

Summary

Incentives and Possibilities for a Longer Work Life

*Per Johansson, Lisa Laun, Mårten Palme
and Helena Olofsdotter Stensöta*



English summary of a report in Swedish with the title “Drivkrafter och möjligheter till ett förlängt arbetsliv”

We are living longer and longer after we have finished working. In recent years the actual increase in life expectancy has exceeded the forecasts. In 1990 the remaining life expectancy at an age of 65 years was 15.3 years for men and 19.0 years for women. By 2017 this had increased by 25 per cent to 19.1 years for men and by 13 per cent to 21.4 years for women. This increase places growing demands on financial resources for when we have ceased to make our own contribution to our living. One problem that is directly associated with the increase in life expectancy – due to the indexation of the new pension system – is that the pensions are low. In recent times this has become a growing topic in the media and the public policy debate.

An obvious solution to this problem is to work longer. The individual decision to continue working is influenced by public institutions and attitudes towards the elderly in the labour market.

Factors that influence this are prospects for receiving disability or sickness benefits, financial incentives to continue working, health, personal preferences, opportunities for further education and skills development, readjustment to new working practices and the work environment.

Changes in participation rates among the elderly

Participation rates among people who are older than 55 years of age have undergone dramatic changes in recent decades. For men in the 60–64 age cohort the participation rate declined from more than 85 per cent in the 1960s to 55 per cent at the end of the 1990s; since then it has increased to 75 per cent in 2017. For women in the same age cohort the pattern is dominated by their entry into the labour market. In the 1960s the participation rate among women in the 60–64 age cohort was 35 per cent and it has since increased to almost 70 per cent in 2017. From the end of the 1990s and forward the increase has been almost as large as for men. In the 55–59 age cohort, the trend has been the same for both men and women, however not as dramatic.

Among those who continue to work past the previous normal retirement age of 65 years very little has happened during the past couple of decades. Participation rates among 65–69-year-olds are still running at very modest levels – around 25 per cent for men and just under 20 per cent for women. Consequently, there is considerable potential to increase the employment rate for this age cohort in the future.

By international standards Sweden has always had high participation rates among the elderly. The large decline in employment that was observed for men in the 60–64 age cohort was far more dramatic in southern and central European countries. Furthermore, the recent increase in



SNS, the Centre for Business and Policy Studies, is an independent think tank that brings together the worlds of academia, business and government for knowledge-sharing and dialogue on key societal issues. SNS provides a steady flow of independent research and analysis. The research takes a solution-focused approach to important policy issues. SNS mobilizes the best academic expertise from universities and research institutes in both Sweden and around the world. The quality, integrity and objectivity of SNS research are among our principal assets. Responsibility for the analysis and the conclusions in the research reports rests with the authors alone.

participation rates among the elderly was larger in Sweden than in most other countries.

The reason why Sweden has had relatively high labour force participation is at least partly political. Compared with policies in most other West European countries, Sweden has focused on promoting labour force participation. The pro-work principle (“arbetslinjen”) has also been applied to the elderly. Sweden has avoided the very costly policy of introducing early retirement systems that many other countries introduced in the 1970s and 1980s. In Sweden the actuarial adjustments – that the monthly pension is reduced if one withdraws it earlier than the normal retirement age – have always been a part of the public pension system.

What is the cause of the rise in employment in the last few decades?

The question of lengthening working life affects many areas of the economy. The debate concerns the economic incentives to remain in the labour force, tax policy for wage earners and pensioners, the availability of disability insurance as a mean of financing everyday life without having to work, as well as rules and agreements on the labour market that may have a decisive effect on the possibility to remain in the work force. Health policy and health insurance are also aspects that affect working life.

All these areas have undergone significant changes in Sweden during the last few decades. The phasing-in and the maturity of the earnings-related pension (the ATP system) affected labour market incentives during the period ending in the early 1980s, while the implementation of the new pension system has been of importance since the end of the 1990s. The introduction of the earned income tax credit, which did not cover pensioners, had a substantial effect on the economic incentives to work, as well as the extended earned income tax credit that especially targeted the elderly work force.

Due to a series of reforms in the 1970s and 1980s the disability insurance system changed from being an insurance strictly against loss of income due to declines in health, to also include early retirement due to labour market reasons. In 1970 special rules were introduced for those older than 63 years of age and still active in the labour market. This included less stringent medical requirements when assessing their ability to work. In 1972 the reform was extended to also include labour market reasons alone. Because of the reduction of the general retirement age from 67 to

65, the qualifying age for disability insurance due to labour market reasons was reduced to 60 years of age.

From the beginning of the 1990s and onwards this policy was successively scaled down to the point where it was only connected to health issues. In 1991 labour market reasons alone no longer provided grounds to claim disability insurance, and in 1997 the special rules for elderly workers were abolished.

Finally, age limits have been changed; the normal retirement age was lowered from 67 to 65 in the 1970s, the abolishment of the normal retirement age upon the introduction of the new pension system, as well as the Ringholm reform, which gave everyone the right to stay at work until the age of 67.

During the period the Swedish population also changed in a variety of ways. Health and physical work ability have improved, as well as the level of education of the population. In addition, job tasks have evolved, physically demanding jobs have become fewer and the physical work environment has also improved.

We study how the composition of the work force has changed in terms of health and education. We examine how the work environment for the elderly in the work force has changed. We also look at various policy changes such as the major reform of the pension system, the special employment tax relief for the elderly, the Ringholm reform and the increased stringency of the disability and sickness insurance systems.

The results of our analyses show that the disability insurance system is the most important explanation behind the changes in labour force participation among the elderly. This applies not only to the upsurge in the participation rate in the past two decades but also to the downturn that occurred between the beginning of the 1960s and the end of the 1990s.

Our results indicate that the major pension reform may have had some effect on the participation rate. Incentives that influence when to start withdrawing pension do not differ significantly between the new and the old pension system. On the other hand, the new system provides stronger incentives to stay on the labour market and continue to save into a pension. Our analysis shows that the average time between when individuals stop working and start to withdraw their public pension has become shorter. This suggests that incentives do matter.

The Ringholm reform, however, appears to

have had rather small effects. The participation rate of the 65–69 age cohort did not increase markedly after the reform was introduced. This underlines that the norm of retiring on the 65th birthday is still strong in Swedish workplaces.

We show that health improvements during the past twenty years probably were an underlying factor behind the increase in the participation rate. We examine the possible effect of improvements in the work environment. However, our conclusion is that the major improvements took place earlier – in the 1980s and 1990s – rather than during the more recent upswing in employment among the elderly.

We also analyse the potential for further increases in the employment rate among the elderly with regard to their health. First of all, we look at how employment has changed given that health is held constant. We measure health in terms of mortality. We show that the employment rate among men was much higher in 1985 at an age that corresponds to a given mortality in 1985 than it is now. However, since the end of the 1990s the change in the employment rate for men and the decline in mortality has kept the same pace, as it has been for women throughout the observed time period.

In addition, we perform an analysis using cross sectional data. We use a regression model to investigate the size of the share of those in the 55–59, 60–64, 65–69 and 70–74 age cohorts that would have been employed if the relationship between observed health and employment had corresponded to the figure that applies to the 50–54 age cohort. The conclusion of this analysis is once again that there is great potential for employment among the elderly.

Effects of more stringent rules for disability benefits

In the 2000s more stringent rules were introduced for disability benefits. This was mainly through the introduction of the so-called rehabilitation chain in 2008 – a policy which by the daily newspaper *Aftonbladet* was given the name “the new tough Sweden”. Our results show that the reforms in general achieved the political goals for which they were intended. The decline in the inflow to the disability insurance, which was an effect of the reform, was not offset by any corresponding increase in other types of income insurance, municipal income support or support from family and friends. On the other hand, employment rose.

Furthermore, the squeeze seems not to have had a disproportionate effect on any social group or income group.

We also examine how the public’s confidence in the official body whose role was to implement the new, more stringent rules – *Försäkringskassan* – was affected. The analysis indicates that the tightening-up of the disability insurance system can explain a significant proportion of the loss of confidence in *Försäkringskassan*. Other official bodies were not hit by a loss of confidence after the economic crisis in 2009.

The results we summarise in the book suggest moreover that the social insurance system may have had an effect on the results of the elections in both 2006 and 2014. The support for more generous benefits rose markedly during the period. This was probably a consequence of the more restrictive application of the rules for disability benefits and reflects the political difficulties that are involved in changing the social insurance system.

Go for the 65–69s!

Our analysis shows that we have made fairly good progress when it comes to drawing people in the 60–64 age cohort into the work force. On the other hand, there are surprisingly few among the 65–69-year-olds that remain working. If we want to bring about any further increase in the participation rate among the elderly this is the group we should focus on.

The Ringholm reform had very limited effects. One underlying reason for this is probably that the norm to retire at 65 is still being widely held at Swedish workplaces. Those who are older than 65 are not covered by the sickness insurance or unemployment insurance systems. This implies that there is some uncertainty among politicians when it comes to dipping into the budget in the short term in order to bring about really far-reaching changes in this area.

Letting the sickness and unemployment insurances cover everyone until the age of 70 appears to be a natural means of lengthening working life until 70. Becoming less rigid about the norm that retirement takes place at 65 and countering age discrimination is probably also important in this context. This is underlined by the fact that the demands on the social work environment probably have become greater as the physical demands has declined in the increasingly service-based new economy.