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## **PARTIAL PENSIONS AS A FORM OF FLEXIBLE RETIREMENT IN THE EU COUNTRIES**

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### **EMERYTURY CZĘŚCIOWE JAKO INSTRUMENTY ELASTYCZNEGO PRZECHODZENIA NA EMERYTURĘ W KRAJACH UNII EUROPEJSKIEJ**

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**Summary:** Demographic ageing will affect the EU economy, public finances and adequacy and sustainability of pension systems. A key response to the challenge of ageing population is the extension of working lives. This paper seeks an answer for the question if the partial pension may be an efficient solution to make people work longer. Comparative analysis of the partial retirement in selected EU countries gives no unquestionable conclusions in this question, especially in terms of hours worked. The results highly depend on the construction of the partial pensions and the changes on the labour market. Taking into account both the further pension reforms to make people work longer and simultaneously the pressure on the pension replacement rates, the idea of the partial pension seems to be attractive and worth further research.

**Keywords:** employment, partial pension, effective retirement age.

**Streszczenie:** Starzenie się ludności wpływa na gospodarkę UE, finanse publiczne oraz adekwatność i stabilność systemów emerytalnych. Kluczową odpowiedzią na wyzwanie starzenia się ludności jest przedłużenie życia zawodowego. W artykule poszukiwano odpowiedzi na pytanie, czy emerytura częściowa może być skutecznym rozwiązaniem, przyczyniającym się do wydłużenia aktywności zawodowej. Analiza porównawcza efektów funkcjonowania emerytur częściowych w wybranych krajach UE nie daje jednoznacznej odpowiedzi, zwłaszcza w zakresie przepracowanych godzin. Wyniki zależą od konstrukcji emerytur częściowych i zmian na rynku pracy. Biorąc pod uwagę dalsze reformy emerytalne, które powodują, że ludzie pracują dłużej, a jednocześnie presję na stopy zastąpienia, idea częściowej emerytury wydaje się atrakcyjna i warta prowadzenia dalszych badań.

**Słowa kluczowe:** zatrudnienie, emerytura częściowa, efektywny wiek emerytalny.

## 1. Introduction

Europe's population is facing and will face an even stronger demographic change in the coming decades. The process of demographic ageing affects the economy, public finances and the welfare of current and future retirees.

The economy may suffer from the insufficient labor forces and lower potential growth, public finances will have to pay pensions under the pressure of decreasing tax and social security contribution base and finally future pensioners may expect lower replacement rates caused by the changes in the public pension systems and pressure of public finance stance.

This paper aims to evaluate partial pension which allows to link partial work with partial retirement as a way to extend working lives. The analysis starts with changes in duration of working lives of men and women and continues with the comparison of the effective and statutory retirement ages with the effective labour market exit age. The last section provides the comparative analysis of the partial retirement schemes in the selected EU countries and their influence on the duration of working lives.

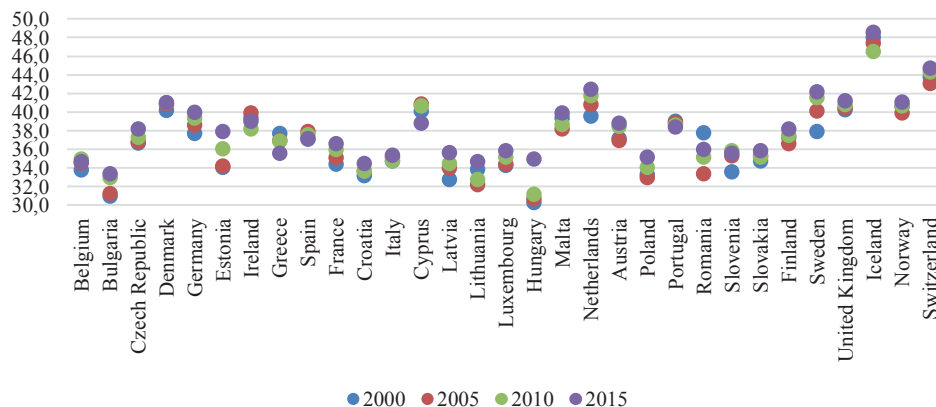
## 2. Working lives in the EU countries

Longer work and better balance between employment and retirement have been identified as key responses to the ageing challenge which can improve both the sustainability and the adequacy of pension systems. It has been reflected in several EU documents, such as strategy *Europe 2020* [European Commission 2010] and White Paper: An Agenda for Adequate, Save and Sustainable Pensions [European Commission 2012].

Since 2000 in most of the EU countries the years in employment of men and women have increased. On average total (men and women) years in employment in the EU28 increased from 33 years in 2000 to 35.4 in 2015. This increase was generated mostly by changes in women's working lives from 29 in 2000 to almost 33 in 2015. Men's working lives extended on average by 1.5 year from 36.4 in 2000 to 37.9 in 2015. The situation in specific countries differs a lot. The longest working lives of men were reported outside the EU – in Iceland and Switzerland (Figure 1). Employment for 40 years and more in case of men was observed only in five countries (Denmark, Germany, the Netherlands, Sweden and the UK).

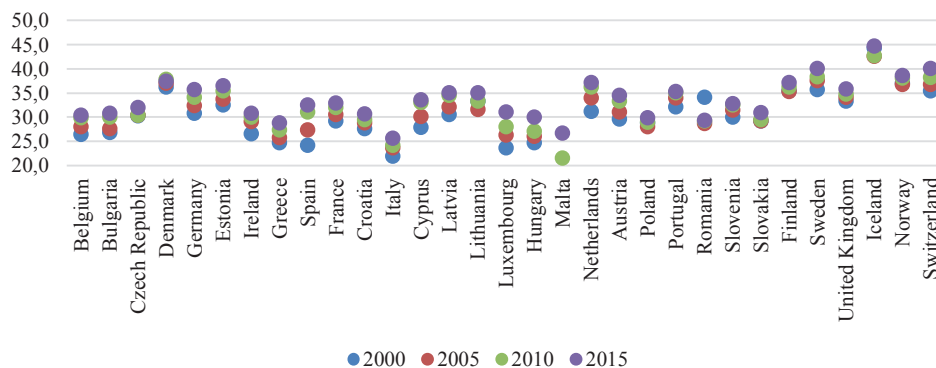
During the last fifteen years more dynamic changes in working lives occurred among women (Figure 2). The longest periods of employment (40 years or more) were observed in Iceland, Switzerland and Sweden.

In 23 countries of the EU, the duration of working lives of women ranged between 30 and 35 years. However, there are still a few countries where the working lives of women are extremely low (Italy, Malta).



**Figure 1.** Duration of working lives of men in years 2000, 2005, 2010, 2015

Source: own elaboration based on [Eurostat 2014].



**Figure 2.** Duration of working lives of women in years 2000, 2005, 2010, 2015

Source: own elaboration based on [Eurostat 2014].

Taking into account the gains in life expectancy and the need to balance time in employment and retirement, the working lives should be extended to 45-50 years.

What are the main factors which determine the extension of working lives? There are several at least, among which most important are [Góra, Rutecka 2013]:

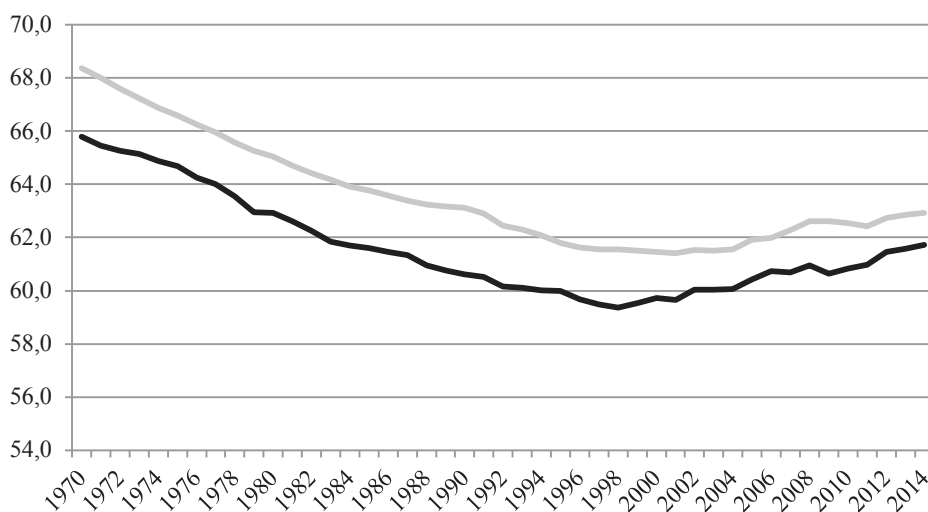
- professional qualifications and the ability to adapt them to the changing needs of the labour market,
- health conditions,
- adaptation of the workplaces to the increasing number of working seniors.

There is a role to play for all stakeholders to enable and motivate people to work longer through i.e. adjusting tasks, workplace design or work intensity,

health promotion, job mobility and lifelong learning. They ideally take a life-course approach by focusing not only on the last stage of working life, but also on intervening at an early stage. Such measures aim to increase the effective retirement age, thereby reducing the risk that people leave work before the statutory pension age [Hasselhorn, Apt 2015].

### 3. Effective retirement age and effective labour market exit age

Although the average lifespan significantly increased after the Second World War, the effective retirement age in the EU fluctuated during the last decades (Figure 3). After the period of decreases in the age of the first take up of old-age pension, at the break of the centuries it started to increase.



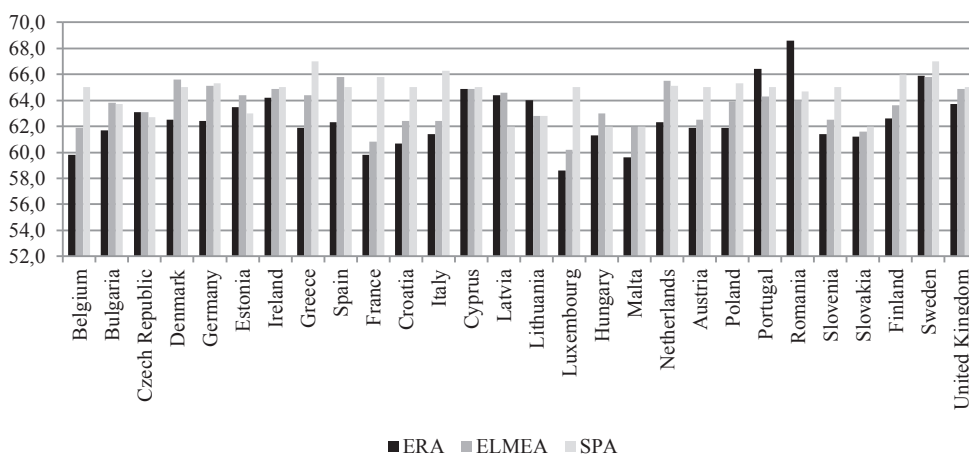
**Figure 3.** Effective retirement age: men (grey line), women (black line)

Source: own work based on [OECD 2017].

It was the result of pension reforms aimed at the increase of statutory retirement age, elimination or reduction of early retirement, increase of the years required to claim an old-age pension. Despite the continuous process of tightening the availability of pensions the effective retirement age is still relatively low, reaching 63 years for men and 62 for women (Figure 3). The effective retirement age in many countries of the EU is still below the statutory retirement age for men and women (Figures 4 and 5). The main reason for this is diminishing but still existing availability of early pensions for men and women in the EU's countries. Also in a lot of EU countries combining early retirement with working is allowed, although accompanied by restrictions on earnings which allow to keep the initial amount of pension without

reducing or suspending pension. Early retirement excludes employment in Estonia, Latvia, Lithuania, Slovakia and Malta.

More interesting from the perspective of the aim of the article is when people leave the labour market. As shown in Figures 4 and 5 for 2013 data, the effective age of exit from labour market is higher than effective retirement age in most EU's countries for both men and women. In the case of men in one third of the EU countries the effective age of exit from the labour market is two or more years higher than effective retirement age. At the same time for the next one third of the EU's member states labour market exit age is higher than effective retirement age by one to two years. In the rest countries it is equal or lower than effective retirement age.



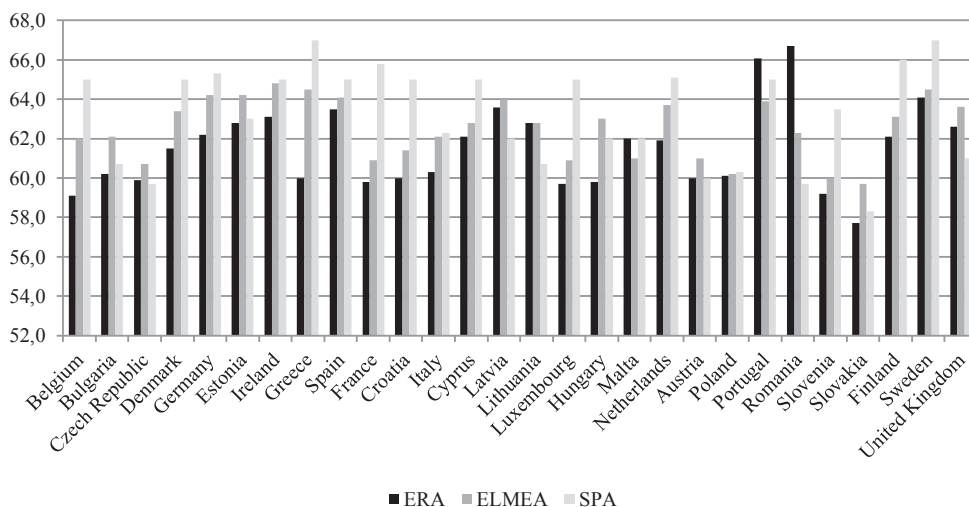
ERA – effective retirement age, ELMEA – effective labour market exit age, SPA – statutory pension age.

**Figure 4.** Effective retirement age, effective labour market exit age and statutory pension age for men in 2013

Source: own work based on [European Commission 2015] and [OECD 2017] estimates based on the results of national labour force surveys [Eurostat 2014].

In case of women the same situation is observed. In seven EU countries effective labour market exit age is two or more years higher than effective retirement age and for another thirteen countries it is higher: between one and two years.

What factors determine the labour market exit? According to the Labor Force Survey conducted by Eurostat in 2012 [Eurostat 2014], more than 37% of respondents indicated that the main reason for the termination of employment was fulfilling retirement eligibility criteria (including early retirement). The highest percentage choosing such an answer (over 50%) was observed in the Czech Republic, Slovenia, Bulgaria, Hungary, Poland, Austria and Malta. The second reason for the decision to end career (an average of 21% of the respondents) was connected with own health



ERA – effective retirement age; ELMEA – effective labour market exit age; SPA – statutory pension age.

**Figure 5.** Effective retirement age, effective labour market exit age and statutory pension age for women in 2013

Source: own work based on [European Commission 2015] and [OECD 2017] estimates based on the results of national labour force surveys [Eurostat 2014].

problems and disabilities. The highest percentage of indications for this cause was observed in Romania, Croatia, Estonia, Latvia, Austria, Luxembourg, Denmark, Spain, Portugal, Germany, Finland, and outside the EU in Norway. At the same time, respondents from these countries, when asked whether they would like to stay longer in the labor market, were giving more positive responses than in other countries.

These results may lead to the conclusion that extending working lives of current and future workers may require more flexibility in the employment and substitution of lower income from work with other sources. One of the possible solutions is partial pension.

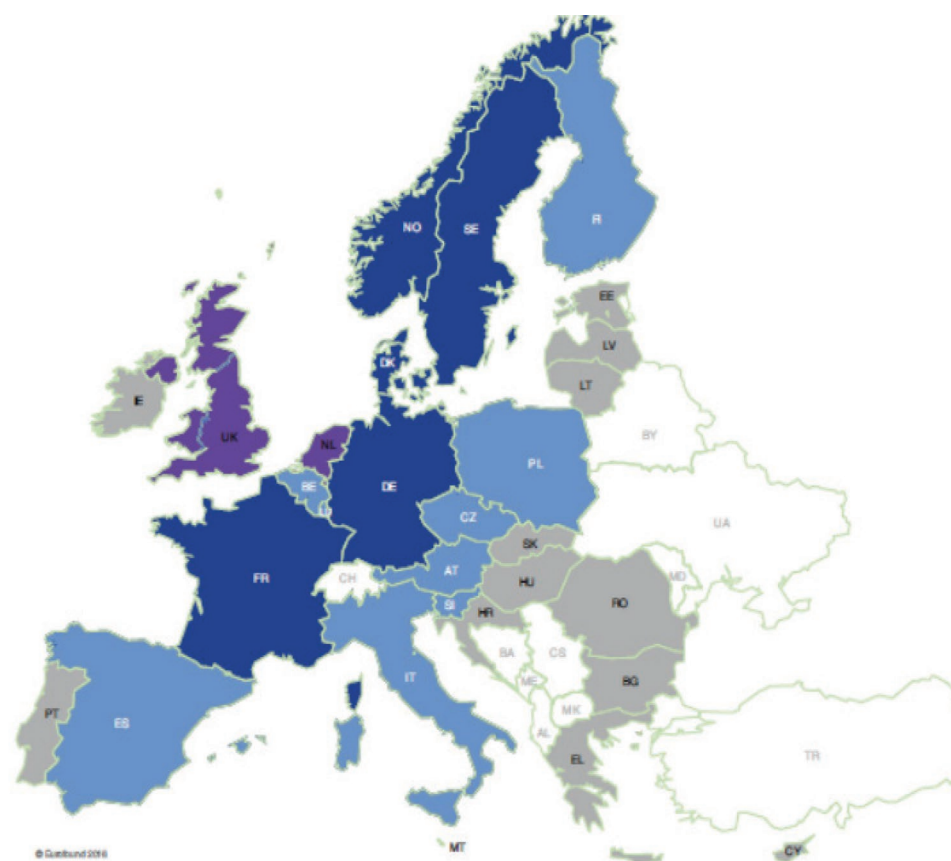
#### 4. Partial pensions in the selected EU's countries

One of the forms of flexible retirement, which may favor the extension of periods of employment, is partial retirement. It allows to combine the retrieval of benefits from continued work. There are no longer any obstacles within the pension systems that could discourage partial retirement, such as determining the amount of old-age pension based on the last salary [Chen, Scott 2003].

Studies in EU Member States have shown that in eight of them as many as 75% of employers would be interested in working on the basis of combining part-time

employment with partial retirement [Conen 2013]. The main reason for this expectation was the ability to maintain and transfer knowledge within the enterprise. These declarations of employers meet the will of workers: almost two-thirds of EU citizens say it appeals more to them to combine a part-time job and partial pension than to fully retire [Eurofound 2016].

According to the Eurofound report, in 2016 partial retirement was performed in the fifteen EU Member States and Norway (Figure 6). In most of the countries with partial retirement there is a need to reduce working hours but not in all. For example in Poland partial retirement can be assumed as an extra payment for people being in employment, who have not reached a statutory retirement age and have long employment record. The report of Eurofound presents extensive characteristic of partial retirement schemes across Europe [Eurofound 2016].



**Figure 6.** Partial retirement in the EU countries in 2016: national level (light blue), sectoral level (violet) and both (national and sectoral levels – dark blue)

Source: [Eurofound 2016].

For the purpose of this paper only the outcomes from research on the influence of partial retirement on the length of employment and overall hours worked in selected systems will be presented. The key for the selection of countries is the availability of the original research of the influence of the schemes on the duration of working lives (Table 1).

**Table 1.** The effect of partial retirement schemes in selected EU countries and in Norway on the length of employment and overall hours worked

Type of the scheme	Impact of partial retirement or part-time work	Impact on		Reference
		Length	Overall hours	
Austrian national partial retirement scheme (from 2000)	Increases the probability of being employed (mainly in the first two years) and reduces that of being unemployed.	+	–	[Graf et al. 2011]
Belgian national partial retirement scheme	Initially prolongs employment, as participants keep accumulating a full pension, but when participants become eligible for early retirement, financial incentives induce them to leave prematurely.	–	–*	[Albanese et al. 2015]
Finnish national partial retirement scheme	Impacts neither the probability of thinking about continuing working after the age of 63 nor plans to continue working in retirement.	0	–*	[Ilmakunnas, Ilmakunnas 2006]
German national partial retirement scheme	Reduces the likelihood of retirement, with 1.8 years extension in the expected duration of employment for men.	+	?	[Berg et al. 2015] based on data from 1993–2004
	Eastern Germany: 5–6 percentage point increase in employment and 4–5 percentage point decrease in unemployment rates. Western Germany: initially (2002–2004) similarly positive, but then early exits from the labour market increase.	+	+	[Huber, Lechner, Wunsch 2016] based on data from 2002–2008
Norwegian reduced hours schemes	No difference in the likelihood that a 61- or 62-year-old withdraws from the labour market with a full (early) pension in the next two years of their employment.	0**	?	[Hermansen 2015]
Swedish national partial retirement scheme (1976–2001)	Hours gained due to increased part-time work instead of early exit outweigh hours lost due to people (who would have continued to work full time until pension age) working part time.	+	+	[Wadensjö 2006]

\* Not estimated by the study but logically derived: if the lengths of working lives are decreased on average or if they are unchanged, overall hours contributed to the economy are assumed to be negative on average (as participants in the scheme reduce their hours compared to non-participants). \*\*The study investigates the likelihood of exiting work at age 62–63; it does not investigate how long before or after that age people worked.

Source: [Eurofound 2016].



The overall analysis of the summary of the research presented in table 1 is quite difficult. The outcomes of the particular research are affected by several factors, among others economic conditions and gender matters. Decisions on full or partial retirement may be affected by the economic growth. In good times workers may not be interested in partial retirement. In case of gender, partial retirement may be more attractive for women. The authors of the study of Eurofound underline that there are other important factors which may affect the efficiency of such schemes i.e. the fact of working fewer hours before entering the scheme, what is more common for women or breaks in the careers.

Often the eligibility criteria for partial pension differ between men and women, what reflects the differentiation of the retirement age still present in the public pension systems and therefore influences the possibility of use of partial retirement.

Partial pension should be seriously considered as an option for flexible retirement and extension of working lives especially for the workers who otherwise could not keep employment. At the same time, the partial retirement scheme should not demotivate people to shorten hours worked. The balance between the two objectives is difficult but worth further considerations.

## 5. Conclusions

Keeping a proper balance between working time and retirement is beneficial for everyone involved. From the perspective of the economy and employers it provides sufficient labour force. Longer working lives means more financial resources for paying pensions and at the same time higher pensions.

Many countries in Europe have taken efforts to extend working lives by increasing the statutory retirement age and limiting early retirement. These reforms may be beneficial if most workers are able to meet the requirements of the modern labour markets and are in good health to continue employment. As people age differently and have different personal situations (partial disabilities, the need to care of the dependent members of the families) there is a need for flexible retirement, which allows to link part-time work with partial pension. The effectiveness of partial retirement is a complex issue and strongly depends on the specificity of the solutions adopted.

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