

Extending working lives through flexible retirement schemes: Partial retirement

Executive summary

Introduction

This report investigates how partial retirement schemes can contribute to sustainable and adequate pension systems by enabling and motivating people to extend their working lives. It maps schemes at national and sector levels in the EU and Norway, and examines how they differ in characteristics, terms and conditions. Their impact on the extension of working lives is assessed, based on a literature review complemented with case studies of practical experiences with partial retirement schemes in the Czech Republic, Finland, France, Germany, the Netherlands, Norway and Sweden.

Policy context

In many EU Member States, reforms have improved the sustainability of pension systems. However, these reforms come with challenges. Freezing and reducing pension benefits have decreased adequacy, and increased contributions have put pressure on disposable income and wage costs. The impact of discouraging early retirement and increasing the pension age on effective retirement ages is limited. Many people are unable or unmotivated to work until the statutory pension age. Measures that enable and motivate people to continue working can contribute to adequate and sustainable pension systems while addressing these challenges. They include health promotion, lifelong learning, improving job quality and promoting mobility. Reducing working time is another approach to enabling people to work longer than they would have been able to had they continued working full time. It can also motivate people who would prefer to work fewer hours. A barrier to the reduction of hours is loss of income. Partial retirement schemes address this barrier by substituting part of the income loss with a partial pension or benefits.

Key findings

Over half of the EU Member States and Norway have national or sector-level partial retirement schemes. The schemes vary in rationale, coverage and design. Partial retirement can enable and motivate people to continue working up to the statutory pension age and beyond. 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. However, no scheme was identified that unambiguously extended working lives for all participants. Partial retirement may have extended working lives for specific groups, especially people with health problems, disabilities, care responsibilities and physically or mentally demanding jobs. On the aggregate level, though, the reduction in hours facilitated by partial retirement has frequently outweighed the increase in hours arising from lengthening the working lives of some participants.

Policy pointers

Policymakers, social partners and pension schemes that are considering establishing or reforming partial retirement as a tool to extend working lives can learn from past experiences.

Effectiveness, efficiency and fairness

- Take-up rates say little about the effectiveness of a scheme. A high take-up rate may mean that the scheme is overly attractive, and the people partially retiring would have been able and motivated to continue working full time. Low take-up does not guarantee the scheme is well-targeted, however, and can signal its failure.
- Partial retirement should be more attractive than full early retirement, but continued full-time work should still be encouraged and supported.

- If partial retirement starts at too early an age and hours are reduced too much, too many working hours may be decreased for too long. If it starts too late and hours are decreased too little, it may not enable people to work longer.
- Partial retirement is sometimes used as an early exit scheme when it allows working time to be concentrated in a first period, followed by a period of leave. If very attractive, this may still motivate people not to exit the labour force until they become eligible for retirement, but it often instead shortens working lives.
- Partial retirement can extend working lives for some groups, but it is likely to shorten working lives for others. Facilitating the continuation of work beyond the statutory pension age can amplify the positive impact on the duration of working life.
- Low-paid workers may more often need a reduction of working hours to extend their working lives but are often unable to afford it even if wage loss is partly compensated.
- Several of the schemes were used more by higher socioeconomic groups, which raises concerns about fairness, particularly if schemes are publicly funded.
- It may be unfair if schemes are not accessible to older people who already work reduced hours (many of whom are women) or to unemployed or inactive people who start working part time.
- Employers may use involuntary partial retirement to restructure their workforce, but partial retirement schemes have also sometimes prevented unemployment.
- Significant barriers to part-time work include the difficulties employers may have accommodating such arrangements and employees' reluctance to work part time because of a feared impact on their status and tasks.
- Flexibility in how working time is reduced can help to match employee and employer preferences better; free time could, for example, be spread over weeks or months.

- Partial retirement is harder to implement in sectors and countries where part-time work is least common. However, it may have much potential in such contexts, by promoting part-time options and by reaching workers for whom it is a particularly important means of enabling them to extend their working lives.
- Taxes and social security interact with pensions and may create unintended incentives for partial pension schemes.

Taking account of the broader context

- This research has demonstrated that much can be learned from past experience, but it is important to be aware of changing contexts. Increases in pension ages are likely to increase the need for people to use measures that enable them to continue working until the statutory pension age, and for employers and policymakers to facilitate them. Furthermore, part-time work has become more common across the EU, and partial retirement may thus become easier to implement.
- Even when partial retirement does not extend working lives, it may have been negotiated as an alternative to early retirement schemes that would have reduced working lives even further.
- At first glance, the impact on the overall hours worked in the economy may be the most important indication of success, looking beyond employment rates only. However, partial retirement may also enable companies to retain the knowledge older workers possess, even if part time. Certain groups of workers may also be more productive with fewer hours. Furthermore, where labour shortages emerge and workers are interested, it is easier to increase the hours of older workers who are working part time than re-employ those who have retired fully.
- This research has focused on the impact on extending working lives, but policymakers may also consider the impact on quality of life and society: flexibility allows closer alignment of the retirement path with workers' preferences, and can facilitate volunteering activities and care commitments.

Further information

The report *Extending working lives through flexible retirement schemes: Partial retirement* is available at www.eurofound.europa.eu/publications.

For more information, contact Hans Dubois, research officer, at hdu@eurofound.europa.eu.