



Nordic responses to extending working life

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Introduction

Current demographic changes tend to increase the absolute and relative numbers of older citizens in most OECD countries (OECD, 2006). These changes challenge the supply of labour on the one hand and public expenditure on pensions on the other. Most OECD countries are taking action to meet these challenges (Axelrad & Mahoney, 2017). The most widespread response is to increase the labour force participation of older age groups through pension reforms. Politicians want to incite or pressure older workers to postpone their exit from work. This is called the ‘extending working life’ policy (Phillipson, 2019; Wainwright et al., 2019). By extending working life, both challenges are approached, increasing the supply of labour and postponing the date for pension payment.

A challenge posed by the demographic transition is the funding of the welfare state, which, in the Nordic countries, is relatively generous, and will have to serve growing proportions of older citizens in need of home-help services and nursing homes. Both active workers and pensioners pay income tax. However, by keeping older workers in working life for longer, the tax revenue increases while pension expenses for the government decreases. This is a means to meet that challenge and boost the sustainability of the welfare state.

This also raises the question of whether extending working life is good or bad for the health of older workers and retirees. If older workers remain fit longer as an effect of still working, this will further add to the sustainability of the welfare state. However, studies on the health effects of extending working life present contradictory conclusions. Some studies show differential effects of qualities of the job or of socioeconomic status (Siegrist & Wahrendorf, 2011; Mazzona & Peracchi, 2017; Syse et al., 2017; Grøtting & Lillebø, 2019). In all likelihood, the health-related qualities of the job and its working conditions are at least as important for health as early or late exit.

The Nordic countries are no exception to global demographic trends, as they face a decreasing supply of labour and increasing pension costs. However, the ways in which Nordic countries are handling this challenge vary widely. We shall first give a short outline of pension reforms to extend working life in the Nordic countries before discussing some of the questions raised by the extending working life policy. Two issues, or dilemmas, are how

to combine the interests of those older workers who prefer late exit with the interest of those who need or prefer early exit, and how extending working life may increase inequalities between older citizens. Other questions are to what extent the interest of society for late exit is in conflict with the interests of employers, who more often prefer young workers (Solem, 2020), and to what extent other measures are needed in addition to pension reforms in order to achieve a sustainable extended working life.

Various measures may support extending working life. Within the pension system, one question is how to balance the use of carrots (positive incentives) and sticks such as an increase in the age of eligibility for pension (pensionable age). A way of softening the sticks is to raise the age for mandatory exit – the age limit for dismissal due to age alone. Reforms in the pension system may be supported to some extent by measures taken in working life, such as making working options more attractive and jobs more accessible for older workers. Such measures can be training of older workers, flexible work organisation and counteracting ageism among employers and colleagues, and even counteracting negative stereotypes about ageing that are shared by older workers themselves (Levy, 2009). Still, additional attention to measures in working life is needed, as advocated in the article by Liff & Wikström (2020).

Recent pension reforms

Quite a number of countries have raised the lower age limit for early pension or for the default state pension age (the pensionable age), and have constricted the economic conditions for early pension and/or improved the conditions for late exit (Axelrad & Mahoney, 2017). One increasingly implemented restriction is the regulation of pensions according to the life expectancy of each birth cohort, which means that when life expectancy increases, new cohorts will receive smaller yearly pension amounts. Some countries – e.g. Norway, from 2015 – have raised the mandatory retirement age, while Denmark abolished it from 2016.

Many countries face the challenge of making a fair and sustainable pension system that encourage workers to work longer without forcing employees who need or prefer to retire early to continue working. Thus, experiences from the Nordic countries should be of interest also for policymakers and researchers outside the Nordic region. In the following, we will give a short sketch of Nordic pension reforms.

The current **Swedish** pension system was implemented in 1999 with an eligibility age of 61 years and a mandatory exit age of 67. Between 61 and 67, it is optional to take full or partial pension while still working full time or part time. Pension entitlements are based on all income throughout life and the annual amount is calculated at the end of the career as the earned sum divided by the life expectancy of the cohort. Thus, there are strong incentives for late retirement. It has been agreed to raise the eligibility age from 61 to 64 years by 2026, and the upper age for employment protection (the mandatory retirement age) from 67 to 69 years by 2023 (SOU 2013:25; Halvorsen, 2020).

The main strategy of **Danish** reforms in 2006 and 2011 seems to be a gradual rise in the pensionable age for the national old-age pension, from 65 years in 2019 to 68 years in 2030. Depending on changes in life expectancy, further rises are expected to reach a pensionable age of 72 years by 2050 (Kadefors, 2020). Mandatory retirement was abolished from 2016. Hence, it is illegal to fire workers only because they have reached a certain age. On the other hand, employment protection is weaker than in the other Nordic countries and is mainly tied to agreements in working life. The Danish “flexicurity” system make it easier for

employers both to hire and to fire workers, including older workers (Jensen & von Nordheim, 2020).

Finland implemented reforms to increase employment in older age segments in 2005 and 2017. The 2005 reform relied heavily on carrots, with financial incentives and flexible retirement between 62 and 68 years. The financial incentives proved to benefit workers of high socio-economic position disproportionately (Nivalainen, Tenhunen & Järnefelt, 2020). The 2017 reform used more of the sticks by raising the pensionable age to 65, but also the upper age for employment protection to 70 years. Thus, the window of flexibility is moved a couple of years upwards, which is to be fully implemented by 2030. This is in a sense treating the socio-economic groups more equally, compared to the carrots model and financial incentives.

Iceland has an exceptionally high employment rate in older groups and is at the top of OECD statistics. The pensionable age is 67, with optional take-up of the supplementary earnings-related pension between 60 and 70 years, and actuarial adjustments accordingly. It is possible to defer pension until age 72 and earn an extra 0.6% per month pension credits. The government is aiming to raise the eligibility age for old age pension from 67 to 70 years (Halvorsen, 2020). In the public sector, there is a mandatory retirement age of 70, while in the private sector the upper age for employment protection depends on corporate policies (Sigurðardóttir, 2018).

In **Norway**, the 2011 pension reform introduced a pension period from 62 to 70, with the option of earning pension credits up to 75 years of age. Up to 2015, employment protection was terminated at age 70 (mandatory retirement age). Since the mandatory retirement age was 70, there was a lack of consistency with the option of earning pension credits up to 75. The inconsistency was somewhat reduced by raising the mandatory retirement age (age limit for employment protection) in the private sector to 72 years in 2015. Other important elements of the reform of 2011 are the abolishment of income tests for the old-age pension and adjustment of the pension amount to changes in life expectancy.

Since the 2011 reform, there has been an increase in employment in the age group 62–67, most probably due to the option of combining income from work with drawing a full pension (Bjørnstad, 2019). The increase in employment is highest among workers with low education and manual jobs, seemingly counteracting inequality between socio-economic groups. However, by taking pension early, the yearly pension payment is relatively low for the rest of their life. Workers from more well-paid jobs, taking their pension later, receive a higher yearly payment.

Solem, Salomon & Terjesen (2020) conclude that the impact of the mandatory retirement reform of 2015 is modest. The majority of employers are indifferent or neutral to the reform, and the reform has had neither a positive nor a negative impact on employers' willingness to hire older workers. It was hard for older workers to find a new job before the reform, and it is still hard.

Who stays longer in working life?

If successful, the extension of working life policy will increase the numbers of older workers. However, the success of this policy is dependent on the attitudes and senior policy skills of employers. It is questionable how well employers are prepared for this ageing of the labour force (Wainwright et al. 2019). While there are several studies on employees up to 60–65 years, little is known about employees 67 years and older. More knowledge about this oldest segment of the labour force might make employers more prepared for the impact of

the extending working life reforms. Thus, there is a need to know more about workers above 67 years and in their early seventies.

Studies of characteristics of older workers tend to define older workers as workers above 50 or 55 years of age. Few studies include workers above 67 or 70. In this issue, we present a Norwegian study of workers above 67. Hellevik & Herlofson (2020) analysed panel data from the Norwegian Life Course, Ageing and Generation Study (NorLAG), following workers aged 57–65 in 2007 until they were 67–75 years in 2017.

They found, as expected, that the probability for men working after 67 years old was somewhat greater than for women. Education was of surprisingly little importance – only for women, and in the opposite direction as expected. Women with college or university educations were less likely to be working after age 67. The findings about the role of education differs from earlier research (e.g. Wahrendorf et al., 2017). However, in Norway the role of education has been changing since the pension reform of 2011. As mentioned above, the increase in employment among workers in their sixties is particularly among workers with low education and in manual jobs. Further research is needed to explore the unexpected role of education in extending working life. One explanation why women with lower education extend their working life might be that they more often are ‘stuck’ and have to continue working to secure a decent life due to low pensions.

Other factors predicting late exit are being self-employed, working more than 40 hours per week in 2007, assessing work as very important back in 2007, partner still working (especially for men), and satisfactory self-reported health.

Personal financial situation does not seem to play a major role when employees decide to retire or continue working. One exception is women reporting a poor financial situation in 2007, who still have a tendency to work ten years later. The majority of older persons (67+) who are still working, are also taking full or partial pension and, on average, they work fewer hours per week than younger groups. To combine work and pension might be seen primarily a financial adaptation. However, work in itself seems to be important for most of those still working after the age of 67. They have a work history of working many hours, of strong engagement in work and an inner drive for work. They do not seem to be interested in leaving their attachment to work completely.

The large proportion of self-employed among the high-age workers, who can decide more freely than employees to continue working or not, may indicate that there are considerable work force reserves among older employees. The restrictive effects of mandatory retirement is to some extent supported by the finding of Solem, Salomon & Terjesen (2020) that some managers re-engage mandatorily retired employees as self-employed to do the same tasks as they did before.

Does extending working life increase inequalities?

A quick answer to this question is yes, and that it is an intended policy. From originally being a social security system, the public old-age pensions have become more of an individual insurance system. Older citizens are entitled to receive a pension according to what they have contributed over a lifetime in work. Still, most public systems have a basic minimum standard that guarantees all retirees some benefits irrespective of what they have paid into the system. Thus, modern public old-age pension is a combination of general basic security and individual income-related pensions. The pension reflects income differences over the course of the career and creates or confirms inequalities from earlier in life (see e.g. Midt-sundstad, 2020). Longer working careers result in larger pensions. Thus, those able and

willing to work at a high age receive both more income from work and higher pensions than those who prefer to quit working life early or are unable to work at a high age.

Pension systems differ in how much they confirm, exacerbate or reduce social inequalities, but simply extending working life also represents a risk of increasing inequalities between pensioners. Jensen & von Nordheim (2020) question the realism of the continuous extension of working life. They hold that there is a limit to the extension, that the rise in pensionable age is unlikely to be followed by a proportionate rise in effective age of exit from work. Due to reduced health and workability, many older workers may not be able to stay longer in working life. In addition, the relatively weak employment protection in Denmark gives employers better opportunities to fire workers whom the employers consider to be obsolete than in the other Nordic countries.

We do not know where the limit for extending working life is located. There is probably no universal limit. Some groups are more able and willing than other groups to extend their working life, and the limits are dependent on many factors: The health and working ability of older workers is one, the labour market's demand for labour is another, and the preference of employers for older workers versus other categories of workers is a third. Finally, and as discussed in the articles in this issue, the pension systems make a difference. In Finland, the reform from 2005 was leaning on financial incentives (carrots) and failed to induce later retirement, while the 2017 reform is expected to automatically increase the average age of exit by raising the eligibility age for old-age pension (sticks) (Nivalainen, Tenhunen & Järnefelt, 2020). As stated by Jensen & von Nordheim (2020), the effective age of exit does not necessarily follow a rise in pensionable age, or at least not proportionally.

In her commentary article, Midsundstad (2020) discusses differential effects of financial incentives in the Norwegian pension system and shows a great difference in occupational pensions between various groups. Manual workers seem to be more attuned to financial incentives than academics. Academics are more often motivated to extend their working career by the content of their job. Thus, particularly for this group of workers, measures to stimulate later exit have to be related to the content of the job and to senior policy at the workplace.

Norway has raised the mandatory retirement age, while Denmark has abolished mandatory retirement. In other words, Denmark has made employment protection independent of the age of the worker, while Norway has extended employment protection from 70 to 72 years. Solem, Salomon & Terjesen (2020) report on the Norwegian experiences. They found that concerns in advance – that older workers, because of the rise in mandatory retirement age, would become less attractive for employers – seem so far to be exaggerated. Nevertheless, a minority of managers have become more reluctant to recruit older workers, while the majority of managers, just as before the rise in mandatory retirement age, tend to value young workers, freshly educated workers and migrant workers higher than older workers. Norwegian managers still tend to exclude applicants older than 58 years, as an average, from job interviews (Ipsos, 2019).

Small changes in the rules regulating mandatory retirement seem to have limited effects, according to Norwegian experiences following the amendment in 2015. Legislation against ageism in working life may be more effective, but in Norway the mandatory retirement age and the legislation against ageism sends conflicting signals. Some age discrimination, such as mandatory retirement age, is legal, even if the age limit is raised.

Other legal measures may affect exit age and employment rates in older ages more directly. Raising the eligibility age for old-age pension is an example that has been implemented in Sweden, Finland and Denmark. The Danish example (Jensen and von Nordheim, 2020),

shows that extending working life has a cost of causing harm to those unable to stay all the way up to the raised limit. Increased economic inequality between those able and those unable to extend their careers is one negative consequence of raising the eligibility age for old-age pension.

Some politicians seem to lean heavily on coercion as necessary to extend working life. However, the Norwegian experience counts for a positive result of incentives, as an increase in employment among workers in their sixties is achieved without any raise in pensionable age. On the contrary, the 2011 reform lowered the age of eligibility in the National Insurance Scheme from 67 to 62, and in return resulted in an increased employment rate in the age group 62–67. The possibility of combining work with drawing a full pension seems to be the cause for the increased employment rate. However, incentives may also function coercively as an early exit will leave the pensioner with a life-long and considerably lower pension than if the exit is postponed. If not coercive, there is a strong pressure from negative incentives for early exit. Whether coercive or not, for both carrots and sticks there is a paramount risk of an increase in inequalities in old age.

Addressing working life

Is it possible to achieve a general extension of working life without increasing inequalities among older citizens? Is it possible to incite large numbers of older workers to extend their working life without punishing those who want or need to quit early? These are topical questions, since the socioeconomic gap in general, between the best- and the worst-situated citizens, is increasing. A substantial basic pension for all may contribute towards decreasing the gap. Another measure proposed by Wainwright et al. (2019) is to establish a pool of precarious jobs for older workers, implying that employers may be more willing to hire older workers if they are less obliged to retain them. This may be an attractive income source for retired people receiving a decent pension. However, with low pension and low income in the years before becoming eligible for a pension, the increase in precariousness (uberfication, zero-hour contracts, gig jobs, etc.) may serve to increase inequalities between older citizens by weakening the rights of workers, including older workers and retirees. In precarious jobs, the less attractive (older) workers are at risk of being paid less and with less job security. There is a risk of increased inequality.

To increase the employment of older persons in ordinary working life, employers must realise the need for older workers and appreciate their contribution. Since the turn of the millennium in Norway, workers have become increasingly interested in extending their working life, while employers are more stuck in their reluctance to hire older workers (Solem, 2020).

In this issue, Liff and Wikström (2020) show concern about the interaction between managers and employees long before the formal date of retirement. Based on their studies, they indicate that interactive HR routines used during the whole career of their employees will have a positive impact on employees' willingness and ability to extend their working career. The success of the life-course perspective is much dependent on the attitudes of managers, and should not be a task for HR personnel alone. A recent study reveals that some managers are reluctant to have serious talks with older employees since they do not feel they have the right competence for such conversations (Frøyland & Salomon 2019). Liff and Wikström (2020) states that managers are passive in their application of HR routines. In addition, to establish and perform HR routines, HR personnel should be more active in educating and guiding managers about how to deal with older workers.

The value of tacit knowledge is also important when assessing older workers. This is one of the main points in the article by Liff and Wikström (2020). They argue that managers' conception of older workers is constructed through their knowledge of the employee, and that the tacit knowledge of the employee is not taken into account. This is a valid point also for other age groups. The value of each employees' contribution to value creation is often easier to assess for salespeople closer to the market than for supporting staff. For managers, it is not always easy to assess the tacit knowledge of employees working under strict planning by objectives regimes. In work regimes such as New Public Management, the emotional element of work is a form of "hidden" work, which is neither appreciated nor rewarded. There are many examples from the health sector of older employees doing valuable work through their ability to communicate with and care for their clients, work which to some extent is forgotten in the job description.

Conclusion

Due to demographic transitions, working life will need to include increasing numbers of older workers, and this applies to the Nordic countries as it does elsewhere. Politicians are trying to find measures to incite or force workers to extend their working life, while employers need to prepare for increasing numbers of older workers. So far, political measures have mainly been the implementation of various pension reforms.

To make the extending working life policy a success, it is probably necessary to address what is going on in the workplace. However, even with major improvements in working conditions there is a limit to how far it is possible to force older people to continue working. On the other hand, some older workers are both able and motivated to extend their working career, but meet restrictive rules and regulations forcing them to retire at a certain age. Moreover, some who are motivated for late exit encounter a lack of interest from employers to keep older workers in the labour force for longer.

One paramount challenge is to combine the interests of different groups of older workers and to avoid escalating inequalities between older workers and pensioners, and between various groups of pensioners.

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