

Active ageing Early retirement and employability

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ACTIVE AGEING: EARLY RETIREMENT AND EMPLOYABILITY

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Ongoing demographic ageing and current low participation by older people in the labour market has placed urgent pressure on social protection systems and living standards in European welfare states. In recent decades, there has been a tendency to leave the labour market at early ages in many countries. During the 1970s and the 1980s, public policies strongly encouraged early withdrawal from the labour market as an answer to mounting youth unemployment. During this period, numerous early retirement schemes were elaborated by different national governments, most of which were well received by the social partners involved. The 1990s exhibited a major shift in policy attitudes towards early exit and the early exit culture was increasingly questioned on budgetary grounds. In practice, however, the use of early retirement schemes remained widespread.

Currently, the low participation rates of older workers in Europe are associated with the demographic trends of ageing and generational crowding in (early) retirement and are considered to be a new social risk by many governments. In combination with small cohorts of school leavers, early retirement threatens the sustainability of social security and pension-systems in the long term. The related prognoses of tight labour markets in the near future indicate another risk for employers.

In this context, the European Union emphasizes the importance of activating older people and prolonging working lives. The promotion of active ageing in the European Employment Strategy is reflected in two complementary targets. First, the Stockholm European Council of March 2001 agreed that half of the EU population in the 55-64 age-group should be in employment by 2010. Second, the Barcelona European Council of March 2002 concluded that "a progressive increase of about 5 years in the effective average age at which people stop working in the European Union should be sought by 2010". This major shift in policy attitudes notwithstanding, the general practice of early withdrawal still needs to be remedied.

The Transitional Labour Market perspective (TLM) proposes to enlarge the topic of (early) retirement to include a life course perspective. It states that reshaping the end of careers – and prolonging working life – depends on certain facilities (such as work life balance) and

conditions (such as life long learning and quality of work) throughout one's entire working life. The perspective stresses that continuous training will maintain higher productivity by older workers, that the quality of jobs over the career affects the likelihood of (early) retirement, and that transitional options such as sabbatical leave might decrease the disutility of work at older age and reduce the preference for early retirement. Furthermore, according to the TLM-perspective, innovative policy reforms concerning active ageing should take into account the whole range of exit opportunities and pay attention to the coherence between different policy programmes (Anxo & Erhel, 2005). From a risk management perspective, policies that contribute to active ageing through a combination of HRM policies, labour market policies, and social policies could contribute to the containment of risks and, in part, to their prevention. Social risks are defined as critical life events and transitions that might entail lasting disadvantages, social exclusion or poverty. Examples in the context of ageing are unemployment, possible escape routes, and temporary or permanent retreat from the labour market due to disablement. These events are related to certain types of income risks: a lack of income replacement (pensions), and in the case of unemployment insufficient income support or income capacity in the labour market (Schmid & Schömann, 2004)

The articles in this Special Issue all deal with the TLM perspective and examine participation patterns, early retirement schemes for older workers, and the activation capabilities of specific policy reforms. Different policies and policy mixes are analysed and various welfare arrangements in member states are compared, while recognising path dependencies.

The basic assumption is the generally low employment rate of older people in the countries observed and a central goal is to analyse the determinants of limited participation or early exit behaviour. Referring to the TLM-approach, additional attention is paid to the impact of policy reforms, policy recommendations concerning early exit and the lengthening of working life, and social risk management within the context of active ageing.

We hope that this special issue will contribute to the policy debate on the modernisation of the EU social model.

The contributions in this special issue have been discussed during seminars and conferences regarding active ageing, and were organised within the context of the European TLM.NET thematic network 'Managing Social Risks through Transitional Labour Markets', founded by the fifth framework programme of the European Commission and managed by the Wissenschaftszentrum für Sozialforschung, Berlin and SISWO, Social Policy Research, Amsterdam. Those meetings on active ageing were chaired by Dr. Christine Erhel.

We start with the general, comparative contributions in which national regimes, policies on seniors, and recent activation reforms are analysed and compared. This macro level analysis is then complemented in the second part of this special issue with analyses of individual countries and studies that focus on the company level (micro level).

In *“Labour market policy and active ageing: a comparative approach”*, Christine Erhel and Pierre Courtioux provide some methodological and empirical recommendations for developing a TLM approach for seniors in the labour market. In the first section, they characterize the components of senior employment regimes in Europe, using comparative statistics. In a second section, they make a link between the variety of national regimes and policies, including their recent dynamics and reforms (labour market policy regimes). An important question that arises in the study concerns the distinction between innovative change and path dependence. Do recent reforms follow the initial differences between national social protection and employment policy models, or do they lead to some kind of convergence around a common trend to activation and the development of work incentives – which seem to build the core of the European Employment Strategy? The focus in the article is on France, UK and Sweden. It shows that reforms in Europe are based on common tools, including limitation of early retirement, the creation of incentives to work (including part time work incentives), and targeted active programmes. Some innovative reforms, combining incentives and human resources strategies favouring senior activity, have also been developed, but they remain limited. Nevertheless, two trends of activation appear, a liberal one and a universalistic one, which are related to welfare regimes and labour market institutions. In their conclusions, Erhel and Courtioux argue that the TLM approach may help overcome an exclusive focus on incentives to work. Within the reform policies targeted at older workers intended to increase activity and employment rates, incentives at work are very popular, but this might be at the cost of worsened social and working conditions (low income, bad quality of work...). The TLM perspective is a means of introducing a more global perspective on these reforms and of formulating different institutional principles.

In *“striking a new balance between flexibility and security: flexicurity and policies for the older workers in four European countries”*, Frank Tros develops a conceptual scheme of flexicurity to analyse active ageing policies in Belgium, Denmark, The Netherlands, and Germany. Flexicurity is defined as a policy strategy that enhances the flexibility of labour markets, work organisations, and labour relations on the one hand, and that enhances security – employment security and social security – on the other. It is presented as an implementation strategy for transitional labour markets. Flexicurity arrangements can promote transitions by seniors in and between firms and to other labour market-related statuses.

Flexibility is not a one-sided employer issue; employees also need more flexible work organisation in order to meet individual preferences, e.g. combining work and private commitments and responsibilities. In the article a scheme with options for flexicurity strategies for older workers is developed, which is explicitly linked to the firm level. On the micro level, early exit arrangements are still popular, combining income security for older workers with external numerical flexibility for employers. The custom and practice of early retirement appear difficult to change in all countries because firms tend to have a passive attitude towards preferences of older workers.

Flexibility and security among seniors are issues of policy debate in these four countries. In Denmark, the employment rates of older workers compared to the other countries in the study are high, and the sense of urgency is consequently lower there than in other countries. Nevertheless, seniors experience problems with transitions to work. The employment rate of seniors in Belgium is low and Germany and the Netherlands are somewhat in between, near the EU average. The income security of older workers is under pressure in almost all EU countries, as is employment security. The debates surrounding early retirement predominantly discuss the incentives of the benefit structure but only include minimal exit “push” factors such as quality of work and the employability of workers. As a consequence, options of exchange between different forms of flexibility are not at stake.

In modernising early retirement and pensions schemes, the balance between flexibility for employers and security for workers is challenged. Striking a balance between flexibility and security also requires policy coordination, which to some degree can be observed in Belgium at the national level and The Netherlands on a meso level. All countries, in their own way, focus on the management of working hours and flexible time arrangements.

The European strategy set up at the Lisbon summit was a kind of triptych: more and better jobs for all. In her contribution, *“Employment rate of the ‘seniors’ and employment quality through the life cycle: a comparative approach”*, Lucie Davoine examines the political and economic relevance of the Lisbon Triptych in an ageing society by exploring one central question: are senior employment rates and employment quality correlated? The dimensions of employment quality set up at the Laeken Council used “employment quality” as a fuzzy concept, without an accepted scientific definition.

Davoine’s empirical analysis suggests synergies between employment quality and employment rates and illustrates mechanisms that should be implemented in order to improve knowledge and policies. In brief, maintaining the position of seniors in the labour market implies a cluster of issues: financial incentives and disincentives, active labour policies and lifelong learning, working time arrangements, work conditions and job design, as well as social infrastructure and services.

In “*The Employability of Older Workers in Italy and Europe*”, Roberto Leombruni and Claudia Villosio compare some facts about older worker employment status, personal, and family characteristics across European countries, as they emerge in a cross-sectional analysis. Those factors are usually held to be important in shaping labour market participation, such as the educational attainment level of individuals, or the diffusion of part time work. Their distribution and impact – although not always significant in a multivariate analysis – provide an initial *rationale* for cross-country differences in participation profiles. The authors show that some empirical correlations can be detected between certain personal and institutional characteristics and the labour market participation of the elderly. Cross-sectional evidence indicates that health status, the diffusion of part-time work, and the levels of educational attainment are all positively correlated with the employment rate of the elderly. Interestingly, however, when controlling for all individual characteristics the impact of education vanishes in many countries. Thus, education seems to be an important factor enhancing the employability of individuals only in those countries – such as Italy and other Southern-Mediterranean countries – where the elderly tend to be less educated on average. There, higher education is somewhat of a scarce resource in the elderly labour supply.

This kind of static analysis has some pitfalls that can be overcome by adopting the Transitional Labour Market (TLM) approach. Within this approach, the participation of the elderly can be viewed as the result of several basic labour market transitions – from employment to retirement, from employment to unemployment to retirement, from inactivity to employment, and so on. It is by focusing on these transitions that we may ask whether they had a voluntary nature or point to an employability issue, and hence whether they involve a social risk that should be managed.

Adopting this life course perspective resulted in some remarkable findings. Two selection processes played a key role in explaining cross country differentials: the life cycle decision by women to not participate to the labour market, and access to early retirement schemes. Both are particularly important in explaining low participation rates in Italy. As regards women, for instance, if we exclude those who never worked, the employment rate in the 50-64 age-group increases by more than 10 percentage points (from 27.6% to 39%). Considering only those who are not pension holders, it further increases to 54.3%. While this increase by itself is to be expected, its size is such that the gap from to the EU15 average falls dramatically from 17 percentage points to just 4 percentage points.

It has to be stressed that both selection processes can hardly be considered random. Two major empirical issues are at stake. The first is to further explore the cross-country differentials controlling for the mechanisms that generate the selection. Preliminary explorations of this area indicate that the selection equations tend to be significant in all countries. Hence, in

multivariate analyses, this selection process should be taken into account. The second is to try and ascertain whether there are barriers to late entry and re-entry in the labour market. In order to derive sound policy conclusions from the findings, some empirical evidence on the latter points is needed. Nonetheless, two policy implications can be put forth. The first is that barriers to late entry and re-entry in the labour market are sometimes present in labour market regulations (f.e. the incompatibility between pension benefits and working activities). Another sensitive area is related to minimum age requirements in personnel selection procedures.

The second is linked to a correct design of the target groups relevant to the issue of elders' low employment rates. One is composed by pensioners. In countries where early retirement schemes have been employed, a chunk of perfectly able workers have been filtered out of the market. They may be the target of policies aimed at their re-employment, and/or their emersion from black/grey working activities. Although paradoxical, another relevant group are young and prime-age women. The authors showed that the decision to offer their working effort within the household for child and family care can have long lasting consequences on their future participation behaviour. Policies aimed at achieving a greater compatibility between family care and working activities are to be considered a first step in resolving the low participation issue in future decades.

In addition to these comparative contributions, this special issue also deals with a selection of countries as individual cases.

In *"Dutch older workers and their labour market participation. Changing the social norm of early retirement"*, Lisa Putman makes some interesting observations regarding the perception of (social) risks by employers, as well as their expectations and preferences. The author discusses age-wage-productivity theories as part of her explanation of selection processes. In her exploration, she sought to identify other determinants of the selection behaviour of firms in both theory and practice. Putman wonders if there is evidence for age-discrimination practices and opinions among Dutch employers.

Looking at the capabilities of older workers, Dutch employers generally hold the opinion that older workers function as well as younger ones. A large survey among firms revealed an interesting finding when employers were asked about the consequences of an increased average age of personnel: they view a rise in productivity as the most unlikely outcome and rising labour costs, increasing health risks, increasing knowledge and experience level, and the need to improve working conditions as the most likely outcomes. This shows that productivity, health risks, and the need to invest in working conditions are perceived as the main effects of ageing and of (future) concerns for firms. Workers also act upon health in-

centives and working conditions. Early retirement exit flows are related to the circumstances and preferences of older worker, who are offered the opportunity because of the financing of early retirement schemes. Managers focus primarily on the preferences of employees and act upon them because of relatively low exit costs for employers. Firm policies do not depict an employability policy, are rather reactive, and simply follow measures agreed upon in collective agreements. Putman concludes that there is a risk that older workers are confronted with prejudices, resulting in their gradual exclusion. Firm policies aimed at the employability of older workers are weak or non-existent, and require institutional arrangements and government coordination of various policies on the road to active ageing and continuing growth in the participation of older workers.

In discussing incentives for both workers and employees, employers were not really confronted with the cost of early exit, and Putman has asserted that in the Netherlands the appeal of early retirement schemes declined in the late nineties. She concludes that the increase in participation figures for 50+ workers points to the impact of successful policies aimed at financial disincentives.

In *"The lack of a transitional labour market for older workers in Germany"* Klaus Schömann provides an outline of 'the habit of early retirement' in Germany. He presents some basic facts about early retirement in the German context and discusses the employment practices of employers and policy measures towards older workers.

The decision to retire by older employees is largely influenced by institutional arrangements such as eligibility to pensions, unemployment insurance, and access to early retirement schemes. Industrial restructuring and firms' human resource strategies influence the retirement decision of individuals equally. Additionally, there are societal choices that turn into social habits that affect older employees.

The widespread belief in a deficit model of age, which implies decay and loss of capacities as a person grows older, is challenged by the idea that older persons have compensation potential (Staudinger, 2004). Decline in some physical and psychological abilities is compensated by improved social competence. Thus, older workers might be attractive to employers for their specific potentials and suitable transition arrangements because they can be of benefit to firms as well.

In order to revive the employment prospects of older workers, a whole-of-government approach in policy making is needed to seriously tackle the still widespread habit of early retirement in Germany. A social sustainability strategy is needed which could build on the conceptual idea of a transitional labour market for experienced workers. The identification of good practice in this key area, including lifelong learning and health promotion at an

early stage, requires more emphasis. The spread of good practices throughout Europe would also be to the benefit of the “silver generation” of employees in Germany.

As in other continental countries, the transition from work to retirement in Belgium seems to be characterized by path dependency. In order to solve the path dependency problem, the transitional labour market approach suggests a global perspective on the transition from work to retirement. In the context of the transitional labour market concept, Wim Herremans, in *“Pension reform and pension paths: the Belgian case”*, analyses the impact of the Belgian pension reform introduced in 1997 on pension paths. The pension reform was introduced in order to increase the average pension age of Belgian workers and to lengthen working careers in the private sector. Herremans compared the activating capacity of the pension reform with the risk of a competition effect created by other exit schemes. Register data were used to analyse the paths followed by new pensioners during the first and second stages of the pension reform.

The pension paths followed by new pensioners did effectively change between the first and the second stage of the pension reform. Following the pension reform, older people were obliged to postpone their official retirement. The register data suggested that the most likely outcome was a continuation of the current, mostly non-working statute. For housekeepers this meant a longer stay outside the systems of social security, while for persons in unemployment or in pre-pension arrangements it meant an extended dependency on social security outside the official pension system. Hence, a prolonged stay in these non-working statutes constituted to a certain extent a situation of ‘communicating vessels’ i.e. the importance of one non-working statute decreases in favour of other non-working statutes.

On the other hand, a certain employment surplus could also be observed. After all, for the female pensioners who made a straight transition from work to pension at the official pension age, the postponement of the legal pension meant an extended working career. Future research will have to clarify in what sense the employment effect can be consolidated or even extrapolated when the pension reform is fully incorporated.

For the time being, the register data do not provide any evidence of a decrease in the numbers of pensioners leaving the labour market before the official pension age. In order to truly activate non-working older people and rationalize the use of early retirement schemes, more is probably needed than a unilateral reform of the pension law. In this sense, a global perspective and a coherence of policy interventions, as described by the transitional labour market approach (Anxo & Erhel, 2005), will be necessary. With the Generation Pact intro-

duced at the end of 2005, the Belgian government tried to overcome some of these features. However, social agitation in the aftermath of the Generation Pact reveals the lack of consensus that exists between the major parties concerned.

In *“Does an older workforce negatively affect a firm’s performance? A study of firms in The Netherlands”*, Arie Gelderblom, Jaap de Koning and Hassel Kroes present an analysis based on data from individual firms that demonstrates discrepancies between wage and productivity levels among different age groups. The marginal productivity of young workers is low and rises until a maximum is reached for the category of workers between 50 and 54 years of age, and then decreases significantly. Depending on the wage level indicator chosen, Gelderblom et al. found either no decrease in wages, or a decrease that is much less profound than the productivity decrease for 55+ workers. The resulting productivity-wage ratio shows an inverse U curve: relatively low for young workers, rising until the age of 54, and sharply declining above the age of 54.

According to the authors, the fact that the productivity-wage ratio of older workers is unfavourable compared to other age groups explains why employers prefer to employ the < 55 age group. Their overall conclusion is that the low employment rate of seniors has to do with an unfavourable productivity-wage ratio.

For older workers, there is no support for Human Capital theory, and the evidence seems to be more in favour of the efficiency wages or contract theory. Referring to many other studies, a productivity wage gap for senior workers was observed, with the exception of a study in the US; the authors argue that this can be explained by the institutional effects of firms on selection behaviour because of lower firing costs.

Discussing potential training effects for older workers brings the authors to the conclusion that incentives for training and wage flexibility for older workers could actually increase productivity and close the wage gap, subsequently enhancing the employment rates of older workers. The practices of firms, however, do not point in that direction. The discrepancy between the macro societal logic of recent policies aimed at enhancing the employment rates of seniors and the opposite logic of action and selection processes in firms could not be better illustrated.

Reflecting on the age-productivity-wage relation and the effects of firm policies and selection processes in the Netherlands from the TLM perspective, the authors come to the conclusion that flexible time arrangements, like part time retirement and other working time policies, are a viable solution that prevent a complete loss of human capital.

On the whole, the articles presented in this special issue support two main results concerning national policies, and one general recommendation.

First, as far as the labour market situation of seniors is concerned, national models have gone through many reforms since the end of the 1990s in Europe. Nevertheless, these dynamics are still complex and contradictory.

On the one hand, despite persisting differences between countries, national dynamics exhibit common trends: first, the employment rate of seniors is now considered a policy target; second, all countries have cut down inflows into full time early retirement programmes, which are now limited to the most disadvantaged groups; third, some measures have been implemented in order to favour seniors' employment, both on the supply side (such as incentives to work longer through pensions reforms and training), and on the demand side (such as anti-discrimination laws or communication campaign and financial incentives for employers). Moreover, the recent debates around pensions reform, combined with the European guidelines, indicate that these trends might have initiated a change in the representations of social partners and public opinion. This supports the idea of a convergence in Europe around the activation of seniors targeted by labour market and social policies.

On the other hand, reforms are slow and national specificity remains, supporting the path dependence hypothesis as it stands in institutionalist theories. Path dependence results from a variety of mechanisms. Indeed, apart from the pensions system itself, there are a large number of pathways to withdraw from the labour market at a relatively early age, in particular by using early retirement programmes (based on public or private financing), unemployment related transfer schemes, and disability pensions. Crowding out effects are likely to appear when a partial reform is launched. Moreover, the complexity of the set of programmes targeted at older workers can be related to the existence of a social and political consensus around early retirement. From the firm point of view, these schemes have represented a way to solve the wage productivity gap, whose existence has been demonstrated for older workers in internal labour markets, as well as a means of modernising work organisation. Unions see early retirement as a matter of social justice and social progress (compensating for difficult working conditions). For the governments, these programmes were a way to fight against unemployment, at least in the short run. In this context, many reinforcing effects take place, especially through firms training policies which tend to focus on younger people (in most countries further training intensity decreases over 40). The existence of such a consensus, mixing economic efficiency and social justice considerations, might explain the difficulty of reforming the systems.

Thus, the dynamics of policies appears to be a mix of path dependence and innovative reforms: persistent national regime differences and convergence of the defined goals and the tools used.

Second, these trends should of course be related to the European Employment Strategy. Although it is difficult to prove a causal link between the EES and recent national reforms, there is at least a clear correspondence between the EES and changes in the focus of policies targeted at seniors. Contrary to the 1980s and early 1990s, it has been set on increasing the activity and employment rates of older workers.

The EES has indeed put forward criteria for employment rates, especially for seniors and women, for whom the differences among countries are very high. In addition, employment guidelines have promoted work incentives, training, and quality of work as priorities for specific policies. Since 2003, the Open Method of Co-ordination (OMC) has also been applied to pensions reforms, and has promoted new retirement system designs that are more favourable to a longer working life (actuarial neutrality principle, bonuses for extra working years).

How do EES and OMCs affect national reforms? Research on this topic has shown that European co-ordination, even if it relies on informal mechanisms (such as benchmarking, information about best practices...) might have an effect on national policies through a cognitive effect (EES and OMCs are spreading out ideas about labour market and pensions policies), and through a “leverage effect”¹: European co-ordination provides national actors (social partners, administrations...) with new co-ordination contexts (like the redaction of the National Action Plans), as well as with references they might use in their national context .

At this stage, it seems that only a part of European references and “ideas” have been widely used and implemented in national reforms, namely the incentives oriented approach. The qualitative dimensions have remained secondary, although empirical work shows a link between quality of work and seniors employment rates.

This means that there is still some space for innovative options and paths to promote longer careers and active retirement. Although incentives have to a certain extent succeeded in changing the behaviour of older workers, they are not sufficient to promote active ageing. The TLM perspective suggests looking for consistent and negotiated solutions that provide not only financial incentives to continue working, but new opportunities as well. Innovative policy tools include programmes targeted at the unemployed, like “bridging jobs” with compensating subsidies or tax exemptions and wage insurance (providing compensation for older unemployed individuals who agree to take over a new job with lower earnings). In a more general perspective, the question of age and work should be part of the definition of a new employment insurance framework, providing lifelong training and facilitating individ-

1 Erhel C., Palier B. (2005), “The Leverage Effect: the Open Method of Coordination in France”, chapter 8, in Philippe Pochet et Jonathan Zeitlin (dir), *The Open Method of Coordination in Action: The European Employment and Social Inclusion Strategies*, PIE-Peter Lang, Brussels, 2005

ual choices regarding working time allocation (part time/full time jobs, leaves, gradual early retirement)².

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² Some of these policy options are listed in Schmid G. and Schömann K. (2004): *Managing Social Risks Through Transitional Labour Markets: Towards a European Social Model* (TLM.NET Working Paper No. 2004-01).