriate employment possibilities for older people and corresponding evaluations.

This horizontal study focuses on the changes in statutory pension systems that introduce flexibility in retirement provision, thus putting the emphasis on the role of the design of statutory pension systems in promoting longer working lives. This includes in particular how early, deferred retirement and partial retirement are regulated within statutory provisions. It should be noted that this is one element (albeit an important one) within the flexible retirement agenda and the impacts on longer working can also depend on the interplay between social security systems, occupational and private pension provision and the labour market in general. This is particularly the case for those Member States who have traditionally had a more mixed approach to retirement provision. Other factors, most notably the availability of work at an older age and employer's attitudes towards older workers also need to be considered. Besides, it is notable that there are many complicated rules relating to recent reforms of many Member States, leading to multi-layered pension systems as the legacy of previous systems play themselves out. Therefore the extent to which individual's take advantage of flexibility in retirement will be heavily dependent on the information provided and a population's understanding of the options available to them.

This report consists of five sections. Section 2 provides an overview of recent developments of employment rate of older workers and transitions from work to retirement. Section 3 presents an overview of various modalities of design of flexibility in retirement age and associated recent reforms. Section 4 focuses on incentives to work longer. Section 5 focuses on information and labour demand and section 6 on available evidence from Member States of flexible retirement age contribution to longer working lives.

2. STYLISED FACTS

An increase of employment rates of older people partly due to part-time employment

Recent trends indicate that the employment rate of older workers has increased in recent years, reversing a long declining trend. The employment rate of older workers (55-64 age brackets) has increased from 36% in 1995 to 44% in 2005 for EU15, while the increase for EU25 went from 37% in 2000 to 43% in 2005.

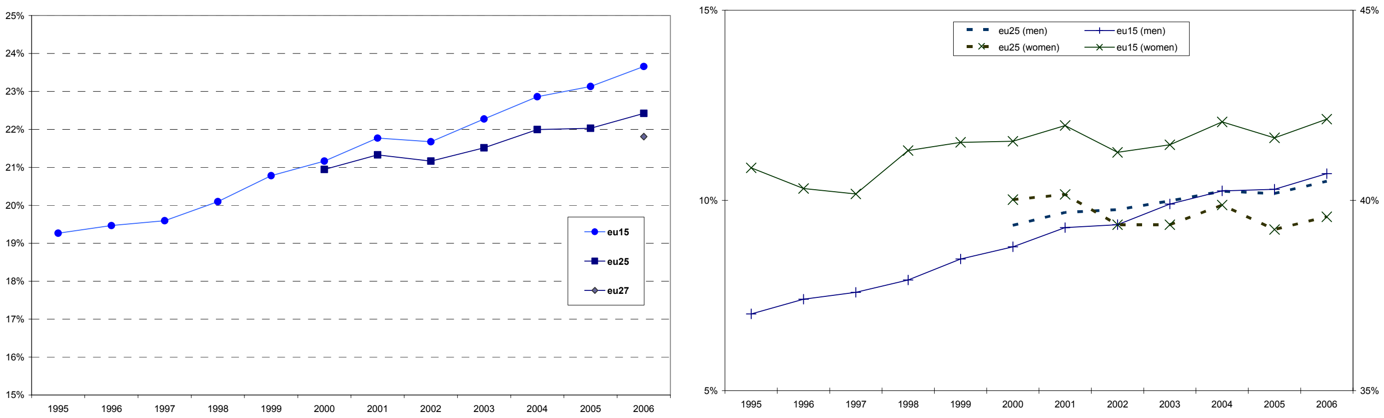
Graph 1 – Employment rates of older workers in 2005 and evolution since 2000

Source: Labour Force Survey, annual averages.

These evolutions actually show significant discrepancies between Member States (figure 1) and in spite of these recent improvements, the employment rate of older workers lies below or around 30% in a number of Member States (BE, IT, LU, HU, MT, AT, PL, SI and SK), or between 35% and 45% (CZ, DE, EL, ES and FR). It lies between 45% and 55% in some others (EE, LV, LT, NL, IE, CY, PT and FI), and actually exceeds 55% in only a few (DK, SE and the UK). It is worth noting that progress can be slower in Member States where employment rates of older people are already lower, which indicates a need for enhanced efforts.

This general increase in employment of older people is notably linked to the growing numbers of people who opt to continue longer in employment but with a reduced number of hours at work. The share of part time employment among older workers has been significantly increasing within EU in the last decade. It now nearly reaches 25% for EU15 (22.5% EU25 and 22% EU27, see graph 2). It can be noted that this trend is not only accounted for the structural increase in employment rate of women who are more often working part-time, as the share of part-time work among women increases slightly over the period, while it increases steadily among men (see graph 2).

Graph 2 – Share of part-time employment among 55-64 employment



Source: Labour Force Survey, quarterly data (2nd quarter). Note: double scale on right graph.

In EU15, half of the employment creation of older workers during 1995-2000 was accounted for by increases in part-time employment. The trend slowed down for the period 2000-2006, though about one third of the net increase in employment of older workers is accounted for by part-time work (about 30% of the increase during 2000-2006 for EU25).

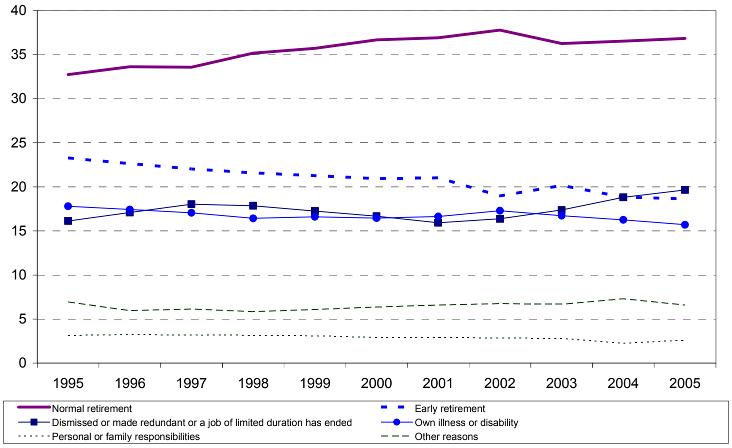
Direct transitions from employment to retirement among 55-64

The most frequent reason for workers to leave last job or business is directly for retirement (about 35%). Other reasons are through early paths out of the labour market, which will be covered by another SPC special study in 2007 (early retirement nearly 20%, illness and disability about 15%) and about 20% for end of job (job ended or dismissed or made redundant) and 10% for other reasons.

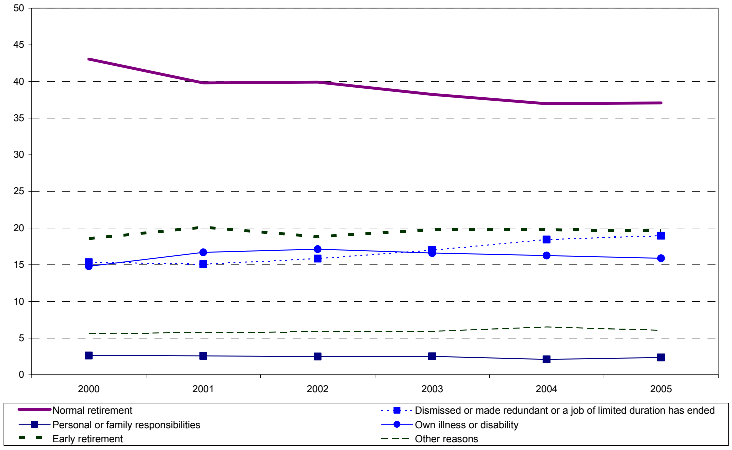
While more and more people are leaving last job or business directly for retirement in EU15 a decline can be observed between 2000 and 2006 in EU25. Furthermore, while the frequency of exit through early exits has decline in the last decade in EU15, it remained roughly constant in recent years in EU25. It should be noted that the share of exits due to lack of employment is also increasing in recent years, highlighting the need to develop employment opportunities for older workers.

Graph 3 – Reasons for leaving last job or business for older workers aged 55-64

EU15



EU25



Source: Labour Force Survey, annual averages.

A significant share of new retirees takes a pension before standard retirement age

The share of new retirees retiring before, after and on standard age[2] varies greatly among Member States, clearly reflecting the various current possibilities of flexibility in retirement age (section 3). It should be noted that in some MSs, most new retirees retire before standard age (BG, DE, EE, EL, CY, IT, HU, PL, SK), a particular case being HU, with more than 90% retiring before standard age. In other MSs, retirees retire mostly at standard retirement age (DK, ES, FR, LT, AT, PT, FI, SE, UK).

Table 1 - Share of new retirees taking up their statutory pension before or after standard age

	Under 60	60-64	65 or more
BE	0.2 %	Men : 60-64, 33% and 65+, 66.8% ; Women 60-61, 22% and 62+ 77.7%	
BG	81.7%	14.9%	3.4%
CZ	Before standard retirement age : 31,4%	At standard retirement age : 51,9%	After standard retirement age : 16,7%
DK	Impossible		100%
DE	55,6%		42,2 % at 65 and 2,2 after 65
EE	56%	40%	4%
EL	Wage earners: 39.2% (men 34.7%, women 48.5%) agrarians: 9% (men 11.3%, women 7.5%)	Wage earners: 31.4% (men 34%, women 26%) agrarians: 3.7% (men 4.9%, women 3%)	Wage earners: 27.3% (men 31.2%, women 25.4%) agrarians: 87.3% (men 83.8%, women 89.5%)
ES	42 %		58%
FR	19%	51% at 60 and 30% after 60	
IE	NA	NA	NA
IT	60% before standard retirement age	3% at standard retirement age	37% after standard retirement age
CY	62,2%		37,8%
LV	NA	NA	NA
LT	Men 6.9% Women 97.0%	Men 92.0% Women 0.8%	Men 1.1% Women 2.2%
LU	49%	25%	26%

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[2] Standard retirement age is used here for statutory retirement age specific to Member States legislation.

	Under 60	60-64	65 or more
HU	Before standard retirement age : 93,7%	At standard retirement age 62 for men, and 61 women in 2006 - 4,5%	After standard retirement age: 1,8%
MT	NA	NA	NA
NL	NA	NA	NA
AT	Men 38,3 % Women 62,6 %	Men (60 to 64) 42,2% Women (60 to 64) 32,0%	Men (above 65) 19,5 % Women (above 65) 5,4%
PL	71%	17 %	12%
PT	42.3%		57.7%
RO	NA	NA	NA
SI	NA	NA	NA
SK	77% (24% before 55, 42% before standard retirement age)	24%	0%
FI	15%	65%	20%
SE	15%		78% at 65 and 7% after 65
UK	Impossible	Men 13 % (only pensions credit possible) Women 94 %	Men 87 % Women 6 %

Note: BG, CZ, DE, DK, CY, EL, ES, HU, IT, LT, LU, AT, PT, SK, SE, UK (2005), FR (2004), BE (2002), EE (2001). Calculations for EL refer to the wage earner population insured in IKA-ETAM, the independent professionals (affiliated in OAEE -TEVE. -TAE, -TSA) and the agrarian population (affiliated in OGA). For PT, old age General Contributory Regime only. In DK, a special public partial pension scheme makes it possible for persons between 60 and 65 to retire partial from the labour market with a public pension. In FI, under age 60, this figure also includes disability and part-time pensions. In the UK for men, it is not possible to receive State pensions before 65; however the means tested pensions credit can be taken up from 60.
Source: National data from MSs replies to SPC questionnaire. NA: not available in the replies to SPC questionnaire.

3. DESIGN OF FLEXIBILITY IN RETIREMENT AGE

This section presents an overview of the different modalities of flexibility in retirement age notably as regards eligibility rules within statutory schemes. As the age at which individuals retire or take their pension is linked to the design of Social protection systems, this has a strong impact on effective retirement ages.

It is thus useful to investigate the extent of the impact that the rules regarding early and deferred retirement have on the age at which individuals choose (or are compelled) to retire. An obvious example of this correlation are the Danish or UK systems, where it is almost not permitted to take a State pension prior to the official retirement age of 65, which translates into a very high take up of the pension at age 65 and over (see Table 1). In some other Member States, such as in the Hungarian or Slovakian system, relatively smooth conditions are set for early retirement (see table 2), resulting in a high take-up of early retirement, with nearly nobody deferring their pension beyond the mandated State-retirement age. These examples show extremes of the effects of early and deferred retirement provisions within social security schemes, and of course these are not the only factors that should be considered when assessing an individual's decision to retire at a given age (see section 5).

Conditions for early retirement and for deferment

Member States - reflecting the diversity of social security systems – report many different rules and regulations with regards to the possibility to retire early within the mandatory pension scheme.

In a first group of Member States, early retirement is permitted for those that fulfil certain contribution requirements and also as recognition of long working or particular 'arduous' careers. Contribution year requirements vary from 15 contributory years (Estonia) to 37 years in Greece (where early retirement is also possible for certain labour categories in conjunction with certain requirements on contribution period). The majority of Member States is reporting the number of years required to be around the 30-35 year range. These conditions entitle individuals to retire 2 years (DE, LV), 3 years (EE, AT) and up to 5 years (DE, EL, LT, PL, PL, RO) before the official retirement age of each Member state. EL and SK take a slightly different approach and allow retirement at any age, providing certain contribution conditions are met (EL 37 years of contributions, SK 10 years of membership) and in the case of Slovakia, that an individual's income in retirement is above the minimum subsistence threshold.

A second common feature of early retirement conditions is that a number of member States list certain occupations as special cases, entitling these workers early exits as a result of a 'harder' working life. Typical examples of these careers are mining, working with hazardous materials (such as lead and asbestos) and members of the armed forces. Member states reporting early retirement provisions related to occupation (HU, AT, PL, PT, SK) usually require a certain number of years within those occupations, and some offer even 'earlier' retirement than that available for other occupations. It should be noted that Austria intends to phase out early retirement, and the Polish system only permits this option for those born before 1949[3]. Estonia also includes reference to child rearing for allowing early retirement.

Member States report a more consistent approach to the rules relating to deferral of retirement, and generally allow unlimited deferred retirement. With the exception of Greece, Cyprus, Denmark and Lithuania Member States report the possibilities for deferring of State pension to be unlimited (with some requirements in some systems). For example, Sweden allows unlimited deferral and in Hungary the rules allow unlimited deferral of retirement, with exceptions for some professions where deferment is limited until a set age (70 years of age).

Of those countries that do not permit unlimited deferment, the Danish Authorities allow 10 years of deferment on the proviso that an individual works for at least 1500 hours a year. Lithuania allows deferral for 5 years and the Greeks and Cypriots allow deferral to 67 years and 68 years respectively (compared to retirement ages of 65). Whilst it is clear that most member states encourage an element of deferral (and section 4 discusses the levels of incentives that are on offer), it is only Sweden and Denmark who explicitly link this to the concept of working longer.

Rules on minimum eligibility age

A related point is how far people are fully aware of the consequences of their decisions (see section 5) and the extent to which flexibility in retirement needs to be complemented by minimum/maximum eligibility rules, in order to ensure adequate retirement incomes by restricting the scope for choice.

[3] With exemption of miners who after the legislation adopted by the Parliament in 2005 have this right extended also for younger workers.

For instance, research in the UK indicates a lack of awareness of the link between work and retirement income, as only around a third of people who had retired voluntarily before State pension age had considered the financial implications of doing so. The importance of minimal rules was mentioned in the debate on pension reform in DK, as a way to avoid risks for adequacy of pensions of providing flexibility in early retirement age. As a preparation for deliberations concerning a welfare reform a welfare commission was set up to analyse the challenges to the Danish welfare system and to submit proposals for reforms. The commission considered among other things whether a more flexible old age pension system should be introduced through access to early retirement and argued against such reforms. A reason given was that access to an early pension (reduced after actuarial principle) implies a risk that it will create a group of old age pensioners with an unacceptable low income, in contradiction with the principles of providing secure basic income through public old age pension.

Table 2 – Flexibility in retirement age

	Standard age	Early retirement conditions	Deferred retirement conditions
BE	65 for men and 64 for women	From 60 under conditions of at least 35 contribution years	Possible from 65 (men) or 64 (women) thus generally improving wages taken into account for pension calculation (civil servants are not allowed to defer retirement)
BG	Standard age for men is 63. For women it is 59 in 2007, envisaged to increase by 6 months every year until reaching 60 in 2009.	There are two separate schemes for early retirement. The first one is the so called Teachers pension fund – public statutory PAYG scheme. The second one is a private scheme for supplementary compulsory pension insurance on a capital basis for early retirement of persons working under hard labour conditions – Professional pension fund. Apart from these two separate schemes there is a regime for early retirement in the frame of the general statutory scheme with universal coverage. Entitled are persons who have worked 10 years under the first category of labour and have reached 47 years of age for women and 52 years of age for men or 15 years under the second category of labour and 52 years of age for women and 57 years of age for men. This regime is in force until 2009.	
CZ	The retirement age is due to reach 63 in 2016 for men. For women the retirement age will vary from 59 to 63 by 2019 – differences are dependent on the number of children raised	An insured person is entitled to an early old-age pension provided s/he has been insured for at least 25 years and s/he is less than three years from retirement age. An early pension is available up to 3 years prior to the statutory retirement age.	Deferred retirement possible

	Standard age	Early retirement conditions	Deferred retirement conditions
DK	Within the public old age pension scheme, 65 (having been reduced from 67)	Early retirement is not possible from the main state pension scheme A special public partial pension scheme makes it possible for persons between the ages of 60 and 65 to retire partial from the labour market with a public pension. The recipient must reduce the number of working hours by at least seven hours or at least by one quarter, and the remaining number of hours must be between 12 and 30 hours per week (this is in the process of being repealed). The supplementary labour market pension scheme (ATP) is a contribution-defined and fully savings-based pension scheme payable at 65. No early retirement is possible.	A person who has a right to public old age pension can defer the take up of old age pension provided the person continues to work corresponding to at least 1500 hours a year Public old age pension can be deferred up to 10 years (120 months). The deferment can begin at any time after reaching the pension age. The (ATP) pension can be deferred up to the age of 70.
DE	65 moving to 67 (from 2012 to 2029)	Those who are 63 and worked 35 years are entitled to take an early pension with reductions. Those who are 65 and worked 45 years are entitled to take an early pension without reductions. Handicapped persons who worked 35 years can retire at the age of 60 (moving gradually to 62) with reductions. Women born before 1952 can retire at the age of 60 with reductions, 15 years of work, of which 10 should be after the age of 40 and while paying contribution of some kind. Those who are unemployed or work in old age part time jobs ("*Alteilzeitzeit*"): if born before 1952 can retire at the age of 60 years with reductions, 15 years of work, of which 8 years should be in the last 10 years before retirement. This age limit will be gradually raised from 60 to 63 during 2006 to 2008.	Unlimited Deferral is allowed
EE	In 2006 the standard retirement age for old age pension 63 for men and 59 years 6 months for women. The retirement age of women will be equalised by 2016	Early retirement is possible up to 3 years before the standard retirement age, provided the person has fulfilled the qualification period of 15 years of pensionable service Early retirement, and very early retirement is possible, in particular for those with many contributions, and for specific categories of people (or those fulfilling other criteria – i.e. child rearing)	Deferred old age pension is available, provided the person has fulfilled other eligibility criteria for old age pension. Retirement can be postponed by an indefinite period.
EL	65 for men and 60 for women. Women's age is being equalised	Early retirement is possible for[4]: - those who first entered the social insurance system before 31/12/1992 and are at least 60 (men) or 55 (women) years old (with an insurance record of no less than 4,500 or 10,000 days) and having at least 100 days of insurance each year during the last 5 years before retiring. - For those who first entered the system after 1/1/1993 the additional requirement for being eligible for an early retirement is to have at least 750 days of insurance during the 5 years preceding the day of retirement. It is possible to retire after having 37 years (11,100 days) of compulsory insurance, independently of age. In this case, the pension paid to the beneficiary is the full pension.	Deferment possible until the age of 67.

[4] Old-age retirement with shorter contribution period and before the age of 65 is possible for certain labour groups and for the disabled, however this is not considered as an early retirement option from the social security system.

	Standard age	Early retirement conditions	Deferred retirement conditions
ES	In general the legal age of retirement is 65	60 years of age for certain persons who were insured according to the system abolished on 1 January 1967. 61 years of age for employees insured after 1-1-67 being in unemployment and with long contribution careers. The age of 65 can be reduced for certain groups whose professional activity is arduous, toxic, dangerous or unhealthy.	As a general rule, unlimited deferment possible.
FR	From 60	Possibilities to retire before 60 for long contribution lengths (between 56 and 59 for contribution lengths of 42 years, including contribution period of 40 to 42 years).	Those leaving from 65 benefit from a full pension rate.
IE	65	Early retirement is not possible.	Until age 66
IT	From 57	*DB system*: Contributory periods of at least 35 years allow retirement as early as 57 and four and a half months (60 and 9 months since 2008). Alternatively, 40 years of contributions allow retirement regardless of age. *NDC system*: retirement age flexible from 57 upon reaching of 1.2 times the social assistance level (only required till the reaching of 65 years of age). Women that gave birth to children can retire up to 1 year earlier.	
CY	65 years for men and women 63 years for miners	63 years for men and women provided that the insured person satisfies the relevant contribution conditions and has weekly average insurable earnings equal to 70% of the weekly amount of Basic Insurable Earnings. 58 for miners according to time worked in mines.	Deferment possible until 68 years.
LV	Women and men who have reached the age of 62.	Until 1st July, 2008, men and women whose insurance length 30 years may claim for pre-retirement pension two years earlier than the standard retirement age.	Unlimited deferment available.
LT	The statutory retirement age in Lithuania is 60 years for women and 62,5 for men.	Persons are eligible for early retirement pension if: they have an insurance period of 30 years or they are registered as unemployed for at least 12 months. Pension can be taken 5 years prior to standard age.	Deferral permitted for 5 years beyond standard retirement age.
LU	65 for old age pensions (Provided at least 120 months' compulsory and/or voluntary insurance). Special arrangements are applicable for civil servants	Any insured person who has reached his or her 57th birthday is entitled to an early retirement pension, subject to proof of 480 months' compulsory insurance. Any insured person who has reached his or her 60th birthday is entitled to an early retirement pension, subject to proof of 480 months' compulsory and/or voluntary insurance, including credited non-contributory periods, provided that compulsory insurance accounts for at least 120 months of this total.	From the age of 65, the old age pension may be combined with occupational income without the amount of the pension being reduced.

	Standard age	Early retirement conditions	Deferred retirement conditions
HU	62 for both men and women (after 2009) in both first and second pillar provision; Currently 61 for women	Women may retire at the age of 57 and men at the age of 60 with reduced pensions if they have employment periods of at least thirty-three years or with full pensions if they have employment periods of at least thirty-eight years. On average, this means retirement four years early for women and two years early for men. Advanced pension: There are some preferential rules for some occupations, such as miners, certain artists, members of armed forces and MPs in the framework of general pension system.(There is now separate pension system by professions in Hungary). Early pension due to hazardous working conditions: physical workers under hard working conditions may retire at an earlier age, in proportion to the number of years spent on this type of job. Men may retire one year earlier for every five years spent on this type of job while women may retire one year earlier for every four years; however, men must have worked at least ten years and women at least eight years in such a job to become eligible.	Unlimited deferment possible (except in certain professions, civil servant, judges; for them deferment possible until 70 years of age).
MT	NA	NA	NA
NL	65	Persons can retire from 55 onwards (but the income tax incentive was suspended in 2006). This has no consequence for first pillar (residence test). Everyone under 65 years of age with an income needs to pay contributions to social security.	Possible, but has no consequence for first pillar. Further accrual of pension rights possible, depends on scheme agreed on by social partners.
AT	65 for men, 60 for women (being equalised by 2033)	In 2006 the early retirement age for men is 62 years and 3 months (for women 57 years and 3 month). It will be gradually increased to 65 (men) and 60 (women) by 2017.In addition, there are, for certain age groups, two types of early pension for persons having an extremely long insurance career or particularly hard working conditions (retirement age: 60 for men and 55 for women).	Unlimited deferral possible
PL	60 years for women and at least 65 years for men.	Persons born before 1.1.1949: women aged 55 and over, with a 30-year qualifying period, or with a 20-year qualifying period and totally incapacitated, men aged 60 and over, with a 25-year qualifying period and totally incapacitated, those working in unhealthy conditions or performing a specified type of work may receive pension 5-15 years early if they have fulfilled the qualifying period requirements. For people born after 31.12.1948, early retirement is possible for those who meet the above-mentioned criteria till the end of 2007.	Increased period of employment reflected in pension formula (no maximum period, all periods are taken into account).
PT	65 years for both men and women. Workers in specific occupations can retire before 65 (miners, air traffic controllers, dancers, etc) as well as long term unemployed (under specific conditions).	Any worker with at least 30 years of active service at the age of 55 is eligible to apply to the flexible retirement age scheme. Pension benefits, under this scheme, are reduced in 0.5% for each month of early retiring (6% a year). If beneficiaries have more than 30 years of active service at the age of 55 the penalty is reduced 12 months for each period of 3 years exceeding the 30 years of active service. This means, assuming a continuous contributory career, that someone could retire without any decrease of his pension at 64 with a wage history of 42 years, at 63 with 44, at 62 with 46, and so on.	Unlimited deferment is possible

	Standard age	Early retirement conditions	Deferred retirement conditions
FI	Employment pensions optional 63-68; National (guarantee) pension 65;	Early retirement in full: Employment pension: Early retirement possible from age 62; pension reduced by 0,6%/month; Persons born before 1944 can retire from age 60; the pension is reduced by 0,4 %/month.; National pension : early retirement from age 62 (those born before 1944 from age 60) ; pension reduced by 0,4 %/month. Part-time retirement: Employment pensions: Part-time pensions from age 58	Employment pension: Pension accrual is increased from age 53 (1,5 %/year until age 52; 1,9% between 53-62, 4,,5%/year between 63-68). The accrued pension can be deferred from age 68. The pension amount is increased by 0,4 %/month. National pension : Pensions deferred after age 65 are increased by 0,6 %/month.
RO	Currently increasing from 57 to 60 years of age for women and from 62 to 65 years of age for men until 2014	Those who contribute at least 10 more years than the system requires (Currently increasing from 25 to 30 years for women and from 30 to 35 years for men until 2014) can claim early retirement a maximum of 5 years before he/she reaches the standard retirement age	An insured person who fulfils the legal requirements to obtain an age-limit pension (The standard retirement age and the minimum qualifying period currently increasing from 10 to 15 years until 2015), and who continues working and contributing to the system is entitled to deferred retirement.
SI	Full retirement age is 63 for men and 61 for women	The minimum age, i.e. the minimum requirement for acquiring the right to an old-age pension, provides the insured with an opportunity to retire but with a pension that is correspondingly lower with regard to the number of months the person is short of the full (standard) retirement age. The minimum requirements for acquiring the right are 58 years for both genders and 40 years of pension period for men and 38 for women.	In order to provide incentives for deferring pension claims, for a man with 40 years of service before age 63, and for a woman with 38 years of service before age 61 years, each additional year of service is valued more favourably.
SK	62 (women reach this age in 2014)	1st Pillar: Early pension is possible if the minimum duration of membership (10 years) and the minimum amount of benefit (1.2-times of the subsistence minimum) have been reached. No age limit. 2nd Pillar: Early pension is possible if the early pension of the 1st pillar is received and the minimum amount of benefit (0.6-times of the subsistence minimum) has been reached. No age limit.	Unlimited deferment possible
SE	Flexible retirement age from 61 and onwards	No early retirement, though pensions can be taken at any point after the age of 61. One can withdraw one's full/or partial pension and continue to work full time.	Unlimited deferment possible. Pension rights can be accrued as long as a person has pensionable earnings.
UK	65 for men 60 for women (65 for women by 2020)	No possibility of early retirement	Unlimited deferment possible

NA: Not available in the replies to SPC questionnaire. Source: MSs replies to SPC questionnaire.

Conditions for partial pensions

A second issue for the design of flexibility in retirement age are the conditions for partial pensions, where individuals can take a share of their pension whilst continuing to work (in particular share, age and accrual conditions).

This type of provision is only reported in a few Member States (DE, ES, FR, IT, NL, FI and SE). DE allows this option from the age of 55 on the condition that half days continue to be worked. With the new regulation coming from the Agreement on Pensions signed with the social partners in 2006, Spain will consider previous employment before allowing the taking of a partial pension at 60 (moving to 61 for workers insured after January 1st 1967), the rules being that an individual must have worked for the same employee for the 6 years prior to taking the partial retirement and must have 30 years of contributions in general. Sweden allows partial pension (25%, 50% or 75%), from the age of 61 (the share is allowed to differ in the different tiers of the public pension scheme). France takes a similar approach and allows partial retirement at the age of 60 on the basis that an individual has accrued at least 150 trimesters of contributions. In the Netherlands, pension payments can be received while the employment is partly continued, and pension can still be accrued.[5]

In Finland, partial pensions are provided in the employment pension scheme from age 58 (more favourable terms for people born before 1947). Entitlement requires fulltime work for 12 months within a prior 18 month period and a total 5-year working history within the last 15 years (that working time is reduced and the income from work is reduced to 35-70% of prior income). The income reduction is compensated to 50% by the pension. In 2005, 13 % of the new retirees were part-time pensioners.

In Luxembourg, gradual retirement is granted to employees aged 57 if they agree to switch from full-time to part-time work. For the first year, the benefit reference amount is set at 85% of the average gross pay in the three months immediately preceding the start of the transition to retirement, in the second year it amounts to 80% of the said remuneration, and in the third year it amounts to 75% and the transitional retirement benefit is payable on a pro rata basis in accordance with the reduction in the working hours of the person taking gradual retirement. In December 2004, only two such cases were registered.

In general, these arrangements concern a small fraction of pensioners: at most 10% before 65 and no more than 1% around 65. In this respect, it is important not to mix the possibilities of drawing a partial pension with early retirement paths, as partial retirement can sometimes have been used in a different purpose of earlier exits from labour market.

In general, more possibilities to cumulate a pension (eventually partially) and earnings are provided for ages close to the standard retirement age, while conditions are stricter for earlier ages (there are often no possibilities to cumulate earnings and early retirement). Furthermore, the development for pensioners of a progressive phase-out of the labour market also depends on labour market conditions, in particular on the possibilities of part-time work for older workers.

Working and receiving pensions

Another key issue for the design of flexibility in retirement age is the possibility of being able to take up a pension and then receive a pension and continue working, which is another element eroding the cliff-edge between work and retirement.

The reasons for individuals choosing these options are multiple, but one significant element will be an individual choosing to reduce the number of hours they are working or to accrue further pension rights to ensure a higher pension in the future. Table 3 also gives some information about the ability to "de-retire" (stop receiving your pension) and return to work. Sweden possibly offers the most flexibility, allowing an individual to stop all or part of their pension and continue working at any age, without constraints on earned income.

[5] Employers' organizations and Trade Unions determine the scope of supplementary pension scheme and therefore also whether corresponding part-time pensions can be granted.

Again the rules and regulations surrounding the ability to receive a pension and to continue working reflect the multifarious nature of social security systems across the EU. However there are common themes, such as the limits placed on earnings when receiving a pension, in particular for those retiring prior to the official retirement age. This is the case in DE, EE, and AT, where pre retirement age, limits on the amount an individual can earn are in place (333 euros a month in AT). France also limits the amount an individual can earn and receive in a pension, limiting it to the combined total being less than the last wage earned before retiring (the last wage being at least 160% of minimum wage). Some Member States allow individuals to continue accruing pension rights when working and drawing a pension – EE, EL[6], CY, LT, PT, FI, SE, whereas the UK, IE do not permit additional contributions to future pensions.[7]

Table 3 – Combining earnings and pensions

	Conditions to work once in receipt of pension	**Conditions for suspending pension or de-retirement**
BE	There is a upper earnings limit.	Suspended in case of earnings of 15% above upper earnings limit.
BG	Cumulating the incomes from pensions and labour activity is possible. All pensioners can receive remunerations without suspending the payment of pension or decreasing the amount of pension.	De-retirement is not possible. At the request of the pensioner, pension shall be suspended and resumed for unlimited period of time. There are no specific legislative limitations how many times the pensions could be suspended or/ and resumed.
CZ	No upper earnings limit for people who reached pension age of 63. Not available for early old age pension.	The possibility exists to stop drawing old age pension. Drawing a pension is re-established with new calculation after stopping work.
DK	Public old age pensions are not dependent on retiring from the labour market, but are income tested.	May be deferred two times, up to 120 months.
DE	After 65 without upper earnings limit. Pensioners younger than 65 can take up only part of their pension if earnings exceed 350 euros a month.	Yearly increase of 6% after the age of 65
EE	Without upper earnings limit from age of 63(m) and 59.5(f), but not for early retirement, in case earnings are subject to social tax. Continuation of work taken into account for calculation pension.	Not foreseen.
EL	Pension is suspended until the age of 55 for pensioners of the private sector who either acquired their pension rights or became pensioners before 5/1/1999, while for pensioners of this category, who are older than 55 the amount of pension exceeding 734€ is reduced by 70% (with an extra supplement depending on the number of children). For pensioners of the public sector, the amount of pension is reduced by 70%.Employed pensioners are obliged to pay social insurance contributions (not depending on their pension to be suspended or not).	After the pension is suspended a second pension right can be established (after 6,000 days of new employment and age above 65 (men)/60 (women), or the pension is recalculated taking into account the new employment period, resulting to an increase by 1.714% of the amount for which contributions have been paid. The total amount cannot exceed the 25-fold of the wage of an unskilled worker for each calendar year or 300 days, after the suspension of the pension.
ES	Not possible with full time job that is subjected to some form of social contribution. Part of pension possible with part time job. Included in calculation pension rights.	It is possible to come back to work after being pensioner if the pension is suspended.

[6] Normally the prerequisite for accruing pension rights when working is suspending pension payments, but the system allows for exceptions depending on the pensioner's age and year of affiliation with the system.
[7] In HU Since 1st April 2007, if pensioners continue to work, they have to pay pension contribution after their wage and gain additional pension rights (0.4% increase in the amount of pension after one year contribution payment).

	Conditions to work once in receipt of pension	**Conditions for suspending pension or de-retirement**
FR	Pensions and earnings not to exceed last wage or at least 160% of minimum wage.	Suspended in case of earnings above upper earnings limit
IE	Individuals can receive a state pension and continue working without limitations on their earnings. However beyond 66 they cannot accrue higher pension rights and are insured for occupational injury benefits only	NA
IT	*DB system*: allowed for old age pensions. For seniority pensions, allowed if at least 40 years of seniority (or at least 58 years of age and 37 years of seniority). Otherwise, allowed with penalization for self employment and forbidden for dependent work (but allowed with penalization in case a worker pass from full time to part-time working at least 18 hours AND the employer hires an additional worker) *NDC system*: allowed with penalization above 63 and before age 63 for self-employment.	No suspension possible.
CY	Individuals can receive a Social Insurance Services (SIS) pension and continue working without limitations on their earnings. However beyond 65 they cannot accrue higher pension rights.	Only after an application up to 68.
LV	Possible from 62 for men and 61 for women. Also accruing more pension rights.	The retirement period can be postponed
LT	Currently there are no restrictions to cumulate pensions and income, when reaching retirement age (62.5 for men / 60 for women) and having contributed for 15 years min. Possibility to accrue pension rights.	When having the obligatory state social pension record (30 years) payment can be suspended and pension deferred. Pension will be calculated again and increased by 8% of the calculated amount for each extra full year.
LU	Recipients of an early retirement pension may not engage in a remunerative activity if, in the course of a calendar year, the average monthly income from such an activity exceeds one third of the national minimum wage. If the pensioner's gross pay exceeds the said amount, the early retirement pension is reduced by half. Moreover, the remaining half of the pension is further reduced if the pay plus that half of the pension exceeds a ceiling set at the average of the five highest annual incomes in the pensioner's insurance record. In the case of self-employment, the pension is withdrawn as soon as the pensioner's income exceeds one third of the national minimum wage.	
HU	Does not limit payment of pension, but no further pension rights generated.	During suspension person qualifies as pensioner in relation to social insurance rights and obligations. No new pension rights accrued.
MT	NA	NA
NL	Possible to work and receive pension, depending on schemes, there can be further accrual of pension rights. Also possible with early retirement.	Suspension of the pension or de-retirement will normally not be possible after one has decided to stop working.
AT	After 65, pension is not affected by other earnings. Early retires can earn up to 333- euros a month.	As there is no upper earnings limit for additional earnings, after the age of 65 de-retiring is not necessary. Before the age of 65 it is possible.
PL	After pensionable age (65 men, 60 women) pension will not be reduced. Otherwise pension will be reduced when income exceeds 70% of average earnings. Pension rights can continue to accrue.	After pensionable age (65 men, 60 women) pension will not be suspended. Otherwise pension will be suspended when income exceeds 130% of average earnings. De-retirement is not possible.
PT	General Contributory Regime Old Age pensioners are free to accumulate their pensions with wages. Only pensioners that retired under the flexible retirement age scheme aren't allowed to receive wages from their last employer for a period of 3 years after retirement.	

	Conditions to work once in receipt of pension	**Conditions for suspending pension or de-retirement**
RO	The early or partial pension cannot be cumulated with earnings. Pension taken at retirement age can be cumulated with any other income.	NA
SI	An insured person meeting the requirements for old-age pension may qualify for a partial pension, if s/he is employed on a half-time basis at most. Partial pension is calculated in the amount of half the old-age pension the insured person would be entitled to at the date of pension grant.	By law it is impossible to receive salary and pension simultaneously. The individual is either pensioner either s/he perform some type of paid work, out of which s/he is obliged to pay the contributions. A pension recipient who re-enters employment or who has been elected or appointed for a public or any other function, or who commences to engage in an activity on the basis of which he is insured, shall acquire the status of an insured person and shall not receive the pension during this period.
SK	Since 2004 there is the possibility to have additional income, without decreasing the pension.	NA
FI	A retired person can work and cumulate (accrue) new pension from that work up to the age of 68. Work income does not affect the amount of pension in payment. Work income does not affect the amount of the national pension.	Suspension is possible though not possible to suspend if pension already granted. De-retirement is not possible.
SE	No restrictions on collecting pensions and earning. Pension rights can continue to accrue indefinitely.	No limitations as regards to de-retire or to change the share of pension withdrawal.
UK	Additional earnings possible. No national insurance contributions or accrual	Yes

NA: Not available in the replies to SPC questionnaire. Source: MSs replies to SPC questionnaire.

4. INCENTIVES TO WORK LONGER

A key question for the design of flexibility in retirement age is the strength of incentives to work longer, as regards transitions from employment directly into retirement (it should be reminded that this report does not cover early paths out of the labour market through different schemes other than statutory pension schemes).

Flexibility in retirement age and incentives to work longer

Incentives to postpone retirement differ significantly between Member States (see annex) and can range between no specific incentives (while pension benefits continue to accrue during the additional year at work, there are no specifically supplement rewarding additional years) to additional increases of about 10% a year. If economic incentives to retire later are too low, they may not have the desired effect on the postponement of retirement and on the reverse, if they are too high, costs for public finances can be significant in the event of significant increase in average retirement age.

Furthermore, there is a risk to subsidise those who would have in any case postponed retirement. In this context, it should be noted that incentives should also be at least neutral for sustainability. Available evidence generally suggests that increases in pensions are ranging between 4 and 8 % a year, depending notably on age, careers, and mortality tables and elements provided in annex indicate that the relative increase in pension is generally ranging around 5% a year. In this context, it would be useful to develop further pension indicators on incentives to work longer.[8]

[8] A rough indication can be a bonus of a 5% increase in pension associated to a one year increase in working life, as one can compares one year of pension benefits (100%) with the provision of an additional pension of 5% during a period of roughly 20 years.

Table 4 – Incentives to work longer

	Under standard age	Deferred retirement
BE	Depending on contribution record, additional years generally lead to a more favourable pension. Firstly for careers shorter than 45 years, additional years allow to fill the 45 years length (then increasing pensions by 1/45 each additional year). Secondly, additional years can increase the reference wage. Public servants working longer than 60 benefit from a bonus. Workers benefit from a bonus is provided in case they work beyond 62 or have more than 44 years of career (from 65 if the person has less than 45 years of career).	
BG	The teachers entitled to a pension from the Teachers pension fund but retired under the general conditions receive pension for insurance period and old age and a supplement in amount of 0.2% of the pension for every month with insurance contribution in the Teachers pension fund after reaching the fixed age for early retirement (3 years earlier than the standard age). Early retirees in receipt of pensions from public PAYG and mandatory and voluntary supplementary schemes receive the full amount of their pensions.	Persons who have been granted a pension for a period of insurance and old age shall request re-calculation of the pension amount on the basis of period of insurance or/ and contributory income acquired after retirement. The recalculation shall be requested once in a calendar year only, if this is more favourable for such persons. The amount of the pension shall be determined by multiplying the income on the basis of which the pension is calculated by a sum total of 1 % for each year of contributory service and the respective proportionate part of the percentage for the months of contributory service. If a man has 37 years of insurance and a woman 34 years of insurance and they continue working after the retirement age without receiving pension, for each year of contributory service after the standard age the percentage is 1.5 instead of 1 when calculating the pension amount.
CZ	The pension is reduced by 0.9 % of the personal assessment base for every 90-day period before the statutory retirement age. The annual reduction is thus 3.6 %, representing a decreasing of approximately 4-5 % of the old-age pension. This is a permanently reduced pension, as the reduced rate persists after reaching retirement age.	For deferred pension, an increase of 1.5 % of the personal assessment base is provided for every 90-days of postponement. The increase is plus 6 % per year (360 days), which represents an increase of the old-age pension of approximately 7-8 %.
DK	Early retirement is not possible.	Public old age pension can be deferred up to 10 years (120 months). The deferment can begin at any time after reaching the pension age (a full old age pension is conditioned on 40 years of residence between the age of 15 and 65 year). If the number of years of residence is less than 40 the pensions is reduced pro rata. In case of deferment, the pensioner is entitled to a supplement to the old age pension calculated as a percentage of the pension. The percentage is calculated as the number of months of deferment divided by the average life expectancy at the age of take up of old age pension. ATP pension can be deferred until the age of 70. ATP is a fully funded scheme, where the pension depends on accumulated savings and the age of retirement.
DE	Early retirement: reduction of 0.3% for every month taken (3.6% a year).	Deferred retirement: increase of 0.5% for every month taken (6% a year).
EE	Pension is reduced by 0.4 percent for each month of earlier retirement (4.8 percent per year). As early retirement is possible up to 3 years before standard pension age, the maximum reduction in pension is 14.4 percent.	Pension is increased by 0.9 percent per month of postponed retirement, i.e. 10.8 percent per year.

	Under standard age	Deferred retirement
EL	The pension benefit is lessened by 1/267 for each month before the required age for a full pension entitlement (0.37% a month, 4.5% a year). The pension benefit is permanently reduced.	-From 2002, after 35 years of employment and beyond the age of 65, for employees who have started their social insurance record after 1/1/1993, individuals who stay at work after their 65th year of age and up until the 67^{th}, are entitled to an increased pension benefit. The yearly accrual rate is of 3% (instead of the usual 2%). - For employees who entered the insurance system before 1/1/1993, the amount of the pension after the 35th year of employment, is increased by 1/50 for each extra year. - Additionally, individuals who receive the minimum old age pension benefit and have been employed for more than 4,500 days are entitled to an increased benefit, of 1% for each 300 days they have been employed after the (minimum) 4,500.
ES	For those insured before 1-1-67 and retired in a voluntary base, the reduction is 8 p.p. for each year before reaching the age of 65. For the rest of pre-retired, reduction goes from 8 p.p. to 6 p.p. depending on the number of contributed years. From 2007, for early retirement there is a reduction of 7.5 points instead of 8 points, for people with 30 years of contributions.	From 2007, each year of additional work will result in an increase of 2% and 3% in the case of 40 years or more of contributions
FR	Those taking up their pensions between 60 and 65 without the full contributory length of 40 years have a reduction ('décote') calculated on the basis of either the distance to 40 years of contributions or from age 65 (the most favourable case is used). The 2003 reform reduced progressively the 'décote', from 10% by lacking year to 5%, to make it closer to actuarial neutrality.	Those taking up their pensions after 60 and more than 40 years of contributions have an increased in pensions (called 'surcote') for each period exceeding 40 years of contribution of 3% for the first year; 4% for next years and 5% for years above 65. Law guarantees that parameters for the calculation of pensions are not modified when one works beyond 60.
IE	NA	NA
IT	*DB system*: the accrual rate is 2% of pensionable income for each year at work, with the accrual rate being reduced above a certain income threshold and above 40 years of seniority. *NDC system*: one year of additional work brings more contributions and capitalization of contributions for one additional year. Besides, the transformation coefficient rises with age (although currently only up to 65). A symmetric result hold for retirement one year earlier.	
CY	A person is entitled to an early old age pension at the age of 63 if he/she has completed a prescribed period of insurance and without actuarial reduction of the pension. An old-age pensioner, who has paid contributions on insurable earnings between the date of early pension and the age of 65, is entitled to a weekly increase of his pension equal to 1/52 of 1.5% of these insurable earnings.	In the case of postponement of the beginning of the pension until the age of 68, the amount of old age pension is increased by 0,5% for by month of postponement.
LV	The amount of pensions depends on both accumulated pension capital and a person's age at the time when the pensions is granted. The amount of old age pension is higher if a person requests their pension at the retirement age determined by the State or later, rather than when a pension is requested early. Pensions granted before the statutory retirement age are based on 80 % from the granted pension amount.	
LT	In the case of early retirement the amount of pension is reduced by 0.4% by month remaining until the retirement age. The reduced pension could be paid life-long but the reduction remains for old age pension. It is suspended if person becomes employed or has other insurable income (income on which social insurance contributions should be paid).	After attaining the qualifying social pension insurance period of 30 years, deferred pension is increased by 8 per cent of the calculated amount by year. In case an application for the pension is deferred for more than five years, the pension can be increased only for five years of deferment.

	Under standard age	Deferred retirement
LU	All insured persons who, on the date on which the pension begins (since March 2002) have reached their 55th birthday and can provide evidence of at least 38 years' compulsory insurance, benefit from two increases of the accrual rate. The accrual rate of 1.85% is increased by a supplementary rate of 0.01% for each additional year of their life and a supplementary rate of 0.01% for each additional year in their insurance record. The augmented accrual rate, however, is capped at 2.05%. Pensioners can increase the level of their pension by an average of 3% for each year by which they prolong their career.	From the age of 65, the old age pension may be combined with occupational income without the amount of the pension being reduced.
HU	There is no reduction of pension benefits in the case of records of long employment periods (in case of at least 38 service years). In other cases (in case of service years between 33-38) the pension is reduced by 1 to 30 %, depending on the period of employment and the number of years missing from reaching eligibility age.	The pension increase is 0.5 percent in each month after standard retirement age (62) is reached (pension increase of 6% per year).
MT	NA	NA
NL	Since 2002, there is an increase in the employed person's tax deduction for older people. The higher the age, the higher the increase.	In case of deferred retirement, accrual of pension rights.
AT	For the calculation of the pension, every insurance year accrues 1,78%. The maximum pension (80% of the basis for assessment) can be achieved after 45 insurance years (45*1,78). For 40 insurance years the pension is 71,2 % (40*1,78) of the basis for assessment (the best 18 income years in 2006 – step by step 40 years by 2028) and with 30 insurance years it is 53,4 % of the basis for assessment. In addition, Austria is going to introduce a bonus for those, who are working until 68 and reductions for those, who are retiring between 62 and 65 (the actual values are currently under negotiation).	
PL	In the old system, the pension calculation is the same for both early retirement and deferred retirement. In the old system, in the case of deferred retirement, the amount of the benefit increase as the contribution part of pension increases thanks to increasing contributory period and old age pension's assessment base increase year to year thanks to wage growth rate in the national economy. In the new NDC system the level of amount pension depends mainly on the amount of paid contributions and life expectancy at the retirement age., thus for deferred pension savings increase from contributions and earned interest and life expectancy shortens.	
PT	Pensioners eligible to retire before 65 without any penalty, under the flexible retirement age scheme, accrue a monthly bonus of 0.65% on their pension until the age of 65.	As stated unlimited deferment is possible, however there are limits regarding the bonuses granted to beneficiaries that defer their retirement age (a maximum replacement rate of 92% regarding the best of the annual wages considered in the pension benefit formula). Any pensioners deferring retirement age accrues monthly bonuses up to age of 70 (between 0.33% and 1%, according to their contributory career).

<table>
<tr><th></th><th>Under standard age</th><th>Deferred retirement</th></tr>
<tr><td>FI</td><td>Since 2005, the accrual rate of employment pension is increased: the accrual rates are now 1.5% per year for ages 18-54, 1.9% for 55-62 and 4.5% for 63.
Early old-age pension is reduced permanently by 0.6% per every month that the pension is taken early before 63 years of age. The maximum reduction is 7.2% as the pension can be taken earliest at the age of 62. The retired person can take up another work and earn new pension (at the rate of 1.5% per year) that can be taken earliest at the age of 68.
In the national pension scheme, early old age pension is reduced permanently by 0,4 % for each month the pension is to be paid before the normal pensionable age of 65 years the maximum reduction from the age of 62 being 14,4 %. Deferred old age pension is increased by 0,6 % for each month by which retirement is postponed.</td><td>Deferred old age pension is increased by 0.4% for each month by which retirement is postponed after 68. From 68, no pension contribution is paid of work income and no pension accrues either.
In the national pension scheme, deferred old age pension is increased by 0,6 % for each month by which retirement is postponed.</td></tr>
<tr><td>RO</td><td>Any assimilated periods (Studying in the university, being in military service, being in captivity, in receipt of invalidity pension) are not counted for calculating early pensions, but at the standard retirement age, the pension is recalculated, including assimilated periods and any further qualifying periods achieved in the early retirement period.</td><td>the number of points achieved during the period of deferment is increased by 0.3% by month (3.6% for each supplementary year).</td></tr>
<tr><td>SI</td><td>Pension is reduced by certain percentage for each month missing up until the full (standard) retirement age. The maximum reduction in pension is 18%.</td><td>The longer a person works past the standard retirement age or after he accumulates 40 years of service or she 38 years of service, the higher pension s/he will get. The amount of old-age pension will be increased by certain percent for each month of insurance acquired after attaining standard retirement age. Deferred old age pension will be increased also for each further year of service above the (full) years of service.</td></tr>
<tr><td>SK</td><td>The pension is decreased by 0.5 % for each 30 days missing between retirement age and 62 (statutory retirement age). The amount of early old age pension must be more than 1.2 times the subsistence level for one adult person (SKK 5 977 in period 1st July 2006 – 30th June 2007).</td><td>The amount of old age pension is increased by 0.5 % for each 30 days of pension insurance acquired after attaining retirement age.</td></tr>
<tr><td>SE</td><td colspan="2">There are two main channels that affect the size of the income pension in relation to when the pension is withdrawn. Firstly, it is the amount of pension rights accrued: the longer one works the more pension rights are accrued up to a certain income ceiling and therefore a larger amount of pension capital to distribute annually. Secondly, the annuity divisor will decrease for every month you choose to defer your pension withdrawal.
Individuals that are born between 1938 and 1953 receive part of their pension according to the rules of the former pension system. Up until the age of 65, they also accrue their pension rights partly in accordance to the old rules. In the former pension system you could not increase your pension rights after the 64th year of age, but when these cohorts turn 65 and still have an income – the whole pensionable income will render pension rights under the new pension regulation. Thus, the income and premium pension increase, which make the income for the years after the age of 64 extra profitable.</td></tr>
</table>

	Under standard age	Deferred retirement
UK	A person cannot receive any State Pension until reaching State Pension Age. If an individual gives up work before State Pension Age, and is not credited with earnings, the individual may need to pay what are known as Class 3 National Insurance contributions to protect basic State Pension rights.	If an individual chooses to work beyond State Pension Age, he/she is not liable to pay any more Class 1 National Insurance contributions (in case of employed persons) and Class 2 and 4 National Insurance contributions (in the case of self-employed persons). Employers must still continue paying contributions for employees aged above State Pension Age. When a person chooses to not to take state pensions at state pension age, his pension is increased by approximately of 10.4% for each year of deferral (equivalent to 1% for every 5 weeks). Individuals also have the choice of a lump sum payment based on the pension foregone plus compound interest at 2% above the Bank of England base rate.

NA: Not available in the replies to SPC questionnaire. Source: MSs replies to SPC questionnaire.

Incentives to work longer differ among Member States and for different age brackets

Financial incentives to work longer can be measured by changes in replacement rates when retirement ages increases (reduces or increases, see annex for presentation of related calculations). It should nevertheless be underlined that other factors than incentives to work longer within the standard pension schemes would need to be taken into account to reflect the paths out of the labour market.

Not withstanding factors affecting the labour market, one should note that a number of exits from the labour market happen through early paths (early retirement or disability schemes which are not covered in this report, see section 1). Furthermore, this report covers statutory pensions only and this can provide a incomplete picture in Member States where supplementary provisions play a significant role in older peoples incomes (such as NL[9], DK, SE or UK) and a second SPC report in 2007 will focus on early exits from the labour market through other schemes (such as specific early retirement schemes, unemployment schemes, private pension schemes or disability schemes).

As reflected in the 2006 Synthesis report on Adequate and Sustainable Pensions, most Member States have undertaken numerous reforms of pension schemes with the aim of prolonging working lives and improving incentives to remain in work. Yet incentives are very uneven among Member States and some schemes still embed relatively strong disincentives to continue working after the first eligible age. It is essential to note that the strength of incentives also directly impacts on adequacy, as an increase of a few years in retirement age generally translates into substantial differences in pension levels.

Besides, the strength of incentives also needs to be considered with respect to different eligibility criteria (other than retirement age, such as the length of contribution or different types of occupations). In particular, the definition of a minimum retirement age is essential.

[9] For instance, in DK and NL, statutory pensions are not available before 65, and it is thus in this relation irrelevant to consider incentives to work longer at ages before 65. Furthermore, where statutory pension is not related to work, but to residence and aims at providing a minimum income after reaching the age of 65 incentives are inaccurate. As far as occupational pensions in NL are concerned, incentives to work longer before the age of 65 have been enforced by a reform in 2005.

One can identify three groups of Member States, depending on the extent of change in replacement rates in statutory pensions for a worker at average wage around standard retirement ages (see annex, changes enacted after 2005 are generally not taken into account):

- Member States with relatively high increases in replacement rates (CZ, EE, ES before 65, CY after 65, AT, PT, FI before 65, PL and UK after 65).
- Member States with relatively low increases in replacement rates (BE, DK after 65, IE after 65, MT, CY and LT before 65, LU after 65, NL after 65).
- Member States with average increases in replacement rates (DE, EL, FR, IT, LV, LT after 65, HU after 62, PL after 65, SI, SK, SE).

Reflecting shorter life expectancies when retirement takes place later, increases in replacement rates generally increase with age: they are lower for the age group 60-65 and higher after 65 (see tables in annex). It can be noted that the design of incentives is probably most important between 60 and 65. Before 60, restricting eligibility to early exits is clearly an essential element to promote longer working lives. For later ages after 65, it is also important not to provide strong incentives to people who would have in any case worked longer (in most Member States employment rates at these ages are currently low and essentially include people with higher education).

Incentives to work longer seem to be lower for those on lower wages

Incentives can be significantly different for different earnings levels and the situation for average wage earners does not fully reflect a countries incentive structures for working longer. In particular, for lower wage earners, incentives have to be coherent with the interaction between minimum incomes for pensioners and standard earnings related schemes.

Incentive structures for different income levels appear generally similar after 65 (see tables in annex). However, before 65 they seem to be lower for lower wage earners (50% of average wage) in some Member States (for instance DE, LV, PT, SI, see annex).

These relatively lower levels of incentives for lower wage earners should be reviewed, for reasons of efficiency, equity and also adequacy. Firstly, incentive structures should provide comparable levels of incentives for different wage levels, thus promoting with the same strength working longer among the whole active population. Secondly, working longer should allow increasing pension accruals and thus benefiting from more favourable pension outcomes and more modest pensioners should not face less favourable rules.[10]

Reviewing incentive structures for lower wage earners implies to examine at least both the design of minimum income provision for older people and interactions with earnings related statutory pensions. The incentives structure can be the result of the presence of minimum income provision for older people that preserve adequacy of income in retirement, and thus, reviewing the incentive structure should not lose the sight of meeting the adequacy objective As reflected in the SPC study of December 2006, it should be noted in this respect that a number of important elements are to be taken into account (in particular design of income tests of earnings related pensions and path of indexation of various benefits). Furthermore a number of other factors can also be at play, such as different pension schemes, and other benefits (notably in kind benefits, such as housing benefits, or health and long term care).

[10] This is all the more true that due to remaining differences in mortality by socio-economic background, low wage earners are more at probability to have shorter life expectancy than the average.

5. INFORMATION AND LABOUR DEMAND

Information provided to workers and employers on flexible retirement

The ministry of social affairs or affiliated institutions commonly have offices over the whole country, which provides information to citizens. Most Member States are developing internet sites and editing brochures to provide information to future beneficiaries. Some countries send out specific individual information on pension accruals.

Nevertheless, a key issue is the question of the understanding by individuals. This is a difficult question that requires long-term efforts, notably when retirement rules become more complex. Experience suggests that even when individuals are provided the information on their pension entitlements, they do not necessarily understand the consequences of different retirement choices in a context of changing rules.

It appears then essential to provide broad and complete information on the effects of reforms for individuals and on the potential impact of their choices.

Table 5 – Available information provided to employees and employer

	For Employees	For Employers
BE	General Information brochures on pensions, internet site and free phone number and contact centre of the national pension office. Through an internet site, everybody person aged from 18 to 64 can obtain a simulation of his/her future pension. Beginning in 2006, everybody receives automatically at 55, a calculation of its future pension.	
BG	Web sites, call centres, regular information campaigns, etc.	Web sites, call centres, regular information campaigns, etc.
CZ	Manual for new pensioners , published by social security administration	
DK	Local authorities contact persons who are to reach pensionable age to inform them.	No special information provided for employers.
DE	Internet sites and brochures. Information desks of Ministry of Employment and Social Affairs all over the country.	Employment agencies; personnel departments, work councils and unions have knowledge.
EE	Internet sites of Ministry of Social Affairs, Social Insurance Board and Central Depository of Securities. No specific measures targeting employers.	
EL	Numerous desks all over the country with free internet access. Government posts information on personal insurance account twice every year. Internet sites and insured's Guide. No specific measures targeting employers.	
ES	Offices of National Institute of Social Security for citizens all over the country. Internet site. Labour guide, published each year. It is possible to calculate the pension through internet, by giving the personal data related with age and bases of contributions in the last 15 years.	
FR	Communications campaigns, brochures and internet site. Furthermore, mandatory schemes are providing individual information on entitlements (*Gip Info-retraite*). Regional centres inform local companies.	
IE	Information for both employees and employers on State pension arrangements are made available by the Department of Social & Family Affairs through special information leaflets and through Government information websites.	
IT	Through the pension institutes, their offices, call centers and websites and government information campaigns	Through employers’ networks, the pension institutes their offices, call centres and websites and government information campaigns
CY	Social Insurance Services websites. Various leaflets and Annual reports of the Social Insurance services. Representatives of employees and employers in Social Insurance Board provide information as well.	
LV	Mostly via media (printed press, radio, TV). New government website.	
LT	Territorial offices of the State Insurance Fund Board and Labour Exchange. Websites and information phone lines. Booklets distributed through territorial offices.	
LU	Information brochures on pensions, web site documentation, phone contact to the pension office, personal consultations at the pension offices. At the end of the year each insured person receives written information on career history and total contributions to the system. Benefit simulations are provided on simple request by the pension offices.	

	For Employees	For Employers
HU	No specific measures indicated	
MT	NA	NA
NL	Information on the content of the pension schemes in the second pillar must be given by the pension provider.	Availability of certain flexible retirement measures depends on the content of the scheme agreed on by Social partners. Employers are aware of these availabilities. Information on the content of the pension schemes in the second pillar must be given by the pension provider.
AT	Advice from the pension insurance agency.	
PL	Social Insurance Institution publications and internet site. Distribution of leaflets in the work place and internet sites. Internet sites and Bulletins of Public Information, which are edited by local authorities.	
PT	Website of the social security system. Offices of Institute of Social Security for citizens all over the country	
RO	Web sites of the territorial offices of the National House of Pensions and Other Social Insurance Rights.	
SI	Through an internet site of national pension institute everybody can obtain a simulation of his/her future pension. General Information brochures on pensions. Internet site of Ministry of Labour, Social Affaires and Family, Institute of Pension and Disability Insurance of Slovenia, Slovenian Government, Social partners, Institute of Macroeconomic Analyses and Development, Institute for Economic Research and also State Portal.	
SK	Media and internet sites of Ministry of Labour, Social Affairs and Family / Social Security Agency. Information phone lines	Information phone lines
FI	Internet site (special pension portal for insured people). Pension institutions give advice and social Insurance Institutions give overall Brochures. Pension institutions regularly send out personal calculations of pensions to insured persons.	Pension institution provide information; Finnish Centre for Pensions. Employer organisations for self-employed also inform their members.
SE	Annual 'orange envelope' sent out to every insured. Several internet sites available, one of which provides personal forecasts of pension provision (including occupational pensions) and where the beneficiary can also include his private pension savings in order to get a comprehensive view of his/her future pension. Also all 60 year olds are invited to the Social insurance office for information regarding their retirement possibilities. .	Nationwide information campaigns were performed at the inception of reformed pension system. Social insurance office can provide information at workplace on demand.
UK	Individuals can request State Pension forecasts at any time to help them plan their retirement income. Government leaflets and websites provide information on work and retirement planning, including options on flexible working.	The UK Government runs an Age Positive campaign and website which promotes the benefits of employing an age diverse workforce. This includes providing employers with research evidence and examples of good practice on flexible working and retirement. Other government websites provide advice on a range of issues including employment, pensions and flexible working. Additionally various employers associations have their own websites and information on these issues.

NA: Not available in the replies to SPC questionnaire. Source: MSs replies to SPC questionnaire.

Employers' incentives

Other factors than the rules of the pension system are also at play. In particular, the ability of the labour market to respond to changes in retirement provisions is essential, notably as regards part – time work. Only if labour markets are open for older workers flexibility of rules gives real choices to people. One aspect in this respect, are the costs and incentives for employers to hire or layoff and it worth highlighting that in a number of Member States, employers receive incentives to hire older workers (notably reductions in social contributions, see table 6).

Table 6 – Incentives provided to employers to hire older workers

BE	Work allocation and/or reduction of social contributions when hiring older workers
BG	The Employment Promotion Act regulates some incentives for the employers to hire unemployed women older than 50 years of age and men older than 55 years of age. For every hired person the state ensures funds for: - remuneration equal to the minimum salary for the country; - supplementary remuneration in minimum amount pursuant to the Labour Code; - insurance contribution for "Pension", "Accident at work and professional disease", "General disease and maternity", "Unemployment" funds and health insurance contribution.
CZ	No specific incentives in the statutory scheme.
DK	No (as a general rule employers do not pay social contributions)
DE	Employers can receive an 'integration grant' when they hire aged workers whose placement is more difficult do to circumstances. This is max 50% of the salary for the length of 36 months. This does no apply to retired people.
EE	There is no particular tax or other incentives for employers to hire older persons. In case of working pensioners, social tax (the social security contribution by employers) is paid on regular conditions, i.e. 33% social tax for pension and health insurance and 0.3% for unemployment insurance. Working old age pensioners are exempted from employees' unemployment insurance contribution (0.6% of wage) as pensioners can not be registered as unemployed persons.
EL	There are increased subsidies to employers when they employ previously unemployed persons above 50 years of age. With the "Close-to-retirement Program" older workers who are not entitled to an old-age pension as they do not have the required insurance period (lacking up to 1500 days and no more than 5 years before the retirement age) are subsidised for a period of up to 60 months.
ES	There is a reduction in contributions when hiring persons over 60 (will be 59) with open contract which depends on the age of the worker. With 60 there is a reduction of 50%, which increment with 10 percentage points every year. Hence from 65 on this can be 100%
FR	The employer who hires persons receiving unemployment benefits aged more than 50 benefits from a financial aid (paid within the limits of the duration of the remaining rights of the unemployed). Companies can also benefit from contracts for recruiting unemployed of more than 50. To facilitate the recruitment of employees aged more than 57, a new type of short term contract has been created, of maximum 18-months duration, renewable once. It can be concluded with an employee of more than 57 years old, registered for more than 3 months as an unemployed or in personalised reclassification conventions. There are not incentives for companies to hire pensioners, the principal objective of the reform being to make it possible for persons insured to retire later, in order to benefit from an adequate pension.
IE	NA
IT	No particular incentives
CY	The liability for payment of contribution ceases on the date a person has reached the pensionable age. This provision of the legislation leads to a reduction in the labour costs.

LV	Generally an employee makes social insurance contributions for pension insurance, insurance against unemployment, social insurance against work injuries and occupational diseases, maternity and sickness insurance, invalidity insurance. The social insurance contributions rate for employee who is subject to all types of social insurance is 33,09% (9% for employee and 24,09% for employer). In consideration of principle to insure individuals against social risks which may actually affect them and with aim to stimulate employers to hire older people Latvia's legislation prescribes that an employee who has reached the age of retirement is the subject for pension insurance, social insurance against work injuries and occupational diseases, maternity and sickness insurance. Taking into account excluded certain types of insurance (unemployment insurance and invalidity insurance) the social insurance contributions rate for employee who has reached the age of retirement has been reduced to 27,38 % (7,45% for employee and 19,93% for employer) in 2006.
LT	Employment legislation provides subsidies for employer employed certain groups of supported persons (including persons above 50 years old). These subsidies can be spent only for salary of the supported persons. The duration of subsidy can not exceed 12 months (in the case of term labour contract – 3 months). The amount of subsidy can not exceed 1 minimum monthly wage, which is established by the Government. There is no reduction of social insurance contribution or taxes for those who hired older people.
LU	There are no specific incentives to hire older workers.
HU	There are many forms of support to encourage employers to hire older workers: Rules on expanding employment are more favourable if the employer undertakes to engage a job-seeker sent by an employment centre who had reached the age of 45 years by the time the application for assistance was submitted. There are also more favourable rules in support of community service if the employer agrees to employ a job-seeker who had reached the age of 45 years by the time the request for assistance was submitted. The costs of training an employee in employment relationship aged over 45 years – if regular employment cannot be ensured without re-training – will be supported in full and reimbursed to the employer, and criteria for providing this support do not include the need for the employer to take care of a portion of the training costs. Lump sum healthcare contributions do not have to be paid when employing a job seeker over the age of 50 years, who has been registered for at least six months. In 2005 a central labour market programme was initiated under the title "Promoting Employment for Job-Seekers over the Age of 50 years." Within the frames of it, when an employer hired an older unemployed worker (over the age of 50 years), the Labour Market Fund or the central budget agreed to pay the employer's portion of the pension insurance contribution for a maximum of one year. Within the framework of the START EXTRA programme, as of January 1, 2007, it is planned that employers will receive a discount in the contributions they have to pay if they undertake to employ a person over the age of 50 years who is a long-term job-seeker.
MT	NA
NL	There is no obligation to pay social security contributions for people over 65 years of age and over as far as the State pension is concerned (and the public schemes for sickness, disability and unemployment). This can be a financial incentive to hire these people. Besides, an employer who hires an employee at the age of 55 and over will be exempted from the payment of the Aof-premium (one of the premiums to finance the disability benefits.)
AT	Employers do not have to pay unemployment insurance contributions for men at the age of 58+ and women 56+. In addition they do not have to contribute to the accident insurance and the family fund for the age group 60+. There are also penalty payments in case of dismissal of older workers (50+) within a bonus-malus system.
PL	In Poland there are no special incentives to hire older people.
PT	Employers may claim temporary exemption from payment of contributions when hiring long-term unemployed under unspecified term contracts. The maximum period of exemption is 36 months. Employers may claim reduced contributions when hiring: - Workers satisfying the entitlement conditions to full pensions (65 years of age and 40 years of insurance) - pensioners who pursue an activity (old-age and invalidity pensioners)
RO	NA

SI	Employers are exempted of payment certain or whole contributions, when employing older employees. Employment legislation provides refunds of contributions for employers who hire long term unemployed person (registered more than 12 months) over 55 or unemployed person over 55 with surplus profession. Subsidies for employers who hire unemployed persons over 50 and who are registered for more than three months are also provided within the government program of active policy measures of employment.
SK	Pensioners are exempted from disability, unemployment and sickness contributions. Since 1st January 2004, employee and employer do not need to pay premium on disability insurance for people on retirement. This is also the case since 1st January 2005 for unemployment contributions and since 1st August 2006 for mandatory sickness insurance.
FI	Earlier it was possible to hire a retired person and not pay any pension contributions, but from the beginning of 2005 all persons who have work income also pay pension contributions, that is the employer part and employee part. At the age of 53 and beyond an employee pays higher pension contribution than for younger persons. However, the total contribution remains the same, which means that the employer's part of pension contribution slightly decreases comparing to the contribution of younger workers. This could be an incentive to hire persons over 53. After the age of 68, no pension contribution is paid and no pension accrues either. Earlier the base tariff contribution for old-age, disability, unemployment and survivors' pensions was age-dependent getting higher as the employee got older. This base tariff contribution is no longer age-dependent. Smaller companies pay and have always paid contribution that is the same for all independent of age and it doesn't change by the amount of their invalidity cases. From the beginning of 2006 a tax credit was introduced to employers who employ full-time persons of low wage (between 900 and 2000 euros/month) or who are on a part-time pension (with low wage taking into consideration also the amount of their part-time pension) and who are over 54 years of age. The maximum tax credit per employee is 220 euros/month. The idea behind this tax credit was to improve the employment of older workers with low wage, as they also tend to have less education than higher wage earners and are thus more difficult to employ, their productivity being low in relation to the costs of employment. It has been estimated that this tax credit could increase the employment of older persons by 1900 manpower years in the long run. 10% of low-wage earners are eligible to this tax credit, which means 5% of all wage earners. This tax credit is temporary for the years 2006–2010.
SE	From January 2007 the government has abolished the special pay roll tax that employer's earlier paid for workers above the age of 65 (as of this year, employer's are only liable to pay the employer's part of the contribution to the pension system amounting to 10,21% of gross wage). No other social contributions are paid for employees above the age of 65.
UK	The Government's Age Positive campaign highlights the benefits to employers of retaining valuable skills and expertise, greater productivity, lower turnover which reduces recruitment and training costs.

Source : MSs replies to SPC questionnaire.

6. ELEMENTS ON FLEXIBLE RETIREMENT CONTRIBUTION TO LONGER WORKING LIVES

Preferences expressed by the population as regards flexible retirement

There are indications a large share of people tend to have positive attitude to more flexibility regarding retirement (notably in DE, DK, IT, PL, SK, SE). Research suggests older workers would welcome more choice in how they manage their working lives in the period up to and beyond retirement, including options to downscale or downshift work commitments, to retire gradually, to choose when they retire and whether to continue working past State Pension Age. In the UK, recent research indicates that, among 50-69 year olds, half of those in work wanted to carry on working and many of those who where retired would have liked to have worked for longer if there had been part-time or flexible work options available. Gradual retirement is currently a minority experience, though nearly a third (31%) of those in work said they planned to retire gradually. The same survey showed that around half of employees had access to one or more forms of flexible working arrangements and around half took up some form of flexible working offered to them by their employer.

In practice however the demand for flexible retirement seems rather limited, which may to some extent be imputed to institutionally barriers. For instance, in DK nearly half of people active in the labour market and a quarter of people already retired declare they would stay (would have stayed) longer on the labour market if they are secured part time job and part time pension. In IT, the current experience with seniority pension indicate that people value very much flexibility, but that for many work has such a disutility that retirement happens as soon as possible, such behavior crucially depending on firms pushing out older workers and on the rules on the accumulation of pension and work income.

Furthermore, an important aspect is to remain in good health and more generally to change retirement age attitudes by developing working conditions of elderly employees, notably through better safety and health at work, better possibilities to life long learning and shorter working time for elderly people. For instance in FI, one fourth of those aged 45 to 64 is willing to continue at work after the age of 63, if they remain healthy, while the most common age of desired retirement was 65 for those who wanted to continue at work and only a small part was interested in continuing until age 68. In this regard, it should be noted that flexible working is not suitable in all professions – as notably for hard manual jobs it is physically less likely for longer working – though there may be opportunities for retraining and re-skilling.

Expected evolution of take up of flexible retirement age

Expected likely evolutions of coverage and related expenditures associated to flexible retirement age vary greatly among Member States, depending on recent steps in reform of access to retirement. In most Member States, it is expected that the take up of more flexible paths out of the labour market will increase in coming decades, either through an increase of part-time work (DE, SE) an increase in deferment (DK, ES, SE) or a decrease of exits at earlier ages (HU, PL).

In a number of Member States, it is difficult to evaluate future evolution of pensioners in receipt of partial pensions or having taken up early of deferred pensions. From some Member States where evaluations are available, it appears clearly that changes in take up are planed to have more impact on adequacy of pensions than on the levels of pension expenditures (HU, SE).

Table 7 - Expected evolution of numbers in receipt of partial pensions and use of possibilities of early or deferred retirement and associated effects on spending.

	Expected evolution
BE	There is a limited number of persons cumulating pensions and earnings (about 4% of pensioners).
BG	NA
CZ	Roughly 50 % of new retirees do not retire at statutory retirement age and no significant changes in use of possibilities of early or deferred retirement are expected. Longer term trends depend on future steps in pension reform, especially as regards statutory retirement age.
DE	The possibility of early retirement (before 65) is used very frequently (51,5% of men and 39,5% of women in west and 73,9% of men and 75,7% of women in east). Part time work is developed and the removal of the grant for working part time for older workers (*Altersteilzeitforderung*) in 2009 could make partial retirement more attractive.
DK	Only about 1.200 persons receive partial pension from the public partial pension scheme and according to the welfare-reform agreement the partial pension scheme will be repealed 1 of January 2006 with effect for persons of age under 48 at the end of 2006. The number of persons who defer the take up of old age pensions is expected to continue to grow. However increases in the pension age agreed in the welfare-reform agreement will possibly reduce the expected growth. An opposite effect may be the likely result of initiatives in the welfare-reform agreement which are targeted at improving the working conditions for older workers as a way to securing longer working lives.
EE	The number of recipients of the (general) early retirement pension is expected to increase as the option of general early retirement was introduced only in 2000. The total number of recipients of old age

	Expected evolution
	pensioners on favourable conditions (i.e. special early retirement) is increasing. The number of beneficiaries is expected to increase, unless some legislative restrictions are introduced. The number of beneficiaries in this category is expected to increase as this possibility has been relatively recently introduced (2002) and more people become aware of this option.
EL	Within the framework of the social dialogue on the reform of the social security system recently initiated by the Government, it is envisaged to introduce additional incentives for the extension of working life and to adopt counter-incentives against early retirement. A special High Level Expert Committee has been set up to take stock of the current situation, on the basis of actuarial studies, in order to enable the future government to take the most appropriate decisions. The evolution of the number of people who retire early or defer their retirement will depend on the measures taken after this dialogue is finished.
ES	A number of changes from 2006 will mostly have an effect on partial and deferred retirement, giving more incentives to prolong the active life, and delaying the age of retirement.
FR	Conditions for progressive retirement have been smoothened and an increase in take-up is expected. Incentives to work longer (for people taking up their pensions after 60 and more than 40 years of contributions) have been reinforced, which is expected to delay pension age for 30.000 people in 2007.
HU	According to government concepts, conditions allowing early retirement will be tightened up in the near future and incentives will be introduced to encourage people to retire later (in particular, minimum retirement age will be gradually increased to 60 years for both genders, it will not be possible to retire under retirement age without the pension benefit being reduced, early retirement may not be granted to any person who is engaged in any gainful activity, and the payment of pension must be suspended for any retired person below retirement age who is engaged in gainful activity). Increasing the effective retirement age by one year is expected to reduce pension expenditures by about 4-5 percent. Furthermore, when looking at the income status of the elderly population, on the whole, earlier retirement results in lower pensions and working longer results in a higher pension level.
IE	NA
IT	Expected increase.
CY	Until today no person entitled to old age pension at the age of 65 postponed pension until 68. Persons who receive old age pension after the age of 65 are those who were not eligible to pension at the age of 65 and continue to pay contributions after 65 in order to satisfy the prescribed contribution conditions for entitlement to a pension.
NL	Due to changes in fiscal legislation, it is expected that early retirement will decrease. As are result of the ageing of the population, it is possible that deferred pensions will increase. The spending on older people in the public scheme will increase, and due to its financing system a greater part will be contributed by taxes (and an increasing part by AOW-premiums).
AT	NA
LT	As early retirement provision is restricted only to those unemployed having quite long insurance record and in pre-retirement age, and unemployment level is constantly decreasing in Lithuania, it is expected that numbers of recipients should stay stable. As regards deferred retirement, it is obvious that due to the favourable payment of pension benefits to working pensioners and absence of partial retirement rules, numbers in receipt will not increase. In the case of early retirement pensions are actuarially reduced, and no impact on future spending on older people is expected. However early retirement has a negative influence on income situation of its receivers as these benefits are quite low for subsistence.
LV	NA
LU	Due to the absence of specific reforms in the area of partial, early or deferred retirement, no retirement behaviour adjustments are to be expected in the short and medium term.
PL	From 1st January 2008, early retirement possibilities will be abandoned. From then, in principle, only a single universal retirement age will exist in Poland (65 years for men and 60 for women). Only miners will keep possibilities of earlier retirement without time limit. For persons working in particularly difficult conditions or those performing special work, an interim system of ‘bridging pensions’ will be developed. However pre-retirement benefits are still granted. Moreover pre-retirement allowances, granted only for people, who were registered as unemployed by the end of December 2001 are still paid. Over the long-term, it can be expected that expenditures for pre-retirement benefits and allowances will gradually be reduced.

	Expected evolution
PT	The flexible pension scheme described was introduced at the beginning of 2007, so it is not possible yet to have an estimate of the number of pensioners that will apply to this scheme. The introduction of a Sustainability Factor on the pension benefit formula, which links pension benefits to the developments on life expectancy, as well as the introduction of more generous bonuses for deferring retirement age, should lead to an increase of the average retirement age of the General Contributory Regime old age pensioners.
RO	NA
SI	The Government has adopted "The framework of Economic and Social Reforms for Increasing the Welfare in Slovenia" in November 2005. The document proposed changes and supplements to the Slovenian pension system. It noted the urgency to increase incentives for remaining longer in active work and to raise the effective retirement age by creating a scale of bonuses more progressively, by excusing (partly) payment of contributions by employers in the employment of older workers and also by amending the provisions on partial retirement, which must no longer be connected with meeting all the conditions for retirement by age. The document also pointed out the need to shorten the transitional period for women in such a way that full (standard) retirement age is enabled even before 2013. Full retirement age for women (61years) will take effect as of 2023. In the interim period, until 58 (minimum retirement age) applies as full retirement age, full retirement age equates with minimum age. In respect of women, the effects will show from 2015 on.
SK	Since 1st August 2006, stricter conditions to early old age pension have been introduced. Nevertheless, changes in legislation translated into increases in number of recipients of early old age pension. In the first half of 2006, the number of applications to early old age pension increased a lot and this will translate into growth of number of recipients of early old age pension. Stricter rules of access to early retirement to pension are expected to be introduced.
FI	Following the pension reform of 2005, the age-limit to access to part-time pension is increased from 56 years to 58 for access to early retirement. Furthermore, the age limit of early old-age pension was increased from 60 to 62 in the reform and the percentage of actuarial monthly reduction was raised. The higher accrual rate after 63 is an incentive to continue at work. A person can continue working on a part-time pension until 68. In the pension reform of 2005 the possibilities for early retirement before the age of 63 were limited, which has been estimated to decrease early retirement. On the other hand a person can retire already at the age of 63 instead of the age 65 that existed before the reform. According to present knowledge this possibility to retire earlier hasn't resulted in total retirement in the age groups 63-65. A significant part of this age group continues at work still after 63 years of age. The average retirement age is estimated to be postponed by over 6 months until 2010 and in the long run by three years. The effect of the pension reform of 2005 is estimated to be half of this above-mentioned postponement.
SE	The share of the total pensioners with partial old-age pension is small but is expected to increase somewhat in coming years. More than 10 percent have a partial income pension before the age of 65 and barely half a percent at age 65 and older (close to 5 percent of all old-age pensioners in December 2005 had a partial premium pension). The effect of partial pension on old-age-expenditure is minimal as the expenditure on pension is proportionate to the amount of pension rights earned by the individual and the percentage of pension taken out at a certain age. However, a partial pension can have a positive affect on the individual's income if they are able to prolong their working life. Income increases during the period of partial pension, as the individual's total income probably is higher than if a full pension is claimed. In the long run a longer working life can also entail a higher pension in the future.

	Expected evolution
UK	Currently, approximately 5% of those reaching State Pension Age (SPA) start deferring. The large majority of those deferring are women, due to the difference in SPA and lower entitlements. The typical period of deferral is 2-3 years, 2 years for a man and 3 years for a woman. As a result of recent reforms increasing the rate on offer to those deferring, it is expected that the numbers deferring are likely to rise by around a third. Further proposals to reform the deferral regime are contained in the recent pension's White Paper, 'Security in Retirement: towards a new pension system'. These proposals consider how deferral might in the future offer greater flexibility, both in terms of the amount drawn and deferred, and in terms of allowing people more flexibility to move in and out of work after State Pension age by allowing them defer and undefer a number of times. The proposals will be considered in the context of further research findings into the impact of recent changes. Deferral does not significantly alter state pension expenditure as any initial savings are offset by future costs. The low incidence of deferral, particularly amongst those working means that deferral currently only plays a small role in helping people increase their incomes by extending their working life.

NA: Not available in the replies to SPC questionnaire. Source: MSs replies to SPC questionnaire.

Likely impact on employment of older workers

A number of factors are impacting on the employment rate of older workers and it is difficult to estimate the separate impact of flexible retirement. Quantitative evaluations are not numerous and Member States generally provided qualitative evaluations. More investment on evaluation tools appears thus to be needed, based on empirical assessment of the impact of reforms and not only *ex-ante* evaluations based on simulations, notably as regards the induced effects on employment paths of older workers and on the composition of incomes.

Furthermore, the general situation of the labour market is of key importance and FI for instance mentions that one reason for the sharp increase in employment rate of older workers in the 90's was the good economic situation that has kept also older workers in employment better than before.

According to recent research in FI, about half of the employers are willing to employ more those aged over 55, thus evaluating that the possibilities of older workers to continue working appear good. A reasonable part of older workers could continue in their present job until 65 according to their employers.

In the UK, recent research highlighted that the attitudes of employers and individuals affected the ability to extend working life. Where health problems and caring responsibilities had been taken into account by their employer, some people were able to remain in work. Furthermore, until recently, people were often not able to scale back their hours or downshift work commitments with the same employer due to tax issues, often they had to seek part-time employment with a different employer. There is an expectation there will be an increased tendency for people to opt for flexible retirement, as from April 2006, where pension schemes allow, people can carry on working for the same employer while drawing down an occupational pension which should facilitate greater uptake of part-time working.

Further research is being undertaken as the UK Government is considering how State Pension deferral might, in the future offer greater flexibility, both in terms of the amount drawn and deferred, and in terms of allowing people more flexibility to move in and out of work after State Pension age. This second flexibility would mean offering people the chance to draw their pension when they need the income and defer it again when they can support themselves through work. However, this would increase complexity and will need careful consideration once research findings are available.

7. CONCLUSION

Most Member States are currently reviewing or reforming the conditions of taking-up of pensions, by introducing more flexibility in the choice of the path from work to retirement. This can be achieved through more flexibility in retirement age and appropriate incentives to prolong working lives, but also through partial pension and possibilities to combine pensions and earnings.

In spite of the increase of the employment rate of older people over the last decade, there is still an important gap to reach the target of 50% of employment among older workers. The provision of flexible retirement age appears as an essential element of the reform of pension systems to promote longer working lives.

In particular, it can be noted that the increase in employment of older workers over the last decade is partly due to an increase in part-time work, notably among men. Furthermore, direct transitions from employment to retirement among 55-64 old workers are representing an increasing share of exits from labour market.

The strength of incentives to work longer appears as a key issue for the design of flexibility in retirement age. In particular, incentives should be as strong for lower wages, both for efficiency (sustainability) and adequacy grounds. For the latter, reviewing the incentive structure should take place in respect of minimum income provision. Elements of evaluation available suggest that relative increases in pensions range around 5% a year on average (depending notably on age, careers, and mortality tables).

If economic incentives to retire later are too low, this may not have the desired effect to postpone retirement. And it should be noted that for lower ages (in particular before 60), the emphasis should be less on incentive structures than on restricting possibilities to exit the labour market before standard retirement age (except perhaps for special conditions, such as hazardous jobs). These aspects will be further developed in another SPC special report focused on the design of early exits from the labour market. On the reverse, if incentives are too high, costs for public finances can be significant in the event of significant increase in average retirement age, notably as at higher ages as there is a risk to subsidise those who would have in any case postponed retirement. This highlights the importance to develop further pension indicators on the levels of incentives to work longer.

It should also be noted that introducing more flexible retirement provision not only requires a careful design of the structure of incentives but also that appropriate information is provided to beneficiaries. A key issue is the question of the understanding by individuals of more complex retirement rules and most Member States are developing new information tools, for instance through websites or direct individual information on pension entitlements. This is a difficult question that requires long term efforts, as experience suggests that even when individuals are provided the information on their pension entitlements, they do not necessarily understand the consequences of different retirement choices in a context of changing rules. This also highlights the importance to define minimum provision (for instance ceilings on pension benefits and/or on age) which ensure adequate retirement incomes by restricting the scope for choice.

The impact of flexibility in retirement age on employment on older workers also depends to a great extent on other factors, and notably opportunities on the labour market for older workers, which depend both on employees abilities to continue working above 55 (health status, training opportunities) and employers attitudes towards older workers. In this regard, it should be noted that quantitative evaluations are not numerous and Member States generally rely on more qualitative evaluations. More investment on evaluation tools appears thus to be needed, based on empirical assessment of the impact of reforms and not only *ex-ante* evaluations based on simulations, notably as regards the induced effects on employment paths of older workers and on the composition of incomes.

ANNEX – INCENTIVES TO WORK LONGER AND REPLACEMENT RATES

Changes in theoretical replacement rates over coming decades for a typical case are one of the key indicators for adequacy of pension in the framework of the OMC (and also a context indicator for the overarching list of indicators). Changes of theoretical replacement rates associated with shorter or longer working lives also provide useful indications on the strength of incentives to work longer.

This annex reflects calculations carried out in a joint OECD-Commission study on replacement rates, which provide estimates for changes in replacement rates at different wage levels associated with an increase or decrease in the career length, departing from the base case of retirement at 65 after a 40 years long career.

These calculations are based on the ISG methodology of calculation of theoretical replacement rates and as agreed in the framework of the OMC, the emphasis is to be put on changes of replacement rates for different situations and comparisons of levels of replacement rates between Member States should be dealt with caution, due to possible issues of representativeness.

These calculations complement already available information in the framework of the OMC (ISG reports on replacement rates, Synthesis report on pensions and Joint reports). They also provide key information on various other dimensions of pension systems not described here (notably magnitude of changes in replacement rats associated with career breaks for women due to child care).

These models are based on the policy parameters for old-age pensions in place in each country in 2004 and all legislated changes to the 2004 system in their full implementation. Changes enacted after 2005 are generally not taken into account. They assume that an individual entering the labour market in 2004 spends the entire working life accumulating pension rights without any parameter changes (beyond the standard rules for parameter indexation and actuarial adjustments of benefits where applicable); nor will there be any parameter changes subsequent to their retirement.

They assume that the tax system in place in 2004 will be in place throughout their lives, with tax and social security thresholds being up-rated in line with earnings. However, legislated but not implemented changes to the tax treatment of pensioners or private pensions are modelled on the same prospective basis as the pension system.

These results refer to the situation for someone retiring in 2044, thus once all reforms engaged have provided their effects. It can be noted that the timing is different depending on Member States and that most of the time reforms of incentives to work longer are planed to take place essentially until 2015 and only to a lesser extent up to 2045 (see for instance latest AWG projections). Calculations presented refer to gross replacement rates of statutory pensions and do not include occupational pension schemes, as the report focuses on statutory pensions (a number of results on occupational and voluntary schemes are also available but were not included in this report, except for FR where occupational pensions AGIRC – ARRCO are mandatory schemes covered by Regulation 1408/71).

Box – Main assumptions used

The models provide calculations of theoretical replacement rates The models were built using rules and parameters of current and future pension systems (i.e., taking account of all legislated changes to pension systems that will be implemented in the future). They cover all 25 EU Member States. The calculations produce replacement rates in gross and net terms (pension benefit expressed as a percentage of final (pre-retirement) earnings; gross ratios are calculated both excluding and including employers' social security contributions).

The calculations presented cover single male (calculations for female pensioners are not displayed here). The indicators assume that an individual has earnings which are a constant ratio of average earnings in each year of their career. Indicators are provided for a broad and continuous (steps of 5%) range of earnings' levels from 50-250% of the APW wage level. Calculations are presented for the three cases of average earner (100%), low wage earner (50% of APW) and high wage earner (200% of APW).

In addition to using the standard assumptions, the models enable producing results and indicators based on the following alternative assumptions and modifications. The models use AWG assumptions on wage growth, price inflation and GDP growth as standard assumptions but allow the use of alternative country-specific assumptions such as those specified by the Indicators Sub-Group of the EU's Social Protection Committee (ISG). In particular, real interest rates are of 2.5% (3%, net of 0.5% of administrative charges). The EUROSTAT country-specific mortality data is used. Detailed elements on assumptions used can be found in the 2006 ISG report on replacement rates :

http://ec.europa.eu/employment_social/social_protection/docs/isg_repl_rates_en.pdf

Changes in replacement rates associated with additional years in work

The replacement rates are calculated for those who stop work, from standard retirement age to 70. For this calculations, standard retirement age ranges from 60 (BE, CZ, EE, EL, FR, LT, PT, UK as pensions credit is available from 60), 61 (ES, HU, MT, SE), 62 (FI, IT, LV, SK), 63 (CY, DE, AT, SI) and 65 (DK, IE, LU, NL, PL) and calculations are carried over the continuous (single-year) range of retirement ages until 70.

To reflect incentives to work longer, average yearly changes in replacement rates have been calculated over this period that can differ among Member States from the range 60-70 to 65-70 (figures provided in the tables A1 and A2 are yearly averages over corresponding brackets), but only over age brackets 60-65 and 65-70. For instance in a Member State where the age brackets covered is 62-70, averages are calculated over 62-65 and 65-70. Average changes generally reflect different variations at different ages and replacement rates changes could also have been more detailed by year, but this examination would have gone beyond the scope of this report. In particular, it can be noted that changes in replacement rates associated with changes in retirement age provide an incomplete measure of incentives to work longer, as they do not reflect related changes of the average length of the period during which pensions are paid. It should also be noted that these calculations do not directly refer to the concept of actuarial neutrality that is often used to assess incentives to work longer.[11]

[11] For more elements on actuarial neutrality, see for instance, Edward Whitehouse and Monika Queisser (December 2006), "*Neutral or Fair? Actuarial Concepts and Pension-system Design*", OECD Social, Employment and Migration Working Papers n° 40.

These calculations take account only of the standard old age pension system(s) and specific early retirement benefits. Disability schemes, occupational schemes, voluntary schemes, means-tested housing benefits and the value of services-in-kind are excluded.

Changes in the level of replacement rates

Changes of the level of replacement rate (in percentage points) associated with an increase of one year of working life (from standard retirement age) are displayed in table A1. Changes generally range around 2 to 3 percentage points a year. To provide a more comprehensive description, one needs also to reflect levels of replacement rates. Indeed a given change of replacement rates levels does not have the same meaning depending on the initial level.

Relative changes of replacement rates

For this reason, it is helpful to also reflect relative changes in replacement rates. For instance if replacement rate is 50% at 65 and 55% at 66, the change in levels is 5 percentage points and the relative change is 10%.

A second table based on annual percentage change in replacement rates levels for one year increase in retirement age provides complementary information (table A-2). While the changes are generally similar, it should be noticed that results differ where the initial levels of replacement rates are relatively low for statutory pensions, notably for higher wages. Changes generally range 4 to 5% of increase in replacement rate for one additional year of work.

Table A1 – Changes in gross replacement rates for delaying retirement of one year (at different ages and wage levels - in percentage points of replacement rate)

	Age bracket covered	Average wage		Low wage (50%)		High wage (200%)	
		60-65	65-70	60-65	65-70	60-65	65-70
BE	60-70	0,9	0,9	1,3	1,3	0,5	0,5
BG	/	NA	NA	NA	NA	NA	NA
CZ	60-70	3,5	3,8	5,3	5,8	2,1	2,3
DK	65-70	/	0.6	/	1,8	/	0,6
DE	63-70	2,1	3,3	0,0	2,6	1,6	2,5
EE	60-70	3,7	5,8	4,5	6,9	3,4	5,2
EL	60-70	3,7	1,4	3,7	1,4	3,7	1,4
ES	61-70	5,7	1,6	5,7	1,6	4,7	1,4
FR	60-70	3	1,3	3,8	0,9	2,8	1,2
IE	65-70	/	0	/	0	/	0
IT	62-70	3,3	1,5	3,3	1,5	3,3	1,5
CY	63-66	1,1	3,9	0,5	3,8	1,2	3,7
LV	62-70	2,1	2,8	0	0,6	2,1	2,8
LT	60-70	1,3	2,2	1,3	2,2	1,3	2,2
LU	65-70	/	0,4	/	0,4	/	0,4
HU	61-70	4,9	6,1	4,9	6,1	4,9	6,1
MT	61-70	0	0	0	0	0	0
NL	65-70	/	0	/	0	/	0
AT	63-70	4,6	3,8	4,6	3,8	3,4	2,8
PL	65-70	/	3,4	/	2,8	/	3,4
PT	60-70	3,5	6,7	1,0	4,0	3,4	6,5
RO	/	NA	NA	NA	NA	NA	NA
SI	63-70	2,8	0,6	0,9	0,3	2,2	0,5
SK	62-70	2,8	3,2	2,6	3,2	2,8	3,2
FI	62-70	4,6	2,5	4,1	4,6	4,6	2,5
SE	61-70	2,4	3,1	7,2	2,6	1,2	1,8
UK	60-70	0,5	3	0,7	4,7	0,4	1,7

Source: Changes enacted after 2005 are generally not taken into account in these calculations. EU Commission-OECD project 'Modelling pension entitlements', preliminary results based on the assumptions specified by the Commission. Calculations for a case of a man retiring in 2044, having begun work at 25.
Note (/): not applicable, NA not available. In the UK for men, it is not possible to receive State pensions before 65; however the means tested pensions credit can be taken up from 60.

Table A2 – Relative changes in gross replacement rates for delaying retirement of one year (at different ages and wage levels - in percentage of replacement rate)

	Age bracket covered	Average wage		Low wage (50%)		High wage (200%)	
		60-65	65-70	60-65	65-70	60-65	65-70
BE	60-70	2,6	2,3	2,7	2,4	2,6	2,3
BG	/	NA	NA	NA	NA	NA	NA
CZ	60-70	8,5	6,5	8,0	6,2	8,8	6,6
DK	65-70	/	1,7	/	2,2	/	4,0
DE	63-70	5,2	7,9	0	6,1	5,2	7,9
EE	60-70	8,5	8,7	8,2	8,5	8,6	8,9
EL	60-70	4,7	1,5	4,7	1,5	4,7	1,5
ES	61-70	8,6	1,9	8,6	1,9	8,6	1,9
FR	60-70	6,5	2,3	8,0	1,5	7,1	2,3
IE	65-70	/	0	/	0	/	0
IT	62-70	5,2	2,2	5,2	2,2	5,2	2,2
CY	63-66	1,7	6,0	0,8	6,1	2,0	6,0
LV	62-70	5,0	6,0	0	1,1	5,0	6,0
LT	60-70	2,2	4,5	2,2	3,2	4,1	5,5
LU	65-70	/	0,4	/	0,4	/	0,5
HU	61-70	7,8	7,0	7,8	7,0	7,8	7,0
MT	61-70	0	0	0	0	0	0
NL	65-70	/	0	/	0	/	0
AT	63-70	5,7	4,9	5,7	4,9	5,7	4,9
PL	65-70	/	6,8	/	5,5	/	6,8
PT	60-70	8,0	9,9	1,5	5,2	8,0	9,9
RO	/	NA	NA	NA	NA	NA	NA
SI	63-70	4,2	1,1	1,1	0,5	4,2	1,1
SK	62-70	6,8	6,0	6,4	6,0	6,8	6,0
FI	62-70	7,9	4,0	5,4	5,9	7,9	4,0
SE	61-70	7,1	6,8	*	4,1	6,6	7,2
UK	60-70	1,9	8,7	1,3	7,8	2,5	8,7

Source: All changes enacted after 2005 are not taken into account in these calculations. EU Commission-OECD project 'Modelling pension entitlements', preliminary results based on the assumptions specified by the Commission. Calculations for a case of a man retiring in 2044, having begun work at 25.

Note: (/) stands for not applicable as standard retirement age is 65 or above, NA for not available. (*) before 65, it is possible in principle to retire in Sweden without the guarantee pension, which case is not reported in the case of low wage as this implies a gap of replacement rates between 64 and 65. In the UK for men, it is not possible to receive State pensions before 65; however the means tested pensions credit can be taken up from 60.