

# **The Impact of Labour Market and Pension Reforms: The recent German Experience**

Frederik Baudach and Hans Fehr  
University of Würzburg

**Workshop: „Extending the working life of older workers: A  
European success story?“**

Brussels, 13. March 2008

## Contents

- Current situation in Germany
- The different reforms of the pension and social security system
- Recent labour market performance of older workers
- Labour market reforms and labour market outcomes: empirical evidence
- Conclusions

## **Introduction: Policy reforms and labour market situation in Germany**

Recent recovery of the German labour market:

- unemployment rate declined from 12.1 (2006) to 10.2 (2007) to 8.7 percent (Jan. 2008);
- one million additional jobs since 2006;

How did the upswing of the German labour market affect older workers?

Did recent reforms have a significant impact on old-age unemployment?

Why is it interesting to concentrate on older workers in Germany?

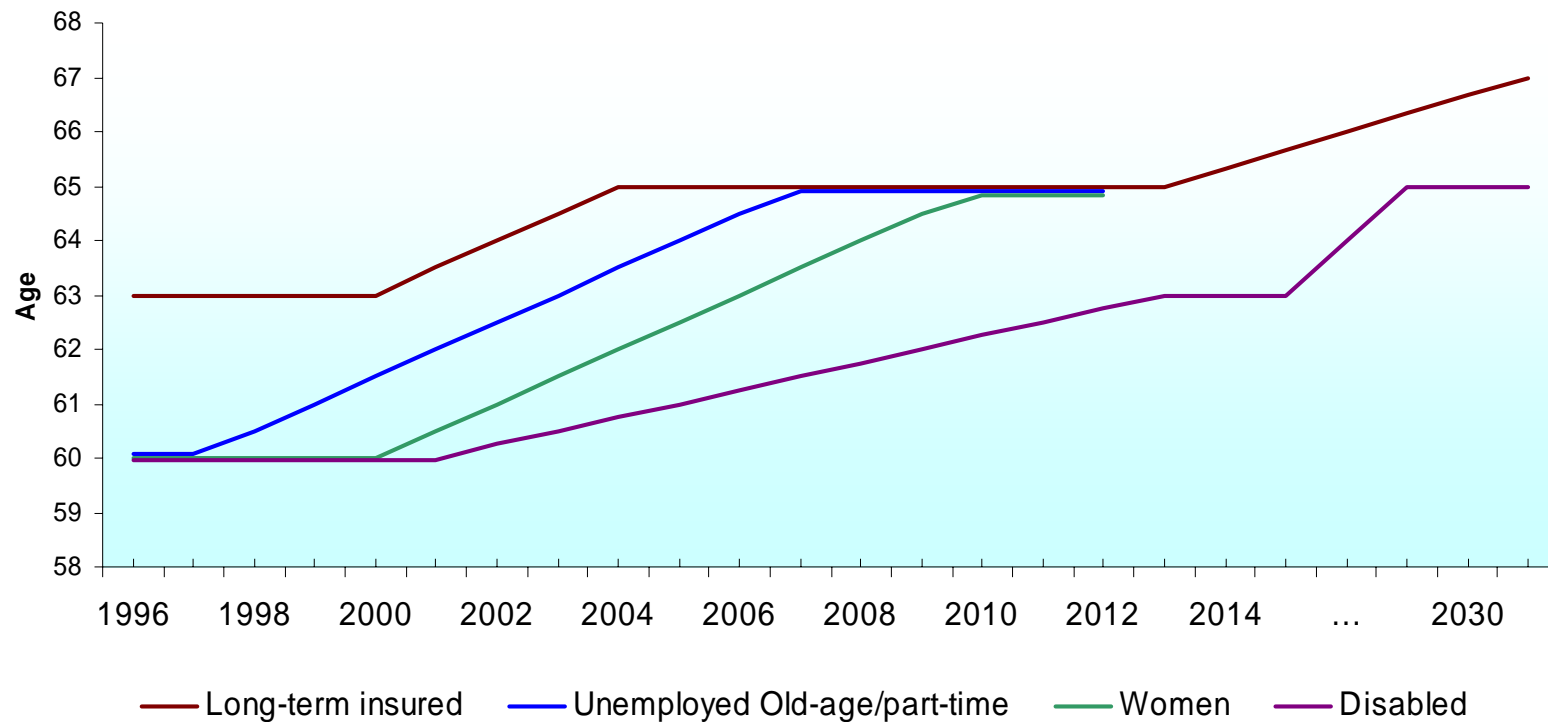
## Labour market participation and retirement ages in year 2000

	Employment shares of those aged 55-64 (in %)		Incidence of unemployment age 55+, 1 year and over		Average effective age of retirement	
	Men	Women	Men	Women	Men	Women
<b>EU-15</b>	48.5	28.4	63.4	63.2	-	-
<b>Germany</b>	46.4	28.9	69.0	69.1	61.3	60.6
<b>France</b>	38.5	30.3	68.7	70.7	58.6	58.6
<b>Italy</b>	40.9	15.3	66.0	56.4	60.1	61.4
<b>Japan</b>	78.4	47.9	35.6	37.5	69.3	66.1
<b>Sweden</b>	67.7	62.4	48.6	50.3	63.8	61.7
<b>UK</b>	59.7	41.4	46.1	30.4	63.0	61.5
<b>USA</b>	65.7	50.6	15.5	7.4	64.2	63.1

## Recent policy reforms affecting old-age employment

- Pension reforms 1992 and 1999:
  - phased-in increase of statutory retirement age
- Hartz IV reform 2005
  - reduction of entitlement periods to UB I from 32 to 18 months for elderly
  - introduction of UB II (means-tested, independent of former wages)
- Active policies for elderly unemployed
  - integration supplement (wage subsidy for employers)
  - earnings insurance (wage subsidy for employees)

## Transition rules for statutory retirement age without adjustment



## Changes in UB I entitlement periods

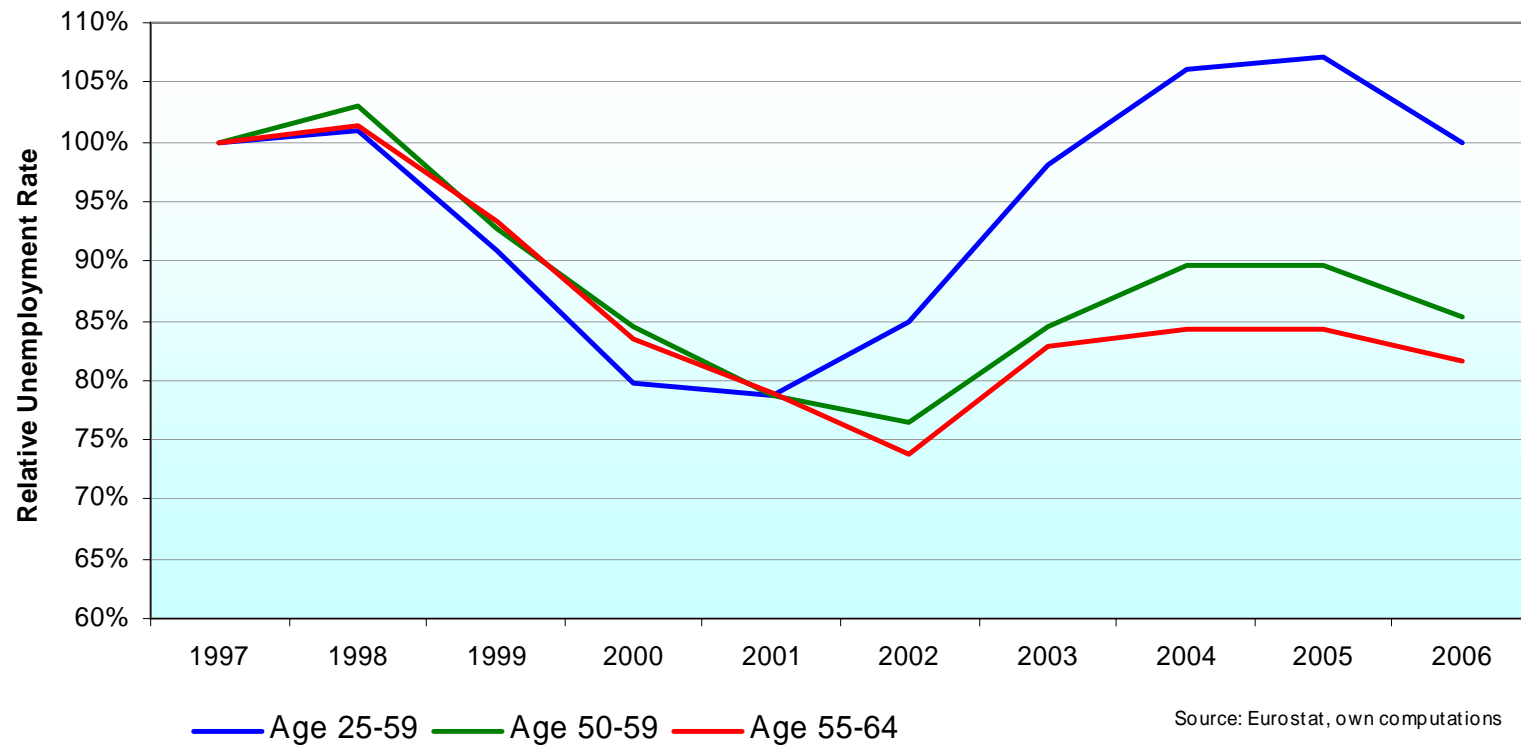
Until 1997		1997-2006		2006-2007		After 2008	
Length of UB I	Age	Length of UB I	Age	Length of UB I	Age	Length of UB I	Age
12	-	12	-	12	-	12	-
18	42	18	45	18	55	15	50
22	44	22	47			18	55
26	49	26	52			24	58
32	54	32	57				

## Transition into retirement before and after RRG 1992 and Hartz IV

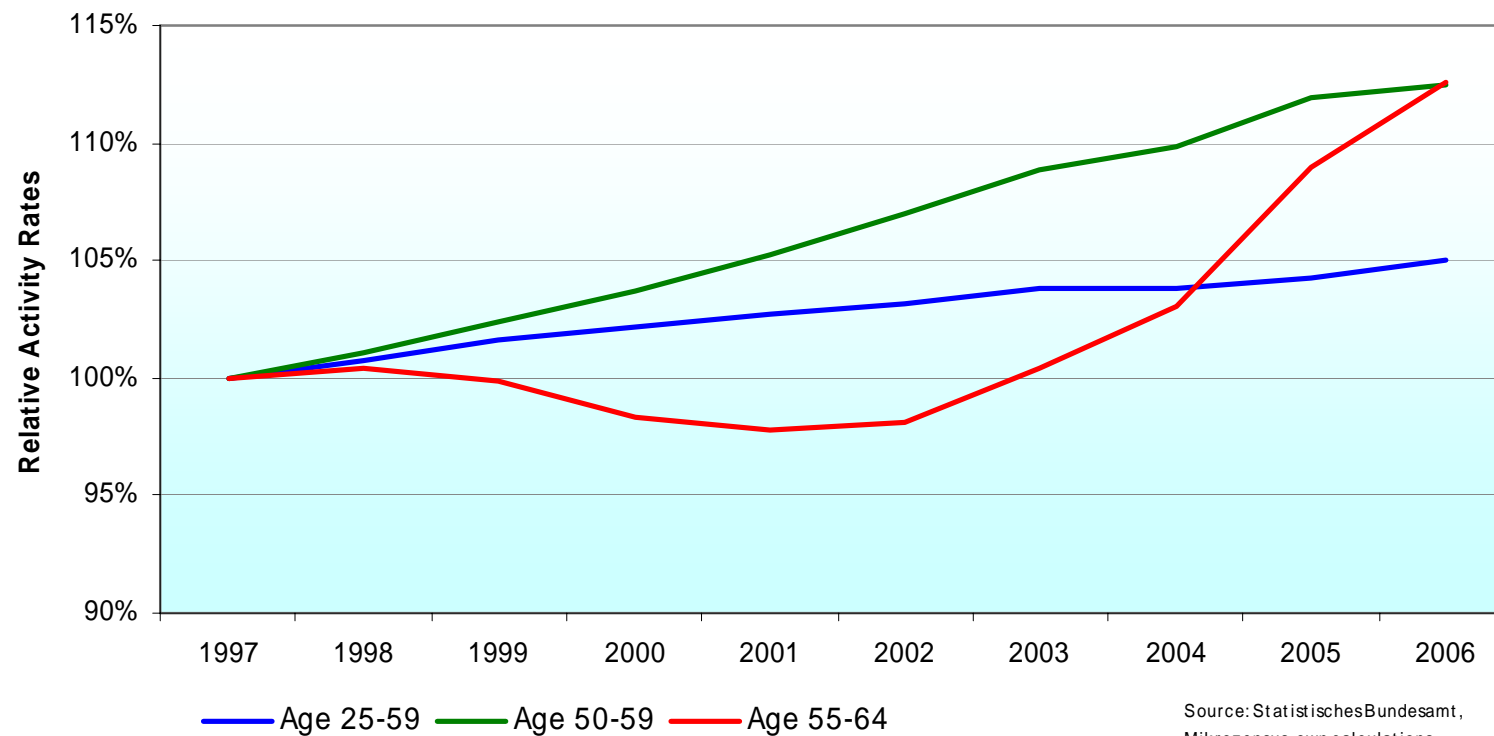
Age	55	56	57	58	59	60	61	62	63	64
<b>Before RRG 1992 and Hartz IV</b>										
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Income in €	20.300	12.180	12.180	11.706	10.759	12.546	12.546	12.546	12.546	12.546
<b>After RRG 1992 and Hartz IV</b>										
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Income in €	20.300	12.180	10.680	8.700	7.740	7.260	7.260	7.260	11.566	11.566



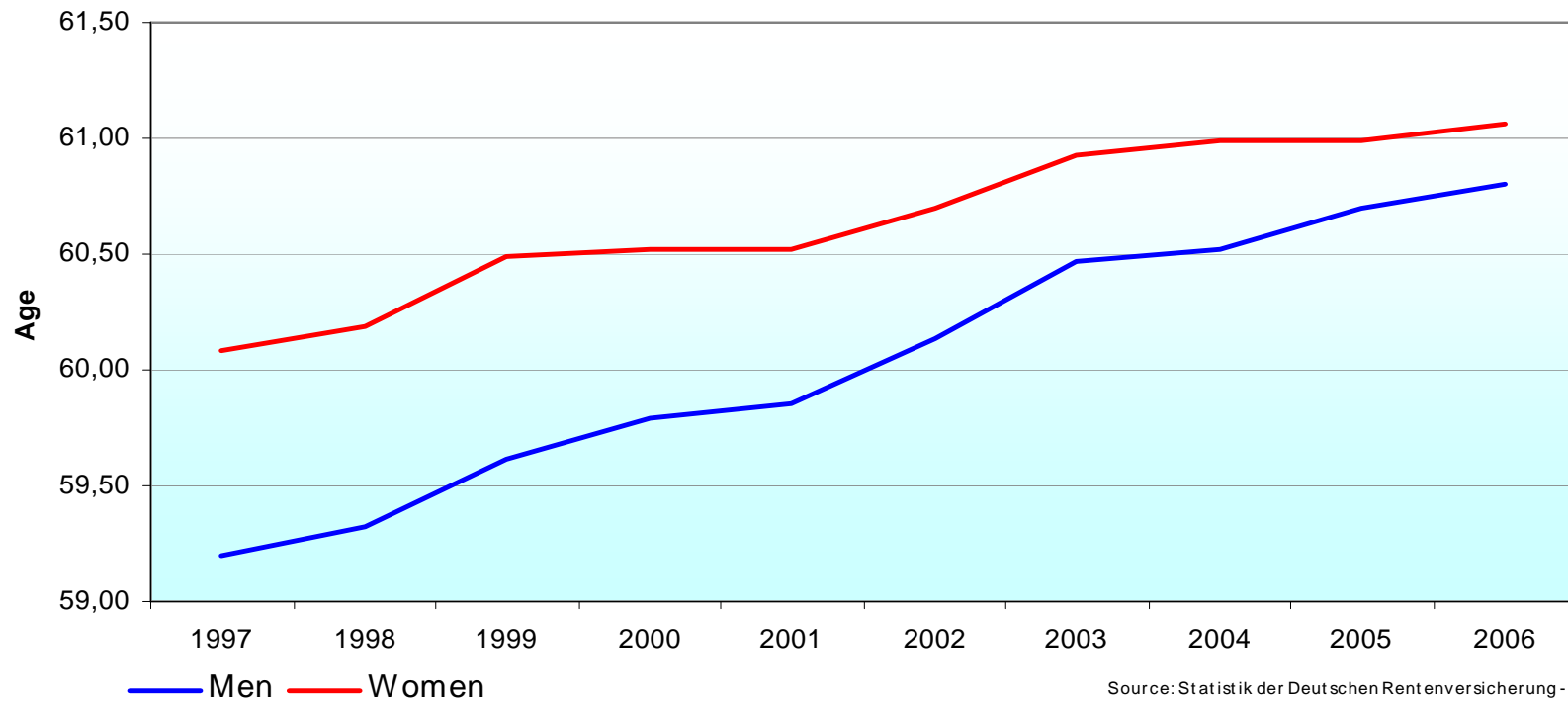
## Relative Unemployment Rates



## Relative Activity Rates



## Average retirement age



## **Empirical evidence I: Retirement behaviour**

- Börsch-Supan (1992, 2000, 2001), Berkel & Börsch-Supan (2004):
  - Option value approach
  - RRG 1992, 1999 reforms increase retirement age by 1.8 years for men and 0.7 years for women
- Tatsiramos (2007)
  - Cross-country study (GER, IT, E, UK) on effects of job displacement on elderly workers
  - Early retirement due to job displacement significant in Germany and Spain between 1994-2001

## **Empirical evidence II: Unemployment duration**

- Fitzenberger and Wilke (2004), Launov et al. (2004)
  - Labour market reforms of the 80's, Microeconometrics
  - extending benefit-entitlement increases unemployment duration
- Müller et al. (2007)
  - The labor market reform of 1997, difference-in-difference
  - restricting benefit-entitlement reduces unemployment duration
- Schmitz and Steiner (2007)
  - Hartz IV reform of 2005, Microsimulation
  - restricting benefit level and entitlement will reduce unemployment level and duration of those above 55 years

## **Empirical evidence III: Integration supplement**

- Ammermüller et al. (2006)
  - reform of 2002, difference-in-difference
  - integration subsidy increased the employment probability by 2 %
- Boockmann et al. (2007)
  - reforms of 2002 and 2004, improved data set
  - almost full crowding-out of unsubsidized employment; only a small positive effect for East-German women
  - no significant impact of income insurance program
- Haan and Steiner (2006)
  - impact of wage subsidies, Micro-simulation
  - very moderate employment effects for older workers

## Conclusions and outlook

- recent policy reforms had a significant positive impact on elderly employment in Germany
- RRG 1992 / 1999 and Hartz IV reform are clearly positive, evidence on active labour market programs is mixed
- however, reforms are heavily attacked by public opinion which explains the recent turnaround of Hartz IV legislation in 2008
- future activity rates of elderly in Germany will be positively affected by phased-in reduction of retirement benefits and increase in statutory retirement age